

Swiss Comment to

Consultation Paper Measurement

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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 26 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 CP Measurement and comments as follows.

2. General Remarks

The SRS-CSPCP appreciates the improved and extended structure of this Consultation Paper. It is of the opinion that the additional inclusion of a draft ED represents real added value for the consultation. The appended Draft ED enables the respondents to gain at an early stage a picture of the future Standard and to formulate their responses accordingly.

The SRS-CSPCP is basically of the opinion that a new Standard on Measurement makes sense. As the IPSASB has already stated, various measurement bases are distributed over a number of IPSAS Standards. It would therefore be logical to combine all these bases in a single Standard. A second reason for drawing up an own standard on measurement bases lies in the fact that the Standards are more binding on the user than the Conceptual Framework.

However, the SRS-CSPCP finds that there are some discrepancies in the definitions, which are repeated in various passages of the Consultation Paper. This makes more difficult the considerations about the comments to be given. Further, the SRS-CSPCP has the impression that the IPSASB's proposals and in particular the terminology used tend to be too closely aligned with the private sector.

Consistency of the new Standard with the provisions of the Conceptual Framework is also a key point.

3. Preliminary View 1 – Chapter 2

The IPSASB's Preliminary View is that the fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

The SRS-CSPCP agrees with the IPSASB's view. The four proposed measurement bases are those, which are most frequently applied or should possibly exclusively be used. Therefore, in the new Standard the four above mentioned bases (*fair value, fulfillment value, historical cost, replacement cost*) should be described and together with how they should be implemented.

If other measurement bases are mentioned in other Standards, they should as far as possible be replaced by the four above mentioned bases. If, however, the IPSASB concludes that for one or the other Standard other measurement bases than the four mentioned measurement bases must be applied, these other bases should also be explained and described. Depending on the frequency with which these other measurement bases are employed, is to be decided whether they too are described and explained in the Measurement Standard or in the relevant Standard.

For the SRS-CSPCP a consistent way to linking both the Conceptual Framework and the individual Standards in respect of the measurement bases is important. Therefore there should be no duplications in the definitions or discrepancies between the recommendations how to implement the various bases in the various documents.

4. Preliminary View 2 – Chapter 2

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

The SRS-CSPCP is in agreement with the IPSASB's view: In the new Standard the most commonly used measurement bases must be described and their application explained. This facilitates the application of these bases in all the Standards concerned. Thus, details of the measurement should then be governed and explained individually in the Standards concerned. However, the SRS-CSPCP points out that in the individual Standards no elements, e.g. a different/alternative measurement base, should be introduced, which have not beforehand been mentioned in the "Base Standard" (i.e. in the *IPSAS Measurement*).

5. Preliminary View 3 – Chapter 2

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed?

The SRS-CSPCP supports the IPSASB's view that guidance for historical cost should be derived from the existing IPSASs. As historical cost may apply not only for fixed assets and intangible assets, but also for liabilities, this point or possibility should be left open in the definition.

The SRS-CSPCP considers it important that subsequent measurements are also described and explained in this Standard. If this is not possible as a result of special requirements or characteristics of an asset, then these subsequent measurements should only be governed in the Standard concerned (i.e. not in the *IPSAS Measurement*).

6. Preliminary View 4 – Chapter 2

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed?

The SRS-CSPCP is of the opinion that IFRS 13 cannot be applied to the public sector unreservedly. It is not in agreement with the idea that the definition of and the guidance on *fair value* are closely aligned with IFRS 13.

The SRS-CSPCP makes the following comments:

- 1) In Appendix B there are four definitions of *fair value*, which are similar but not completely identical. The SRS-CSPCP considers it important that the considered definitions remain consistent in order to avoid misunderstandings and false interpretations.
- 2) The expressions "*most advantageous market*" (see Point A.7) and "*highest and best use*" (see Points A.18 and A.19) are not relevant for the public sector; indeed it is not compatible with the prudence principle, which is important for public entities.
- 3) Point A.15 refers to a market with several marketable goods. However such a market in the public sector, if it even exists, is available only for fixed assets and financial instruments. The SRS-CSPCP therefore proposes adjusting the chapter on *fair value* to the public sector, in particular by introducing references to IPSAS 21 and IPSAS 26 and adding examples.
- 4) IFRS 13 in the form presented can be employed at most for the measurement of financial instruments and investment properties. It is not a method, which can be applied in the historical cost model, not even e.g. indirectly over IPSAS 21 or IPSAS 26. In the paper under consideration, relevant statements on the relationship/interaction between IFRS 13 and the two Impairment Standards are missing. The SRS-CSPCP proposes adding these relationships in the BC of the ED.

7. Preliminary View 5 – Chapter 2

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Although the guidance on *fulfilment value* is based on the *Conceptual Framework*, which was drawn up specifically for the public sector, the SRS-CSPCP has the impression that the definitions are in part too closely aligned with the private sector. For example, in Section B.1 "*least costly measure*" is mentioned, an expression which relates more to the private sector than the public sector.

The SRS-CSPCP has the impression that Sections B.14 and B.33 are rather contradictory. It suggests that the IPSASB review this and, if necessary, make the necessary adjustments. At the same time Section B.33 could be written in less detail.

In Appendix B it is also stated that the *time value of money* must follow the market. But in the public sector this should not necessarily be so. The IPSASB has a research project on *discount rates*. If this project also covers the *time value of money*, the new Measurement Standard should not discuss it further.

The SRS-CSPCP is of the view that the entire section should be revised everywhere where the relevance to the public sector is not clear.

8. Preliminary View 6 – Chapter 2

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Although the guidance in Appendix D is based on the Conceptual Framework, here too the SRS-CSPCP also has the impression that the definitions are too closely aligned with the private sector. For example, in Section D.1 "most economic cost" is mentioned. However, in the public sector this is not necessarily the applicable criterion. The SRS-CSPCP is of the view that the most possible exact costs of providing a service must be adduced. And this is not necessarily the *most economic cost*.

9. Preliminary View 7 – Chapter 3

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

The SRS-CSPCP is of the view that the distinction between borrowing costs and transaction costs is not always very clear. It therefore wishes that the definition of borrowing costs per IPSAS 5 be taken up in the new Standard. In that definition it is clear that not only interest is part of borrowing costs, but also all costs incurred by a public entity in connection with raising debt. The following example illustrates the problem: a public entity requires a bank loan to build a school. It commissions an intermediary to find a credit institute with the most favorable conditions. The intermediary's costs are presumably transaction costs, but there is no guidance as to whether these costs could or could not also be regarded as borrowing costs.

The SRS-CSPCP points out that transaction costs are defined in the new Standard. Therefore, for the sake of completeness and to provide a better understanding, the borrowing costs should also be defined.

The SRS-CSPCP agrees with the IPSASB's view on the recognition of borrowing costs and pleads that they may not be capitalized, but directly expensed in the income statement.

10. Preliminary View 8 – Chapter 3

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

The SRS-CSPCP agrees with this definition, with the provision that the distinction between transaction and borrowing costs is clarified (see Response to *Preliminary View 7*).

11. Preliminary View 9 – Chapter 3

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

The SRS-CSPCP agrees with this view. It points out that borrowing costs must also be considered in the new Standard (see Response to *Preliminary View 7*).

12. Preliminary View 10 – Chapter 3

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:

- *Excluded in the valuation of liabilities measured at fulfillment value;*
- *Excluded from the valuation of assets and liabilities measured at fair value; and*
- *Included in the valuation of assets measured at historical cost and replacement cost.*

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

The SRS-CSPCP agrees with this view.

13. Preliminary View 11 – Chapter 3

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:

- *Included in the valuation of liabilities measured at fulfillment value;*
- *Excluded from the valuation of assets and liabilities measured at fair value; and*
- *Excluded in the valuation of assets measured at historical cost and replacement cost.*

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

In the view of the SRS-CSPCP the transaction costs should also be included in a fair value measurement, because in principle they are borne by the selling party.

The SRS-CSPCP agrees with the other viewpoints of the IPSASB.

14. Specific Matter for Comment 1 – Chapter 2

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

The SRS-CSPCP has read through the various definitions and is of the view, as already mentioned in the Response to *Preliminary View 7*, that the definition of *borrowing cost* per IPSAS 5 should be added. It is also of the opinion that the definition of transport costs should be eliminated.

15. Specific Matter for Comment 2 – Chapter 3

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct? Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

The SRS-CSPCP is of the opinion that a convergence of IPSAS and GFS is important and should in any case be continued in order to achieve a reduction of the existing differences. In contrast a convergence with IVS and relevance to the concepts of *Equitable Value* and *Synergistic Value* are not necessary. Up to now, at least in the consultation documents issued by the IPSASB, there has been no mention of this.

The SRS-CSPCP therefore finds that new Standards and concepts should not suddenly be introduced for comparative purposes. For this reason, the IPSASB can refrain from reviewing the relevance of both concepts.

16. Specific Matter for Comment 3 – Chapter 4

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- *The Conceptual Framework Measurement Objective;*
- *Reducing unnecessary differences with GFS;*
- *Reducing unnecessary differences with IFRS Standards; and*
- *Improving consistency across IPSAS.*

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

The SRS-CSPCP finds that diagrams are in principle useful and instructive. In this case, however, the added value is very limited. The Diagram 4.1 presented demonstrates so many possibilities that the user is rather confused than that he is helped in the choice of the correct measurement base. Following the design of this diagram, in all cases, almost all bases can be applied and may also be changed over time. For reporting consistency, this is however a significant disadvantage. The more so, because in both diagrams changes in measurement bases of assets or liabilities which are already present in the public entity's balance sheet are mentioned. But this topic is not addressed in this *Consultation Paper*.

Instead, the SRS-CSPCP proposes to the IPSASB that it designs a diagram, from which can be seen which measurement bases are applied in which IPSASs.

Lausanne, October 4, 2019