Swiss Comment to

Consultation Paper Public Sector Specific Financial Instruments

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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 the *CP Public Sector Specific Financial Instruments* and comments as follows.

2. Preliminary Remarks

The SRS-CSPCP emphasizes that the majority of the issues raised in the *Consultation Paper* address situations do not concern the Federal Finance Administration (FFA) or the other public sector entities in Switzerland, in particular the cantons and the municipalities. The notes issued, the gold held as reserve assets and the reserve positions or the special drawing rights with the International Monetary Fund (IMF) are reflected in the balance sheet of the Swiss National Bank (SNB). The SNB in turn does not draw up its financial statements in accordance with IPSAS Standards, but with the provisions of the National Bank Law (NBL) and the Swiss Code of Obligations (CO) and the accounting principles described in the Notes to the financial statements, which in principle follow the standards of Swiss GAAP FER.

The SNB was invited to comment on the *Consultation Paper*. However, the SNB refrained from taking part in the consultation process. First, because the IPSASs are currently not relevant for its accounting. And then because it is also not planned in future to adopt the IPSASs.

3. Preliminary View – Chapter 2 (following paragraph 2.9)

Definitions are as follows:
(a) Monetary authority is the entity or entities, including the central bank or a department(s) of the central (national) government, which carry out operations usually attributed to the central bank.
(b) Reserve assets are those external assets held by monetary authorities that are readily available for balance of payments financing needs, intervention in the currency markets to affect exchange rates and maintaining confidence in the currency and the economy.

Do you agree with the IPSASB's Preliminary View – Chapter 2?

The SRS-CSPCP is in agreement with the definitions proposed.

4. Preliminary View – Chapter 3-1 (following paragraph 3.10)

Definition is as follows:
(a) Currency in Circulation is physical notes and coins with fixed and determinable values that are legal tender issued by, or on behalf of the monetary authority, that is, either that of an individual economy or, in a currency union to which the economy belongs.

Do you agree with the IPSASB's Preliminary View – Chapter 3-1?

The SRS-CSPCP is in agreement with the definitions proposed.

5. Preliminary View – Chapter 3-2 (following paragraph 3.30)

Notes and coins (currency) derive value because they are legal tender and accepted as a medium of exchange and therefore serve the same purpose and function in the economy. As the purpose and function of notes and coins is the same, the IPSASB's view is the accounting treatment should be consistent for both (as noted in paragraph 3.12), with the recognition of a liability when issued.

Do you agree with the IPSASB's Preliminary View – Chapter 3-2?

The SRS-CSPCP is of the opinion that there are no conceptual differences between notes and coins in circulation. With the issuance of notes and coins, which together constitute cash, the issuer incurs liabilities. Therefore, the amount issued is to be included among the liabilities in the balance sheet.

The SRS-CSPCP would like to highlight one particular issue:
Coins and notes are, according to the Government Finance Statistics Manual (GFSM2014), to be valued at their face value, adjusted for any currency that was lost, stolen or distroyed. The valuation guidelines should be the same in the IPSASs and in GFSM2014. Differences between the two standards must be avoided. For this reason the cost of fulfillment is the appropriate measurement base for coins and notes.

6. Specific Matters for Comment – Chapter 3-1 (following paragraph 3.43)

When the monetary authority assesses that a present obligation does not exist as a result of the issuance of currency, because of the absence of a legal or non-legally binding obligation (approach 1), it results in the recognition of revenue (approach 2), please explain your view and your thoughts on what is the appropriate financial statement in which to recognize revenue:

(i) Statement of financial performance; or
(ii) Statement of net assets/equity?
Please provide the reasons for your support of your preferred option, including the conceptual merits and weaknesses; the extent it addresses the objectives of financial reporting and how it provides useful information to users.

The SRS-CSPCP points out that, based on Art. 5 of the Federal Law on the Currency and Payment Instruments (FLCPI), the Federation is obliged to take back coins in circulation without limitation against payment of their nominal value. Therefore, the question of the options proposed does not arise. In the view of the SRS-CSPCP the absence of a liability from the issuance of currency (Approach 2) represents a hypothetical case, which does not occur, at least not in the Swiss case. The issuance of notes and coins **always** results in a liability for the issuer.

7. Preliminary View – Chapter 4 (following paragraph 4.14)

Definitions are as follows:
(a) Monetary gold is tangible gold held by monetary authorities as reserve assets.
(b) Tangible gold is physical gold that has a minimum purity of 995 parts per 1000.

Do you agree with the IPSASB's Preliminary View – Chapter 4?

The SRS-CSPCP is in agreement with the definitions proposed.

8. Specific Matters for Comment – Chapter 4-1 (following paragraph 4.50)

Should entities have the option to designate a measurement basis, based on their intentions in holding monetary gold assets (as noted in paragraphs 4.5-4.6)?
Please provide the reasons for your support for or against allowing an option to designate a measurement basis based on intentions.

On this question the SRS-CSPCP cannot offer a unique perspective. There are various arguments, which either support or counter the intentions based approach. Under the *intentions based approach* comparison is made more difficult. Depending on why they are held, gold held as reserve assets are divided into “monetary” and “non-monetary gold” and therefore valued differently. This division may be arbitrary, because it can be changed at any time.

The *intention based approach* is supported by the fact that there are different valuation possibilities in other Standards (IPSAS 29, IAS 39/IFRS 9).

9. Specific Matters for Comment – Chapter 4-2 (following paragraph 4.50)

Please describe under what circumstances it would be appropriate to measure monetary gold assets at either:
i. Market value; or
ii. Historical cost?
Please provide reasons for your views, including the conceptual merits and weaknesses of each measurement basis; the extent to which each addresses the objectives of financial reporting; and how each provides useful information.
If you support measurement based on intentions as discussed in SMC 4-1, please indicate your views
about an appropriate measurement basis for each intention for which monetary authorities may hold monetary gold, as discussed in paragraph 4.5 (i.e., intended to be held for its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets, or intended to be held for an indeterminate period of time).

The SRS CSPCP is divided in its opinion about the valuation of gold held as reserve assets. On the one hand gold is traded in an open market; a market price is therefore available. On the other hand the central banks/ministries of finance are scarcely active in this market, because their gold held as reserve assets are *monetary gold* and therefore their purpose is not to realize a profit on sale. This supports a valuation at historical cost.

From the perspective of financial statistics and in particular of GFSM2014, a valuation of gold held as reserve assets at market value is to be preferred, because this ensures better comparability. Deviations from the principle of market value are permissible, only if no market prices are available. Valuation at historical cost can be arbitrary, because the gold inventories may be very old, and the historical cost can therefore be determined only with difficulty, i.e. with an unfavorable cost-benefit ratio. In addition, the gold inventory constitutes a security and is therefore in principle to be valued at market value. In past decades the central banks were active in the gold market and did not hold their gold inventories forever; on this subject see the following link: <https://de.wikipedia.org/wiki/Goldreserve>.

The SRS-CSPCP suggests that one possibility of avoiding the dilemma between historical cost and market value is to refrain from carrying the gold inventories in the balance sheet and to disclose the gold inventory in the Notes.

10. Preliminary View – Chapter 5-1 (following paragraph 5.12)

Definitions are as follows:

(a) The IMF Quota Subscription is the amount equal to the assigned quota, payable by the member on joining the IMF, and as adjusted subsequently.

(b) SDR Holdings are International reserve assets created by the IMF and allocated to members to supplement reserves.

(c) SDR Allocations are obligations which arise through IMF member's participation in the SDR Department and that are related to the allocation of SDR holdings.

Do you agree with the IPSASB's Preliminary View – Chapter 5-1?

The SRS-CSPCP is in agreement with the definitions proposed.

11. Preliminary View – Chapter 5-2 (following paragraph 5.33)

The IPSASBs view is that:

(a) The IMF Quota Subscription satisfies the Conceptual Framework definition of an asset and should be recognized, with initial measurement at historical cost. Subsequent measurement may be at historical cost when the translated value of the quota subscription equals the cumulative resources contributed to the IMF, when it does not it should be measured at net selling price.

(b) SDR holdings satisfy the Conceptual Framework definition of an asset and should be recognized, with measurement at market value.

(c) SDR allocations satisfy the Conceptual Framework definition of a liability and should be recognized, with measurement at market value.

Do you agree with the IPSASB's Preliminary View – Chapter 5-2?

The SRS-CSPCP is in agreement with the definitions proposed.

Lausanne, December 15, 2016