

## Swiss Comments to the Exposure Draft

### *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities Phase 1*

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## 1. Introduction

During its meeting on April 7, 2011, the Swiss Public Sector Financial Reporting Advisory Committee agreed upon the following statement for the attention of the IPSAS Board. The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPSP) was established in 2008 by the Swiss Federal Ministry of Finance together with the Ministers of Finance at the cantonal level. One of its aims is to provide the IPSAS Board with a consolidated statement for all the three Swiss levels of government (municipalities, cantons and Confederation).

## 2. Fundamental Comments on the Exposure Draft 1

The SRS-CSPSP takes good note of the fact that Comments to the Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* of March 2009 have for the most part found their way into the Exposure Draft.

The text of the effective Conceptual Framework should be somewhat lightened. Therefore all *Bases for Conclusions* should be listed at the end and not after every chapter. In this way repetitions can be reduced and the Framework would be more concise and easier to read.

## 3. Detailed Comments on the Specific Matters for Comment

### 3.1 Role, authority and scope of the Conceptual Framework

A clear distinction should be made between the *General Purpose Financial Statements* (GPFs) and the other *General Purpose Financial Reports* (GPFs). Compulsory Standards (IPSASs, *authoritative*) are to be issued for GPFs, but not for GPFs. They are to be described in the Conceptual Framework or in Recommendations (*guidelines, non-authoritative*).

It must be absolutely clear from the Conceptual Framework that compulsory Standards are issued only for GPFs. The other GPFs (*additional information*) should be governed exclusively in the Conceptual Framework and in Recommendations (*guidelines*). If the compulsory Standards go too far, there is a risk that units in the Public Sector will refrain from implementing the IPSASs, because the cost is considered too great in relation to the benefit. And that cannot be in the interest of the IPSAS Board.

1.2: ... However, it ~~can~~ provides guidance in dealing with ...

The Framework's status is clearer, if „can“ is omitted.

1.8: As a characteristic of GBEs it appears important that they act in a market and that they are profit-oriented.

This point does not concern the Conceptual Framework. But the opportunity is taken to point out to the IPSAS Board that IPSAS 1 should be revised.

The characteristics of Government Business Enterprises (GBEs) pursuant to IPSAS 1, Heading 7, appear to be incomplete. An important characteristic for evaluation is that they act in a market and that they are profit-oriented.

Therefore, in IPSAS 1, Heading 7, a further item should be taken up in the list of characteristics of GBEs:

(f) act as a profit-oriented entity in a market.

### 3.2 Objectives of financial reporting by public sector entities and the primary users of GPFs of public sector entities and their information needs

It should be added that a legal requirement is also a possible reason for reporting and not only the existence of users.

A unit has to report if users exist. But a legal requirement may also prescribe reporting, even if no users were to exist.

2.1: The expressions *services* and *resources* should be clearly defined.

What does “*services*” mean exactly? Not every public corporation provides services, such as schools, streets or public transport. For example the Swiss Confederation’s budget consists mainly of transfers, of legislation and public policies. It is scarcely possible to find any services directly to the public. Therefore this expression should be broadly understood and defined.

What is meant by “*resources*” is also not clear. Does this mean only cash resources or all production factors, labour, land, capital? A definition of this important expression is considered necessary.

2.14 ff: Specific details about the GPFs should be included.

There is a lot of information about the GPFs in the Conceptual Framework. But there is a lack of specific details as to what is to be included in the GPFs. However, it appears important that such details are already present in the Conceptual Framework.

### 3.3 Qualitative characteristics of, and constraints on, information included in GPFs of public sector entities

3.39: The cost-benefit question is to be accorded great weight in drawing up new Standards.

It appears very important to accord the necessary importance to the cost-benefit question. If the users of IPSASs are of the opinion that the implementation of new standards results in excessive costs, the entire use of the IPSASs is at risk (see also 3.1).

The SRS-CSPCP therefore proposes that, when comments on a new Standard or Recommendation (*non-authoritative guideline*) are requested, the cost-benefit question is specifically raised in the *Specific Matters for Comment*.

BC3.29: The omission of a hierarchy is welcomed.

Although this results in a departure from the IAS/IFRS, it is welcomed that a hierarchy of quantitative characteristics of information is omitted.

**3.3.1 (a) Whether “Faithful representation” rather than “reliability” should be used in the Conceptual Framework to describe the qualitative characteristic that is satisfied when the depiction of an economic or other phenomenon is complete, neutral, and free from material error.**

The expression „*Faithful representation*“ is preferred.

The expression „*Faithful representation*“ should be chosen, in order to avoid an unjustified departure from the IFRS.

**3.3.2 (b) Materiality should be classified as a constraint on information that is included in GPFs or as an entity-specific component of relevance.**

Materiality is considered to be an important criterion for information in the GPFs and should therefore be governed in the Conceptual Framework.

Materiality is an important criterion and should relate to the nature and the amount of the caption. It should be laid down in the Conceptual Framework, but cannot be exhaustively defined.

**3.4 The basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity**

It is correct that consolidation is not laid down in the Conceptual Framework. On the other hand it is expected that IPSAS 6 will be revised in line with the specific circumstances of the public sector.

The problem of consolidation cannot be solved in the Conceptual Framework. The existing IPSAS 6 does not appear to meet the specific circumstances of the public sector adequately and should therefore be revised. For example the reasons as to when a unit in the public sector is to be consolidated and when not, are different in the public sector than in the private sector.

Lausanne, June 7, 2011