

Swiss Comments to

Consultation Paper Public Sector Combinations

Table of Content	Page
1. Introduction.....	1
2. General Remarks to Consultation Paper.....	1
2.1. Specific Matter of Comment 1	1
2.2 Specific Matter of Comment 2a	1
2.3 Specific Matter of Comment 2b	1
2.4 Specific Matter of Comment 3	2
2.5 Specific Matter of Comment 4	2
2.6 Specific Matter of Comment 5	2
2.7 Specific Matter of Comment 6	3
2.8 Specific Matter of Comment 7	3

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 intercantonal Conference of Cantonal Finance Directors (Finance Ministers at the States level). One of its aims is to provide the IPSAS Board with a consolidated statement for all the three Swiss levels of government (municipalities, cantons and Confederation).

The SRS-CSPSP has discussed *Consultation Paper Public Sector Combinations* and comments as follows.

2. General Remarks to Consultation Paper

The SRS-CSPCP believes that it is important that such a Consultation Paper is being circulated for comment, because in Switzerland mergers of municipalities are becoming more frequent. However it is doubtful that Swiss municipalities will adopt IPSAS in the near future and on a large scale since there are already some standards (together with a chart of accounts) that are provided nationwide to them by the so-called "Harmonised Accounting Model for the cantons and municipalities".

2.1. Specific Matter of Comment 1

In your view, is the scope of this CP appropriate?

By and large the SRS-CSPCP is in agreement with the framework of this CP. Because Joint Ventures are expressly excluded, the question arises how unions (*Konkordate* in German) and special purpose associations (*Zweckverbände* in German) that promote cooperation between municipalities and cantons are to be treated. It is very important that there is a clear demarcation between real mergers on the one hand and the unions and special purpose associations on the other. A clear demarcation towards IPSAS 6 – 8 should also be drawn.

2.2 Specific Matter of Comment 2a

In your view, is the approach used in this CP of distinguishing between acquisitions and amalgamations appropriate? If you do not support this approach, what alternative should be considered ? Please explain your reasoning

The SRS-CSPCP agrees in principle with the distinction between „acquisition“ and „amalgamation“. But it believes that in the public sector the expression "acquisition" is not particularly happily chosen, because they are new organisations and not real takeovers. The IPSAS Board refers in the public sector to "operation", which in the private sector is "business". The expression "acquisition" tends to be used by the private sector and therefore, parallel to the difference between "business" and "operation", another expression should also be found for "acquisition". A possibility would be "transfer of operation".

2.3 Specific Matter of Comment 2b

In your view, is the approach used in this CP of distinguishing between acquisitions and amalgamations appropriate? If you do not support this approach, what alternative should be considered? Please explain your reasoning

The SRS-CSPCP agrees with this distinction.

2.4 Specific Matter of Comment 3

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

The SRS-CSPCP holds the view that the definition of a merger under lit. b) ("whether one of the combining operations appoints significantly more of the governing board of the resulting entity") does not fully reflect reality. In practice, the question is not the takeover of control of one unit by another. It is rather the fact that the governing bodies, which previously had certain rights (e.g. the citizens) do not lose these rights. In a merger the governing bodies are united as a single body (e.g. the citizens of municipality A and the citizens of municipality B are united as the citizens of municipality C).

2.5 Specific Matter of Comment 4

In your view, should the recipient in an acquisition NUCC recognize in its financial statements the acquired operations's assets and liabilities by:

(a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition (Approach A)

(b) Distinguishing between different types of acquisitions (Approach B) so that

- (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition ; and**
- (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition ; or**

(c) Another approach ?

Please explain why you support Approach A, Approach B or another approach.

The SRS-CSPCP prefers Approach B. A revaluation to fair value of the asset taken over makes sense only in a commercial transaction, when a price is paid and a cash generating unit is taken over.

2.6 Specific Matter of Comment 5

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

(a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions ;

(b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential) ; or

(c) A loss for all acquisitions ?

Please explain why you support (a), (b) or (c).

The SRS-CSPCP supports Approach (a), because goodwill should be recognized only in commercial transactions, when a price is paid and a cash generating unit is taken over.

2.7 Specific Matter of Comment 6

In your view, should the recipient in an acquisition UCC recognize in its financial statements, on the date of acquisition, the difference arising as:

- (a) A gain or loss recognized in surplus or deficit (in the statement of financial performance) ;**
- (b) A contribution from owners or distribution to owners recognized directly in net assets/equity (in the statement of financial position) ; or**
- (c) A gain or loss recognized directly in net assets/equity (in the statement of financial position), except where the transferor is the ultimate controlling entity and then the gain or loss meets the definition of a contribution from owners or distribution for owners**

Please explain why you support (a), (b) or (c).

The SRS-CSPCP supports Approach (c): the profit/loss should not be recognized in income, but in equity.

2.8 Specific Matter of Comment 7

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical ?

The SRS-CSPCP is of the opinion that in principle takeovers should be recorded symmetrically, because this simplifies the financial statistics. However, this is possible only for public entity UCCs, because they have the same accounting policies. In the case of units NUCC symmetrical recording would be desirable, but hardly feasible, because of the different accounting standards.

Lausanne, October 11 2012