

## Swiss Comment to

# CP The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities

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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 *Consultation Paper The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities* and comments as follows.

## 2. General Remarks

The SRS-CSPCP welcomes that the IPSAS Board is communicating its view on the entities to which IPSASs apply and to which they do not apply. It is important that all entities that are defined as public sector entities and are not Government Business Enterprises apply the same accounting principles and potentially IPSAS. In this way the consolidation work can be simplified. Consequently it is necessary to clarify to which public entities that are not GBES the IPSAS apply.

## 3. Specific Matter of Comment 1

It is difficult to define GBES exactly, as Option 2 proposes. It is more logical to define which entities must use IPSASs than to define which entities do not have to use IPSASs. Further Option 1 is in practice easier to realise, because it represents a principle-based approach. The SRS-CSPCP therefore in principle supports the principle-based Option 1.

Furthermore Option 1a is preferred to Option 1b. The Government Finance Statistics (GFS) Reporting Guidelines have proved to be very useful for the classification of public sector entities and their distinction from private sector entities, but financial statistics make no statements about the accounting principles to be applied. Public sector entities, which are a part of the General Government Sector (GGs per IPSAS 22) and are termed General Government Units, should of course apply IPSASs. On the other hand the units termed public corporations under GFS account either under IPSAS or IFRS. The 50% rule applies: where its market sales are consistently below 50% of its production costs, the unit is classified to the GGS. In such a case the entity applies IPSAS.

The SRS-CSPCP therefore supports Option 1a. However, the characteristics for public sector entities that are not part of the General Government Sector (GGs) and are not GBES should be supplemented as follows:

- The entity's objective is not profit earning (not profit oriented). Certain entities may be financed out of taxes, others not. The method of financing is therefore not a consistent criterion in order to know whether an entity must apply IPSAS.
- It is possible that in certain cases the entities that apply IPSAS may earn a profit without this being for them a genuine objective. The reason why these entities must draw up their annual accounts in accordance with IPSAS is that, if the entity were repeatedly to suffer losses, the losses would be financed by another public sector entity via a transfer.

Further, the SRS-CSPCP would like a more detailed explanation of what is meant by the direct or indirect financing of activities of public sector entities as mentioned in Section 6.8 (b).

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

The SRS-CSPCP is of the opinion that Option 2b is useful, but would be difficult to apply because an exact definition of GBEs, that do not have to apply IPSASs, is difficult.

Lausanne, November 19, 2014