

Swiss Comment to

ED 69 Public Sector Specific Financial Instruments, Amendments to IPSAS 41

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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 ED 69 Public Sector Specific Financial Instruments, Amendments to IPSAS 41 and comments as follows.

2. Preliminary Remarks

The SRS-CSPCP emphasizes that the issues raised in the Exposure Draft discuss situations, which do not affect the Swiss Federal Finance Administration (SFFA) as user of the financial statement. Furthermore, the other public sector entities in Switzerland, in particular the cantons and municipalities, are also not affected. The notes in issue, the gold reserves and also the reserve positions and 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 the IPSAS Standards, but with the provisions of the Swiss National Bank Act (NBA) and the Swiss Code of Obligations (CO) and the accounting principles set out in the Notes to the Financial Statements, which in principle are based on the Swiss GAAP FER standards.

Already in 2016, the SNB was invited to comment on the Consultation Paper. The SNB refrained from the possibility of involvement in the consultation process, because currently the IPSAS are not relevant for their financial statements and it is not planned to apply IPSAS in future.

The SFFA is indirectly affected by the issues raised in respect of the coinage in circulation. Therefore, only the newly created **Interpretation Guidance B.1.2.1 Definition of a Financial Instrument: Currency Issued as Legal Tender** will be discussed below.

3. Specific Matter for Comment 1

Do you agree with the proposed amendments to IPSAS 41, Financial Instruments?

If not, what changes would you make to the proposals?

The SRS-CSPCP is in agreement with the proposed amendments, with the exception of the desired changes in the **Interpretation Guidance B.1.2.1 Definition of a Financial Instrument: Currency Issued as Legal Tender**. The SRS-CSPCP is of the opinion that from case to case is to be reviewed whether or not a contractual obligation is effectively given and therefore there is a financial obligation. In many cases the obligation may probably have arisen on the basis of a sovereign activity and therefore lie outside the scope of influence of the user. In these cases, in the view of the SRS-CSPCP, this is a provision rather than a financial obligation. Accordingly, the SRS-CSPCP proposes that the text of B.1.2.1 be weakened or amended as follows (addenda are highlighted in colour).

Does issuing currency as legal tender create a financial liability for the issuer?

It depends. Currency derives its value, in part, through the statutory arrangement established between the issuer and the holder of the currency whereby currency is accepted as a medium of exchange and is recognized legally as a valid form of payment. In some jurisdictions, this statutory arrangement further obligates the issuer to exchange currency when it is presented by holders and may explicitly indicate that currency is a charge on government assets.

*When laws and regulations or similar requirements enforceable by law, such as a banking act, set out a requirement and a responsibility of an entity to exchange outstanding currency, **a liability needs to be recognized. An entity considers first whether a "contract" and therefore a financial liability exists for the purposes of this Standard by considering the***

substance rather than the legal form of an arrangement in determining whether there is a contractual obligation to deliver cash. Contracts are evidenced by the following:

- *Willing parties entering into an arrangement;*
- *The terms of the contract create rights and obligations for the parties to the contract;*
and
- *The remedy for non-performance is enforceable by law.*

*A financial liability is created when an entity issues currency to the counterparty as, at this point, two willing parties have agreed to the terms of the arrangement. Prior to currency being issued, there is no transaction between willing parties. Unissued currency does not meet the definition of a financial instrument. An entity applies paragraph 13 of IPSAS 12, Inventories, in accounting for any unissued currency. **In case the liability does not meet the definition of a financial instrument as it is not contractual, an entity applies IPSAS 19 to determine whether a provision needs to be recognized.***

Lausanne, December 17, 2019