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Mr John Stanford  
Technical director  
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Standards Board  
International Federation of Accountants  
277 Wellington Street, 4th floor  
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**Re: Response to Consultation Paper – Recognition and Measurement of Social Benefits**

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Consultation Paper Recognition and Measurement of Social Benefits published in July 2015. The issue addressed in this CP is at the heart of the public sector and the work performed so far is of critical importance.

Broadly, the CNoCP approves the obligating event approach retained in the Consultation Paper (CP), but only to the extent that the existence of liabilities is confirmed.

The CNoCP is of the view that, in several instances of social benefits transactions, no liability for future social benefits should be recognised. In that sense, within the specific context of social security and public spending in France, the CNoCP would like to express some reservations and concerns. Namely, a critical reservation that we develop in the appendix to this letter is that the CP seems to assume the existence of a liability for future payments in all economic circumstances. Conversely, we believe that the IPSAS Board should explore further whether economic circumstances should lead systematically to the existence of liabilities.

As for the scope, we strongly believe that the rationale for the exclusion of collective goods and services should be clarified and strengthened. We understand that the CP designs the provision of protection against social risk as the drawing line between social benefits and collective goods and services. In our opinion, that whether public spending is a protection against social risk is insufficient to set a limit that would justify different accounting treatments. In addition, we are concerned that, with a view to apply the relevant accounting treatment, deciding whether public spending is collective goods and services or social benefits will raise practical issues. Therefore, we would encourage the IPSAS Board to further explore in what collective goods and services are different from other social benefits from an accrual accounting perspective rather than from a GFS perspective.

Moreover, the absence of linkage between the scope section (section 2) and the approaches proposed (sections 3 onwards) leads us to wonder if scope definitions and classification should be aligned with GFS's. In other words, we question whether the proposed definitions and classification are operative from an accrual accounting perspective. Therefore, we would encourage the IPSAS Board to clarify the definitions so that they better match the accrual accounting concepts and allow drawing a clear dividing line between those social benefits that require liability recognition and those that do not.

Eventually, for the benefit of a comprehensive analysis, we strongly support the view that a first step should be the identification of the reporting entity to which rights and obligations are attached. We believe that this is critical in the public sector where decision-making on public spending usually involves government at high level; then only, implementation is assigned to various public entities. Such an approach would open up the discussion on the need to provide information on elements that are not yet liabilities of a reporting entity.

As a conclusion, we find it difficult to comment on the CP because we think that the way it is structured does not fully support the rationale for the approaches set in sections 3 to 6. Additionally, we believe that the proposals incompletely describe such mechanisms as “répartition”<sup>1</sup> mechanisms that may also exist in other parts of the world. Still, we would favour the obligating event approach and the recognition of a liability for social benefits in the reporting period, most likely at point (c) “the eligibility criteria to receive the next benefit have been satisfied”, though we would like to stress that the recognition point would depend on facts and circumstances. Eventually, besides the need to determine the point at which a liability should be recognised, we would suggest that the IPSAS Board should envisage what information on social

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<sup>1</sup> See the description of “répartition” in the appendix.

benefits over future periods should be provided in the notes and how such information should articulate with other information, for instance, that provided in the long term sustainability report.

Details of our response to the specific matter for comment are set out in the appendix.

Yours sincerely,

Michel Prada

## APPENDIX

### Description of the “répartition” mechanism<sup>2</sup> in France

Before we get into the detailed questions, we take the opportunity to present the mechanism under which social benefits operate in France, and possibly in other parts of the world as well. In the description below, we focus on the French social security scheme.

We do strongly support the view that a comprehensive knowledge of how the provision of social benefits is organised in a jurisdiction is a first critical step in the design of an appropriate accounting treatment, together with the identification of the reporting entity to which rights and obligations to serve social benefits are attached.

The French social security scheme does not, from a legal point of view, refer to any kind of contractual binding arrangement: it is a purely one-sided mechanism enforced by law, that may be modified by law at any time, under the only condition that such law, voted by Parliament, remains compliant with the French Constitution.

The features of the “répartition” mechanism in France are as follows:

- (a) Compulsory membership to the scheme<sup>3</sup>, root to the contributory and to the non-contractual natures of the scheme;
- (b) Contributions amounts not fully computed in relation to the risk profile. This is a key difference with private insurance schemes;
- (c) No direct relationship between the contributions paid and the social benefits received;
- (d) Contributions received in a period serve benefits due in the same period;
- (e) Periodic revision of the overall balance of the schemes; and
- (f) Adjustments to maintain the balance generally enacted by law annually.

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<sup>2</sup> We retain the word “répartition” throughout the whole document to refer to the mechanism under which social benefits operate in France.

<sup>3</sup> It should be noted that in the context of the “répartition” mechanism in France, the use of the English word “scheme” may imply the existence of a contractual binding arrangement; conversely, “scheme” refers in this document to a mechanism enforced by law.

### ***Specific matter for comment 1***

*In your view:*

- (a) Is the scope of this CP (i.e., excluding other transfers in kind, collective goods and services, and transactions covered in other IPSASs) appropriate?*
- (b) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?*

*Please explain the reasons for your views.*

#### **(a) Scope of the CP**

While we fully support the scope exclusion of transactions that are covered by other IPSASs, we have reservations as to the current rationale for the exclusion of collective goods and services from the scope of the project. Based on the current proposals, we find it difficult to assess whether it is relevant to exclude collective goods and services from the scope of the project. Our main concern is that scoping out collective goods and services might entail different accounting treatments where in substance transactions are similar from the accrual accounting perspective of establishing a reporting entity's financial statements.

We observe that such exclusion is currently based on definitions from GFS. More specifically, collective goods and services are not considered within this project because they do not meet the definition of social risk. We understand the need in the national accounts to segregate social benefits from collective goods and services provided to an entire population that cannot be individualised. The aim is to insure proper matching and eliminations when it comes to aggregating market and non-market production. However, we are unsure that segregating public spending depending on the nature of those who benefit from such spending (individuals or households versus a group of beneficiaries) is relevant for the purpose of accrual accounting, primarily destined to reflect inflows and outflows derived from the rights and obligations of a reporting entity.

At this point, we struggle to identify differences between social benefits as defined in the project and collective goods and services. To add to the confusion, we note that the Consultation Paper *Social Benefits: Issues in Recognition and Measurement*, published in March 2008, describes collective goods and services using references to social benefits and social risks in its paragraph 17:

*Collective goods and services are **social benefits** in the form of goods and services provided to the entire population or to a particular segment of the population in any jurisdiction, to protect the population or one of its segments against certain **social risks**. Collective goods and services include national defence and most aspects of the criminal justice system.*  
[Emphasis added]

Therefore, from an operative point of view, while we fully support bringing in definitions to help setting up the scope, we are unsure that attaching the notion of social risk to that of social benefits is workable. For instance, one could reason that absent the provision of defence, a population could turn to hiring private security which would adversely affect its welfare by reducing its income: as such, defence as a collective good would meet the definition of social benefits mitigating the effect of social risk. Whether providing protection against social risk is a relevant criterion is all the more important that it is assumed that such criterion drives the accounting treatment.

Though we do fully understand that, from a practical standpoint, dealing only with social benefits defined by reference to social risk, is a simpler way to address a complex issue, we think that it is too weak a rationale to be the starting point of the analysis.

Therefore, for the sake of clarity, we would encourage the IPSAS Board to further explore in what collective goods and services are different from other social benefits from an accrual accounting perspective rather than from a GFS perspective.

#### **(b) Proposed definitions**

With respect to the proposed definitions, as currently drafted, we struggle to see the link between the proposed definitions and the approaches to account for social benefits. We would therefore recommend that the development in section 2 should be better articulated with sections 3 to 6 that expose the proposed approaches.

Generally, we observe that public spending may not cover the same economic reality across different jurisdictions. In some jurisdictions for instance, contracts are the prevailing source of operations, whereas in other jurisdictions, laws and regulations are the overall framework under which the central government acts. Usually, it is a mixture of both to varying degrees; however, we believe that listing the prevailing features of the systems under which governments might operate should be the primary focus of the scope section of the project. For that matter, our view is that the description<sup>4</sup> of the economic circumstances that could give rise to a liability for social benefits is of critical importance:

#### **General comment on the structure of the CP**

We would like to call the IPSAS Board's attention on the need for a clearer articulation of the scope and approaches sections. For instance, the insurance approach is described to apply to systems that are contributory rather than funded through general taxation. Because whether a

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<sup>4</sup> See paragraph 2.43 of the Consultation Paper

scheme is contributory in nature would then drive the approach that should be retained, this might lead to the thinking that it is a critical feature of a social security system. However, we note that the contributory<sup>5</sup> nature of a social security scheme is neither discussed at length nor is identified as a feature of social benefits in the scope section. It is only discussed as part of the obligating event approach to determine whether social benefits from contributory systems should be treated differently<sup>6</sup>.

Identifying the main features of the social security (and assistance) systems and analysing the existence of obligations would help design relevant accounting treatments.

### ***Specific matter for comment 2***

*(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?*

- (i) The obligating event approach;*
- (ii) The social contract approach; and*
- (iii) The insurance approach.*

*Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.*

*(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.*

#### **(a) Approach supported**

We agree on the obligating event approach as it directly derives from the conceptual framework; in that sense, we believe it is not an approach as such, rather, it should be considered the overall framework of the analysis.

In addition, though we commend the efforts made to identify the different approaches, we observe that a thorough analysis of what an obligation is and whether it exists in the context of social benefits is missing.

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<sup>5</sup> Further development on the contributory nature of a scheme is provided in Specific matter for comment 5 below.

<sup>6</sup> See paragraphs 4.70-4.76 of the Consultation Paper

We could also see merits to the social contract approach as it reflects the substance of public spending operations in various jurisdictions. However, we believe that such an approach should be assessed against the need for the existence of a contractual relationship, which seldom occurs in the public sector where public spending is considered.

Additionally, in some jurisdictions, the social contract may not be based on an agreed level of contributions and benefits to be collected and distributed in the future. For instance with respect to old age benefits, the policymaker is solely accountable for sustaining the intergenerational solidarity principle, which is insufficient in itself to generate a liability or a contingent liability for future benefits beyond the reporting period.

In our opinion, sustaining the intergenerational solidarity principle does not meet the definition of a liability of the reporting entities that provide the social benefits.

For that matter, identifying the reporting entities that bear rights and obligations attached to the provision of social benefits is a significant step in the whole analysis, from an accrual accounting perspective. We find that the proposed approaches fail to address that critical issue.

**(b) Additional approach to accounting for social benefits that the IPSASB should consider in developing an IPSAS**

Irrespective of the existence of a liability or a contingent liability, we would like to point out that we would support providing prospective information at an appropriate level<sup>7</sup>, consistent with the decision making level for the mechanism, involving relevant aggregation of reporting entities.

Consequently, we believe that it is critical that the reporting entity should be clearly identified to determine whose rights should or should not be recognised and in the financial statements of what reporting entity, provided rights exist at the very level of the reporting entities.

Therefore we would encourage the IPSAS Board to set up a step approach to account for social benefits that should first address the identification of the reporting entity that bears the rights and obligations related to the provision of social benefits.

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<sup>7</sup> The nature and location of the prospective information are currently being discussed at the CNoCP, with a preference for presentation in a supplementary document.

### ***Specific matter for comment 3***

*Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?*

*If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.*

Because the obligating event approach is a mere application of the conceptual framework, we believe that it should be self-sufficient to analyse the various existing systems that generate social benefits in France.

Therefore we are not aware of any social benefits transactions that could not be addressed by the obligating event approach.

### ***Specific matter for comment 4***

*In your view, at what point should a future IPSAS specify that an obligating event arises under the obligating event approach? Is this when:*

- (a) Key participatory events have occurred;*
- (b) Threshold eligibility criteria have been satisfied;*
- (c) The eligibility criteria to receive the next benefit have been satisfied;*
- (d) A claim has been approved;*
- (e) A claim is enforceable; or*
- (f) At some other point.*

*In coming to this conclusion, please explain what you consider to be the relative strengths and weaknesses of each view discussed in this chapter.*

*If, in your view, a future IPSAS should consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises, please provide details.*

*Please explain the reasons for your views.*

Liability recognition involves an analysis of facts and circumstances to assess whether the obligation meets the definition of a liability in the Conceptual Framework. As far as

“repartition” mechanisms are concerned, we are of the view that for those identified reporting entities that provide social benefits to the public, obligations that should be reflected in the financial statements exist for the reporting period only.

As for the appropriate timing for recognition for “répartition” mechanisms, we believe that (c) “the eligibility criteria to receive the next benefit have been satisfied” and (d) “a claim has been approved” could be relevant recognition points depending on facts and circumstances.

In most cases, recognition of a liability for social benefits served in the period would occur at point (c) “the eligibility criteria to receive the next benefit have been satisfied”.

We observe that point (b) “threshold eligibility criteria have been satisfied” would trigger the need to reflect on the relevance of providing information on projections for social benefits over future periods in the notes: what information and how such information should articulate with other information, for instance that provided in the long term sustainability report.

### ***Specific matter for comment 5***

*In your view, does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach?*

*Please explain the reasons for your views.*

We strongly advocate the view that the contributory nature of a “répartition” mechanism does not give rise to a constructive obligation. Social benefits derive from public money to which no direct exchange is attached: contributions made in a reporting period are unrelated to the social benefits provided *in fine* to those beneficiaries that contributed in earlier reporting periods. It should also be noted that contributions are not set up/computed to cover individual risk.

In addition, an unfunded “répartition” mechanism is bound to be controlled on an annual basis only in order to properly monitor its balance and remain accountable for the appropriate use of contributions. As such, contributions cannot give rise to future expectations, and no present constructive obligation for future payments should be recognised on the date the financial statements are established.

***Specific matter for comment 6***

*In your view, should a social benefit provided through an exchange transaction be accounted for:*

- (a) In accordance with a future IPSAS on social benefits; or*
- (b) In accordance with other IPSASs?*

*Please provide any examples you may have of social benefits arising from exchange transactions.*

*Please explain the reasons for your views.*

We note that the approaches and the accounting treatments proposed for social benefits do not rely on the exchange/non-exchange nature of the transactions. Therefore, we believe that a future standard on social benefits should not elaborate further on the exchange/non-exchange nature of the transactions.

***Specific matter for comment 7***

*In your view, under the obligating event approach, when should scheme assets be included in the presentation of a social benefit scheme:*

- (a) In all cases;*
- (b) For contributory schemes;*
- (c) Never; or*
- (d) Another approach (please specify)?*

*Please explain the reasons for your views.*

As far as plan assets are concerned, we would favour an approach that would primarily fully comply with the definition of assets in the conceptual framework.

Based on our knowledge of a “répartition” social security system, no scheme assets are accumulated: in that sense, schemes are unfunded. Added to the facts that the balance of the schemes are assessed on an annual basis with actions taken annually through enactment of a law (namely to assert the level of contributions), and that the reporting entity is designed only to manage and implement the policy requirements on an annual basis, there is no present obligation for the provision of social benefits in the future, nor a right to receive future contributions.

Therefore, the contributory nature of a scheme does not automatically translate into a scheme asset.

***Specific matter for comment 8***

*In your view, under the social contract approach, should a public sector entity:*

*(a) Recognize an obligation in respect of social benefits at the point at which:*

*(i) A claim becomes enforceable; or*

*(ii) A claim is approved?*

*(b) Measure this liability at the cost of fulfillment?*

*Please explain the reasons for your views.*

Though we do not fully support the social contract approach, with respect to the point at which an obligation should be recognised, if it exists, we believe that the obligating event approach is self-sufficient to assess whether recognition should be when a claim becomes enforceable or is approved.

***Specific matter for comment 9***

*Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?*

*Please explain the reasons for your views.*

The “répartition” system, as described at the beginning of this appendix, is contributory in nature. However, we do not believe that the system is akin to insurance contracts in that contributions are not fully computed in relation to the social risk for each beneficiary. We believe that this is a striking difference with the computation of premiums in insurance contracts and consequences should be reflected through different accounting treatments.

In addition, insurance schemes are bound to support their liabilities with plan assets; under the “répartition” system, there is no such accumulation of assets as the policymaker decided that the balance of the “répartition” system depends only on decisions made on an annual basis.

Because we do not believe that the accounting for insurance contracts should be applied to the accounting for social benefits, we do not propose answers to the remaining six specific matters for comment.