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**Re: Response to Exposure Draft ED59, *Amendments to IPSAS 25, Employee Benefits***

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Exposure Draft ED59, *Amendments to IPSAS 25, Employee Benefits* published in January 2016.

We support the convergence to IAS 19, IPSAS 25's equivalent for the private sector: for those regulatory systems that are operated in the same manner as employer/employee plans in the private sector, we believe that convergence is the way forward.

However, we note that, currently, no IPSAS standard addresses some regulatory systems that operate pensions for the public sector, such as the "répartition" mechanism. We therefore would like to take the opportunity of this comment letter to discuss the "répartition" mechanism further.

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

Yours sincerely,

Michel Prada

## APPENDIX 1

### *Specific matter for comment 1*

*Do you agree with the proposals in the Exposure Draft for revision of IPSAS 25? If not, please indicate what proposed amendments you do not agree with and provide reasons.*

We are fully aware that IPSAS 25 deals with both short-term and long-term employee benefits. Because the proposed amendments mainly address issues that relate to long-term/post-employment employee benefits, we focus on those specific benefits and the way they are operated in France.

In the public sector in France, we identified two main post-employment regulatory systems that could at first sight fall within the scope of IPSAS 25, should IPSASs be applicable. Both those regulatory systems are operated as “répartition” mechanisms<sup>1</sup>. That means that they are compulsory and contributory regulatory systems. Contributions received in a period are fully used to pay benefits due on the same period. Amounts of contributions are set out by an annual law at the level required to serve the benefits due that same year. Additionally, contributions paid are independent of the long term risk profile of the beneficiaries. The level of contributions paid during a year is not linked to the level of benefits that will be granted in the future.

The two regulatory systems identified and analysed for the purpose of that comment letter are:

- Local authorities and hospital statutory civil servants regulatory system

Using IPSAS 25 terminology, that regulatory system could be described as a state plan operating in a similar way as a multi-employer plan: local authorities and hospitals contribute as employers to one entity that belongs to the social security sector and that manages contributions received and benefits due. No contribution accumulates over time.

However, we believe that the features of such regulatory system would depart from the description in paragraph 34 (b) of IPSAS 25 in that the regulatory system is set up by legislation (versus an employer/employee contractual relationship) and the entity that

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<sup>1</sup> IPSAS 25 uses the terminology “pay as you go”: this terminology does not fully reflect the “répartition” mechanism in that “pay as you go” financed plans may meet the definitions of either defined benefits or defined contributions plans, where the “répartition” mechanism fits none of those. The “répartition” mechanism is not only a financing tool, but also the substance of the mechanism that operates the intergenerational solidarity policy.

See also appendix 2 for a further description of the “répartition” mechanism.

manages the regulatory system operates under an annual law that sets the level of contributions to be paid in a period to serve the benefits due on the same period. An employer does not underwrite the actuarial and investment risks; conversely, the employees bear the risk. There is no legal or constructive obligation for the entity to serve future benefits.

- Central government statutory civil servants regulatory system

That regulatory system is run by a unit of the central government: it is not a separate entity and it bears no relation in terms of governance to the social security sector. Using IPSAS 25 terminology, we believe that it could possibly fit the description of state plans in paragraphs 43 to 46 of IPSAS 25 though the regulatory system covers a unique employer (the central government). The annual law that sets the level of contributions is specific to the functioning of the central government, therefore different to that voted for the operations of the social security sector. Similarly to local authorities and hospitals' regulatory system, there is no legal or constructive obligation for the central government to serve future benefits.

Overall, we believe that those public sector employers/employees regulatory systems are substantially of the same nature as social security programs in France and operate in the same way. Moreover, in addition to the features described above, financial transfers exist between the central government and social security sector entities to ensure that, on a global basis at national level, the regulatory systems well operate the “répartition” mechanism, for instance that individual regulatory systems' demographic specificities do not impair the mechanism. Hence those regulatory systems should all follow the same accounting treatment for consistency purposes. That is, no liability should be recognised for the payment of future benefits. That conclusion does not preclude the need to provide relevant forward-looking information.

For the reasons developed above, one key aspect of the concern we have with the principles set out in IPSAS 25 for post-employment employee benefits in the public sector is that our “répartition” mechanism cannot be adequately described using solely the two categories defined in IPSAS 25: defined benefit and defined contribution plans. Therefore, we are of the view that those of our post-employment benefits regulatory systems that are operated under the “répartition” mechanism do not fully fall within the scope of IPSAS 25. In addition, we note that, currently, no IPSAS standard addresses such situations as the “répartition” mechanism.

As a result, because the proposed amendments to converge IPSAS 25 toward IAS 19 relate principally to defined benefit plans, we are of the opinion that those amendments would have

little effect on the accounting treatments retained for the employers/employees regulatory systems currently operating in the public sector in France.

In that line of thoughts, for those regulatory systems that operate in the same manner as private sector plans, we would support the convergence to IAS 19, IPSAS 25's equivalent for the private sector.

***Specific matter for comment 2***

*IPSAS 25 currently includes a section on Composite Social Security Programs (paragraphs 47-49). The IPSASB is considering deleting this section because the IPSASB is not aware that it has been applied in any jurisdiction. If you do not agree that this section should be deleted, please provide a reason for your response along with any proposed revisions.*

We could not identify regulatory systems in the public sector in France that would operate as composite social security programs.

Therefore, based on our experience and provided this view is shared by other constituents, we would rather recommend that the IPSASB should delete paragraphs 47-49 from IPSAS 25, *Employee Benefits*.

## APPENDIX 2

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

In the description below, we focus on the French social security scheme.

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 regulatory system 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” regulatory system 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 regulatory system under which social benefits operate in France.

<sup>3</sup> It should be noted that in the context of the “répartition” regulatory system 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 regulatory system enforced by law.