Swiss Comments to
ED 37: „Financial Instruments: Presentation“
ED 38: „Financial Instruments: Recognition and Measurement”
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1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) has discussed ED 37 „ Financial Instruments: Presentation“, ED 38 “Financial Instruments: Recognition and Measurement” and ED 39 “Financial Instruments: Disclosures” in its meeting 11 June 2009 and comments as follows. The 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

The Swiss comments are limited to a few relevant areas, because the size and complexity of the EDs did not permit a detailed discussion of the full content. However, SRS-CSPCP assumes that the underlying IAS/IFRS have proved to be useful and appropriate in the private sector. Therefore, they should be equally applicable also in the public sector.

3. Comments to Exposure Draft’s 37 to 39

3.1 Comments to ED 37 “Financial Instruments: Presentation”

Specific Matter for Comment:

1. We agree that all financial guarantee contracts issued at no or nominal consideration are financial instruments and therefore within the scope of this ED. This allows equal treatment for all types of guarantees. However, we have some reservation as to the proposed measurement (cp. paragraph 2 under 3.2).
2. We agree that the transitional provisions do not provide any relief from the requirement to present comparative information.

3.2 Comments to ED 38 “Financial Instruments: Recognition and Measurement”

Specific Matter for Comment:

1. We are of the view that the distinction between concessionary loans and transfers is not sufficiently clear. Both concessionary loans and grants are often subject to conditions which require a payback. The term used is sometimes not a valid indicator of the economic substance and the appropriate accounting treatment. We are of the view that instruments that are called loans but do not lead to a probable payback should be treated as transfers. For transfers, however, IPSAS 23 and not ED 38 is applicable. We propose a clarification in AG83 or AG84, similar to the distinction between a concessionary loan and the waiver of a debt.
2. We are of the view that the use of mathematical valuation techniques can be justified in some circumstances (level 2 BC11). However, in many cases the use of IPSAS 19 is clearly the preferred treatment, because mathematical techniques are doubtful particularly in their reliability. The treatment under IPSAS 19 also requires disclosure instead of recognition if an outflow is not likely. Therefore no hierarchy of the alternative treatment should be given and both mathematical techniques and the use of IPSAS 19 should be alternatives, which are used depending on the substance of the transaction.
3. We agree with the proposed transitional provisions.

Further issues:

A There is an issue with equity instruments held by an entity, which do not qualify as associates (i.e. no significant influence, e.g. less than 20 percent of the shares). Unlike the private sector, public sector entities frequently hold such equity instruments in providing a public service (e.g. a 5 percent share in a regional hospital, which provides some services but not to a degree that would justify a larger investment). None of the categories for subsequent measurement defined in ED 38 is appropriate for such instruments (definitions of four categories of financial instruments, paragraph 10):
- Fair Value: Not feasible, because of not for profit characteristic. Also, the sale of the instrument is subject to severe restrictions (e.g. only to other shareholders).
- Held to maturity: Not feasible, because no maturity.
- Loan/receivable: Neither a loan, nor a receivable.
- Available for sale: Not feasible, because instrument is not available for sale.

We therefore propose the introduction of a fifth category, which requires measurement at cost. This type of financial instrument is very common and frequently used in Switzerland.

B There is an issue concerning the measurement of concessionary loans. According to ED 38 the interest difference compared with market rates must be amortised and the asset correspondingly value immediately adjusted. For the public sector in Switzerland this does not appear meaningful at any rate. We propose that as an alternative such loans may be measured at nominal amount and that each year the interest payment may be recorded in income as a transfer expense, the reason being in particular that such loans are not held for trading purposes, but are held throughout their duration until maturity. There is also no market for them. In addition in the public sector in Switzerland the emphasis is primarily on the income statement and not the balance sheet (in contrast to IFRS, FER).

3.3 Comments to ED 39 “Financial Instruments: Disclosures”

Specific Matter for Comment:

- We are of the view that all disclosure items should be retained, however, not as a unconditional requirement. Many items are applicable only for some types of operation (e.g. commercial banks), which may well exist in the public sector. However, they are onerous to entities which do not have this type of operation, even though they may have a small number of such financial instruments. However, the principle based style of ED 39 still requires them to prepare useless disclosure information at high cost. We therefore suggest that the disclosure be required only if the relevant type of operation exists.

Chavannes-Lausanne, July 7, 2009