

Swiss Comments to

Exposure Draft Conceptual Framework 2: Elements and Recognition in Financial Statements

Table of Content	Page
1. Introduction.....	1
2. General Remarks	1
2.1 Specific Matter of Comment 1	1
2.2 Specific Matter of Comment 2	2
2.3 Specific Matter of Comment 3	2
2.4 Specific Matter of Comment 4	2
2.5 Specific Matter of Comment 5	2
2.6 Specific Matter of Comment 6	3
2.7 Specific Matter of Comment 7	3

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 intercantonal Conference of Cantonal Finance Directors (Finance Ministers at the States 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).

The SRS-CSPSP has discussed *Exposure Draft Conceptual Framework 2: Elements and Recognition in Financial Statements* and comments as follows.

2. General Remarks

The SRS-CSPCP finds the *Exposure Draft* to be considerably more comprehensible than the preceding *Consultation Paper*. But the question arises why new elements, such as *deferred outflows*, *deferred inflows*, *ownership contributions* and *ownership distributions* appear and what weighting is attributed to them. The IPSASB does not comment on this, which is regrettable. The SRS-CSPCP is of the opinion that in Section 1.4. items e) to h) are not to be defined as elements, because they do not have the same significance in accounting and therefore for financial statements as the elements mentioned in items a) to d). Equity should be added to the list of elements, as new item c) between *Assets/Liabilities* and *Expenses/Revenues*. The definitions of *Assets* and *Liabilities* must be widened in order that *deferred inflows* and *deferred outflows* can be included into them.

2.1 Specific Matter of Comment 1

Do you agree with the definition of an Asset? If not, how would you modify it ?

The important characteristics of an asset are included in the definition: *resource*, *service potential*, *economic benefits*, *control* and *past event*.

In Switzerland a distinction is made between Administrative Assets and Non-Administrative Assets. Administrative Assets serve the direct fulfilment of public sector duties (i.e. provision of public services) and as a rule are subject to credits (appropriations) being approved by Parliament. On the other hand Non-Administrative Assets comprise all assets that are freely disposable, i.e. are not bound to the fulfilment of a duty (cash, financial investments, etc.). As a rule competence over Non-Administrative Assets lies with the administration. Even if we know that the distinction between Administrative and Non-Administrative Assets is scarcely used in other countries, it seems to us important to retain this distinction for Switzerland. Even though Switzerland does not expect that such a distinction will appear in the IPSAS standards. But it is compatible with the characteristics listed in this ED. In effect *service potential* is facilitated by the *administrative assets*, whereas *economic benefits* are facilitated by the *non-administrative assets*.

In the extended definition (compared with the Consultation Paper) place is found for the capitalized investment grants (*grants for capital expenses*). In Section 2.7. it should be mentioned that the conditions a) to d) do not *all* have to be fulfilled for the criterion of control to be fulfilled. Additionally the definition of an asset must be extended to take into account *deferred inflows*.

2.2 Specific Matter of Comment 2

a) Do you agree with the definition of liability ? If not, how would you modify it ?

The most important characteristics of a liability are included in the definition: *present obligation, past event, no realistic alternative to avoid, outflow of service potential or economic benefits*. Additionally the definition of a liability must be extended to take into account *deferred outflows*

b) Do you agree with the definition of non-legal binding obligations? If not, how would you modify it?

Yes. Deferred outflows should also be treated as non-legal binding obligations.

2.3 Specific Matter of Comment 3

Do you agree with the definition of revenue? If not, how would you modify it?

- a) As proposed, *ownership contributions* should not be included in *revenue*. But *increases in deferred inflows* and *decreases in deferred outflows* should be included, because they are revenues.
- b) Because, as mentioned above, *deferred inflows* belong to revenues, Heading b) should be excluded.

2.4 Specific Matter of Comment 4

Do you agree with the definition of expenses? If not, how would you modify it?

- a) As proposed, ownership distributions should not be included in *expenses*. But *increases in deferred outflows* and *decreases in deferred inflows* should be included, because they are expenses.
- b) Because, as mentioned above, *deferred outflows* belong to expenses, Heading b) should be excluded.

2.5 Specific Matter of Comment 5

a) Do you agree with the decision to define deferred inflows and deferred outflows as elements ? If not, why not ?

Deferred inflows and *deferred outflows* should not be defined as elements. Assets and liabilities are the main elements in the balance sheet. It is important to specify that there are expenses and revenues which are accrued. But the accruals do not differ from the assets and liabilities to such an extent for them to be designated as elements. *Non-exchange transactions* are very significant in the public sector. But the classification of the accruals of *non-exchange transactions* as individual and separate elements fails to convince. It is important to mention them, without them being designated as elements.

b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:

- (i) Decision to restrict those definitions to non-exchange transactions? If not, why not ?***
- (ii) Definitions of deferred inflows and deferred outflows ? If not, how would you modify them?***

An answer is not necessary.

2.6 Specific Matter of Comment 6

a) Do you agree with the terms net assets and net financial position and the definition ? If not, how would you modify the terms and/or definitions ?

The SRS-CSPCP does not consider *deferred inflows* and *deferred outflows* as independent elements of assets and liabilities. In this sense the expression *net assets* is adequate and the expression *net financial position* is not necessary.

b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not ?

The classification of *ownership contributions* and *ownership distributions* as own elements is not convincing, they should be treated as elements of change in equity.

c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, why not ?

An answer is not necessary.

d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

Yes.

2.7 Specific Matter of Comment 7

Do you agree with the discussion of recognition? If not, how would you modify it?

Yes.

Lausanne, March 7, 2013