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Swiss Comment to

ED 81 Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements

Dear Ross,

With reference to the request for comments on the proposed Consultation Paper, we are pleased to present the Swiss Comments to the ED 81 Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements. We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments for the ED 81 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 the ED 81 Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements

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ED 81 Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements

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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 ED 81 Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements.

2. General Remarks

The SRS-CSPCP recognizes the need to revise Chapters 3 and 5 of the Conceptual Framework.

3. Specific Matter for Comment 1: Prudence

In paragraphs 3.14A and 3.14B, the IPSASB has provided guidance on the role of prudence in supporting neutrality, in the context of the qualitative characteristic of faithful representation. Paragraphs BC3.17A-BC3.17E explain the reasons for this guidance. Do you agree with this approach?

If not, why not? How would you modify these paragraphs?

The SRS-CSPCP is in agreement with the proposed guidance on the rule of prudence.

4. Specific Matter for Comment 2: Obscuring Information as a Factor Relevant to Materiality Judgments

Paragraphs 5.7A-5.7G reflect a rights-based approach to the description of resources in the context of an asset. The reasons for this approach are in paragraphs BC5.3A-BC5.3F.

Do you agree with this proposed change? If not, why not?

The meeting participants are in agreement with this addition.

5. Specific Matter for Comment 3: Rights-Based Approach to a Resource

Paragraphs 5.7A-5.7G reflect a rights-based approach to the description of resources in the context of an asset. The reasons for this approach are in paragraphs BC5.3A-BC5.3F.

Do you agree with this proposed change? If not, why not?

The SRS-CSPCP agrees in principle with the proposed change. But it emphasizes that, already during the consultations to the Lease project (ED 64 and ED 75), it clearly expressed its critical attitude towards the Right-of-Use-Model.

As a reminder, the SRS-CSPCP's response to the right-of-use model in ED 64 and ED 75:

Specific Matter for Comment 1 (The IPSASB decided to adopt the IFRS 16 right-of-use model for lessee accounting)

The SRS-CSPCP is not in agreement with the decision of the IPSASB. The reasons are the following:

- 1) *This model is simpler in the use of rental contracts by decentralized entities (Australia, New Zealand). In the Swiss public sector, and also in other countries, properties are often managed centrally, which separates the management of the property and its use.*
- 2) *For government's operation it is important to differentiate the different types of cost (e.g. rental or occupation costs). In Switzerland, budgetary effects are different for different types of cost. In the private sector on the other hand, the focus is more on the financial result and profit distribution. If the public sector starts to recognize the amortization (of the RoU) of rental costs, the statement of financial performance loses its informative value.*
- 3) *The SRS-CSPCP is of the opinion that the focus of the proposed model is too much focussed on the statement of financial position. However, in the public sector the statement of financial performance is the key statement.*
- 4) *Because the introduction of this model is complicated and costly, there is a risk that the governments will try to deviate from this standard in some way or not to adopt it. It could possibly become another obstacle to adopting IPSAS.*
- 5) *In some small government units in Switzerland, the application of IFRS 16 led to difficulties. We expect even more difficulties if larger units.*
- 6) *The current IPSAS 13 discloses the liability from operating leases in the Notes of the lessee. In the new standard this is no longer possible for most leasing liabilities. It is hardly comprehensible that in addition in the new standard the liability on unrealized income in the lessor must be carried among the liabilities in the statement of financial position.*
- 7) *The RoU model can result in valuation problems. For example, determination of the duration of the right of use can become a challenge, if grant of the rental contract is governed only by law. The accountant in the lessee and the accountant in the lessor must make estimates, which politically is extremely delicate. The power of decision lies with the legislator, i.e. the Parliament. Estimates are conceivable between one year (budget year, approval of expenditure), four years (legislative period) and 150 years (possible duration of use). Clear guidance would be necessary in the standard as a decision-making aid.*

6. Specific Matter for Comment 4: Definition of a Liability

The revised definition of a liability is in paragraph 5.14:

A present obligation of the entity to transfer resources as a result of past events.

The reasons for the revised definition are in paragraphs 5.18A-5.18H.

Do you agree with the revised definition? If you do not agree with the revised definition, what definition do you support and why?

The SRS-CSPCP is in agreement with the new definition. But it requests that IPSAS Board precisely defines the term of «transfer», in particular in IPSAS 23.

7. Specific Matter for Comment 5: Guidance on the Transfer of Resources

The IPSASB has included guidance on the transfer of resources in paragraphs 5.16A-5.16F of the section on Liabilities. The reasons for including this guidance are in paragraphs BC5.19A-BC5.19D.

Do you agree with this guidance? If not, how would you modify it?

The SRS-CSPCP is in agreement with this guidance.

8. Specific Matter for Comment 6: Revised Structure of Guidance on Liabilities

In addition to including guidance on the transfer of resources, the IPSASB has restructured the guidance on liabilities so that it aligns better with the revised definition of a liability. This guidance is in paragraphs 5.14A-5.17D. Paragraph BC5.18H explains the reasons for this restructuring.

Do you agree with this restructuring? If not, how would you modify it?

The SRS-CSPCP is in agreement with this restructuring of the guidance on liabilities.

9. Specific Matter for Comment 7: Unit of Account

The IPSASB has added a section of Unit of Account in paragraphs 5.26A-5.26J. The reasons for proposing this section are in paragraphs BC5.36A-BC5.36C.

Do you agree with the addition of a section on Unit of Account and its content? If not, how would you modify it and why?

The SRS-CSPCP agrees with the addition of a section on the *Unit of Account*. It also agrees with the content, except for paragraph 5.26F. As all *binding arrangements* generate rights and obligations, in the second sentence the word «some» should be omitted. The SRS-CSPCP requests that the first sentence in this paragraph also be reviewed. The meaning of «sometimes» is not clear, because rights and duties do not arise only sometimes.

10. Specific Matter for Comment 8: Accounting Principles for Binding Arrangements that are Equally Unperformed

The IPSASB took the view that guidance on accounting principles for binding arrangements that are equally unperformed should be included in the Conceptual Framework, but that a separate section on accounting principles for such binding arrangements is unnecessary. These principles are included in paragraphs 5.26G-5.26H of the section on Unit of Account. The explanation is at paragraphs BC5.36D- BC5.36F.

Do you agree that:

(a) Guidance on principles for binding arrangements that are equally unperformed is necessary; and if so

(b) Such guidance should be included in the Unit of Account section, rather than in a separate section?

If you do not agree, please give your reasons.

(a) The SRS-CSPCP is of the view that such guidance is necessary.

(b) The SRS-CSPCP agrees that this guidance be included in the *Unit of Account* section.

Lausanne, May 17, 2022