

Swiss Comments to the Consultation Paper

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements Phase 3

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1. Introduction

During its meeting on May 23, 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 Consultation Paper

None.

3. Detailed Comments on the Specific Matters for Comment

3.1 Specific Matter for Comment 1

Should the role of the Framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?

- We regard the discussion on when which basis should be used as being part of each specific Standard.
- The *Conceptual Framework* should permit different measurement bases.

3.2 Specific Matter for Comment 2

If, in your view the Framework should specify a measurement basis or combination of bases (or approach in the case of deprival value), which should that be?

Single Measurement Bases

- (a) Historical cost.
- (b) Market value.
- (c) Replacement cost.

Combinations of Bases/Approach

- (d) Deprival value.
- (e) Historical cost and market value.
- (f) Replacement cost and market value.
- (g) Historical cost, replacement cost, and market value.

Others

- (h) Another measurement basis or combination of bases/approach.

Please explain why you support a particular measurement basis or combination of measurement bases/approach and your reasons for rejecting alternatives.

- The combination of approaches (e) „*Historical cost and market value*“ is preferred. A single measurement basis does not appear to be appropriate.
- For the measurement according to one approach or the other the use of the asset is decisive.

- For assets used operationally (*Administrative Assets*) measurement must be made on the „*Historical cost*“ basis, for assets held for income (*Non Administrative Assets*) on the „*Market value*“ basis.
- The difference between *Administrative Assets* and *Non Administrative Assets* was discussed in detail in the Comments to Phase 2 of the *Conceptual Frameworks* (Heading 3.5.2. (b)).

In the approach (c) „*Replacement cost*“ we see various disadvantages:

- There is latitude in determining the „*optimised*“ *Replacement costs* for the required service potential.
- The demarcation between an increase in the replacement costs and an increase in the general quality level is not easy.
- The balance sheet amounts reflect future decisions.
- The depreciation periods are less predictable and tend to be progressive.
- Realisation of the approach in the accounts has not been exactly specified.

In the *Deprival value* model we see the following disadvantages:

- No advantages are apparent in comparison with the measurement with cost of acquisition and consistent Impairment guidelines.
- A situative use of the *Replacement cost* model does not seem sensible (disadvantages see above).
- The model is judged to be complex and would probably involve greater cost. It seems to be better if when which measurement basis is to be applied (one time decision) is described in the specific Standards. The different possibilities should not be packed in a single model (recurring decisions necessary).

3.3 Specific Matter for Comment 3

The Consultation Paper discusses the following measurement bases: historical cost, market value, and replacement cost. It also discusses the deprival value concept which does not describe a single measurement basis, but rather a means by which a basis may be selected that is relevant to the circumstances. Value in use and net selling price are discussed in the context of the deprival value model.

In your view, is this discussion complete, balanced and fair? If not, please indicate what in your view is missing or in what respects you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach in the case of deprival value).

- There is too little focus on the function, which the balance sheet should fulfil.
- The differences in the bases in practice could be better described.
- The accounting implementation of the „*Replacement cost*“ model should be described (does the value adjustment pass through the income statement or directly through equity?).

3.4 Specific Matter for Comment 4

In your view, should:

- (a) The effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition; and

In principle no, with the exception of the provisions.

- (b) The effect of changes in own credit risk be reflected when liabilities are subsequently remeasured?

No. In this way unnecessary volatility can be avoided.

3.5 Specific Matter for Comment 5

In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:

- (a) Only the service potential relating to the existing use; or

Yes.

- (b) Include the incremental value relating to its possible sale for an alternative use?

No.

Lausanne, June 7, 2011