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February 18, 2012

Ms. Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board (IPSASB)
International Federation of Accountants
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Dear Ms. Fox:

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the IPSAS ED relative to Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances. We are pleased to see the IPSASB address the critical area of sustainability.
2. Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to its membership through an international network. ICGFM represents a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this exposure draft is one from an international perspective.
3. We have stepped back to consider the purpose of this ED and the goals it hopes to achieve. It appears that this is similar to the "going concern" criteria in IFRS for commercial entities. If this is the case, we would agree with the alternative view of David Bean -- this should be mandatory. If a public body is not fiscally sustainable, then all of the valuation models may be inappropriate.

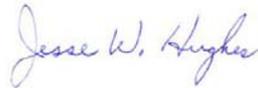
4. We have also thought about this ED in the context of three types of public bodies where there are current problems.
 - a. **Sub-national entities** - In the United Kingdom, "Health Trusts" are autonomous public sector bodies responsible for managing individual hospitals or groups of hospitals. A number of these Trusts have recently emerged as having expenditures exceeding revenues with inadequate reserves to meet the deficit. Within the view of this ED, they are not fiscally sustainable. These entities would be addressed by the ED as they are unable to meet their long term service obligations. On the other hand, it is likely that such Trusts will in some way be "rescued" by central government so that the health services will continue to be provided -- so is it appropriate to classify them as not fiscally sustainable?
 - b. **Sovereign governments** - Within the Eurozone, there are several governments (e.g. Greece) unable to service their debt without the support of other government entities. Again these entities would not be fiscally sustainable under the ED definitions. But unlike a commercial entity, a sovereign government does not disappear or is not taken over because it cannot pay its debts. It simply defaults, as has happened many times, and then carries on functioning. It would be appropriate for the entity's finances to reflect the projected shortfall. It would be preferable to request "real world" examples in the ED without presuming to draw conclusions.
 - c. **Other governmental entities** – We believe governments, especially municipalities, have balanced efforts in sustainability including environment, social equity and the economy. These should be considered in the context of this ED. While the emphasis is not on meeting obligations, we should also look at benefits exceeding obligations.
5. For many countries the issues of fiscal sustainability are even more complex. It has been suggested that most European countries are in the long run unlikely to be able to repay or sustain their public sector debt because of social welfare obligations to an ageing population. Such countries may change their tax and/or benefit policies to avert the above problem. In such cases, they would likely have to report that they are not fiscally sustainable because that is the situation under present policies and taxation. This is a major issue because, if this ED is to have value, any country providing IPSAS-compliant financial statements should also report on long-term fiscal sustainability. There is no guidance in the ED.
6. Hence our concern is not so much with the detail of the ED as with broader issues concerning when it should be applied. If the ED is to be of value, there should be examples of how each of the above real world situations should be addressed. If this led to every public sector entity and national government providing an assessment of long-term fiscal sustainability, this would certainly make financial statements more widely read and publicized.
7. Our response to each of the specified comments is as follows:
 - a. In response to Comment 1 (Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15?), we believe that indicators are identified in paragraph 15, not characteristics. We consider these indicators broad enough to be inclusive. While certainly inclusive, we see these indicators as too broad and suggest they include

additional information to increase their meaning. For example, an entity can have significant tax and/or other revenue raising powers, but if these are concentrated in an area that is vulnerable to economic shifts, government regulations, natural disaster, or attack, they can abruptly be lost. Additionally, an entity's power to incur debt can be vulnerable to political pressures and public sentiment, which is not captured. Finally, many sub-national government entities have wide decision-making powers over their service deliver levels but are heavily reliant on federal funding, making them vulnerable to policy shifts. Including more specific indicators in the ED would make this a better tool for conducting long-term financial stability assessments.

- b. In response to Comment 2 (Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27–37 provide a viable framework for narrative reporting on the long-term sustainability of an entity's finances that complements and interprets the projections?), we agree with the dimensions but believe they are not sufficient. We would like to see the following included as part of the framework:
 - i. To truly be sustainable the government must be able and willing to generate inflow needed to maintain service commitments and meet financing obligations as they come due, while maintaining a balanced inter-period and inter-generational fiscal structure. This is particularly relevant for entities with strong ties to international markets (e.g., a retirement fund holding European bonds or significant reliance on government transfers). But all public entities are subject to these risks in some way and should address them in their narrative discussion.
 - ii. The EU Maastricht criteria are (1) the annual budget deficit as a percentage, and (2) public debt/GDP ratio. Hence these would seem very relevant criteria for this ED.
 - iii. Gross Domestic Product (GDP) is a common indicator used at the national level in assessing fiscal sustainability and should be included more prominently in this ED.
 - c. In response to Comment 3 (Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties?), we believe these guidelines are too general to be of value to the users or the preparers. We suggest the following be considered:
 - i. We believe the ED could benefit by making an overarching differentiation between national and sub-national level government entities due to the fundamental differences in their debt holding, borrowing, and revenue raising capabilities and the effects these have on long-term fiscal sustainability. Whether this is done through additional language throughout the course of the ED or by creating two separate documents, this would improve and simplify the process of long-term fiscal sustainability reporting.
 - ii. Some illustrations should be included to demonstrate the applications. Certain information should be required (i.e., Debt/GDP ratio since it has become an informal standard throughout the world).
8. In addition, please consider the following:
- a. In paragraph 5, it would be helpful to include a link to how sustainability is addressed in the private sector.

- b. We suggest that the following be added to paragraph 13: “In addition, the budget is primarily concerned with fiscal discipline in the short or medium term, while fiscal sustainability is concerned with the long-term.”
 - c. Gross Domestic Product should be included in paragraph 20. The Debt/Equity ratio is commonly used in the private sector to measure sustainability and a similar measure should be included here. These indicators, by themselves, are meaningless unless they relate to some other measure to reflect a meaningful ratio.
 - d. Examples, such as the following that are commonly used in the private sector, should be added to paragraph 23 for entities that have implemented accrual accounting:
 - i. A Quick Asset Ratio (quick assets/current liabilities),
 - ii. A Current Ratio (current assets/current liabilities plus commitments), and
 - iii. A Debt/Equity ratio.
 - e. An illustration should be added to paragraph 28 to more clearly identify the concept.
 - f. In paragraph 30, deficit by itself is meaningless; GDP should be mentioned here.
 - g. An illustration is needed in paragraph 32 to more clearly explain the concept.
 - h. In paragraph 33, the impact of social security schemes should be mentioned (i.e. the change in retirement age).
 - i. In paragraph 34, an illustration is needed.
9. We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Dr. Jesse Hughes, CPA, CIA, CGFM at jhughes@odu.edu or 757.223.1805.

Sincerely,



ICGFM Accounting Standards Committee

Jesse W. Hughes, Chair

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Stephenie Fox
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Lausanne, February 23, 2012

**Swiss Comments to
ED 46: Reporting on the Long-Term Sustainability of a Public
Sector Entity's Finances**

Dear Stephenie,

With reference to the request for comments on the proposed Exposure Draft, we are pleased to present the Swiss Comments to Exposure Draft 46: *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*.

We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments to the Exposure Draft in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

SRS-CSPCP



Prof Nils Soguel, President



Sonja Ziehli, Secretary

Swiss Comments to ED 46

Swiss Comments to

ED 46: Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances

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1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) has discussed ED 46 *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances* and comments as follows. The SRS-CSPCP was established in 2008 by the Swiss Federal Ministry of Finance together with the Ministers of Finance at the cantonal 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).

2. Comments to Exposure Draft

2.1. General Remarks

The SRS-CSPCP welcomes in principle the information on long-term reporting in the form of a *Recommended Practice Guideline RPG*, but points out the following:

- The status of the Guideline on long-term reporting should be clear from the paper: RPG is definitely not part of the GPFs, but is included in the GPFs.
- It is welcomed that every reporting entity can decide itself whether or not it wishes to prepare a long-term report (voluntariness). Above all the cost-benefit question should be addressed.
- It should follow clearly from the paper that long-term reporting is not a financial plan, but that long-term reporting aims at making a statement about the sustainability of the financial household.
- The question of whether such reports should be audited (audit or assessment of content) should be clear from the paper. Since long-term reporting is part of GPFs and is not part of GPFs it is not compulsory to have it audited.

2.2. Specific Matter for Comment 1

The SRS-CSPCP can agree with the three characteristics listed in Paragraph 15. They make sense, because they demonstrate the scope of the entity, for which long-term reporting may be relevant. Clearly they are not the same as apply for the IPSASs. The cost-benefit issue must definitely be addressed. We therefore propose the following addition:

- Section 14: “[...] for prospective financial information. It should also make sure that the benefit to users is higher than the cost of producing this piece of information.”
- Motivation: The costs of producing information should also be taken into account. This could be especially important for small constituencies (entities). It is the case in Switzerland where municipalities enjoy a high degree of autonomy in fiscal matters. §39 mentions implicitly the costs issue in respect of determining the frequency of reporting. However this should be explicitly mentioned when discussing whether the entity should report at all, i.e. in §14.

2.3. Specific Matter for Comment 2

Concerning the *Dimensions of Fiscal Sustainability*, the SRS-CSPCP is of the opinion that the terms are not always clear or are inconsistent. One possible way to clarify and simplify the exposition of these dimensions might be to replace the fiscal capacity dimension and service capacity dimension by a “Status-quo Sustainability” dimension and an “Austerity Sustainability” dimension defined as follows:

- Status-quo Sustainability may be defined as the ability of an entity to meet financial commitments, such as servicing and repayment of liabilities to creditors on a continuing basis over the period of the projections assuming current policies for the provision of goods and services, and current policies for raising taxes and other revenues in the future.
- Austerity Sustainability may be defined as the ability of an entity to meet financial commitments such as servicing and repayment of liabilities to creditors, on a continuing

basis over the period of the projections assuming austerity policies for the provision of goods and services, and austerity policies for raising taxes and other revenues in the future.

- Note that the definitions of (a) Status-quo Sustainability and (b) Austerity Sustainability differ in that the public policies that are followed are either untouched (current) or are curbed (austerity) compared to the existing ones. In both cases, a projection of debt is computed based on assumptions about public revenues and expenditures, and the ability to raise and pay interest on this debt is assessed to evaluate sustainability.
- Motivation: These definitions are simpler, more in line with actual computations. As a matter of fact, in the computed models, the debt variable is the residual. Then the distinction is relevant since it reflects two fundamental issues. The Status-quo Sustainability is a measure of solvency with a fairness constraint: current policies on the expenditure as well as on the revenue side should benefit not only the current generation but also future generations. The Austerity Sustainability is a plain long-term solvability criterion putting the emphasis on the extent to which policies should be curbed in order to make public debt sustainable.

2.4. Specific Matter for Comment 3

The SRS-CSPCP agrees in principle with the points of *Disclosure of Principles and Methodologies*. However, we have the following comments or additions:

- Section 40: add "A fiscal rule is another example. Since the goal is to assess the long-term sustainability, it should not be taken for granted at the outset that the fiscal-rule requirements will be satisfied, although it is the current policy. In this case, a contradiction may arise if public expenditures, public revenues and public debt are all simultaneously assumed to follow the current policy." Motivation: The case of a fiscal rule is a very important example. Most countries do not yet have a binding numerical fiscal rule, but this may change. Balanced budget requirements are mentioned in §46 but not explicitly in relation to the current policy issue.
- Section 45: "Age-related programs are programs that are subject to eligibility criteria including (or depending on) age and other demographic factors. [...]" Motivation: Age and other demographic factors are usually not an eligibility criteria for health care, but health status depends on age.
- Section 48: It is not clear why *Discount Rates* are necessary for long-term reporting. We suggest an addition to the text to explain why a *discount rate* is used. One could refer to „interest rates“ instead of „discount rates“, unless in the process of computing long term sustainability it is necessary at some point to discount a variable, i.e. computing its present value. Otherwise what is needed to compute the impacts on future interest payments is an assumption about future interest rates.

2.5. Glossary of Indicators

The SRS-CSPCP would welcome it, if the terms from different sources (IPSAS, IMF, etc.) could be standardised. Resort should be made to statistical terms.

On one term we have a comment of detail:

- Inter-temporal budget gap: "[...] An inter-temporal budget gap exists when the present discounted value of future government revenue does not cover the current debt burden and the present discounted value of all future expenditure."
- Motivation: Would not make sense otherwise.



NZ ACCOUNTING
STANDARDS
BOARD

27 February 2012

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The Technical Director
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Submitted to: www.ifac.org

Dear Stephenie

Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments regarding Exposure Draft 46 Proposed Recommended Practice Guideline *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances* (ED 46). We have consulted on this document in New Zealand and expect that you will also receive comments directly from New Zealand constituents.

The NZASB strongly endorses the IPSASB's establishing principles for reporting on long-term sustainability. We consider that this approach will encourage high quality reporting without constraining the continuing development of reporting on long-term sustainability. This aspect is of particular interest to us given the ongoing developments in reporting on long-term sustainability in New Zealand.

We agree with the IPSASB's proposal to issue a Recommended Practice Guideline (RPG) as opposed to an IPSAS. We agree that, in some cases, there can be a role for guidance that is less authoritative than an IPSAS.

We note that central and local governments in New Zealand are already subject to statutory reporting requirements on fiscal sustainability. We also have a domestic financial reporting standard on the preparation and presentation of general purpose prospective financial statements. Any RPG issued by the IPSASB would therefore have immediate relevance for New Zealand entities.

We have responded to the specific questions posed in the Exposure Draft in the appendix to this letter. If you have any queries or require clarification of any matters in this submission, please contact Joanne Scott (joanne.scott@xrb.govt.nz) or me.

Yours sincerely

A handwritten signature in black ink, enclosed within a hand-drawn oval. The signature appears to be 'A. Ryan'.

Angela Ryan

Deputy Chairman – New Zealand Accounting Standards Board

Email: Angela.Ryan@treasury.govt.nz

Appendix

NZASB's comments and Responses to the Specific Matters for Comment on ED 46

Specific Matter for Comment 1

Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

We agree that the characteristics set out in paragraph 15, taken together, are useful indicators of the existence of users that are likely to be interested in information on long-term fiscal sustainability. However we do not consider that paragraph 15(c) (which refers to entities having wide decision making powers over service delivery levels) should be an indicator without the one of the other characteristics also being present.

We consider that paragraph BC13 clearly indicates the types of entities that the IPSASB considers should possibly provide information on fiscal sustainability. We therefore recommend that the comments in paragraph BC13 be included in the body of the RPG. For the avoidance of doubt we also suggest clarification that “reporting on the long-term fiscal sustainability of their finances is unlikely to be appropriate for individual government departments and sub-entities of local governments.” (See also our comments on the reporting boundary and application to sub-entities).

If characteristic (c) is retained, we consider that it should refer to both service delivery levels *and* types of services. We consider that there are more likely to be users for information on long-term fiscal sustainability in relation to entities that are responsible for providing a wide range of services rather than for a narrow range of services.

Specific Matter for Comment 2

Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27–37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?

We support the dimensions of long-term fiscal sustainability in paragraphs 27–37, including the discussion of service capacity in paragraph 32. However, we consider that it would be useful for the document to acknowledge that some entities may be required, by legislation, to present information on projected flows based on continuing existing policies or current levels of services.

Specific Matter for Comment 3

Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

We support the proposed disclosures. However, we recommend that the IPSASB make it easier for readers to identify the proposed disclosures. We have given some examples of how this could be done (see our “other comments”).

Other comments

Reporting boundary and application to sub-entities

Paragraph 10 expresses the view that entities and activities included in long-term fiscal sustainability projections should be the same as those for the financial statements. Paragraph 12 then goes on to describe one possible exception, being the disclosure of information based on the General Government Sector.

We would like the RPG to explicitly state that, other than this exception, the full requirements of the RPG should be applied at an entity level only. Our reason for making this suggestion is a concern about the interaction between legislation and regulations established for other purposes, and this RPG.

There are some entities in New Zealand, such as local authorities, that are required to prepare long-term financial forecasts to which this RPG would apply. Often, the legislation or regulations requiring the forecasts also stipulates that the finances, performance measures etc must be reported at an activity or group of activity level, (that is, at a sub-entity level). We would be concerned if the RPG were interpreted as having to be at the sub-entity level. In some instances it might be appropriate to do so, but in many instances it would not.

Although it could be argued the tests proposed in paragraph 15 (a) and (b) would be met only an entity level, it could also be argued that the presentation requirements in paragraph 17 should be applied to a sub entity. Proponents of this argument could look to paragraph 10 in support – paragraph 10 refers to "entities and activities".

In our view implementing the proposals in the RPG at a sub-entity level would require arbitrary allocations, and would create work that would add little, if any, value to the reader. We consider that because local authorities are able to prioritise between their activities, it is appropriate to test and report sustainability at an entity level only.

See our suggested amendment to paragraph BC13 (in our response to SMC 1) as one way of addressing this issue.

Location of material

We consider that some of the discussion in the body of the proposed RPG would be better located in the Basis for Conclusions. The ED reflects the tensions involved in developing a less restrictive style of guidance. Nevertheless, we encourage the IPSASB to consider the purpose of specific sentences. For example, individual sentences may (i) establish the recommended practice, (ii) support/explain the recommended practice or (iii) explain why the IPSASB has taken the position it has in the recommended practice. We consider that the third category belongs in the Basis for Conclusions. Paragraph 3 is an example where there is a mixture of recommended

practice and the Board's rationale in the same paragraph (refer to the first item in the table of editorial suggestions below).

Editorial suggestions

We have also identified some editorial suggestions as follows.

Proposed change	Comment
<p>3. The flows relating to programs providing social benefits, including entitlement programs that require contributions from participants, can be a highly significant component of reporting on long-term fiscal sustainability for many entities. However, The scope of this RPG includes all an entity's projected flows and <u>It</u> is not limited to those related to programs providing social benefits.</p>	<p>We consider that the first sentence in this paragraph should be located in a Basis for Conclusions.</p> <p>Alternatively if it is kept in the body of the RPG, we recommend that it be accompanied by an explanation that although the scope of the RPG includes all projected flows, entities may wish to provide more detailed information or subsets of information on significant components such as flows relating to social benefits.</p>
<p>10. This RPG reflects the view that Entities and activities included in long-term fiscal sustainability projections should be the same as those for the financial statements. This enhances the understandability of projections and increases their usefulness to the users of general purpose financial reports.</p>	<p>We consider that the document should clearly state what the IPSASB considers to be best practice.</p>
<p>11. If in the event that entities within the reporting entity boundary for the long-term fiscal sustainability projections differs from the reporting entity for the financial statements are different to those for the long-term fiscal sustainability projections, the differences those entities should be identified, and, where possible, the estimated impact on the projections disclosed.</p>	<p>We propose the changes for ease of reading.</p>

Proposed change	Comment
<p>Determining Whether to Report on Long-Term Fiscal Sustainability</p> <p>14. In evaluating whether to report on the long-term sustainability of its finances an entity needs initially to assess whether potential users exist for prospective financial information.</p> <p>15. The relevance of reporting on an entity's long-term fiscal sustainability should be considered in the context of that entity's funding and capacity to determine service delivery levels. There are likely to be users for long-term fiscal sustainability information for entities with one or more of the following characteristics:</p> <p style="padding-left: 20px;">(a) Significant tax and/or other revenue raising powers;</p> <p style="padding-left: 20px;">(b) Powers to incur debt; or</p> <p style="padding-left: 20px;">(c) Wide decision-making powers over service delivery levels.</p> <p><u>15 The relevance of reporting on an entity's long-term fiscal sustainability should be considered in the context of that entity's funding and capacity to determine service delivery levels.</u></p>	<p>We consider that paragraphs 14 and 15 would flow better as shown. Our comments on SMC 1 are also relevant.</p>
<p>39. The date at which a full set of projections was made and the basis and timing of subsequent updating should be disclosed.</p> <p><u>39A. While regular updates are desirable, this RPG acknowledges that annual updating may not be realistic for all entities, particularly those at sub-national levels, which may be making and reporting on projections for the first time. However, there is an inverse relationship between the robustness of assumptions on which projections are made and the elapse of time since they were made. During periods of global financial volatility the risk that projections made some time before the reporting date are outdated increases, with a consequent reduction of the ability of such information to meet the objectives of accountability and decision-making.</u></p>	<p>We recommend separating the recommended best practice from the accompanying explanation.</p>
<p><u>39.A An entity should disclose:</u></p> <p style="padding-left: 20px;">(a) <u>the assumptions regarding the continuation of current policy through the projection period</u></p> <p style="padding-left: 20px;">(b) <u>relevant legal limitations on future flows and how these have been addressed in making the projections; and</u></p> <p style="padding-left: 20px;">(c) <u>relevant sunset provisions and how these have been addressed in making the projections.</u></p> <p>40. This RPG adopts the view that, Where flows for particular programs and activities are individually modeled, information is most useful if it is assumed that current policy is held constant through the entire</p>	<p>We propose that the RPG highlight the recommended disclosures. We then suggest that you acknowledge the difficulties that might arise and note that the disclosures may not be required for flows that are not individually projected.</p>

Proposed change	Comment
<p>projection period. There can be tensions if (a) there is a conflict in legal obligations or (b) if current programs have “sunset provisions.” For example a social security program may be governed by legal provisions that it is unlawful to make payments once an earmarked fund is exhausted, although entitlements of beneficiaries will continue after the exhaustion of that fund. Assuming that the fund will not meet obligations once it is exhausted might reflect a strict legal position, but an entity may need to assess whether the presentation of projections on such a basis underestimates the extent of the fiscal challenge facing the social security program.</p> <p>41. Some programs have sunset provisions whereby they terminate after a specific period. In many cases there may be a strong probability that such programs will be replaced by similar programs, so adopting a strict legal termination principle may lead to an underestimate of outflows, which impairs the usefulness of information. The approach to any legal conflicts and sunset provisions should therefore be disclosed.</p> <p>42. For flows that are not individually projected, the distinction between current and future policy is unlikely to be critical to the projections and it may be sufficient to disclose general assumptions.</p>	
<p><u>42A An entity should disclose:</u></p> <p><u>(a) The main sources of taxation and other revenue flows;</u></p> <p><u>(b) the approach taken in projecting taxation and other revenue flows.</u></p> <p>43. The main sources of taxation and other revenue flows, such as inter-governmental transfers, should be identified, together with their significance to an entity’s revenue sources. Taxation flows may be projected to grow in line with nominal gross domestic product or an inflation index or may be individually modeled using a more sophisticated approach. Users need to be informed of the approach and of any relevant considerations relating to tax banding, allowances and thresholds.</p>	<p>We propose that the RPG highlight the recommended disclosures.</p>

Proposed change	Comment
<p>48. Entities should <u>disclose</u>:</p> <ul style="list-style-type: none"> (a) <u>the approach to inflation;</u> (b) <u>the discount rates applied;</u> (c) <u>the reasons for their selecting these rates;</u> (d) <u>any changes in these rates since the last reporting date; and</u> (e) <u>the reason for such changes.</u> <p>48A. There are two approaches to inflation: (i) it may have indicate how they deal with inflation, in particular whether inflation has been taken into account in making projections or (ii) whether projections <u>may have been</u> are made at current prices (prices prevailing at the reporting date). If the projections include inflation, then the discount rate should also include inflation. If the projections are at current prices, the discount rate should exclude inflation. Entities are advised to disclose: (a) the approach to inflation (b) the discount rates applied, (c) the reasons for their selecting these rates, (d) any changes in these rates since the last reporting date, and (e) the reason for such changes.</p>	<p>We propose that the RPG highlight the recommended disclosures.</p>



The Technical Director
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International Federation of Accountants
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Per e-mail

27 February 2012

Dear Stephenie,

COMMENTS ON THE PROPOSED RECOMMENDED PRACTICE GUIDELINE ON REPORTING ON THE LONG-TERM SUSTAINABILITY OF A PUBLIC SECTOR ENTITY'S FINANCES

We welcome the opportunity to provide comments on the Proposed Recommended Practice Guideline (RPG) on *Reporting on the Long-Term Sustainability of an Entity's Finances*.

Our comments to you are set out in three parts: Part I outlines our general comments on the Proposed Guideline, Part II outlines our responses to the specific matters for comment and, Part III outlines editorial and other minor comments.

The comments outlined in this letter are those of the Secretariat and not the Board. In formulating the comments, the Secretariat consulted with a range of stakeholders including auditors, preparers, consultants, professional bodies and other interested parties. We were however unable to engage key officials within the National Treasury on the proposed RPG during the comment period due their involvement in the preparation of the national budget. We will endeavour to consult with them prior to the comments on the RPG being discussed at the June 2012 IPSASB meeting.

Please feel free to contact me should you have any queries relating to this letter.

Yours sincerely



Erna Swart

Chief Executive Officer

Board Members: Mr R Cottrell (Chairperson), Mr V Jack, Ms CJ Kujenga, Mr K Kumar,
Mr T Makwetu, Mr F Nomvalo, Mr G Paul, Mr I Sehoole
Chief Executive Officer: Ms E Swart



PART I – GENERAL COMMENTS

1. Overall support for the Proposed Guideline

- 1.1 Overall, we support the reporting of information that enables an assessment of an entity's long term fiscal sustainability, subject to the comments outlined below.

Proposed content of the report and users' needs

- 1.2 In paragraph 20, it is noted that reporting on certain indicators may be useful in assessing an entity's long term fiscal sustainability. While we do not disagree with the list of indicators, we question whether users of general purpose financial reports (GPFRs), including general purpose financial statements (GPFSSs), will necessarily find all of this information useful and understandable. For example, the "inter-temporal budget gap" listed in 20(e) is a term widely understood by economists, but would not be widely understood by the users of GPFRs and GPFSSs.
- 1.3 As one of the origins of this project was to develop information that would provide users of the financial statements with additional information about an entity's resources and obligations broadly, we question whether the scope of the proposed reporting is too wide and consequently is not entirely aligned with the needs of the users of GPFRs. Many of the reports currently published by governments in other jurisdictions are not necessarily published as an accompaniment to the financial statements, rather they are issued as an accompaniment to the budget or other policy documents. While we find this reporting useful in general, it would not necessarily meet the needs of the users of GPFRs, including GPFSSs as the intended audience of the report may be different. We are also of the view that the content of the report may vary depending on whether the report is intended to assess sustainability at a whole-of-government level or, the sustainability of a particular entity or program.
- 1.4 We suggest that the Proposed Guideline clarify for whom this type of reporting is intended and describe their overall information needs. It might be that, because the RPG addresses sustainability at a macro and an entity level, there should be two separate parts or explanations for the "content" of the information reported (paragraphs 17-37).

Implementation of the Proposed Guideline

- 1.5 At present in the South African public sector, no formal fiscal sustainability reports are published. At a central government level, models to facilitate such reporting are being developed although it is likely to take a significant period of time until reports are produced and published. At a provincial (state) government level, no fiscal sustainability reports are produced. At a local government level, these reports are produced informally for management purposes but the time horizon often does not extend beyond 10 years.
- 1.6 During our consultations on the Proposed Guideline, stakeholders indicated quite often that they were unsure of the type of reporting that was envisaged in the Proposed Guideline. As there may be other jurisdictions which have a limited knowledge of this type of reporting, we would urge the IPSASB to issue supplementary guidance to the RPG. This supplementary guidance should explain more clearly what is envisaged by this type of reporting, how to develop methodologies to report this information, the

period and rates used, the types of indicators that might be reported (for all three dimensions; not only those related to “fiscal capacity”) etc.

- 1.7 As an alternative suggestion, we would suggest that the Consultation Paper accompanies the Proposed Guideline (once published) on the website as it provides valuable background information to those jurisdictions that may not be familiar with this type of reporting. It would also be useful if the website could provide an indication of where information could be obtained about various models for long-term fiscal sustainability reporting (e.g. The OECD or IMF guidelines).

Inter-relationship with other reporting frameworks

- 1.8 In South Africa, the King III Code on Corporate Governance applies to public sector entities. This report encourages public sector entities to prepare an integrated report. During our consultations, many stakeholders questioned the inter-relationship of the Proposed Guideline and integrated reporting. While acknowledging that jurisdictional arrangements may differ, because the proposed IIRC framework intends to apply to public sector entities, we urge the IPSASB to articulate in the Basis for Conclusions how its Proposed Guideline is positioned in relation to integrated reporting.

2. Status of the Proposed Guideline

- 2.1 We agree that the Proposed Guideline should encourage, rather than mandate, reporting on long-term fiscal sustainability. In many developing countries, the reporting of information on long-term fiscal sustainability is not common. Consequently, it may take some time for practice to develop and evolve. While the adoption of IPSASs is strongly encouraged in such jurisdictions, it is an onerous task to ensure compliance with IPSASs in preparing financial statements. If mandatory reporting requirements outside the GPFSSs became a prerequisite for adopting IPSASs, the adoption of these standards may be severely hampered in many jurisdictions.

3. Scope of Proposed Guideline

- 3.1 At present, the Proposed Guideline provides reporting requirements for all public sector entities, except GBEs. While we accept that the current suite of IPSASs do not apply to GBEs as these entities should apply IFRSs, we are of the view that reporting on long-term fiscal sustainability may be applicable to many GBEs. In our jurisdiction, we consider that many GBEs (for example, power utilities, airport operations companies, rail and port authorities) would meet the criteria outlined in paragraph 15 and thus users for such information would exist. We are of the view that because these entities often rely on taxes, subsidies and debt to fund their operations and expansions, assessing their sustainability is crucial.
- 3.2 Similarly, we are of the view that other types of reporting outside the GPFSSs may be useful to GBEs, e.g. reporting on service performance information. We would therefore, as a broader issue, urge the IPSASB to consider the applicability of reporting outside of the GPFSSs to GBEs as part of the GBE project recently added to its work programme.
- 3.3 As an interim measure, we propose amending the scope of the document to indicate that although the Proposed Guideline is not intended to apply to GBEs, the Proposed Guideline could be used by GBEs in reporting such information (where the requirements in the Proposed Guideline are met).

4. Definitions

- 4.1 Definitions of long-term fiscal sustainability commonly used in the economic environment refer to the ability of an entity being able to meet its commitments now and in the future based on inflows and outflows/revenues and expenses. This aspect has not been addressed in the definition of long-term fiscal sustainability, but has been described in paragraph 8.
- 4.2 Given that there is currently no universally accepted and recognised definition of long-term fiscal sustainability, even from an economic perspective, we question whether it is appropriate to attempt to define the concept in the Proposed Guideline. We are of the view that the “Definitions” section of the proposed Guideline should be replaced with a more robust section describing the “terminology/terms” used in the Guideline. This approach would also be more appropriate given that this is a Recommended Practice Guideline and not an IPSAS. Also, because users of the Guideline may not be accountants, a broader coverage of terminology used might be useful.
- 4.3 In defining “long-term fiscal sustainability” reference is made to “financial commitment”. As presently drafted, there is no description of what is meant by a “financial commitment”. Without a discussion on what a “financial commitment” constitutes, entities may have either a very narrow or broad interpretation. As an example, in South Africa, basic income grants are paid to beneficiaries who have applied to receive the grant, are 18 years old and, who otherwise meet the necessary criteria. At the date of preparing the report, there may be 10 million people who qualify, but only 5 million have applied and met the criteria. Using a narrow interpretation of a financial commitment, the projections could be made for the million who presently have applied and qualify. Using a broader interpretation based on legislation enacted at year end, the 10 million could be used in the projections. As a result, we are of the view that a brief description and discussion of a “financial commitment” should be included in the Proposed Guideline.
- 4.4 We also propose that a reference be made to certain terms in the Proposed Guideline being consistent with terms used in IPSASs (for example, GGS).

5. Reporting boundary

- 5.1 The discussion in paragraph 10 reflects the principle that the entities and activities reflected in long-term fiscal sustainability projections should be the same as for the financial statements as this will increase the understandability and usefulness of the projections. The discussion in paragraph 11 goes on to describe that if the projections are not done on the same basis as the financial statements, this fact should be disclosed along with the possible impact.
- 5.2 The Proposed Guideline is not prescriptive about the format of long term fiscal sustainability reporting, e.g. should the report accompany a set of GPFs (within a broader GPFR) or can the report be issued on its own. The Proposed Guideline also does not indicate, for example, that the long term fiscal sustainability report should clearly indicate to which set of GPFs the projections relate.
- 5.3 Based on the statement in the last sentence of paragraph 10 that, the understandability and usefulness of the projections is enhanced when they are consistent with the financial statements, seems to imply that this information is more

useful if it accompanies the financial statements. We suggest that the Proposed Guideline should stipulate that the long term sustainability report should be made available at the same time as or, should accompany the financial statements.

5.4 In the South African context, as will be the case in other jurisdictions, a set of general purpose financial statements is not prepared at a whole of government level because the requirements for consolidation are not met. While it is appropriate to prepare information on the long-term fiscal sustainability for a whole of government level (using a macro-economic perspective), it is unclear whether:

- (a) Such a report is consistent with the objective of general purpose financial reporting in the context of enhancing the information in the financial statements and providing users of a specific set of GPFs with additional information about an entity's resources and obligations.
- (b) The disclosures envisaged in paragraph 11 would be meaningful in such a context as there are no GPFs available.

5.5 Based on this observation, we propose that the IPSASB considers whether it is necessary to be more prescriptive about how the report on long-term fiscal sustainability should be issued and its linkages with the GPFs. We are also of the view that a discussion on whole-of-government reporting (and other types of reporting) where there is no linkage to a specific set of GPFs could usefully be included in the text of the Proposed Guideline or the Basis for Conclusions.

6. Determining whether to report on long-term fiscal sustainability

See the response to specific matter for comment 1.

7. Addressing the dimensions of fiscal sustainability.

See the response to specific matter for comment 2.

8. Disclosure of principles and methodologies

See the response to specific matter for comment 3.

9. Improving the Basis for Conclusions

As some jurisdictions are not familiar with reporting on the long-term sustainability of an entity's finances, it would be useful to outline the distinction between projections/forecasts that are made as part of the medium-term budget process and the projections as part of this project.

10. Other

After reviewing the Proposed Guideline, we noted that limited reference is made to the qualitative characteristics, mainly in the section dealing with "Presenting projections of prospective inflows and outflows". It might be useful to indicate more broadly, within the text of the Proposed Guideline, that the information is presented and disclosed after considering the qualitative characteristics and the constraints on information outlined in the Framework.

PART II – SPECIFIC MATTERS FOR COMMENT

Specific matter for comment 1

Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

We agree with the three criteria outlined in paragraph 15. In considering the appropriateness of the criteria and whether an entity should meet one, all three or any combination of the three criteria, we considered whether an entity could have wide decision making powers without having (a) and (b). We concluded that this would be possible in the South African context.

As currently drafted, there is no description of what is meant by “wide” decision-making powers. To avoid entities reporting unnecessarily on long-term fiscal sustainability, we suggest adding a description to the text of the Proposed Guideline or the Basis for Conclusions what is meant by the term “wide” decision-making powers.

Specific matter for comment 2

Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27-37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?

We agree broadly with the three broad dimensions which should be addressed in an entity’s report on long-term fiscal sustainability. We do however have the following comments on the labelling and descriptions of these dimensions:

- (a) Title of “vulnerability” dimension. While we agree with the concepts underpinning this discussion, we do not agree with this dimension being titled “vulnerability”. “Vulnerability” in an economic context has a negative connotation and is often used to denote liquidity risk and the risk of insolvency. Consequently, we suggest changing this to “Degree of Independence”.
- (b) The description of “fiscal capacity” refers to meeting commitments without raising taxes. Certain economic guidelines refer to fiscal sustainability being meeting commitments without raising taxes or, without raising taxes to an unrealistic level. As entities might follow the latter concept of sustainability, this should be discussed in the Proposed Guideline. Paragraph 30 refers to “primary deficit” and “total deficit”. These terms may not be well understood or have different meanings in different jurisdictions. As a result, we suggest either providing an explanation in the text of the Guideline or, including a definition in the Appendix.
- (c) The description of “service capacity” currently indicates that this dimension represents the extent to which (a) the entity can maintain services at the volume and quality provided to current recipients at the reporting date.... We question whether this is the correct measure, considering that:
 - There may be additional recipients who qualify for a particular service over and above those who already receive such goods and services. It would be important to consider not only the current recipients but all those who are eligible to receive specific goods and service based on legislation in force at the reporting date.

- The volume or quality currently provided may be sub-standard and may not be in line with defined or agreed specifications (for example, the volume and quality of services specified in a strategic plan). In addition, there may be different benchmarks used when assessing an entity's ability to continue providing services, i.e. current level of services versus expected level of services versus ideal level of services. We suggest that the Guideline clarify these possible benchmarks, and prescribe which level should be used in developing their projections and discussions. In addition, specific disclosure requirements may be necessary in paragraphs in paragraphs 38 to 51.

As a result, we suggest amending this paragraph to reflect that service capacity is measured based on an agreed/specified volume and quality.

Specific matter for comment 3

Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

While we agree with the disclosures related to the principles and methodology used to prepare the projections currently proposed in paragraphs 38 to 50, we suggest amending this section to deal more broadly with all the disclosures encouraged in the Proposed Guideline. A section that deals broadly with disclosures could include, for example:

- A statement indicating that the Proposed Guideline describes minimum disclosures, but that more information may be needed to meet users' needs.
- Disclosures about whether the Proposed Guideline was used to prepare the report, explaining any departures.
- Disclosing any differences between the entities covered in the long-term fiscal sustainability report and the GPFs.

Paragraph 49 notes that sensitivity analyses should be prepared. While we agree that this information can be useful, there is a risk of providing users with too much information on the variability of the projections, making the information overly complex and reducing its understandability.

Updating projections and frequency of Reporting: In paragraph 39 it is mentioned that annual updating is unrealistic; however in paragraph 48 it is proposed that entities discuss any changes in the inflation and discount rates since the last reporting date. It is not clear whether this implies the last reporting date of the fiscal sustainability information or annual reporting. We suggest that the frequency of reporting should be more clearly defined, especially in cases where the information is not necessarily updated on an annual basis.

Reliability of Projections: It was noted that this paragraph mentions that projections are not forecasts. We recommend that the difference be explained in the Guideline as our experience has been that people often use these terms interchangeably in practice.

PART III – EDITORIAL AND OTHER MINOR COMMENTS

During our review of the Proposed Guideline, we noted the following editorial and other minor comments:

Paragraph	Comment
1, second sentence	Reference is made to “advice”. We would suggest changing this to “guidance” as it is within the IPSASB’s mandate to issue “guidance” rather than provide “advice”.
16, part (a)	We suggest that part (a) should be amended to indicate that information might not be prepared by the controlling entity. We suggest the following amendment: (a) consistent with information reported by the controlling entity (if any), (b)
17	Paragraph 17 refers to “core” information being the projections of inflows and outflows. There is however no mention of “supporting” information or what this might constitute. Given that the Phase 4 Consultation Paper has only recently been issued, it may be premature to refer to “core” information in this Guideline.

The Technical Director
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International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2 CANADA

Dear Sirs,

Exposure Draft 46 Proposed Recommended Practice Guideline - Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances

The Accounting and Auditing Standards Desk of the Abu Dhabi Accountability Authority (ADAA) is pleased to respond to the International Public Sector Accounting Standards Board (IPSASB) on ED 46 and is fully supportive of the IPSASB's drive to improve the quality of financial reporting of Public Sector Entities (PSEs).

General comments

ED 46 is positioned as best practice guidance and is not required to be adopted to comply with IPSAS. In our experience it is unlikely that reporting entities choose to adopt voluntary disclosures.

It is perhaps unnecessary for entities (or groups of entities) below the level of the General Government Sector (GGS, as defined in IPSAS 22) to adopt such reporting since the key "*dimension*" of their sustainability is likely to be their vulnerability to raise or receive income from choices Government makes to provide or not provide ongoing financial support. However we do not suggest that these entities be deterred from providing long-term sustainability information. Indeed it may be easier for them to provide such information, although its use may be limited.

We agree that the issue of long-term sustainability is of great importance in the current economic environment and that PSEs be encouraged to provide the information set out in ED 46. One way of achieving this might be to mandate the adoption of ED 46 at an appropriate level of reporting such as at the level of the GGS or at the highest consolidated level.

We also agree that reporting on the long-term sustainability of PSEs' finances are complex and that there are many assumptions and judgments to consider. The length of time that the reporting period covers brings an additional sensitivity and complexity to those assumptions and judgments which do not feature in entities' current annual reporting.

We understand the IPSASB's reluctance to make firm recommendations on best practice as experience in this reporting is developing. However we feel that ED 46.19 in describing a level of flexibility in reporting information also provides a level of confusion. Developing experience of this reporting will take time and whilst entities are developing this experience we suggest the IPSASB consider issuing illustrative examples to accompany ED 46 to present a minimum level of disclosure required. In the year of adoption this would ease comparability and avoid a quality gap between reporters. The illustrative examples could be reviewed and reconsidered in subsequent years as experience develops.

Reporting boundary of the entity or group of entities being reported upon

ED 46.15 refers to the characteristics of the entity being reported upon. However these characteristics could be attributed to a group of entities that is not necessarily the same as in ED 46.12 which refers to the GGS. In addition the accounting under IPSAS 22 for investment in the Public Financial Corporations Sector and the Public Non-Financial Corporations Sector is different from IPSAS 6 which could lead to a another set of numbers in the consolidated reporting and result in less clarity of the sustainability of financial performance rather than more. We suggest in support of comparability at the highest consolidated level of reporting that the guideline refers to level of GGS.

Specific Matters for Comment 1

Do you agree that the characteristics of an entity that indicate whether users for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

If ED 46 is mandatory or voluntarily adopted by a reporter the decision to report on long-term fiscal sustainability is a decision already taken. It seems therefore unnecessary to determine within ED 46 characteristics of an entity it applies to.

ED 46.15 states: *“There are likely to be users.”* The use of likely also implies not likely and therefore even if the characteristics feature in an entity, the entity is not compelled to comply with ED 46.

Lastly, we consider the characteristics are closely linked to characteristics of Local or National governments and would exclude many other public sector entities.

We suggest that the characteristics are included in a foreword or introductory notes to the ED rather than embedded in the standard.

Specific Matters for Comment 2

Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27-37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not how would you modify this approach?

We agree that fiscal capacity, service capacity and vulnerability provide three useful barometers of long-term fiscal sustainability. Paragraph 37 indicates that increases in taxation should not be considered which may be inconsistent with the strategy Government is applying in a particular term.

Specific Matters for Comment 3

Do you agree with the guidelines in this ED in disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

We agree with the disclosure guidelines in the ED. We also agree that information released should be up-to-date at the point it is released.

We suggest entities disclose whether the projections used are based on the latest budgets and forecasts used and approved by senior management.

Yours faithfully



Steven Ralls BA, FCA
Head of Accounting and Auditing Standards Desk
Financial Audit and Professional Regulation
Abu Dhabi Accountability Authority

28 February 2012

Ms Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
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Dear Ms Fox,

**Exposure Draft 46: Proposed Recommended Practice Guide:
Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances**

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

ACAG strongly supports the IPSASB's project to develop guidance for the reporting on the long-term sustainability of public finances. As noted in our response to *Exposure Draft: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*, ACAG considers that user's information needs about the future are not well addressed in general purpose financial statements. This exposure draft is a positive first step in addressing this deficiency.

However, ACAG also believes there are a number of areas where the guidance could be enhanced to further assist public sector entities in preparing reliable, relevant and comparable information.

I trust you will find the attached comments useful.

Yours sincerely

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

Exposure Draft 46: Proposed Recommended Practice Guide: Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances

As noted in our response to *Exposure Draft: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* (CF Phase 2), ACAG considers that public sector reports have a wide range of primary users. These users typically require information about the past (for accountability purposes) and information about the future (to assess the long-term sustainability of government and service delivery). While general purpose financial statements (GPFs) currently help to address information needs about the past, there is an urgent need to address user's prospective information needs. Therefore, ACAG strongly supports the IPSASB's project on long-term sustainability reporting.

However, ACAG considers some guidance in the exposure draft to be too broad, which could lead to a wide variety of reporting by entities. This diversity could impact the understandability and comparability of sustainability reports. For example, the lack of tighter guidelines could lead to public sector entities preparing their initial sustainability report based solely on those measures which reflect favourably on the entity. To a lesser extent, a user may be interested in comparing sustainability reports across jurisdictions, such as federal, state and local government. Without some minimum disclosure requirements, comparisons may be impracticable. To address this, ACAG provides the following comments.

ACAG also notes that while the guidelines are an appropriate first step, the IPSASB should consider introducing more authoritative requirements as sustainability reporting matures.

Projections

ACAG agrees with the proposition in paragraph 17 that the core information presented on long-term sustainability will be projections of inflows and outflows commencing from the current reporting period. The importance of long-term projections was highlighted in our response to *CF Phase 2* that proposed entities produce more prospective information, including projections of future commitments (both financial and service delivery related). This would allow users to assess the long-term viability of current policy choices made by the reporting entity.

Given the critical importance of these projections ACAG believes further guidance can be given to ensure consistency of long-term sustainability reporting.

ACAG recommends all sustainability reports include a tabular presentation of inflows and outflows across a time horizon. These projections should be initially based on the amounts included in the audited GPFs. All projections should then be determined by applying the same policies and IPSAS applied in the GPFs, allowing for early adoption of new and revised standards. Practically, this would be achieved by extrapolating the current year actuals and adjusting for factors such as demographic changes, inflation etc (consistent with paragraph. 44). Where an entity prepares GPFs on accrual basis, the projections would be prepared also on an accrual basis. On the other hand, where an entity prepares GPFs using cash based IPSASs, sustainability would be limited to a tabular report prepared on a cash basis.

ACAG acknowledges the exposure draft focuses on cash based projections but believes there is benefit in aligning the basis of preparation with other financial reports produced by the entity.

One deficiency with current public sector reporting is the lack of any meaningful link between the various financial reports produced. If budgets, sustainability reporting and GPFS are prepared on different bases, this can significantly impact the comparability and understandability of the reports.

A number of entities may also produce budgeted information on a comparable basis to the sustainability report. Where the budget and sustainability report are prepared on a comparable basis, ACAG recommends the sustainability report should also include, at a minimum, those aggregates disclosed in budgeted information. This will assist users by providing a link between prospective information included within the budget and long-term sustainability reporting.

Projections should also be based on current service delivery levels unless the entity can prove they are committed to reducing or enhancing a service delivery initiative. In such cases the planned reduction or enhancement should be disclosed in notes supporting the projections.

Sustainability information within GPFSs

ACAG recommends that the IPSASB guidance should also require that where information on long-term sustainability is included within the GPFSs, it is clearly demarcated from audited financial information. In addition preparers should clearly indicate that the projections are outside the scope of the audited financial statements and state that such information has not been audited.

ACAG also provides the following comments in response to specific questions raised by the IPSASB.

Specific Matter for Comment 1

Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

While the characteristics identified appear reasonable, ACAG is concerned their inclusion may discourage some entities from preparing long-term sustainability information.

Information on long-term sustainability would most likely be presented at whole-of-government levels. In Australia this would be at the federal, state and/or local government level. However, other entities may also wish to prepare sustainability reports based on their particular users' needs. These entities should be encouraged to present sustainability information that complies with the guidelines. ACAG considers the inclusion of a scope clause may have the opposite effect and discourage those entities from preparing reports if they consider that they are 'not in scope'.

To address these concerns, alternative wording for the characteristics paragraph could be as follows:

“This Recommended Practice Guide was designed to be applied at whole-of-government levels. Other entities may also prepare long-term fiscal sustainability information where it meets their particular users' needs.”

Specific Matter for Comment 2

Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27-37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?

ACAG agrees with the dimensions outlined in paragraphs 27-37.

Specific Matter for Comment 3

Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

ACAG agrees with the ED guidelines and recommends that entities should also be required to disclose reductions and/or enhancements to service delivery built into projections. Examples of where disclosure should be required include where an entity:

- does not obtain any external assurance on the projections;
- projects reduced outflows in future years due to anticipated efficiencies or cost saving measures;
- does not project a particular program in future years; and/or
- projects new programs which the government is committed for future years. (This could be achieved by including new programs in a separate line item.)

These disclosures will further assist users in understanding the assumptions and judgements applied to projected amounts.



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Dear Ms Fox,

Exposure Draft 46 – *Recommended Practice Guideline, Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*

The Australian Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to make a submission on Exposure Draft 46 – *Recommended Practice Guideline, Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances* (the RPG). Detailed responses to the consultation questions, along with additional comments, are provided in Attachment A.

HoTARAC is an intergovernmental committee that advises the Australian Heads of Treasuries on accounting and reporting issues. The Committee is comprised of the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

The submission represents a consensus view of all HoTARAC members. We broadly support the issuance of the RPG as proposed in the Exposure Draft though we do believe that clarification of certain aspects of the terminology should be made.

Transparency and accountability are integral to the Australian public sectors and HoTARAC believes that long-term fiscal sustainability reporting supports this.

If you have any queries regarding this submission, please contact Mr Peter Gibson at the Australian Department of Finance and Deregulation on +61 2 6215 3551.

Yours sincerely

Grant Hehir
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

28 February 2012



HoTARAC Response to Exposure Draft 46 – Recommended Practice Guideline, Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances

General Comments

HoTARAC broadly agrees with the Recommended Practice Guideline (RPG) and makes the following general comments: the RPG would benefit from some clarification of terminology; it should remain purely voluntary; care should be taken to avoid complicating or distorting the reporting process; and the guidelines should be consistent with other developments in sustainability reporting.

The IPSASB should clarify the meaning of the term 'entity' in the context of the RPG as many jurisdictions tend to use the term to mean the units that comprise the government rather than to refer to the government as a whole. While HoTARAC does not believe that the RPG should preclude individual public sector entities from producing long-term fiscal sustainability reports, these reports are generally produced at the whole-of-government level, whatever the jurisdiction, and are of greatest value when taking account of the overarching policy-making role of governments rather than the individual entities that comprise it.

As a voluntary RPG rather than mandatory standard, HoTARAC believes that entities should not be required to indicate whether they have followed this RPG. We suggest that the wording in paragraph two be changed to "... *could* indicate that it has followed this RPG..." rather than "... *should* indicate that it has followed this RPG..." (emphasis added). This change would retain the spirit of voluntary disclosure. However, HoTARAC is of the view that if an entity indicates that it has followed the RPG, it should be required to follow all requirements in the RPG. This would prevent an entity from 'cherry-picking' to present its financial report according to certain aspects of the RPG and yet claiming that it adhered to good practice. Therefore, HoTARAC recommends that paragraph two be strengthened along the following lines (see mark-ups):

"... As part of reporting on its long-term fiscal sustainability an entity could indicate that it has followed this RPG. If an entity indicates that it has followed this RPG, it is required to follow all requirements of this RPG or disclose if it has departed from the RPG and explain why such a departure was necessary."

HoTARAC disagrees with the alternative view published by Mr Bean in the Appendix of the Exposure Draft. It is HoTARAC's view that long-term fiscal sustainability reporting has the greatest value when it is done voluntarily, addressing the idiosyncrasies of the jurisdiction rather than as a compliance exercise. Mandating long-term fiscal sustainability reporting while it is still an area in development would be premature, resulting in substandard reporting.

HoTARAC also opposes the inclusion of long-term fiscal sustainability as a part of General Purpose Financial Statements (GPFs). GPFs serve the purpose of the articulation of the stewardship role served by management whereas long-term fiscal sustainability reports, whilst relevant for assessments of long-term stewardship, are also focused on providing information for management to assist in the development and analysis of policy. Combining these two reports would not only make the GPFs more cumbersome but would distort the purpose of the long-term fiscal sustainability reporting making them susceptible to misinterpretation.

HoTARAC also notes that the International Integrated Reporting Committee and Global Reporting Initiative (GRI) are currently progressing work in the field of sustainability reporting. The IPSASB should work with these and other relevant bodies to ensure that all requirements and guidelines are consistent.

The IPSASB may wish to include some case studies and/or examples of jurisdictions that produce such documents that are currently consistent with the RPG's principles and approach. This will offer further guidance to current preparers and assist new users in preparing their own reports.

Specific Matter for Comment 1

Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

HoTARAC agrees with the listed characteristics. If an entity has a considerable degree of control over its inflows and/or outflows it is likely that there will be users for long-term fiscal sustainability information.

These criteria, however, further illustrate HoTARAC's general comment (above) that the definition of 'entity' requires further articulation. The three criteria are generally powers that only sit with governments rather than individual government entities.

Specific Matter for Comment 2

Do you agree that the "dimensions" of long-term fiscal sustainability in paragraphs 27–37 provide a viable framework for narrative reporting on the long-term sustainability of an entity's finances that complements and interprets the projections? If not, how would you modify this approach?

HoTARAC agrees that the dimensions provide a viable framework for narrative reporting on an entity's long-term fiscal sustainability. While, in Australia these specific terms are not used, the concepts that are used in documents such as the Commonwealth's Intergenerational Report (IGR), are very similar. Narrative reporting based on these will capture and present a holistic picture of an entity's fiscal sustainability.

That being said, HoTARAC feels that while under current circumstances the use of the term "deficit" in paragraph 30 is generally applicable to most countries, this paragraph should be expanded to include references to surpluses, perhaps in a change of terminology to use "budget balance" or a similar term. Omitting the reference to "surpluses" could be misleading to users as it implies that it is not necessary for users to refer to the sustainability of current and/or projected surpluses.

HoTARAC further points out that the terms in paragraph 30, 'primary deficit' and 'total deficit' are not listed in the glossary of indicators, and that inclusion of these terms at Appendix A would be useful. Additionally, as currently presented in paragraph 30, the definition of total deficit is unclear, and HoTARAC suggests re-wording this to:

(b) total deficit, *which is the primary deficit* including outflows related to interest payable on debt

HoTARAC notes that the suggested concept of "fiscal capacity" refers to not increasing levels of taxation (refer to paragraphs 28 and 37); however, HoTARAC recommends that the RPG clarify how non-taxation sources of revenue should be dealt with for this purpose.

The inclusion of vulnerability is relevant as it complements and further articulates the importance of entities communicating their control of funding, whether this is through inter-governmental transfers or through taxation and incurrence of debt.

Specific Matter for Comment 3

Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

HoTARAC believes that it should be clarified if the guidelines are examples or minimum disclosures expected from an entity that follows the RPG.

HoTARAC generally agrees with the guidelines for principles and methodologies but feels that the spirit of the ED, as voluntary guidelines, should allow for more clearly articulated flexible presentation and methodology. Paragraph 48, Inflation and Discount Rates, should be amended to clarify that it is not mandatory to discount projections, but if an entity does, then it needs to take certain factors into account in determining the discount rate, as articulated in paragraph 48.



The World Bank

CHARLES A. MCDONOUGH
Vice President and Controller

OTAVIANO CANUTO DOS SANTOS FILHO
Vice President and Head of Network,
Poverty Reduction and Economic Management

February 28, 2012

The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario
Canada M5V 3H2

**Re: IPSASB Exposure Draft 46 *Proposed Recommended Practice Guideline*
Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances**

Dear Sir/Madam,

The World Bank appreciates the opportunity to comment on the Proposed Recommended Practice Guideline referenced above.

The World Bank has a strong interest in the robustness and sustainability of public sector organizations. Our experience shows that poverty reduction is best achieved through: the development and implementation of sound policies; the efficient provision of public services; and the effective regulation of markets and oversight of the use of public resources. All these require strong institutions.

Moreover, in the aftermath of the most recent financial crisis, it is becoming clear that governments can no longer rely on markets' pricing their debt as if it was risk-free or close to risk-free. We are seeing far greater differentiation in pricing than previously. This places a premium on the quality of information that governments make available to stakeholders, as well as on the sound management of public finances over the medium- to long-term.

Accordingly, we fully support this effort to introduce a degree of rigor into the reporting by governments on the sustainability of their finances. We are aware that this work has been a long time in the making and is the culmination of a number of efforts over the years to bring closer together the perspectives of economists and accountants concerning long term claims on the fiscal or public sector entity. A guideline of this sort – aimed at reporting on the long-term position of a public sector entity's finances – seems a very practical way to push ahead in this area. There are significant issues, however, in the proposed guideline, which should be addressed.

Our responses to the specific matters for comment are included in the attached Annex. Thank you for the opportunity to provide our views.

Sincerely,



Charles A. McDonough
Vice President and Controller



Otaviano Canuto dos Santos Filho
Vice President and Head of Network,
Poverty Reduction and Economic
Management

Attachment

Annex – Responses to Specific Matters for Comment

Specific Matter for Comment 1

Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

The onus in paragraph 15 could be reversed. In other words, there should be a presumption of reporting unless an entity can claim that none of the three elements exist (i.e., the power to tax; the power to incur debt; or the power to influence service delivery levels). Further, point (c) is arguably narrow in effect, and unclear in design. It could be rewritten along the lines:

"(c) Customers or clients who consume goods or services from the entity."

This would lead to a reworking of paragraph 16, along the following lines:

"If a controlled entity determines that there are no users for information on the long-term projection of their finances, it should make a statement to that effect in its notes to the financial position. In other cases, it should ensure that the information reported is...."

An alternative to this would be to consider whether the entity:

- (i) is sufficiently large (in fiscal terms; and in terms of its debt stock held, and associated risks) to pose a threat to the national public finances;
- (ii) has some fiscal autonomy to make those independent decisions (the latter point is correctly portrayed in paragraph 15); and/or
- (iii) its inappropriate reporting could affect accountability among different levels of government, especially the subnational entities, which may be large (point "i") and/or have fiscal autonomy (point "ii").

The guidelines could provide more clarity about their relevance at different government department, ministry or agency levels. For instance, one could argue on the basis of subsidiarity that the standard that applies to the consolidated entity (be it budget sector, general government sector, or public sector) should apply to constituent units that are controlled by and reflected in the financial statements of the controlling entity. If this is envisaged, then clarity around some of the concepts at lower entity levels would be necessary – for instance, is appropriation revenue to be considered a funding source outside the subsidiary entity's control? One could caution, however, that there may be considerable cost and questionable benefit at this level.

Specific Matter for Comment 2

Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27-37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?

Fiscal Capacity and Sustainability

The proposed measure of “fiscal capacity” does not truly address the inter-temporal aspect of fiscal sustainability; rather it provides a measure of the inter-temporal position of the entity, given current policy settings. Sustainability is often seen as a wider concept, which brings into play tax and borrowing more directly. If countries have room to adjust their taxation levels to meet emerging spending pressures (from programs or from servicing debt) then sustainability is more easily achieved than for a country with very little tax room. (The International Monetary Fund says that a country's fiscal position is unsustainable if "in the absence of adjustment, sooner or later the government will not be able to service its debt.") The identity equation that gives rise to the inter-temporal budget constraint is not really a measure of sustainability in the way that policy makers think of the concept, but it is a useful measure that can feed into consideration of sustainability. Accordingly, we would suggest that the guideline drop the word 'sustainability' from its title and replace it with either 'position' or 'projections'. The other option would be to add additional dimensions to the draft to move it closer to a guideline on real sustainability, but this would become highly complex, and would sit uneasily as an accounting standard, given its fiscal policy aspects. If, instead, the concept of "sustainability" was retained, our recommendation would be to assess it in terms of a framework which allows for benchmarking, with some indicative threshold levels (as is done in the Bank-Fund Low Income Country Debt Sustainability Framework). Otherwise, it is difficult to arrive at any assessment of whether the entity is on a sustainable fiscal path or not. Regarding indicator coverage, it would be appropriate to use neutral terms like primary “balance” rather than primary “deficit” (paragraph 30).

In a similar way, it is questionable whether "fiscal capacity" is the correct term for what is to be measured. It is simply the fiscal position relative to the inter-temporal budget constraint on current settings. Once again, the term fiscal capacity implies broader considerations such as the room or space to take action to change the course of the fiscal position through time. While some of these issues appear to be addressed through the dimension of vulnerability, we are concerned about the way this is done, and how the issue of policy choice is dealt with. We would therefore propose the following change:

Rename 'Fiscal capacity' as 'Projected Fiscal Position'

Vulnerability

We support in principle the dimension of vulnerability to be reported on. The case of a sovereign or sub-sovereign with substantive dependence on international aid flows could be referred to in the text alongside that of subnational governments. Further, while there is justifiable focus on the revenue side of dependency, it should be noted that in some cases this is symmetrical on the spending side – the subnational is a pass-through of higher level entity obligations.

We would suggest that the term 'Vulnerability' be dropped and be replaced by a more neutral term, such as 'Outlook' and then define the sub-dimensions in such a way as to highlight issues of dependency, debt room and revenue-raising ability. For users, the prospects of a tax decrease are arguably as important as a tax increase for the planning of their financial affairs (consumption versus savings).

Specific matter for Comment 3

Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

We are satisfied with the approach proposed on disclosure of principles, methodologies, and risks. However, an important, but rather difficult, issue that needs to be considered in this context is how to measure and include government contingent liabilities in the projected fiscal position. The identification of such liabilities, as well as the fiscal risks emanating from them, is by itself a rather large and complex exercise for every jurisdiction. Some uniform guidance on what to disclose in this inter-temporal context and how to include them would be very useful.

Other matters

Reporting Requirements

We agree with the alternative view expressed on page 21. It is desirable the guideline be reclassified as a requirement.

Government Business Enterprises

The position with respect to GBEs/SOEs could be clearer. As subsidiary entities, the major flows between the GBEs and the core fiscal entity (budget or GG sector) will need to be projected, as indeed identified in paragraph 6. To do this, the GBE will need to project its profit and loss, cash-flows and balance sheet. Therefore, the proposed exclusion appears unnecessary; but perhaps requirements to report could be determined with respect to materiality (see comment 1 alternative above).

Additional Considerations

The implications of age and demographic factors are suitably addressed. But there are two other issues of long term importance that should be considered in reporting on long-term sustainability: the revenue implications for natural resource dependent countries, and the impact of mega-projects. In many countries such factors may be more important than demographic changes, e.g., where mineral resources may be depleted over a 10-20 year horizon, or where the risks of a single project or discretionary program have the potential of destabilizing the public financing at an aggregate level, both in terms of investment cost over-runs or operating costs and revenues. While these issues can certainly be accommodated within the guidance – assumptions for revenue projections and analysis of non-age related programs – it would help to address them explicitly and suggest ways in which they may be appropriately reflected in reporting.



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February 29, 2012

Technical Director
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International Federation of Accountants
277 Wellington Street West, 6th Floor
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M5V 3H2

Dear Sir/Madam:

Re: Exposure Draft 46 – Reporting on the Long Term Sustainability of a Public Sector Entity's Finance

Thank you for the opportunity to comment on Exposure Draft 46 – Reporting on the Long Term Sustainability of a Public Sector Entity's Finance.

The Province will respond directly to the Specific Matters for Comment in the ED. We would however like to begin by expressing our overall general concerns about the issue.

Status:

The Province is pleased the final standards will be a Recommended Practice Guide (RPG) and will not carry the authority of an IPSAS. Nonetheless, it has been the Province's past experience that the Canadian legislative audit community views standards of recommended practice as mandatory rather than practices that are encouraged. Section 51 suggests that the reasonableness of the projections can be enhanced by an external auditor. The inclusion of section 51 will only provide support to external auditors who may view the adoption of the RPG as mandatory.

Changes in the Global Economy and Government Policies:

Governments have the ability to project revenues and expenses for several years into the future. The projections are based on reasonable assumptions about future government policies and the economic environment. As we have all been made aware, there are global events, outside the control of the government, which can change the economic landscape overnight. In addition, governments fall and are replaced, or on occasions adopt new priorities and make sweeping policy changes.

Projected revenues and expenses after such events are irrelevant because the environment which these assumptions were based is no longer in place. However since the projections were previously in the public domain, the government is exposed to criticism for failing to meet their objectives or changing them all together. In conjunction with general purpose financial statements, information on the sustainability of government programs over the next few years does provide useful information to the readers that are not provided by the general purpose financial statements alone. But as the time frame lengthens the reliability of the information quickly diminishes. If a government is to provide credible information on its long term sustainability, the projections should not be more than 3 years into the future, or two years beyond the government's budget. After more than 3 years the assumptions used for the projections are highly unreliable.

Specific Matter for Comment 1:

Do you agree that the characteristics of an entity that indicate whether users exist for information on long term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

The RPG is to apply to all public sector entities except Government Business Enterprises (GBE). The Province's opinion on this matter is that the RPG should only apply to governments unless a controlled entity determines there are users for the information.

Most public sector entities, other than GBEs, do not have the ability to raise revenues, determine service delivery levels, and incur debt. Government organizations have little discretion for changes in their mandate or service levels without the funding or authority of the government. In comparison, governments have significant revenue raising powers, can incur debt and have decision making powers over service delivery levels.

The information provided by the controlled entity should be consistent with the information reported by the government and the users should be informed of the information on long term sustainability reported by the government.

Specific Matter for Comment 2:

Do you agree with the "dimensions" of long term fiscal sustainability in paragraphs 27-37 provide a viable framework for narrative reporting on the long term sustainability of an entity's finances that complements and interprets the projections? If not, how would you modify this approach?

The Province of Manitoba agrees the "dimensions" described in the exposure draft provide a viable framework for narrative reporting on the long term sustainability of a government's finances.

The dimensions of fiscal stability, service capacity and vulnerability are similar to the indicators recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The Province of Manitoba is currently using the financial indicators recommended by PSAB in its financial statement discussion and analysis report. Fiscal capacity and sustainability both measure the government's ability to meet its program commitments without increasing its borrowings or taxation levels. Flexibility or service capacity measures the degree a government can increase its financial resources to respond to rising commitments by increasing its revenue or by increasing its net debt (PSAB) or net financial worth (IPSASB). Vulnerability (i.e. PSAB and IPSASB) measures the extent to which the government is fiscally dependant on funding sources outside its control.

Specific Matter for Comment 3:

Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

The approaches to the methodology presented in the exposure draft are all reasonable. The Province of Manitoba feels that the key disclosures are the economic assumptions used to prepare the projections. These assumptions should be fully disclosed to the users, reviewed every year, and updated as required. The users should also be informed that the economic assumptions are inherently uncertain and small changes in the variables can have a significant effect on the projections.

Conclusions:

The Province of Manitoba is pleased that the final RPG will not have the status of an IPSAS. However we wish the suggestion that "the reasonableness of the projections would be **enhanced** by an external auditor" should be removed. External auditors have the responsibility to ensure that the assumptions used by governments are reasonable and consistent. However they have no authority to provide an opinion on such matters.

The scope of the RPG should be limited to governments only. Public sector entities under the control of the government have no powers to incur debt, raise their revenues, or change their service delivery levels without the consent of the government. A public sector entity should not produce information on its long term sustainability unless it has identified users who would need the information.

The Province of Manitoba agrees that the methodologies used to prepare the projections should not be too prescriptive and should be left to the governments to determine. The emphasis should be on the disclosure of the key assumptions. The users should also be made aware that the assumptions are inherently uncertain and small changes in the variables can significantly affect the projections. The time horizon for projections should be brief as projections over long periods are completely unreliable. The time horizon should however be sufficiently long to identify any possible trends from the past historical results.

We would like to again thank you for the opportunity to comment on this issue.

Yours truly,

Betty-Anne Pratt, CA
Provincial Comptroller
Province of Manitoba