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## Swiss Comment to ED 77 Measurement

Dear Ross,

With reference to the request for comments on the proposed Consultation Paper, we are pleased to present the Swiss Comments to ED 77 Measurement. We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments for the Exposure Draft in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

SRS-CSPCP



Prof Nils Soguel, President



Evelyn Munier, Secretary

Comments to ED 77 Measurement

## Swiss Comment to

## ED 77 Measurement

Table of Content	Page
1. Introduction.....	3
2. General Remarks.....	3
3. Specific Matter for Comment 1 .....	4
4. Specific Matter for Comment 2 .....	4
5. Specific Matter for Comment 3 .....	4
6. Specific Matter for Comment 4.....	5
7. Specific Matter for Comment 5.....	5
8. Specific Matter for Comment 6 .....	5
9. Specific Matter for Comment 7 .....	6
10. Specific Matter for Comment 8 .....	6
11. Specific Matter for Comment 9.....	6
12. Specific Matter for Comment 10.....	7
13. Specific Matter for Comment 11.....	7
14. Specific Matter for Comment 12.....	7
15. Specific Matter for Comment 13.....	8
16. Specific Matter for Comment 14.....	8
17. Specific Matter for Comment 15.....	8

## 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 ED 77 Measurement.

## 2. General Remarks

The SRS-CSPCP sees it as positive that the IPSAS Conceptual Framework and the Standards are aligned with one another and that there is more guidance on use of the various measurement methods/techniques. Above all, it is appreciated that the measurement methods/techniques are bundled into a single standard. The *Historical Cost Model* will probably continue to remain the normal case, as far as the Swiss public sector is concerned; the other measurement approaches and techniques are used less frequently and at present are rather theoretical. The SRS-CSPCP considers very important that the individual standards, above all the *Impairment Standards*, are aligned with the *Measurement Standard*.

The SRS-CSPCP takes note that in Australia, New Zealand and Great Britain *depreciated replacement cost* constitutes *Fair Value*. The question, therefore, arises as to what is the difference between the COV approach and the *depreciated replacement cost approach*.

For the SRS-CSPCP, in particular, use of the measurement techniques «*market approach*» and «*income approach*» grouped under the banner of the *current operational value (COV) approach* is problematic. For instance in Switzerland, some governments' public services are frequently financed by fees, which amount is based not on the historical cost, but on the replacement cost of the asset. This value is thus linked to the COV approach. In the draft standard, among the measurement models it is mentioned that the value of the corresponding assets in the COV approach can be calculated using the technique «*income approach*» inter alia on the basis of the income. If a government would refer to such an income technique (not approach), then it would mean that an asset is valued higher, when the fees demanded are higher and lower if the fees are lower. Such a connection should not be possible and is not tolerable for administrative assets (assets necessary for fulfilling the statutory task). Of course, setting the fee at a fair level requires to determine how high are the costs of constructing or purchasing an asset. However such question has nothing to do with a *market technique*, but a *cost (of inputs) technique*. In general, the SRS-CSPCP is of the opinion that the COV approach is (still) not yet sufficiently developed and that is difficult to foresee how the *income technique* is to function under the banner of the *COV approach*. Measurement using the replacement cost technique would certainly be simpler. For the SRS-CSPCP it is important that the new expressions be defined precisely, leaving the users no room for interpretation of the measurement models.

As also mentioned in the response to SMC 1 in ED 76, the SRS-CSPCP is of the opinion that the wording in this draft standard is not consistent. For example, when referring to methods the word *techniques* should be used and not *approach*, since both *technique* and *method* are synonyms whereas *method* and *approach* are not. Approach may be reserved for *models*.

It also not clear to the SRS-CSPCP in this ED 77 whether the definition of *Fair Value* in IPSAS 21 is to be adapted to the new definition in ED 77. In BC 59 (b) it is stated that IPSAS 21 will not be revised until later and the previous *Fair Value* definition remains unchanged. In ED 77.4c *Scope*, on the other hand, takeover of the new *Fair Value* definition in IPSAS 21 is also listed. The SRS-CSPCP agrees with the procedure described in BC 59, to leave the Fair Value

concept as it is now, and not to use that in IFRS 13. Should this procedure not be pursued, the SRS-CSPCP draws attention to the subsequent adoption of the *highest and best use* model for *Impairments* in the public sector, above all for administrative assets (assets necessary for fulfilling the statutory task). The planned revision of IPSAS 21 by the IPSASB is supported.

### **3. Specific Matter for Comment 1**

*Do you agree an item that qualifies for recognition shall be initially measured at its transaction price, unless:*

- *That transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes;*  
*or*
- *Otherwise required or permitted by another IPSAS?*

*If not, please provide your reasons, stating clearly what principles are more appropriate, and why.*

The SRS-CSPCP agrees in principle with this statement. However, it points out that there are various definitions of transaction price at the time of initial measurement and that, as it is, the proposed content not very transparent. As end user it is difficult to understand which definition of transaction price applies (ED77.7; ED 77.C21; in various standards, etc.). Accordingly it should be ensured that the concept is defined in the same way everywhere. Basically, the transaction price reflects the *Fair Value* at the time of purchase or exchange. The SRS-CSPCP is also of the opinion that the second bullet point (ED77.7b) leaves the door open for different definitions in other IPSASs. In other words, no other definitions of the transaction price should be allowed in other IPSASs and the definition is to be fixed exclusively in the *core text* of ED 77.

### **4. Specific Matter for Comment 2**

*Do you agree after initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure the item at historical cost or at its current value? This accounting policy choice is reflected through the selection of the measurement model. If not, please provide your reasons, stating clearly what principles are more appropriate, and why.*

The SRS-CSPCP agrees with this statement.

### **5. Specific Matter for Comment 3**

*In response to constituents' comment letters on the Consultation Paper, Measurement, guidance on historical cost has been developed that is generic in nature (Appendix A: Historical Cost). Do you agree the guidance is appropriate for application by public sector entities? If not, please provide your reasons, stating what guidance should be added or removed, and why.*

Generally, the SRS-CSPCP is in agreement with the guidelines for the application of the *Historical Cost Approach*. According to Point 16 of the ED discounting is required. The SRS-CSPCP wonders what *discount rate* has to be applied. This should be governed in ED 77.

**6. Specific Matter for Comment 4**

*Do you agree no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement?*

*If not, please provide your reasons, stating which measurement techniques are applicable to the subsequent measurement of an asset or liability measured at historical cost, and why.*

Under the *Historical Cost Approach* the assets must be depreciated. For the SRS-CSPCP depreciation or amortized cost are definitely also a measurement technique. Furthermore, the depreciation rate for various assets may vary ; and therefore the amortized cost also varies. The SRS-CSPCP, therefore, does not agree with the view of the IPSASB.

**7. Specific Matter for Comment 5**

*Do you agree current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date?*

*If not, please provide your reasons, stating clearly what principles more appropriate for the public sector, and why.*

*The Exposure Draft includes an Alternative View on current operational value.*

The SRS-CSPCP strongly supports the Alternative View, under which the COV represents (is equivalent to) the replacement cost. It even goes somewhat further and would designate the COV as the *depreciated replacement cost*. This opinion is supported by the fact that in the IPSAS Conceptual Framework depreciated replacement cost is also a permissible measurement technique. For the SRS-CSPCP it is not necessary to introduce a new definition, which by and large corresponds with one already in existence. Furthermore, the IPSAS Board also talks of replacement cost in Section B2 (a): "*In the statement of financial position, current operational value reflects the amount an entity would incur at the measurement date to **acquire** its existing assets to be able to continue to achieve its present service delivery objectives*". With this the IPSAS Board shows clearly that COV has definitely and precisely to do with the replacement of an asset.

**8. Specific Matter for Comment 6**

*Do you agree the proposed definition of current operational value and the accompanying guidance is appropriate for public sector entities (Appendix B: Current Operational Value)?*

*If not, please provide your reasons, stating clearly what definition and guidance is more appropriate, and why.*

According to Section B.5 surplus capacity is a factor among others, which must be considered when measuring an asset. In contrast, in Section B.36 it is stated that depreciation must be undertaken based on *economic obsolescence*. In the example of a bridge, which was built for 1 million vehicles, but only 300,000 can pass over it, according to Section B.5 this bridge must be measured at a value, which reflects 1 million vehicles, but on the other hand according to Section B 36 only with a value that reflects 300,000 vehicles. The question arises which value is to flow into the measurement. The IPSAS Board must clarify whether economic obsolescence is a measurement deduction (ED77.B36) or an *impairment* (ED77.B11) and the relationship, in which the two concepts stand.

The SRS-CSPCP emphasises that it responds to this question, although it does not support the definition of COV, but the Alternative View.

**9. Specific Matter for Comment 7**

*Do you agree the asset's current operational value should assume that the notional replacement will be situated in the same location as the existing asset is situated or used? If not, please provide your reasons, stating clearly why the asset should be measured at a different value.*

The SRS-CSPCP is in agreement with this statement.

**10. Specific Matter for Comment 8**

*Do you agree the income approach is applicable to estimate the value of an asset measured using the current operational value measurement basis? If not, please provide your reasons, stating clearly why the income approach is not applicable for measuring current operational value. The Exposure Draft includes an Alternative View on current operational value.*

The SRS-CSPCP would like to draw attention to a language problem; the term *approach* is not suitable here. This expression should be used for the *models*; thereafter it is a question of *techniques*.

As already stated in the introductory remarks, the SRS-CSPCP is not in agreement that the *income technique* should be applied in the measurement of an asset. It cannot be the case that an asset, which belongs to the administrative assets, i.e. to the fulfilment of a statutory task in the public sector, is measured according to the income, which it generates. Take the example of a fee financed provided service: a local government is responsible for the waste water treatment. In order to fulfil this task, the municipality owns various assets, including a sewage treatment plant. This provision is financed exclusively by fees. If the *income technique* is applied, the value of the sewage treatment plant would be determined by the fees. The value of the asset would fluctuate (or worse could be manipulated) by changing the amount of the fees: in order to increase the value of the plant, the fees would be increased, to reduce it, they would be reduced.

If the IPSAS Board intends to stand by this *income technique*, the SRS-CSPCP wishes that more elaborated details and requirements be added.

As already in SMC 5, the SRS-CSPCP supports the Alternative View. It supports this Alternative View also in respect of the *income technique*.

**11. Specific Matter for Comment 9**

*In response to constituents' comment letters on the Consultation Paper, Measurement, guidance on fair value has been aligned with IFRS 13, Fair Value Measurement (Appendix C: Fair Value). Do you agree the guidance is appropriate for application by public sector entities? If not, please provide your reasons, stating what guidance should be added or removed, and why.*

In principle, the SRS-CSPCP is in agreement with alignment with IFRS 13. It would, however, like to point out that a measurement approach for public investments (shareholding, not to be confused with capital expenditure) is lacking. Such investments are held for operational, not for financial reasons. In the *Fair Value Approach* investments are measured only for financial reasons. Measurement, when holding for operational reasons, is not illustrated.

The SRS-CSPCP notes that in Section C.33 the talk is of the *cost technique* in the *Fair Value Approach*. Reference is made there to the *replacement cost price*. But it is used in the *COV Approach*. It appears that here there is duplication between the *Fair Value* and the *COV Approach*.

## **12. Specific Matter for Comment 10**

*In response to constituents' comment letters on the Consultation Paper, Measurement, guidance on cost of fulfillment has been aligned with existing principles in the Conceptual Framework and throughout IPSAS (Appendix D: Cost of Fulfillment). Do you agree the guidance is appropriate for application by public sector entities?*

*If not, please provide your reasons, stating what guidance should be added or removed, and why.*

The SRS-CSPCP is in agreement with the opinion of the IPSAS Board. It has only a minor comment, which is formal in nature: why in Illustration 1 of ED 76 is the *cost of fulfillment* after *COV*, but before *Fair Value* illustrated and in the Text of ED 77, under C, described after *COV* and *Fair Value*? The SRS-CSPCP suggests retaining the same order of the measurement models in the illustration in ED 76 as in the description in ED 77.

The SRS-CSPCP assumes that in the field of *pension liabilities* with the new *Measurement Standard* nothing changes. It, therefore, suggests listing in Point 4 (C) pension liabilities as also *out of scope*.

## **13. Specific Matter for Comment 11**

*Do you agree measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77?*

*If not, please provide your reasons, stating clearly where the measurement disclosure requirements should be included, and why.*

The SRS-CSPCP is in agreement with the opinion of the IPSAS Board.

## **14. Specific Matter for Comment 12**

*Are there any measurement disclosure requirements that apply across IPSAS that should be included in ED 77, Measurement?*

*If yes, please provide your reasons, stating clearly what the disclosures are, and why.*

The SRS-CSPCP is of the opinion that no further disclosure requirements are necessary.

**15. Specific Matter for Comment 13**

*Do you agree current value model disclosure requirements should be applied consistently across IPSAS? For example, the same disclosure requirements should apply to inventory and property, plant, and equipment when measured at fair value.*

*If not, please provide your reasons, stating clearly which IPSAS require more or fewer measurement disclosures, and why.*

The SRS-CSPCP is in agreement with the opinion of the IPSAS Board.

**16. Specific Matter for Comment 14**

*Do you agree with the proposal disclosure requirements for items remeasured under the current value model at each reporting date should be more detailed as compared to disclosure requirements for items measured using the current value model at acquisition as proposed in Appendix E: Amendments to Other IPSASs.*

*If not, please provide your reasons, stating clearly why disclosure requirements should be consistent for recurring items and non-recurring items measured using the current value model.*

The SRS-CSPCP is in agreement with the opinion of the IPSAS Board.

**17. Specific Matter for Comment 15**

*Do you agree fair value disclosure requirements should include requirements to disclose inputs to the fair value hierarchy?*

*If not, please provide your reasons, stating clearly why disclosure requirements for inputs in the fair value hierarchy are unnecessary.*

The SRS-CSPCP is in agreement with the opinion of the IPSAS Board.

Lausanne, September 23, 2021