

## Swiss Comment to

## Consultation Paper Revenues and Non-Exchange Expenses

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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 the CP Revenues and Non-Exchange Expenses and comments as follows.

## 2. General Remarks

Generally speaking, this CP provides a good basis for discussion. Nonetheless, the SRS-CSPCP would like to draw attention to some matters, which would have to be considered in a revised standard.

In this CP revenues are divided into exchange and non-exchange revenues. However, as for the expenses this distinction is missing and only non-exchange expenses are referred to. The SRS-CSPCP is aware that exchange expenses are to be found in various IPSASs, because there are various types of consideration. Nonetheless it wishes that in the introduction to a new IPSAS 23 and for the sake of completeness it be mentioned that both on the expense and the revenue side there are elements with or without exchange.

Furthermore, the SRS-CSPCP would have wished that accounting for tax revenue had been dealt with in more detail. The estimation of tax receipts based on the taxable event principle, i.e. the accounting for tax revenues in the year of the taxable event is expensive and sometimes imprecise. Additionally if the variation in the amount to be recognized is not material and/or if the cost benefit relationship is unfavorable, it should be made possible to refrain from this principle. Of course tax revenues as such are always important. But in view of these three elements (likelihood of imprecision, materiality and cost benefit relationship), the SRS-CSPCP would welcome it if the revised standard were relaxed somewhat in respect of the taxable event principle when it comes to accounting for tax receivables

The IPSASB has adopted the 5-step model of IFRS 15. The first step in this model refers to "identify the contract". In the public sector, however, there are more binding arrangements than real contracts. The SRS-CSPCP therefore welcomes the fact that the IPSASB has renamed the first step of the Public Sector Performance Obligation Approach (PSPOA) as "identify the binding arrangement". In this way all agreements of a public entity are included.

The consideration of capital grants and of non-monetary grants in the new IPSAS 23 is welcomed by the SRS-CSPCP. It would, however, be desirable to describe these benefits more precisely and to add examples. This applies in particular for general subventions and capital grants, the receipt of which is linked to certain conditions. It would for example be interesting to know how repayments of subventions/capital grants are to be treated. Such repayments are possible in Switzerland in various areas.

The SRS-CSPCP is also of the opinion that major changes, as proposed in this CP by the use of the Performance Approach, should be made only if as a result the accounting would be significantly improved, because such changes always involve major costs for the reporting entities.

In reading this CP the SRS-CSPCP has also noticed that the various proposals for revising IPSAS 23 focus rather on the statement of financial position; but again for the management of a public entity it is the statement of financial performance that is the more crucial factor. This aspect should be better reflected in the future standard.

**3. Preliminary View 1 (following paragraph 3.8)**

*The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:*

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and*
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.*

*Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons*

The SRS-CSPCP agrees with the IPSASB's proposal. It welcomes above all the replacement of IPSAS 11.

**4. Preliminary View 2 (following paragraph 3.9)**

*Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.*

*Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.*

The SRS-CSPCP agrees with this proposal. However, the question arises how this is to happen and above all how income and profit taxes are to be treated. As mentioned already under the General Remarks, the taxable event principle confronts the users with major problem of estimation. Despite all the precautions that can be taken such estimates are inevitably subject to material errors.

**5. Specific Matter for Comment 1 (following paragraph 3.10)**

*Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:*

- (a) Social contributions; and/or*
- (b) Taxes with long collection periods.*

*If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.*

Re b) The taxable event principle, as stipulated in IPSAS 23, confronts a public entity with great challenges. For the preparation of the financial statements and also for drafting the budget, revenue from the income and wealth taxes and the corporate income and capital taxes can only be estimated. Thus it cannot be excluded that when designing the estimation model and when deciding over the necessary assumption the preparer introduces a certain degree of arbitrariness and therefore adjusts to the desired result.

Another topic, which should be dealt with in IPSAS 23, is non-monetary grants, both from the view of the donor and that of the recipient. Examples of such grants are the provision of employees, of premises or of real estate. Further guidance should also be offered, when an interest-free loan is granted by the reporting entity.

Capital grants should also be dealt with in a revised IPSAS 23. Here too the recipient side and the donor side should be described in separate chapters. The SRS-CSPCP's wishes on this topic are explained in Specific Matter for Comment 5.

**6. Preliminary View 3 (following paragraph 4.64)**

*The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.*

*Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.*

In principle the Public Sector Performance Obligation Approach (PSPOA) is an interesting approach. However, the SRS-CSPCP doubts whether this approach could help to overcome the existing delineation problems.

The SRS-CSPCP is of the opinion that Category B transactions can continue to be classified as exchange or non-exchange transactions. One could also supplement the definition by considering whether the transaction is "with performance" or "without performance". This would make the distinction clearer.

For the SRS-CSPCP it is obvious that with this PSPOA the IPSASB is pursuing convergence with IFRS 15. Generally, the SRS-CSPCP supports such convergences. But in this case it is of the view that it is not worthwhile undertaking an expensive change in the system of classification; in particular because even with this new approach delineation problems arise.

**7. Specific Matter for Comment 2 (following paragraph 4.64)**

*The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:*

*Step 1 - Identify the binding arrangement (paragraphs 4.29 - 4.35);*

*Step 2 - Identify the performance obligation (paragraphs 4.36 - 4.46);*

*Step 3 - Determine the consideration (paragraphs 4.47 - 4.50);*

*Step 4 - Allocate the consideration (paragraphs 4.51 - 4.54); and*

*Step 5 - Recognize revenue (paragraphs 4.55 - 4.58).*

*Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.*

As mentioned in Preliminary View 3 the SRS-CSPCP is of the opinion that for Category B transactions PSPOA should not be applied. However, in principle the SRS-CSPCP agrees with convergence with IFRS 15. For Category C transactions, the 5 Step model of IFRS 15 should be applied.

**8. Specific Matter for Comment 3 (following paragraph 4.64)**

*If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):*

*(a) Option (b) - Require enhanced display/disclosure;*

*(b) Option (c) - Classify time requirements as a condition;*

*(c) Option (d) - Classify transfers with time requirements as other obligations; or*

*(d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.*

*Please explain your reasons.*

The SRS-CSPCP wonders how "time requirement" is to be interpreted. It would like that the IPSASB gives more precise explanations and definitions. Concerning the options proposed, the SRS-CSPCP is of the opinion that only option (c) should be considered.

Option (b) is rejected, because the Notes are not part of the financial statements and the objective cannot be to require the disclosure of accounting facts in the Notes.

Option (d) is rejected for while it is compatible with the possibilities offered by the Conceptual Framework the above mentioned options can be used as well. Thus considering the feasibility of the other options there is no sufficient reason to apply option d).

Finally, Option (e) is rejected by the SRS-CSPCP, because recognition through equity is in conflict with accounting principles and because for public entities the statement of financial position is not as important as the statement of financial performance.

In this CP it is pointed out that Option (c) is not compatible with the Conceptual Framework. The SRS-CSPCP is of the opinion that this is at least disputable. But should the IPSASB conclude that the Conceptual Framework would have to be revised, the SRS-CSPCP would not rule out this development.

**9. Specific Matter for Comment 4 (following paragraph 4.64)**

*Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) - Provide additional guidance on making the exchange/non-exchange distinction?*

- (a) Yes
- (b) No

*Please explain your reasons.*

The SRS-CSPCP is of the opinion that the Option (c) chosen should not be combined with disclosure in the Notes. As already mentioned in the response to Specific Matter for Comment 3, elements should not be disclosed in the Notes but recognized in the financial statements.

**10. Preliminary View 4 (following paragraph 5.5)**

*The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.*

*Do you agree with the IPSASB's Preliminary View 4? If not please give your reasons.*

The SRS-CSPCP fully agrees that capital grants should be addressed in a separate chapter.

**11. Specific Matter for Comment 5 (following paragraph 5.5)**

*1. Has the IPSASB identified the main issues with capital grants?*

*If you think that there are other issues with capital grants, please identify them.*

*2. Do you have any proposals for accounting for capital grants that the IPSASB should consider?*

*Please explain your issues and proposals.*

- a) The SRS-CSPCP is of the opinion that the IPSASB has not considered all important issues related to capital grants.
- b) Details are lacking as to how a capital grant must be recognized over its useful life and that the grant must be recognized symmetrically by the payer and the recipient (e.g. in the interest of consolidation or of the statistics)

**12. Specific Matter for Comment 6 (following paragraph 5.9)**

*Do you consider that the IPSASB should:*

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or*
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or*
- (c) An alternative approach.*

*Please explain your reasons. If you favor an alternative approach please identify that approach and explain it.*

The SRS-CSPCP is actually of the opinion that approach (b) should be compulsory, for reasons of comparability and transparency. It is however aware that this alternative is in part difficult to implement. In the revised IPSAS 23 it should therefore be pointed out that for practical reasons approach (b) does not have to be applied where the materiality principle is not satisfied and if the cost benefit relationship is unfavorable.

**13. Preliminary View 5 (following paragraph 6.37)**

*The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach,*

*Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.*

The SRS-CSPCP agrees with this statement.

**14. Preliminary View 6 (following paragraph 6.39)**

*The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered. Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.*

The SRS-CSPCP agrees with this statement.

**15. Preliminary View 7 (following paragraph 6.42)**

*The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue. Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.*

The idea would in fact be good, but it is not practical, as this would lead to various different approaches to accounting for expense, with a multitude of possibilities. Such a situation should be avoided. The application of PSPOA on the expense side is difficult, because it requires (too) much information. This is the case particularly if a third level or a third-party benefits from a grant, which is frequently the case in the public sector. This is also mentioned by the IPSASB in Paragraph 6.34 of the CP.

As the SRS-CSPCP rejects PSPOA on the revenue side, but considers that expense and revenue should be treated in the same way, it also rejects this approach on the expense side.

**16. Preliminary view 8 (following paragraph 7.18)**

*The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.*

*Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.*

The SRS-CSPCP agrees with this statement.

**17. Preliminary View 9 (following paragraph 7.34)**

*The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.*

*Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.*

The SRS-CSPCP is of the view that the Fair Value Approach should not be used for such receivables (e.g. tax receivables). Tax receivables should be treated in the same way as receivables for services.

**18. Specific Matter for Comment 7 (following paragraph 7.46)**

*For subsequent measurement of non-contractual payables do you support:*

- (a) Cost of Fulfillment Approach;*
- (b) Amortized Cost Approach;*
- (c) Hybrid Approach; or*
- (d) IPSAS 19 requirements? Please explain your reasons.*

The SRS-CSPCP is of the opinion that such payables are to be measured in the same way as other payables, i.e. following the Amortized Cost Approach.

Lausanne, December 14, 2017