



# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

(Established by Act of Parliament No. 15 of 1965)

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The Technical Director  
IPSASB  
529 Fifth Avenue, New York  
NY 10017  
USA

Dear Sir,

## RE: RESPONSE TO CONSULTATION PAPER- RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS

The Institute of Chartered Accountants of Nigeria has considered the above Consultation Paper and is pleased to submit comments as follows:

### 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.*

**Comment:**

- a) Yes, the scope of this Consultation Paper (CP) is appropriate.

**Reason(s):**

The Consultation Paper focuses on aspects of Public Sector Reporting i.e., social risks and benefits, not covered by other Standards. It captures the recognition and measurement of social benefits, which may or may not arise from exchange transactions but were preceded by social risks.

*BM*

Whilst IPSAS 19 excludes social benefits arising from non-exchange transactions, IPSAS 25 deals with social benefits arising from exchange transactions. The Consultation Paper covers social risk, recognition and measurement of social benefits not covered by the aforementioned Standards.

The inclusion of other transfers in kind and collective goods and services within the scope of this Consultation Paper will pose a challenge in recognition and measurement of the obligation and social benefits on the part of the relevant entities.

- b) Yes, the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits.

**Reason(s):**

A review of some of the examples of social benefits in Appendix A and practices within our jurisdiction illustrates the adequacy of the CP's definitions of the various categories of social benefits and thus provides an appropriate basis for IPSAS on social benefits.

**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;*
- (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 benefits.*

- (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.*

**Comment**

We recommend a combination of the Obligating event and Social insurance approach. Considering the nature of social benefits, obligating event approach and social insurance approach may work under different circumstance. Under some schemes, such as contributory schemes, social insurance approach may be more suitable than obligating event approach. Hence, it is appropriate that different approaches may apply to different categories of social benefits.

*Bm*





The social contract approach, however, may not be suitable due to its weaknesses. One of such weaknesses to the implementation of the social contract is that it does not cover cases where the beneficiaries do not need to contribute or meet an eligibility criterion. The social contract approach raises issues when non-legally binding obligations are involved.

#### Specific Matter for Comment 3

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

#### Comment:

No. In our opinion, the approaches suggested by IPSASB in the CP are broad enough to address all forms of social benefit transactions.

#### 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.*

*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 view.*

#### Comment:

Under the obligating event approach, an attempt to set or choose one of the sub-options as the standard point for the recognition of obligation would not be flexible enough to accommodate numerous circumstances of social benefit in various jurisdictions.

Examples of diversity of condition or circumstances include:

- i. **unavoidability of factors** e.g. that a child born will grow in age and will ultimately receive certain social benefits at some point in time for people of certain age;
- ii. **contingency of factors** that certain social benefits may or may not be recognized or paid under certain conditions occurring or not;
- iii. **discretionary power of government**, as may be for some social benefits that need to be approved by government to be valid as obligation; and
- iv. **enforceability**, among others, for legal obligations.

*Unavoidability of factors* may correspond to Point (a) *Key participatory events have occurred*; *contingency of factors* corresponds to Point (b) *Threshold eligibility criteria have been satisfied* and Point (c) *The eligibility criteria to receive the next benefit have been satisfied*; Point (d), *A claim has been approved*, is ideal for *discretionary power of government*; and enforceability is covered by Point (e), *A claim is enforceable*. These are some of the broader considerations that could be made. The CP could stipulate initial and subsequent recognition and measurement criteria to be met as obligating events on social benefits.

Consequently, we are of the opinion that differing circumstances will necessitate a choice of the recognition criteria for determining when an obligating event arises.

This will imply adoption of any of the various criteria or a combination of them.

#### Specific Matter for Comment 5

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

*Please explain the reasons for your views.*

#### Comment:

In our view, an obligating event occurs earlier in non-contributory scheme than in contributory under the Obligating Event Approach.

#### Reason(s)

Paragraph 4.28 (a) recognizes “key participatory events have occurred” as the first point for recognizing obligation in the financial statements. This criterion does not need or involve any contributory action by the participants of the scheme. The occurrence of key participatory events necessitates the recognition of obligation.

In view of the Five distinct Points (in paragraph 4.28) at which a case can be made for recognizing an obligation in the financial statements, subsection (b), that is, ‘Threshold eligibility criteria have been satisfied’ corresponds to the earliest condition under which obligations can be recognized in the financial statements for contributory schemes.

Consequently, we conclude that obligating event is most likely to occur earlier in non-contributory than in contributory schemes.





#### Specific Matter for Comment 6

*In your view, should 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 example you may have of social benefits arising from exchange transactions.*

*Please explain the reasons for your view.*

#### Comment:

In our view, social benefits provided through an exchange transaction may be accounted for in accordance with future IPSAS to the extent that it is not related to employee-employer benefits as covered under IPSAS 25. Presently, existing IPSAS do not cover social benefits that arise to mitigate social risk. Examples are social security and social assistance.

#### 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.*

#### Comment:

In our view, under the obligating event approach, scheme assets should be included in the presentation of a social benefit scheme **in all cases** (whether contributory or non-contributory).

#### Reason(s):

This is to preserve the objectives of financial reporting as encapsulated in the conceptual framework. Presenting the scheme assets will avail users of relevant information on the sustainability or otherwise of the scheme. It will also have impact on both the reporting entity and other decision makers.

#### 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 view.*



**Comment:**

- a) A public sector entity should recognize an obligation in respect of social benefits at the point at which a claim becomes enforceable.

**Reason(s):**

In our environment, the factors that make a claim enforceable may not only be legal, but also social and political. It is also important to note that under the social contract approach, liability would not arise until legal entitlement has been established (i.e., legal obligation created).

Consequently, it is more appropriate to recognize an obligation when a claim becomes enforceable.

- b) Yes, liability should be measured at the cost of fulfillment.

**Reason(s):**

It is our opinion that a social contract creates a legal obligation and it is prudent for the relevant entity to recognize the liability at a cost of fulfilling the obligation.

**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.*

**Comment**

We agree with IPSASB conclusion on the "across board" applicability of the insurance approach for three reasons:-

- (i) Liquidity;
- (ii) Level of imputed contribution; and
- (iii) Allocability (the quality or state of being allocable or assigned). Where the scheme's contribution are in kind, the scheme has a high level of imputed contribution but not involving cash transfer; or the scheme involves contribution which have no reliable basis for allocation to individual schemes; and another conditions may be required for recognition of social benefit. These conditions are, especially, the case in social assistance where beneficiaries are not expected to make any cash contribution to the scheme.

**Specific Matter for Comment 10**

*Under the insurance approach, do you agree that where a social security scheme is designed to be fully funded from contribution?*

- (a) Any expected surplus should be recognized over the coverage period of the scheme; and
- (b) Any expected deficit should be recognized as an expense on initial recognition?

*Please explain the reasons for your views.*





### Comment

We agree with IPSASB on the issue of the treatment of any expected surpluses or deficits on unsubsidized schemes as the Board's suggested treatment is in line with the accrual concept and is a prudent approach to financial reporting.

### Specific Matter for Comment 11

*In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security scheme that is not designed to be fully funded from contribution?*

- (a) *Recognize the deficit as an expense on initial recognition;*
- (b) *Recognize the deficit as an expense over the coverage period of the scheme;*
- (c) *Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;*
- (d) *Offset the planned subsidy and the liability irrespective of whether this is to be received as a transfer from public sector entity or as an earmarked portion of general taxation; or*
- (e) *Another approach?*

*Please explain the reason for your views.*

### Comment

We agree with the first approach, i.e. "Recognize the deficit as an expense on initial recognition". This aligns with the Prudence principle – deficit is already incurred and should be recognized and expensed immediately. This is to allow for consistent treatment of all deficits irrespective of the nature of the scheme. The reason is tandem with the objective of financial reporting and provides useful information to users of financial statements.

### Specific Matter for Comment 12

*In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis for measuring liabilities?*

*Please explain the reasons for your views.*

### Comment

Cost of fulfillment measure is the most prudent approach as the assumption of price measurement is based on a risk factor that is subject to relative determination. We consider the cost of fulfillment approach as the best estimate for measuring the liability.



### Specific Matter for Comment 13

*Do you agree that, in those cases where the link between contribution and benefits is not straightforward, the criteria for determining whether the insurance is appropriate are:*

- *The substance of the scheme is that of a social insurance scheme; and*
- *There is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.*

*If you disagree, please specify the criteria that you consider should be used.*

*Please explain the reasons for your views.*

### Comment

We agree with IPSASB regarding the criteria for determining the appropriateness of the insurance approach.

### Reason(s)

- When the link between contributions payable and the benefits is complex and does not relate directly, the exercise of judgment contained in the Consultation Paper (CP) is considered appropriate.
- Consideration of allocability of contribution levy is a critical factor as it makes clear to users of financial information how the contribution will be applied. We consider it adequate and sustainable in view of the objective of the related scheme.
- Furthermore, a consideration of the substance of the scheme will enable the entity differentiate between a social insurance and social assistance. This is considered important owing to different treatments required and will ensure that objectives of financial reporting are met.

### Specific Matter for Comment 14

*Do you support the proposal that, under the insurance approach, the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25?*

*Please explain the reasons for your views.*

### Comment

We support the proposal that, under the insurance approach, the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25.

### Reason(s)

The discount rate as specified in paragraph 91 of IPSAS 25 Employee Benefits is a rate which is determined based on verifiable variables. This discount rate is the rate for financial instrument which has similar characteristics with that offered under the insurance contract. It considers the tenor of a government bond or



corporate bond. The tenor of the bonds and discount rates recommended in this Consultation Paper is arrived at by choosing the rate from the market. This reflects the time value of money of the instrument similar to the financial instrument contract under the insurance approach.

Where there is neither deep government bond nor corporate bond market, extrapolation is used to estimate the discount rate by using the current market rate of the appropriate term to discount shorter term payments.

The method of determining or estimating discount rate under IPSAS 25 is objective and sustainable and should be used to reflect the time value of money under the insurance approach.

#### **Specific Matter for Comment 15**

*Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73-6.76?*

*Please explain the reasons for your views.*

#### **Comment**

Yes, we support the proposals for subsequent measurement set out in paragraphs 6.73 – 6.76.

The paragraphs consider the appropriate treatment when there is a change or modification of the terms of a social insurance scheme. This change or modification may lead to a rise in the obligation to provide additional benefits, or reduced obligation to provide benefits or a “no change at all” in the obligation to provide benefits.


The modification in social insurance schemes under the insurance approach conveyed in paragraph 6.76 of the Consultation Paper reflects similar circumstance as the defined benefit obligation under IPASAS 25. While IPSAS 25 is for exchange transactions, the principle of management of the benefits is the same. Paragraph 65 of IPSAS 25 maintains that defined benefit liability is arrived at by considering the present value of the defined benefit obligation, among other items.



The present value of the defined benefit obligation reflects the effects of changes in all variables that affect existing benefit schemes. It is the same as the reflection of the net effect of treatment of subsequent measurement of insurance approach as outlined in paragraph 6.73 (bullet point three (3)). Therefore the proposals of paragraphs 6.73 – 6.76 are supported.

We thank the Board for giving our Institute an opportunity to contribute to the Consultation Paper.

Yours faithfully,  
for: Registrar/Chief Executive



Ben Ukaegbu, PhD, ACA  
Director, Technical & Education

