

Swiss Comments to the

- **Exposure Draft 34: Social Benefits: Disclosure of Cash Transfers to Individuals or Households**
- **Consultation Paper
Social Benefits: Issues in Recognition and Measurement**
- **Project Brief
Long-Term Fiscal Sustainability Reporting**

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Swiss Comments prepared on behalf of

the Swiss Federal Office of Finance and
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by

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Introduction

The following comments have been prepared by an ad-hoc committee set up by Public Sector Accountants, Public Sector Auditors, academics and representatives of the profession, of the Confederation and the Cantons.

Comments from the Swiss ad-hoc committee in general to the Exposure Draft 34

In our opinion a cautious approach in respect of the accounting and reporting for Social Benefits is advantageous and strongly advisable. Social benefits are typical elements of the service delivery by the government to its citizens. In our view, the adoption of a balance sheet approach to future service delivery would be greatly misleading and in contradiction to the principle of going concern. However, we do agree that, mainly due to their high economic relevancy, information about social benefits should be disclosed in the notes to the financial statements. That's why we agree in general with the approach taken by the IPSAS-Board, so far. We also agree with the project undertaken in respect of fiscal sustainability. But we strongly disagree with any attempt to move towards a balance sheet approach for Social Benefits. That's why we also oppose any elements of the disclosure standard which are possibly pointing in this direction.

Please find in this document a detailed description of the Swiss opinion.

Social Benefits: Disclosure of Cash Transfers to Individuals or Households

In respect of these matters, which are highly relevant to the international standard-setting context, the Swiss ad-hoc committee would like to answer as follows:

- 1. The scope of this ED is appropriate (paragraphs 2-8). If you do not think that the scope is appropriate please detail how you modify the scope. Please state your reasons.**

No, we do not think that the Scope of this ED is appropriate.

In general, we do agree on the disclosure of information about Social Benefits in the notes to the financial statements. However, we are not confident if a disclosing information about a limited selection of programs, i.e. cash transfer programs transferring economic benefits in non-exchange transactions to eligible individuals or households is necessary (paragraph 2), is appropriate. We are of the view that the disclosure should be more comprehensive but less detailed. The disclosure requirements also need to be similar to disclosure requirements for other types of commitments. We therefore recommend defining general disclosure requirements for commitments first and then adapt the requirements in respect of social benefits accordingly. Furthermore we consider that the scope as described in paragraphs 2-8 will cause substantial difficulties when auditing the financial statements, as the inclusion or exclusion of certain programs is somewhat arbitrary.

- 2. The new definitions in this ED at paragraph 10 are sufficiently clear and comprehensive. If you disagree, please indicate (a) how these definitions should be modified and (b) which new terms should be defined. Please state your reasons.**

No, we do not agree on the new definitions in this ED at paragraph 10. There are subtle differences between these definitions and the definitions of the same terms used for Government Financial Statistics. We don't think that these definitions are intended and could possibly lead to confusion of the users of financial statements. We would therefore recommend adopting the definitions used by GFS.

- 3. The requirements for the determination of amounts expected to be transferred to eligible individuals or households are appropriate (paragraphs 30–44). If you do not think that they are appropriate please indicate what those requirements should be. Please state your reasons.**

No, we do not think that the paragraphs 30-44 are appropriate. From our perspective it seems that a presentation of the best estimate of the value of amounts expected to be transferred under cash transfer programs to eligible individuals or households is not a feasible presentation, as it reflect only the expenditures or expenses, but not the financing of the program. We are of the view that this is strongly misleading to the users of the financial statements. The amounts presented in the disclosure should present the net financial status of the program, rather than selected elements of this financial status. But also the expenditures/expenses determined as proposed by paragraphs 30-44 might be misleading, as the proposed eligibility criterion is only one of a few feasible criteria.

Bottom line, we think the financial sustainability should rather be presented in a separate report, than in the financial statements.

- 4. The disclosure requirements in paragraph 45 are appropriate. If you think that they are unduly onerous, which disclosures should not be required? Conversely, if you think that the disclosures are inadequate, what further disclosures would you include? Please state your reasons.**

Yes, in general we think that the disclosure requirements in paragraph 45 are appropriate, however, with one notable exception:

- b) as stated in our answer to SMC 3, we are of the view that the amount presented should include both expenses and revenues, stating the net financial status of the program

- 5. The disclosure requirements in paragraph 45 are going to provide information that is verifiable. If you think that the disclosure requirements are not going to provide information that is verifiable, please identify the specific disclosures and state what those implications are.**

Yes, we do think that paragraph 45 is going to provide information that is verifiable. However, please be aware that the information is only verifiable if some experience in this field is available. This is not necessarily the case for all members of the audit profession.

We are also of the view that comparability of the disclosure between different entities is very limited due to the high degree of freedom the proposed standard offers to the presenters.

- 6. The implementation arrangements are appropriate (paragraphs 50–53). If the implementation arrangements are inappropriate, please specify how you would change them. Please state your reasons.**

Yes, we fully agree that the implementation arrangements are appropriate (paragraphs 50-53).

Consultation Paper Social Benefits: Issues in Recognition and Measurement

The Swiss ad-hoc committee would like to comment the key issues as follows:

Key Issue 1: Do present obligations to beneficiaries for collective goods and services occur?

No, we do not consider that present obligations occur. We therefore follow the arguments as stated in paragraph 24 and 25.

We are of the view that the provision of collective goods and services is one of the main “business” activities of any government entity. Treating the future “business activity” as a present obligation is not only in contradiction with the definition of present obligations, but also in violation of the principle of going concern.

Key Issue 2: Do present obligations to beneficiaries for individual goods and services occur?

No, we do not consider that present obligations to beneficiaries for individual goods and services occur. The reason is basically the same as for collective goods and services.

In addition, the definitions used for individual and collective goods and services are, perhaps with no intention, in contraction with the ones used by Government Finance Statistics. We would recommend adopting the same definitions unless there is an accounting specific reason to depart. However, we don't see any such reason in this case.

Key Issue 3: When do obligating events occur for cash transfers for non-contributory programs?

We agree with the concept of threshold eligibility, rather than the concept of all eligibility criterions.

Key Issue 4: Do present obligations for cash transfers financed by contributions occur at an earlier point than for non-contributory programs?

Although the principle of substance over form generally focuses on the economic substance rather than the legal form, we are of the view that this issue really depends on the legal form. There are some programs where such present obligation might occur, but there are other programs where this does not occur. We are not of the view that this generally follows the contributory versus non-contributory delimitation.

Key Issue 5: Is the Revalidation of Eligibility Criteria a Recognition Criterion or a Measurement Attribute?

We consider that the Revalidation of Eligibility Criteria is a measurement attribute. We agree on the arguments in paragraphs 53 – 55.

Key Issue 6: An Alternative Model: Executory Contract Accounting with the Recognition of Liabilities Arising Only from Legal Obligations

We agree on this alternative model in case if and only if there are contracts similar to insurance contracts. Otherwise we disagree on the alternative model.

Specific Matters for Comment

The Swiss ad-hoc committee does answer to the specific matters for comments in the consultation paper as follows:

1. Yes, we do agree that current financial statements cannot convey sufficient information by themselves to users about the financial condition of governmental programs providing social benefits. We are of the view that both commitments for expenses and revenues should be presented in order to enable the reader to appraise the financial situation including the social benefits programs.
2. a) No. In our opinion this is not a present obligation. It is an on-going-business activity and therefore does not meet the definition of a present obligation. It would also be in contradiction to the principle of going concern. We think they are rather commitments than present obligations.
b) No, for the same reasons as stated in 2a.
3. We are of the view that a concept of threshold eligibility criteria, defined in accordance with the relevant legislation, is more feasible than the concept of „all“ eligibility. However, as stated in paragraph 2, we are of the view that there is no present obligation for future government activities, in general.
4. Yes, we do think that revalidation is an attribute that should be taken into account in the measurement of the liability, if there is any liability. In general we are of the view that legislation needs to be taken into account, despite the general reluctance due to the principle of substance over form. In the field of social benefits the legislation is generally the only valid source of description of a specific program.
5. We are of the view that the IPSASB should explore the executory contract accounting model for any programs which are similar to insurance contracts. The IPSASB should take the respective IFRS guidance into account, if a program operates in a similar way to insurances.

Project Brief

Long-Term Fiscal Sustainability Reporting

Even though there are no specific matters for comment in this project brief, we would like to state our point of view in the Long-Term Fiscal Sustainability Reporting.

In general we do agree with the project started in this respect. Current examples in Switzerland and elsewhere reflect the urgency of the matter, but also a relatively large number of unresolved issues. However, unlike some of the examples, we are of the view that fiscal sustainability should include all government activity, rather than just a few selected programs. It should also be clearly distinct from the annual reporting, as the one year period is not feasible for such reports. Also the sensitivity of the assumptions should be considered in the project and any future guidance.