
Accounting for social benefits - French experience

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- Conceptual Framework for public Sector Entities - the CNOCP response to the IPSAS Board consultations highlights key issues :
 - The role of the public sector is to provide a certain number of public services (for example education, development and implementation of policy for health, justice and security...). The general obligations that result from this role are not considered to be liabilities ;
 - There must be an enforceable arrangement (by law, contract...) and/or the existence of a triggering event to enable the recognition of a liability.

- The CNOCP considers that the recognition of a liability is conditioned not only by the existence of a clear intention of the public sector, but also by the translation of this intention into legal, regulatory or contractual requirements.
- The approach under which liabilities (and social benefits) are recognised is neither a “cash basis approach” nor “a due and payable approach” : it is “an accrual accounting approach”.

- Non exchange transactions (incl. social benefits) : major public sector accounting issue.
- First approach on accounting treatment defined in 2004 : difficulties in applying the provisions of the standards.
- View that the issue is transversal to all categories of public sector entities (Central Government, Agencies, Local Government and Social Security Organisations) : decision to create a CNoCP's transversal working group in 2008.
- First conclusions reached for Central Government in 2011 : Opinion n° 2011-09 of the 17th October 2011 relating to the definition and recognition of expenses

Central government : conceptual issues regarding non exchange transactions

- Main discussions focused on the following question : are accounting provisions applicable to “exchange transactions” and “non exchange transactions” to be similar ?
 - exchange : legal (mainly contractual) or constructive obligation ;
 - non exchange : similar to exchange transaction or specific obligation ?
- French view that obligation arising of a non exchange transaction is of a specific nature :
 - obligation do not derive from past practice ;
 - obligation derive from (i) a legal framework and (ii) the fulfillment of criteria.

Central government : scope and definition of “transfers”

- How to delimitate and define non-exchange transactions when considering expenses of Central government ?
- French view that specific categories of expenses must be defined for Central government :
 - categories of expenses defined by public sector accounting standards are to be “linked” to budget ;
 - non-exchange expenses include mainly “transfers”* which are cash payments* part of aid and support distribution schemes made directly or indirectly by Central Government.

* Exclusion of individual and collective goods and services.

Central government : recognition of “transfers”

- How to identify the “past event” generating obligation when considering a transfer ?
 - general recognition criteria for liabilities (existence of an obligation at the reporting date, certain or probable outflow of resources and reliability of measurement) not precise enough ;
 - recognition criteria must deal with specific nature of the obligation : legal framework ? Fulfillment of a series of conditions : recognition if third party satisfying all eligibility criteria at closing date vs. recognition if third party will probably satisfy all eligibility criteria in the future ?
- French view that, due to specific nature of transfers, obligations must clearly be distinguished from commitments.

An Obligation incur only when the beneficiary’s right is enforceable (ie. legal framework and all eligibility criteria fulfilled at the closing date).

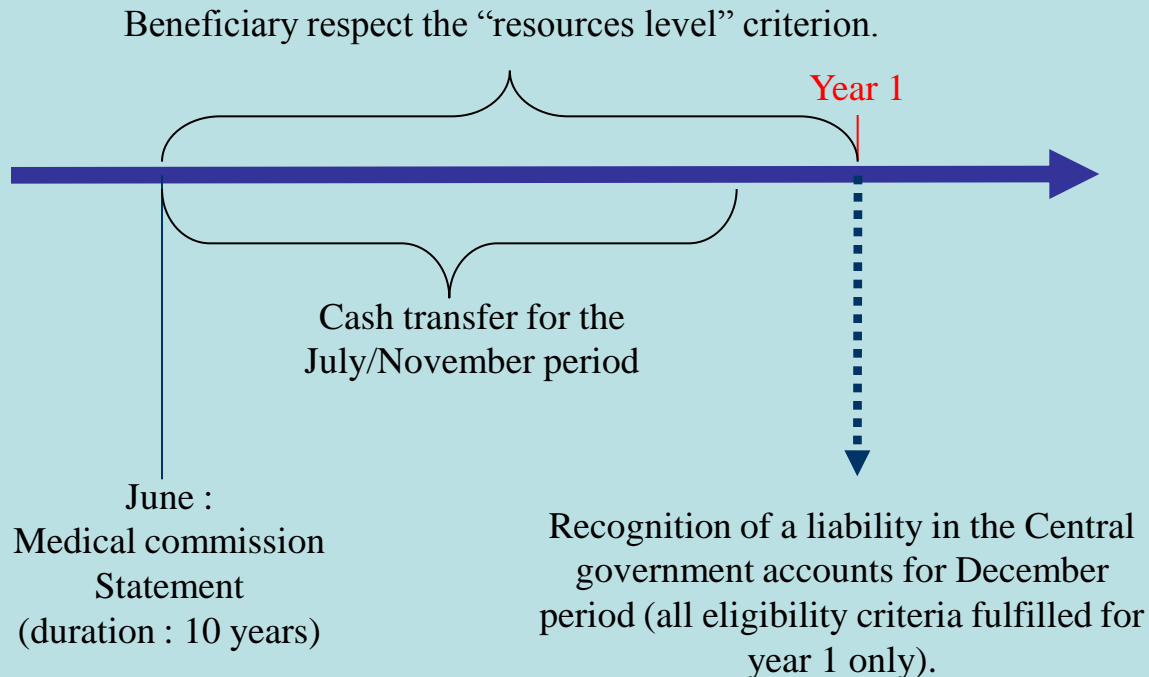
Central government : opinion of the CNoCP publ. in 2011

Main provisions of the Opinion 2011-09 of the CNoCP :

- Definitions of liabilities and expenses clarified ;
- Based on legal framework :
 - An obligation exists only when the beneficiary has fulfilled the granting condition at the closing date ;
 - A commitment exists when an initial allocation decision (which may relate to a multi-year period) was taken towards a beneficiary without fulfilment of all the granting conditions at the closing date (meaning that (i) the conditions will be fully fulfilled later or (ii) some conditions – e.g. a certain level of resources – have to be maintained after the closing date).

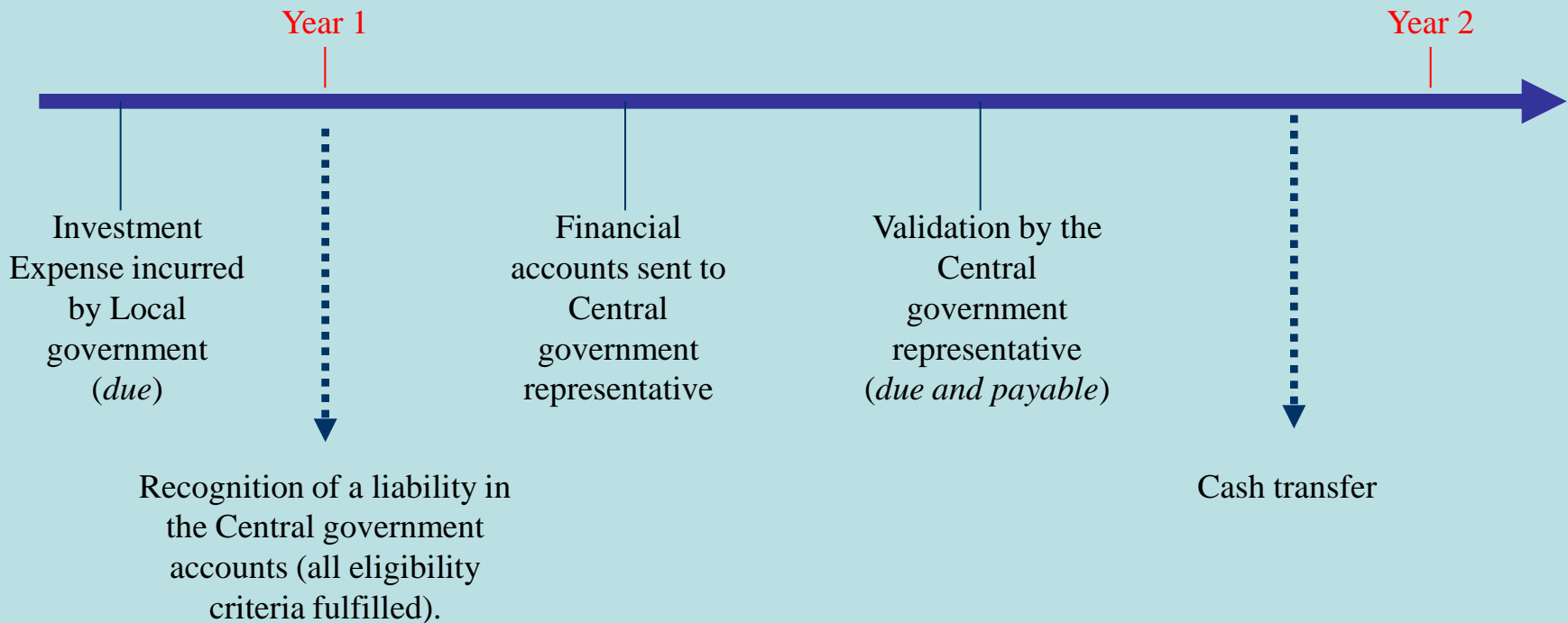
Example : compensation of handicap

- Compensation of handicap to individuals with multiples eligibility criteria, incl. a “annual resources level” eligibility criterion (simplified example) :



Example : reimbursement of VAT to Local government

- Reimbursement of VAT linked to investments to Local government (simplified example) :



- Social security and Local government : accounting provisions to be defined (consistent with Central government).
- Update Conceptual framework.
- View that prospective data (expenses and/or resources projections) is to be provided in addition to accounts.