

Swiss Comment to

ED 90, Amendments to IPSAS as a Result of the Application of IPSAS 46 Measurement

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1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the cantonal Ministers of Finance. One of its aims is to provide the IPSAS Board with a consolidated statement for all three Swiss levels of government (municipalities, cantons and Confederation). The SRS-CSPCP has discussed ED 90, Amendments to IPSAS as a Result of the Application of IPSAS 46 Measurement.

2. General Remarks

The SRS-CSPCP is in principle in agreement with the amendments concerning Current Operational Value (COV) in IPSAS 12 and 31. The proposed amendments are useful, in order to avoid conceptual differences in the various IPSAS on the one hand and the Framework and IPSAS 46 on the other.

The SRS-CSPCP is, however, not in agreement with the proposed revision of **IPSAS 21, Impairment of Non-Cash Generating Assets**. This standard is difficult to apply and suffers from the various conceptual issues, in particular related to the calculation of the Recoverable Service Amount:

1. The principles for Value in use and depreciated replacement cost are practical in their operational application and as a rule are determinable. Value in use, however, suggests a substantive relationship with their actual use. Under IAS 36 there is congruency between the aim of the measurement and the measurement method. Under IPSAS Value in use is tied to the service potential, which is not, however, the case for the replacement costs. They measure the situation on a market (prices based supply and demand) for the replacement of the service potential, which is specific to the entity. In the public sector the user –i.e. the division or department that will use the asset– often has no external market information, because it is not integrated into the procurement process. Vice versa the central procurement bodies often have no up-to-date usage information, because they are competent only for the infrequent procurement at issue. This aggravates the problem in practice.
2. IPSAS 21 requires that the service potential is determined for each asset and the Impairment must also be determined for each asset. Although the IPSASB states this the Basis for Conclusion (BC) to IPSAS 21, it does not explain why. The entity specific service is often delivered -analogously to the Cash Generating Units under IAS 36- only in combination with other assets. With increasing aggregation with other assets normally the risk of impairment falls. As under IAS 36, it should also be possible under IPSAS to combine assets for the determination of the Value in use. This combination should be made based on their mutual inter-dependence in the generation of service potential.
3. A further issue is the short-term repair of damage. In practice, many entities repair damages quickly and therefore incur no lasting impairment of their assets. This is the case in particular, if the repair is completed within the year and if, on the reporting date, the asset is no longer impaired. In the case of a very strict application of IPSAS 21 impairments should also be recorded during the year and then reversed when they are repaired before the end of the year. This result is significant administrative cost without any positive effects on the information presented in the annual financial report. It would be helpful, if the simplified practice was explicitly adopted in IPSAS 21.

For the above reasons the SRS-CSPCP would like the IPSAS Board to review the conceptual issues in a broader post-implementation review, as quickly as possible.

The SRS-CSPCP also requests the creation/improvement of an Application Guidance for the following areas:

- Distinction Cash generating vs. Non-cash generating: clearer criteria, as to when an asset falls within the scope of IPSAS 21 (differentiation to IPSAS 26)

- IPSAS 21 para 27 f: judgement whether the service performance of an asset is worse or in future will be worse than expected: clearer details on which basis can be adduced as expected value.

The SRS-CSPCP also requests that in **IPSAS 41, Financial Instruments** COV is also admitted as a possible measurement. The Swiss public sector carries various investments in administrative assets held for their operational capacity, because they are not held for financial capacity. These are non cash generating assets. Such investments often provide no income, and a market value is also not determinable or they cannot be reliably measured.

The proposed amendment of **IPSAS 3, Accounting Policies, Changes in Estimates and Errors**, is supported by the SRS-CSPCP. It should, however, be more clearly formulated that the change of the measurement basis (e. g. from COV to Fair Value) is to be applied prospectively in the Current Value Model, analogue to changes in the estimate model. Currently this is mentioned only in the basis of conclusions (IPSAS 3.BC 19). The SRS-CSPCP therefore requests that this statement be also included in the core text.

3. Specific Matter for Comment 1

Do you agree that current operational value is an applicable current value measurement basis for assets in the scope of IPSAS 12, Inventories, and IPSAS 31, Intangible Assets, as proposed in Part 1 of this ED?

If you do not agree please explain your reasoning.

IPSAS 12

The SRS-CSPCP agrees with the inclusion of Current Operational Value in this Standard. However, it questions whether it makes sense to link the use of the Deemed Cost approach to the presence of a Non-exchange Transaction. This categorisation will become less relevant with the adoption of IPSAS 47, Revenues, which no longer makes this distinction. Alternatively, the Deemed cost approach could be linked to the presence of a transaction, which took place in an unregulated market.

IPSAS 31

The SRS-CSPCP agrees with the amendment in IPSAS 31, because there is no objective reason to treat fixed assets differently from intangible assets. It does not support the alternative view. However, the SRS-CSPCP finds an inaccuracy in Para.44: the expression Fair Value should be replaced by Current Value. However, In IPSAS 46, however, only the term Current Value Model but not the term Current Value is defined. The SRS-CSPCP requests that the IPSAS Board explain how the two expressions Current Value and Current Value Model are related to each other.

IPSAS 41

The SRS-CSPCP request that COV be adopted in IPSAS 41. The Swiss public sector carries various investments in administrative assets, held for their operational capacity, because they are not held for financial capacity. They are non-cash generating assets. Such investments often provide no income, and a market value is not determinable or they cannot be reliably measured.

4. Specific Matter for Comment 2

Part 1 of this ED proposes that current operational value is an applicable subsequent current value measurement basis for right-of-use assets (i.e., assets in scope of IPSAS 43, Leases).

(a) Do you agree that current operational value can be applied to the subsequent measurement of right-of-use assets?

If you do not agree, please explain your reasoning.

(b) If you agree with (a), do you agree that current operational value can be applied using the current guidance in IPSAS 46 (without the income approach as one of its measurement techniques)?

If you do not agree please explain your reasoning

(a) The SRS-CSPCP agrees with the IPSASB's view.

(b) The SRS-CSPCP agrees with the IPSASB's view.

5. Specific Matter for Comment 3

Do you agree with the replacement of value in use of a non-cash-generating asset by current operational value in the definition of recoverable service amount in IPSAS 21, Impairment of Non-Cash Generating Assets, as proposed in Part 2 of this ED? Recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its current operational value.

If you do not agree please explain your reasoning.

The SRS-CSPCP is not in agreement with the amendment to IPSAS 21. It is of the view that this standard urgently needs a complete overhaul. The Standard is complicated to apply and is difficult to understand. There are various conceptual problems. For example, COV is a market-oriented valuation model, but IPSAS 21 deals with assets, which have no market, because they were created/purchased specifically for the public sector.

IPSAS 21 is complicated in application. It also contains the following conceptual problems with the Recoverable Service Amount:

1. The principles for Value in use and depreciated replacement cost are practical in their operational application and as a rule are determinable. Value in use, however, suggests a substantive relationship with their actual use. Under IAS 36 there is congruency between the aim of the measurement and the measurement method. Under IPSAS Value in use is tied to the service potential, which is not, however, the case for the replacement costs. They measure the situation on a market (prices based supply and demand) for the replacement of the service potential, which is specific to the entity. In the public sector the user –i.e. the division or department that will use the asset– often has no external market information, because it is not integrated into the procurement process. Vice versa the central procurement bodies often have no up-to-date usage information, because they are competent only for the infrequent procurement at issue. This aggravates the problem in practice.
2. IPSAS 21 requires that the service potential is determined for each asset and the Impairment must also be determined for each asset. Although the IPSASB states this the Basis for Conclusion (BC) to IPSAS 21, it does not explain why. The entity specific service is often delivered -analogously to the Cash Generating Units under IAS 36- only in combination with other assets. With increasing aggregation with other assets normally the risk of impairment falls. As under IAS 36, it should also be possible under IPSAS to combine assets for the determination of the Value in use. This combination should be made based on their mutual inter-dependence in the generation of service potential.
3. A further issue is the short-term repair of damage. In practice, many entities repair damages quickly and therefore incur no lasting impairment of their assets. This is the case

in particular, if the repair is completed within the year and if, on the reporting date, the asset is no longer impaired. In the case of a very strict application of IPSAS 21 impairments should also be recorded during the year and then reversed when they are repaired before the end of the year. This result is a significant administrative cost without any positive effects on the information presented in the annual financial report. It would be helpful, if the simplified practice was explicitly adopted in IPSAS 21.

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Lausanne, November 5, 2024