

DIRECTION DU BUDGET

Paris, le - 9 MARS 2012

TÉLÉDOC 242

139, RUE DE BERCY

75572 PARIS CEDEX 12

Affaire suivie par Marine Camiade

Bureau 1BPB

Téléphone : 01.53.18.70.32

N° DF-1BPB-12-3283

Objet : comments in response to the Expose Draft concerning reporting on the long-term sustainability of a public sector entity's finances.

Dear Madam,

You issued a request for comments on a proposed recommended practice guideline concerning the possible introduction of reporting obligations, for certain public sector entities, including information on their long-term fiscal sustainability.

The Budget Directorate considers this topic important as medium and long-term analysis of the financial sustainability of policies implemented needs to be developed for the public sector. This is why the sustainability of public finances in France is already assessed and reported on both to Parliament and the general public.

In this respect, I would like to highlight certain points.

Ms Stephanie Fox
International Public Sector Accounting
Standard Board
International Federation of Accountants
277 Wellington Street, 4th floor
Toronto
Ontario MSV 3H2 CANADA

1/ The IPSAS Board's document could more usefully have reiterated and commented on the current French and European practices and indicators already mentioned in our response to the Consultation Paper on this topic of 11 June 2010.

With this in mind, I would like to again mention that the European Commission publishes a report on long-term fiscal sustainability last updated in November 2009. This report is based on macroeconomic assumptions discussed between EU Member States in the context of the "Ageing" Working Group of the Economic Policy Committee (EPC). Based on population projections and assessments of the impact of ageing on pension, unemployment, healthcare, dependency and education expenditure, the Commission publishes updated financial indicators (in percentage points of GDP) through to 2060. The stability programmes of the Member States present these indicators which may be updated in light of the most recent work of the Commission.

Moreover, besides information provided pursuant to the stability and growth pact, the French Government is required to submit to Parliament, twice a year, an assessment and projection of French public finances in the medium term:

- Article 50 of the constitutional bylaw on budget acts (LOLF) provides that an economic, social and financial report (RESF) is enclosed with the budget bill every year. This report presents *"for at least the four years following the tabling of the budget bill, projected growth in revenue, expenditure and the balance for all the public administrations detailed by sub-sectors and expressed in accordance with national accounting conventions, with regard to France's European commitments"*. This also applies to the social security finance bill (PLFSS) which contains an appendix providing a four-year projection of the accounts of organisations falling within the scope of the PLFSS. These projections are consistent with those contained in the stability programme;
- Article 48 of the LOLF concerning the public finance policy debate (DOFP) provides that *"with a view to Parliament's deliberation of and vote on the following year's budget bill, the Government presents, in the last quarter of the ordinary session, a report on developments in the national economy and public finance trends comprising :*
 - *1° An analysis of economic developments observed since drafting the report mentioned in Article 50;*

- 2° *A description of its economic and fiscal policy guidelines with regard to France's European commitments;*
- 3° *A medium-term evaluation of the State's resources and charges broken down by main functions (...)*".

2/ For the majority of public entities, reporting on sustainability only seems to be relevant at a given level of aggregation and consolidation owing to their significant interdependence.

An analysis of sustainability may be relevant for those entities with revenue-raising powers and control over their expenditure. However, there are significant financial flows between most public sector entities meaning that a consolidated view is required. In light of the foregoing, reporting on the sustainability of public finances only seems to be relevant at a given level of aggregation and consolidation. This is in line with European rules which require consolidation at whole-of-government level.

The general principle approach (a report on sustainability for each public sector entity), with exceptions, which is used in the document subject to the request for comments, could be changed or even reversed. Whilst it may be interesting to have sustainability-related information for certain selected entities, the priority must be to study the sustainability of an interdependent group of public entities. In addition, there does not appear to be any need to request a formal report from entities. The Budget Directorate's view is that forecasts (of population, unemployment and growth rates, etc.) may suffice to supplement information in financial statements without a specific report being required.

3/ Finally, the Budget Directorate agrees with the Exposure Draft referred for public comment simply being considered as a "recommended practice guideline" as the request for comments is not being carried out pursuant to accounting standardisation. Assessing sustainability should be based on both accounting (national accounting in France and Europe or even government financial accounting in France) and non-accounting information (growth, population, unemployment rate forecasts, etc.) with methodology supervision being the responsibility of specific institutions.

Yours faithfully,

LE DIRECTEUR DU BUDGET
J. H. [Signature]

and the purpose of the survey and the public relations staff report
to the Commission.

It is suggested that the Commission of the State's Commission and the
State of the State.

2. For the majority of public entities reporting on sustainability only seems to
be relevant at a given level of aggregation and consultation only in their significant
interdependence.

The nature of sustainability and the report for those entities with interdependence
seems not to be the same. However, there are significant differences between those
public sector entities reporting that a consolidated view is required in light of the increasing reporting on the
sustainability of public entities only seems to be relevant at a given level of aggregation and consultation.
This is in line with European rules which require consultation of whole-of-government level.

The general principle appears to report on sustainability for each public sector
entity with competence which is used in the document subject to the report for consultation could be
changed or even revised. Whilst it may be intended to have sustainability-related information for certain
selected entities the report may be to help the sustainability of an independent group of public entities.
In addition, there does not appear to be any need to report a formal report from entities. The budget
Directorate's view is that the public sector, non-profit and private sector may wish to refer to
sustainability information in financial statements without a public report being required.

3. Finally, the Budget Directorate agrees with the European Union report for
public sector entities being considered as a "recommended practice guideline" as the report for
entities is not being treated as a separate requirement. A separate sustainability should be
based on public sector entities reporting in financial and budgetary or even government financial
statements in public and private sector entities. The report should be a separate report from financial
and other information reports and being the responsibility of public entities.

Yours faithfully,

10/10/2010 10:10:10

J. H. H. H.

John DUBERTRET



Paris, le - 6 MAR 2012

DIRECTION GÉNÉRALE DES FINANCES PUBLIQUES
Service comptable de l'État / Service des collectivités locales
Mission Doctrine comptable et contrôle interne comptable
120, rue de Bercy- Teledoc 787
75572 PARIS cedex 12

Affaire suivie par : Stéphanie LEDOUX
stephanie.ledoux@DGFIP.finances.gouv.fr
☎ 01 53 18 78 26 📠 01 53 18 62 36

Référence : 2012/02/7461

Ms Stephenie Fox
Technical director
International Public Sector
Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th floor
Toronto,
Ontario M5V 3H2 CANADA

Subject : Exposure Draft 46 - Reporting on the long-term sustainability of a public sector entity's finance.

I am writing on behalf of « Direction générale des finances publiques » (DGFIP) to express our views on the mentioned above Exposure draft (« The ED »).

The DGFIP welcomes the publishing of the ED regarding the development of a Recommended Practice Guideline for reporting on the long term sustainability of the finances of a public sector entity.

le directeur,
adjoint au directeur général des finances
publiques

Vincent MAZAURIC

1. GENERAL COMMENT

This ED is outside of the field of accounting standards. So, it is not in the traditional assignment of the standard setter that is to propose accounting standards for public sector entities but reflects his acknowledged ability to release recommendations about financial information out of the accounting field. Accordingly, the DGFIP agrees with its status of recommendation.

The DGFIP shares the IPSASB's opinion that financial statements are not sufficient alone to assess long term fiscal sustainability of a public sector entity. In our view, only reporting of prospective financial information can complement usefully financial statements and provide the lighting required on the long term situation of a public sector entity's finances.

As the assessment of long term sustainability is outside of the accounting field, the general principles of accounting are not applicable. Indeed, it involves projections of prospective expenditures and revenues. As mentioned in the ED, prospective receipts do not meet the definition of assets. Thus, the standard setter cannot provide regulation on information about sustainability and this information cannot be included in a comprehensive financial report of the public entity which includes the financial statements (including notes to the financial statements). Accordingly, information on sustainability should be not included in the financial statements but published separately, possibly at the budget policy debate time.

Regarding France, information on sustainability of public finances at "consolidated" level is required by the French constitutional bylaw on budget acts passed on August 1st, 2001 (the LOLF) and prepared in accordance with the same standards of those required to establish National Accounts (for a boundary including all the general government entities). The LOLF requires that the budget bill (regarding forecasts and authorization budgetary receipts and expenditures of central government) is supplemented with an economic, social and financial report (RESF). The projections of this report are consistent with those send each year to the European Commission as required by the stability program. Moreover, since 2009, France prepares a multiyear budgeting act that gives a three year vision of public finances.

Besides, in our view information on sustainability of a public sector entity's finances is to be relevant if it is established at the consolidated national level including all the public sector entities in order to take into account complex and particular interactions, from economic or financial natures, existing between public sector entities.

This is the approach retained by member states of European Union and European Commission in the case of the preparation of the three-year-report on age-related expenditure and sustainability of public finances.

In addition, in our opinion, the information on sustainability is relevant if it ensures the ability to make comparisons between sector public entities at the national level but also at the European level for similar public sector entities. The establishment of the information on sustainability and its measure should be based on consistent rules and methods and adapted to the economic, financial and social environment of their activities. In particular this is the case for demographic and macro-economic assumptions used to execute expenditure projections that have to be consistent with those retained to measure of sustainability at national level.

Lastly, the definition of sustainability indicators should be consistent with sustainability indicators defined at European level or at least at national level. In particular, this is the case for the ratio net debt/total resources that enables to compare the weight of the debt with the resources generated by the activity. Failing which the understanding of information on the long-term sustainability of public sector entities would be reduced.

2. COMMENTS TO THE SPECIFIC MATTERS

- COMMENTS TO SPECIFIC MATTER 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 ?¹ If you consider there are more appropriate indicators, please provide them.

In determining the scope of entities that have to report on the long term sustainability, attention must be given to the interactions, from economic and financial natures, between entities above-mentioned (transfers of fiscal revenues or other receipts). Accordingly, in our opinion the two criteria set up below must be retained :

- a. Power over resource inflows : significant power to raise taxation or other revenue or power to incur debt ;
- b. Wide decision-making powers over expense outflows.

In most cases, these criteria are cumulative. However, some significant entities control their outflows of expenses, generate their own revenues but may mainly depend on external funding resources. In this case, only the criteria regarding the decision-making powers over expense outflows is satisfied.

In addition, DGFIP believes that an attention must be given that the ratio costs/benefits of providing information on sustainability in order to limit the requirement of providing sustainability information to significant size entities.

In the case where a public sector entity wouldn't be able to provide information on its finance's sustainability, the providing of projections of its expenditures would be contribute usefully to global information on sustainability.

¹ - Significant tax and/or other revenue raising powers ;

- Powers to incur debt ; or

- Wide decision-making powers over service delivery levels.

- COMMENTS TO SPECIFIC MATTER 2

Do you agree that the dimensions of long-term fiscal sustainability in paragraphs 27 to 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?

Dimensions relative to "fiscal capacity" and vulnerability seem to be appropriate to define framework for narrative reporting on the long-term sustainability. In particular, the DGFIP believes that the concept of "vulnerability " is consistent because information about the dependence level of a public sector entity to non controlled external finding resources is useful. Accordingly, one of the indicator to measure vulnerability could be the ratio external resources/total resources.

In addition, dimension relative to service capacity that includes both qualitative and quantitative components (quality of services) which one is subjective by nature seems not to be appropriate to measure sustainability in an objective way.

As mentioned above, establishment of sustainability and its measure should rely on harmonized rules and methods in order to ensure comparability between public entities. Thus, demographic and macro-economic assumptions used to measure sustainability of a public entity should be consistent with those used to measure sustainability at national level, even at European level.

- COMMENTS TO SPECIFIC MATTER 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?

As the establishment of information on sustainability is based on projections of prospective expenditures and revenues contingent on the choice of demographic and macro-economic scenarios. Each scenario is qualified by a choice of assumptions. By example, life expectancy is an assumption that has to be considered to measure the development of public age-related expenditures.

Thus, the DGFIP believes that principles and methodologies should be consistent with those defined at national level verily European level. In particular, assumptions that underpin projections of prospective expenditures and revenues must be consistent with those used to measure sustainability of consolidated public finances at national level.

In addition, DGFIP shares the opinion that these projections must be established with the assumption that economic and social policies are held constant through the entire projection period in order to ensure the usefulness and objectivity of the provided information.

FRENCH VERSION

Nous remercions l'IPSAS Board pour la publication de cet exposé sondage relatif à la l'élaboration d'une recommandation sur la soutenabilité à long terme des finances des entités du secteur public.

1. COMMENTAIRE GÉNÉRAL

Cet exposé sondage dépasse les strictes considérations comptables et, dès lors, ne relève pas du cadre traditionnel de la mission du normalisateur qui est de proposer des normes comptables applicables au secteur public. Il s'inscrit, en revanche, dans la capacité qui est reconnue au normalisateur, de formuler des recommandations sur l'information financière de nature non comptable. En conséquence, la DGFIP approuve son statut de "recommandation".

Nous partageons le constat que l'information comptable délivrée par les états financiers ne permet pas d'apprécier totalement la soutenabilité des entités du secteur public. Seule une information de nature prospective permettrait de compléter utilement l'information contenue dans les états financiers et d'apporter l'éclairage complémentaire sur la situation à long terme des finances d'une entité du secteur public.

L'évaluation de la soutenabilité étant située hors du champ comptable, les principes généraux de comptabilité ne lui seront donc pas applicables. En effet, elle repose sur des projections de recettes et de dépenses futures. Comme le rappelle l'exposé sondage, les recettes futures ne répondent pas à la définition comptable d'un actif. Dès lors, les informations sur la soutenabilité ne peuvent être réglementées par le normalisateur comptable, ni décrites dans un document global qui intégrerait les comptes de l'entité publique. Un rapport sur la soutenabilité devrait donc faire l'objet d'une publication distincte de celle des états financiers d'une entité publique, éventuellement lors du débat budgétaire.

S'agissant de la France, l'information relative à la soutenabilité des finances publiques au niveau « consolidé » est prévue par la loi organique relative aux lois de finances du 1^{er} août 2001 (LOLF) et réalisée selon les règles de la comptabilité nationale (pour un périmètre constitué de l'ensemble des administrations publiques). La loi organique relative aux lois de finances dispose, en effet, que le projet de loi de finances (qui prévoit et autorise les recettes et les dépenses budgétaires de l'État) est accompagné d'un rapport économique, social et financier. Les projections de ce rapport sont conformes à celles transmises annuellement à la Commission européenne dans le cadre des exigences liées aux traités de l'Union européenne. Par ailleurs, la France établit depuis 2009 une loi de programmation des finances publiques qui apporte une vision triennale de son évolution financière.

De plus, il nous semble que l'information sur la soutenabilité d'une entité publique ne présente un intérêt que si elle s'inscrit dans une perspective de « consolidation » au niveau de l'ensemble des entités publiques afin de tenir compte des interactions particulières et complexes, de natures économique ou financière, existant au sein de l'ensemble de la sphère publique. C'est également l'approche retenue par les États membres de l'Union européenne et la Commission européenne dans le cadre des rapports triennaux sur les dépenses liées au vieillissement et sur la soutenabilité.

Par ailleurs, pour que cette information sur la soutenabilité soit pertinente, elle doit permettre une comparabilité de la soutenabilité des entités publiques entre elles au sein d'un même pays, mais également au niveau international pour des entités similaires. L'élaboration de l'information sur la soutenabilité et sa mesure doivent donc s'appuyer sur des règles et une méthodologie harmonisées et cohérentes avec l'environnement économique, financier et social dans lequel les entités exercent leurs activités. C'est notamment le cas des hypothèses démographiques ou macro-économiques sur lesquelles reposent les projections de dépenses qui doivent être cohérentes avec celles retenues pour la mesure de la soutenabilité au niveau national.

S'agissant des indicateurs de soutenabilité, ils devraient être déterminés par référence aux indicateurs de niveau européen ou a minima nationaux qui font l'objet d'une définition harmonisée, comme par exemple le ratio de dette nette / ressources qui indique le poids de la dette et les revenus générés par l'activité de l'entité. A défaut, la compréhension de l'information sur la soutenabilité des entités publiques s'en trouverait réduite.

Il conviendrait également de définir la notion de *long terme* pour élaborer l'information sur la soutenabilité.

1. RÉPONSES AUX QUESTIONS POSÉES PAR L'EXPOSÉ SONDAGE

1. Approuvez-vous les caractéristiques listées dans le § 15² permettant de déterminer, pour une entité donnée, s'il existe des utilisateurs d'une information sur la soutenabilité à long terme des finances ? Si vous pensez qu'il existe des indicateurs plus pertinents, merci de les indiquer

S'agissant du périmètre des entités devant produire une information sur la soutenabilité, afin de tenir compte des interactions de nature financière et économique entre entités évoquées plus haut (transferts de recettes fiscales ou autres revenus), il nous semble que les deux critères suivants doivent être retenus :

- (a) Maîtrise des flux de ressources : pouvoir de lever l'impôt ou d'autres revenus ou capacité de souscrire des emprunts ;
- (b) Pouvoir de décision sur les flux de dépenses.

Dans la plupart des cas, ces critères sont cumulatifs. Cependant, certaines entités publiques de taille significative contrôlent leurs flux de dépenses, ont des recettes propres, mais peuvent dépendre principalement de sources de financements externes. Dans ce cas, seul le critère relatif au pouvoir de décision sur le flux de dépenses est satisfait.

Par ailleurs, il nous semble que le rapport coût/avantage de cette information doit être pris en considération afin de limiter l'obligation de produire une information sur la soutenabilité aux seules entités de taille significative.

Dans le cas où une entité ne pourrait fournir une information significative sur la soutenabilité fondée sur les perspectives de dépenses et de recettes, elle pourrait néanmoins concourir à une information globale en fournissant des projections de dépenses.

² Selon l'exposé sondage, les entités devant élaborer un rapport de soutenabilité sont celles qui répondent à une ou plusieurs des caractéristiques suivantes :

- Significant tax and/or other revenue raising powers ;
- Powers to incur debt ; or
- Wide decision-making powers over service delivery levels.

2. Êtes-vous d'accord avec le fait que les « dimensions »³ de la soutenabilité budgétaire à long terme décrites dans les § 27 à 37 fournissent un cadre approprié pour la partie descriptive du rapport sur la soutenabilité à long terme des finances d'une entité du secteur public ? Dans le cas contraire, comment amenderiez-vous l'approche ?

Les dimensions relatives à la « capacité fiscale » et à la « vulnérabilité » nous semblent appropriées pour définir le cadre de la partie descriptive de l'information relative à la soutenabilité. La notion de *vulnérabilité* en particulier nous semble pertinente car l'information sur le niveau de dépendance d'une entité à l'égard de sources de financement externes sur lesquelles elle n'exerce pas de contrôle est utile. Il nous semble donc qu'un des indicateurs pertinent pour mesurer la vulnérabilité serait le ratio ressources externes rapportées au total des ressources.

En revanche, la dimension liée à la capacité de service qui intègre à la fois une composante quantitative et qualitative (qualité des services), par nature subjective, ne nous semble pas appropriée pour mesurer la soutenabilité de façon objective.

Comme indiqué supra, l'élaboration de la soutenabilité et sa mesure doivent s'appuyer sur des règles et une méthodologie harmonisées afin d'assurer la comparabilité entre entités publiques. Ainsi, les hypothèses démographiques ou macro-économiques utilisées pour mesurer la soutenabilité d'une entité publique doivent être cohérentes avec celles utilisées au niveau national, voire européen.

³ Les 3 dimensions interdépendantes de la soutenabilité budgétaire qui devront donner lieu à information narrative sont les suivantes :

- *Fiscal capacity* is the ability of an entity to meet financial commitments, such as the servicing and repayment of debt and liabilities to creditors, on a continuing basis over the period of the projections without increasing levels of taxation.

- *Service capacity* is the extent to which (a) the entity can maintain services at the volume and quality provided to current recipients at the reporting date and (b) meet obligations related to entitlement programs for current and future beneficiaries.

- *Vulnerability* is (a) the extent to which an entity is fiscally dependent upon funding sources outside its control, principally inter-governmental transfers, and (b) the extent to which an entity has powers to vary existing taxation levels or other revenue sources and to create new sources of taxation and revenue.

3. Êtes-vous d'accord avec les lignes directrices définies dans l'exposé sondage s'agissant de la présentation des principes et méthodologies, y compris celles relatives aux risques et incertitudes ? Dans le cas contraire, comment modifieriez-vous ces lignes directrices ?

La soutenabilité est élaborée sur la base de projections de recettes et de dépenses futures en fonction de scénarios démographiques et macro-économiques. Chaque scénario se caractérise par un choix d'hypothèses. Par exemple, l'espérance de vie est une hypothèse à prendre en compte pour évaluer l'évolution à long terme des dépenses publiques de vieillesse.

Il nous semble donc que les principes et méthodologies doivent être harmonisés et définis en cohérence avec ce qui est produit au niveau national voire européen. En particulier, les hypothèses sur lesquelles reposent les projections de dépenses et de recettes doivent être cohérentes avec celles utilisées au niveau national pour évaluer la soutenabilité des finances publiques à un niveau consolidé.

Par ailleurs, nous partageons l'opinion que ces projections doivent être effectuées à politiques économiques ou sociales constantes sur la période de projection, afin de rendre l'information plus utile et objective.



HM TREASURY

Director, Financial Management & Reporting

Tel: 020 7270 5960

Fax: 020 7451 7603

lindsey.fussell@hmtreasury.gsi.gov.uk

www.hm-treasury.gov.uk

1 Horse Guards Road

London

SW1A 2HQ

15 March 2012

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

Dear Stephenie

IPSASB Exposure Draft 46 – Reporting on the Long-Term Sustainability of a Public Sector Entity’s Finances

1. HM Treasury welcomes the opportunity to respond to the exposure draft (ED) on proposed recommended practice guidelines for reporting on the long-term sustainability of a public sector entity’s finances. The ED is released at a time when the importance of the long-term sustainability of public sector finances has been forcefully highlighted by the sovereign debt crisis. We commend the IPSASB for engaging with this issue over the past decade and in reaching the stage where this ED has now been released.

2. In recent years the UK central government has sought to strengthen public finance management and the quality of our financial reporting. We recognise that this is a process of continuous improvement, but have made significant progress through policies such as the introduction of accrual accounting and the reform of the Parliamentary supply and budgetary system.

3. A major achievement in the UK in the last year has been the publication of audited Whole of Government Accounts (WGA). This is a consolidated set of IFRS based financial statements for the UK public sector encompassing central government departments, arms’ length bodies, local authorities, devolved administrations, the health service, and public corporations. WGA provides resource providers, service recipients, their representatives, and the government with an understanding of the financial position and performance of the whole of the UK public sector. WGA is not only leading to improvements in how all public sector entities manage their finances but, in time, will undoubtedly assist in meeting the information needs of users for accountability and decision making purposes. (see http://www.hm-treasury.gov.uk/psr_government_accounts.htm for further information)

4. 2011 also saw the publication of the Office for Budget Responsibility's (OBR) *Fiscal Sustainability Report*. The OBR was created by HM Treasury in 2010 to provide independent and authoritative analysis of the UK's public finances. One of its main roles is to assess the long-term sustainability of the public finances through an annual fiscal sustainability report. This report sets out long-term projections for different categories of spending and revenue, analyses the public sector's balance sheet (on both a statistical "national" accounting and IFRS WGA basis) and reports different indicators of long-term sustainability. (see <http://budgetresponsibility.independent.gov.uk/> for further information)

5. HM Treasury, therefore, supports the IPSASB's goal of promoting the publication of information on the long-term sustainability of public finances and we hope that our thoughts and comments will assist the IPSASB in determining appropriate guidelines for public sector entities. Our responses to the specific matters for comments noted in the Exposure Draft are in Annex.

6. I hope these comments will be of benefit to the IPSASB when finalising the Recommended Practice Guidelines. If you would like any further information, or to discuss the contents of this letter, please contact Chris Wobschall in the first instance (chris.wobschall@hmtreasury.gsi.gov.uk, +44 (0)20 7270 4508), whom of course you know as the Technical Adviser to the UK IPSASB member.

Yours sincerely

A handwritten signature in blue ink that reads "Lindsey Fussell". The signature is written in a cursive, slightly slanted style.

Lindsey Fussell

Director, Financial Management and Reporting

Annex: 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 characteristics of an entity noted in the ED which indicate whether users exist for information on long-term sustainability are:

- (a) Significant tax and/or revenue raising powers;
- (b) powers to incur debt; or
- (c) wide decision-making powers over service delivery levels.

We agree that the broad characteristics noted in the ED are useful in indicating whether users exist for information on long-term sustainability and in limiting the scope of this reporting to relevant entities. Our view is that the information needs of users related to long-term sustainability reporting will be rightly focussed on major macro political, societal, and economic issues such as the affordability of state pension entitlements or the ability to finance major infrastructure projects that will last over multiple generations. As such we would stress the importance of the words “significant” and “wide” in the above characteristics and would question whether it is not also necessary to include a similar scope limiting description in connection with powers to incur debt. Characteristic (b) could be rephrased to note “powers to incur significant debt.”

We do recognise that compared to many jurisdictions, the United Kingdom has a relatively centralist public finance structure. Most resources utilised by public sector entities are provided to them from the central government finance ministry (either directly to or by way of other central government bodies) once budgets have been approved by Parliament. Where bodies do have the power to borrow, such borrowing is controlled by statutory codes. As such tax and revenue raising powers, powers to incur debt and wide decision-making powers over service delivery levels are significantly constrained. If it were deemed appropriate to introduce long-term sustainability reporting into GPFR in the United Kingdom, therefore, it would most likely be at the whole of government level. Its suitability at a local government level given the current constraints on these bodies would need to be further considered.

We also believe that if long-term sustainability reporting is to meet the information needs of users then it must be robust, comprehensive and if possible updated on an annual basis. Users must also be sure of its objectivity, which could require a measure of formal assurance. Our view is that this level of robustness is more likely to be achieved at a “national” level, as it will require a significant resource investment that is likely to be beyond the means of smaller and individual 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?

The dimensions of fiscal sustainability noted in the ED are:

- fiscal capacity;
- service capacity; and,
- vulnerability

We believe that these dimensions provide a useful framework for the presentation of information to assist in ensuring faithful representation.

With respect to vulnerability, however, this is one of the reasons why we believe it is most appropriate for long-term sustainability reporting to be focussed at a “national” or whole of government level. Where an entity is highly vulnerable and has limited control over the sustainability of its finances, we do not believe that providing projections of fiscal and service capacity actually provides users with any useful information. While the entity will be a going concern for accounting purposes, the lack of control it has over future income will mean that the degree of uncertainty over any long-term sustainability projections will make them less useful and in many cases meaningless.

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 believe that the inclusion of long-term sustainability information within GPFR does have the possibility of supplementing and enhancing the information already presented in the General Purpose Financial Statements (GPFS). This is only the case if:

- the principles and methodologies on which the projections are based are robust;
- the projections are updated normally on an annual basis and the information presented on long-term sustainability is explained with reference to the accounting figures in the financial statements; and
- the information presented is subject to a sufficient degree of assurance so that users can be sure of its objectivity.

The information presented will necessarily be based on economic analysis and we would expect that entities would look to guidance provided by organisations such as the OECD to ensure that they are following best practice.

We are generally content with the approach noted in the ED, but believe there are two areas where the guidelines could be more prescriptive.

The first relates to the updating of projections and ensuring that the information presented is explained with reference to the accounting figures in the financial statements. The ED notes that “regular updates are desirable”, whereas there is a case for saying that annual updates are essential. The GPFR and the GPFS cover an annual period, showing the financial results of the entity for that year and the financial position of the entity at year end. Long-term sustainability information, the GPFS and other information in the GPFR should be explained with reference to each other. For the long-term sustainability information to be of use to users for accountability and decision making purposes, it would make sense then for it, like all other information in the GPFR, to normally be updated on an annual basis.

The sovereign debt crisis has highlighted how rapidly perceptions of sustainability can alter. The inclusion of outdated information would devalue the GPFR to such an extent that the ability of users to utilise them for accountability and decision making purposes would be substantially diminished. Given this, we believe that the burden on individual entities of updating information would be excessive and so believe this would further support a limitation of such reporting to the “national” level, or at least at a level where the transactions are likely to be significant and influenced.

The second area where we feel more prescriptive guidance may be necessary is with relation to the objectivity of figures presented and of the need for some measure of formal assurance being provided over them so that users can be sure that they are a faithful representation.

There are a number of possible ways to ensure objectivity and to gain some measure of assurance over the long-term sustainability figures and narrative included in the GPFR. At the most basic level this may be through the existence of an independent body, such as the United Kingdom’s OBR, that produces its own long-term sustainability report. Provided this has a similar reporting boundary and is based on suitably close principles and methodologies then users will be able to compare the GPFR to the independent report to ensure objectivity has been achieved. Alternatively, the sustainability report included within the GPFR could actually be produced by the independent body. While this would ensure objectivity it could, however, raise accountability issues as the responsible individual for the GPFR may not have been able to assure themselves that the figures have been produced using robust principles and methodologies. Finally, the reporting entity could put in a place a more formal assurance framework, with either its external auditor or another suitably qualified individual undertaking a set of agreed upon procedures or an engagement in accordance with the requirements of *ISAE 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.



February 27, 2012

Cliff: 263059

Via email: EDComments@IFAC.org
stepheniefox@IFAC.org

Ms. Stephenie Fox
 Technical Director
 International Public Sector Accounting Standards Board
 International Federation of Accountants
 2770 Wellington Street, 4th Floor
 Toronto ON M5V 3H2

Dear Ms. Fox:

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

Thank you for the opportunity to comment on IPSASB's Exposure Draft 46; Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances. The Summary Financial Statements of the Province of British Columbia are prepared in accordance with the Canadian Public Sector Accounting Board (PSAB) standards. PSAB has included in their future project schedule a project on Fiscal Sustainability. As a consequence of the impact prior IPSASB projects has had on PSAB standards, we have a particular interest in the development of IPSASB's development of a standard covering Long-Term Sustainability.

Scope of Coverage

The Province would like to refer you to the *Fiscal Sustainability Report 2011* prepared by the Office of the Parliamentary Budget Officer of the Government of Canada¹. We feel that this is an excellent example of a Fiscal Sustainability Report. It is the second such report prepared for the Canadian economy, the first covered the federal government alone and the second one includes the federal government and the provinces and territories of Canada. We feel that this document is very useful to citizens interested in fiscal sustainability. We refer this document to you for three principle reasons, as follows:

- This document is prepared in economic terms by economists it is not a financial accounting document. As noted above, we believe this document is useful and recommend it to our citizens but it would be entirely inappropriate to include it in the annual financial report of Canada or any of its jurisdictions. We do not feel that a fiscal sustainability document falls within the scope of an accounting standard setting board.

.../2

¹ http://www.parl.gc.ca/PBO-DPB/documents/FSR_2011.pdf

- 2 -

- Public sector financial statements in Canada are prepared on an assumption that the going concern assumption is not tested; recently PSAB reaffirmed its view that the going concern condition is assumed. IPSASB's conceptual framework exposure draft and consultation papers circulated in 2011 for comment do not address the going concern concept and it is assumed to be unquestioned. The goal of a fiscal sustainability report is to test or explore the validity of the going concern concept, if IPSASB issues this document as a recommended practice it will need to specifically address the going concern concept in its conceptual framework.
- Although we do not support the issuance of this exposure draft, we note that paragraphs 5 and 6 state the recommended practice would apply to all government entities except government business enterprises (GBEs). While paragraph 15 seems to modify the application of the exposure draft to entities which have taxing authority, we cannot support application of this document at an entity level because all entity level agencies (other than GBEs) are funded from the budget. All budget allocations/appropriations are based on government wide policy and prioritization considerations, therefore the exposure draft needs to be specific that it only applies at a whole of government level.

IPSASB's Conceptual Framework

The Province does not believe it is appropriate to consider this exposure draft until several significant issues are resolved within the exposure draft and consultation papers issued regarding IPSASB's conceptual framework. For example, the conceptual framework papers contemplate recording an asset representing the net present value of all future tax collections and the net present value of all future liabilities that are not specifically limited by legislation. Issues in relation to government accounting for its ability to absolve itself of liabilities or modifying its obligations through legislation have not been resolved. Although we have not supported these proposals in the conceptual framework papers we note that they also address/influence issues of fiscal sustainability and any conflicts between these proposals and the goals of this exposure draft need to be considered.

Other Technical Issues

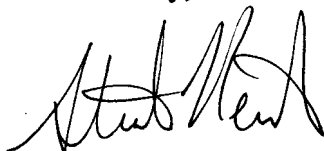
The following technical issues should be considered:

- Any long-term projections of sustainability include assumptions about the level and prioritization of expenditures and levels of taxation. In a democratic society these projections are subject to significant change if the parliamentary majority changes therefore the exposure draft needs to acknowledge this fact and acknowledge that all resulting statements are subjective and cannot be verified or audited.
- Paragraph 23 refers to cash generating assets which do not exist in government where assets are based on service potential in a non-exchange environment. All cash generating assets, virtually by definition are in GBEs.

- Paragraphs 20 and 29 introduce the concept of “net debt” which is not defined in this paper or in the conceptual framework papers, although one of them refers to the term in relation to National Accounts reporting to the IMF which refers to an economic concept not an accounting concept.
- Paragraph 30 refers to net surplus/deficit before interest, which is not existent in current IPSASB standards.
- Paragraphs 40 and 41 propose projecting future disbursements for which a government has no legislative authority to make. While we can understand the intention and can support this approach in a separate document that includes clear assumptions as is the case in the above referenced Fiscal Sustainability Report of the Government of Canada we cannot support including in the government’s annual report such information that is completely inconsistent with the basis of the preparation of the government’s financial statements.

Thank you again for the opportunity to comment on Exposure Draft 46: Reporting on the Long-Term Sustainability of a Public Sector Entity’s Finances. Should you have any comments or questions please contact me at (250) 387-6692 or by email: stuart.newton@gov.bc.ca or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch at (250) 356-9272 or by email: carl.fischer@gov.bc.ca

Sincerely,



Stuart Newton
Comptroller General
Province of British Columbia

cc: Peter Milburn, Deputy Minister
Ministry of Finance

Sabine Feulgen, Deputy Secretary to the Treasury Board
Ministry of Finance

Carl Fischer, Executive director
Financial Reporting and Advisory Services
Office of the Comptroller General

Charles Coe
Special Advisor, Accounting policy
Office of the Comptroller General



Australian Government
Australian Accounting
Standards Board

Level 7, 600 Bourke Street
MELBOURNE VIC 3000
Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03) 9617 7608

5 April 2012

Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA

Dear Stephenie

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

The Australian Accounting Standards Board is pleased to submit its comments on Exposure Draft ED 46 to the International Public Sector Accounting Standards Board.

The AASB considers this to be a very important project of the IPSASB, particularly from the viewpoint of the probable usefulness to users of the information involved and because it brings much needed focus onto the identification of the boundaries of general purpose financial reporting.

The scope of general purpose financial reporting

The AASB generally agrees with the proposals in the Exposure Draft. Its main concern is that, whilst it considers that some information useful for assessing long-term fiscal sustainability (LTFS) belongs within the scope of general purpose financial reporting, it is likely that not all information useful for that purpose belongs within that scope. The AASB considers that usefulness of information, per se, is not a sufficient discriminator to decide what is part of general purpose financial reporting. If it were, annual reports, and more, would fall within the scope of GPFRs. Accordingly, criteria are needed to determine what is part of financial reporting and what is not.

This project illustrates that there is a gap in the conceptual framework. Whilst the IPSASB is addressing the scope of financial reporting in Phase 1 of its conceptual framework project, it has tentatively decided that the scope of financial reporting should evolve in response to users' information needs – this decision addresses the scope by reference to useful information but not financial reporting information.

Strategically, the AASB supports the IPSASB's fostering of fiscal sustainability reporting through guidance, but would like to see rigour, over time, in delineating the financial reporting aspects thereof and helping others to see what falls to them. We do not envisage that accounting standards would be the source of guidance or requirements for everything

that might be embraced by the topic. This scope issue is also seen in relation to the IPSASB's project on service performance reporting.

The AASB recommends that, to resolve the scoping issue, it is crucial that the IPSASB adequately defines general purpose financial reporting in its Conceptual Framework project.

General relevance of long-term fiscal sustainability reporting

Conceptually, the AASB sees no reason why financial sustainability is not a legitimate subject of every entity's financial reporting, whether in the public sector or the private sector, and whether for profit or not for profit. Conversely, it would be misleading for financial statements to be produced that ignore the anticipated consequences of existing or changed policies, changes in markets or changes in other environmental circumstances. Users' attention ought to be drawn to these to correct impressions about sustainability that might flow from just presenting basic financial statements.

We would urge that the IPSASB not treat the topic as if it were unique to reporting by governments or even the public sector. The prime examples seen to date of such reporting are focused on the fiscal sustainability of governments' current policies, but that should not be the limit of fiscal sustainability reporting. We also see no reason why a component or segment of an entity could not be the subject of such reporting.

Relationship to other current IPSASB projects

It would be worthwhile for the IPSASB to consider the links between fiscal sustainability reporting and other areas of general purpose financial reporting that it is presently addressing – in particular, financial statement discussion and analysis, and service performance reporting. Information reported under all of these projects could be clearly linked. For example, where service performance reporting is likely to emphasise information concerning the current reporting period and, to some degree, the short-term future, the service capacity dimension of fiscal sustainability reporting could extend this information over the long-term horizon. Therefore, entities reporting information under requirements or guidelines arising out of one or another of these projects might be expected to report information under all of them.

The linkage between all of these projects that are addressing financial reporting beyond the current scope of general purpose financial statements might be derived from identifying in the Conceptual Framework the types of information that would serve the objectives of financial reporting. For example, information about liquidity, sustainability and flexibility in various dimensions and timeframes may respond to the objectives, providing a platform for linking the different reporting threads. At present, the developing Framework largely refers to these different areas as separate information needs of users of financial reports. A better articulation of the linkages would be useful.

The AASB recognises that reporting information about LTFS is an evolving area, and further experience with such reporting will provide further insights into the ways in which the information can best be communicated and the part with which financial reporting can assist.

Other comments

The AASB's comments on the Specific Matters for Comment and other aspects of the proposals are set out in the attachment to this letter.

If you have queries regarding any matters in this submission, please contact me or Clark Anstis (canstis@aab.gov.au).

Yours sincerely,

A handwritten signature in black ink, reading "K.M. Stevenson". The signature is written in a cursive style with a long horizontal stroke at the end.

Kevin M. Stevenson
Chairman and CEO

Specific AASB comments on IPSASB Exposure Draft ED 46 *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*

Specific Matters for Comment

The AASB provides the following comments on the IPSASB's Specific Matters for Comment set out in the Exposure Draft.

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 AASB agrees that users of LTFS information are likely to exist for entities that reflect the characteristics set out in paragraph 15 – entities that have the power to change their policies on the raising of revenue and other resources (such as debt) or the provision of goods and services in order to affect trends in the entity's long-term fiscal sustainability.

However, as indicated in our covering letter, the AASB's view is that the reporting of long-term fiscal sustainability (LTFS) information conceptually is relevant to all reporting entities. LTFS reporting is just as relevant to entities that do not have such powers. If their LTFS information reveals negative trends, then it is likely that the entity's operating model or parameters will need to be changed by those entities that do have the powers to change the policies. This would appear to be useful information in relation to such entities. LTFS reporting by such entities need not require extensive disclosures, if that is unnecessary to provide the relevant information to users of their general purpose financial report.

Therefore, the AASB does not agree with the unstated implication of paragraphs 14 and 15 in the ED that LTFS reporting essentially should be or is expected to be restricted to entities exhibiting the stated characteristics. Although paragraph 14 does refer to an entity needing to assess "initially" whether there are potential users of its prospective information, nothing further is said about the relevance of LTFS reporting beyond that initial assessment. This should be addressed in the pronouncement.

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?

The AASB considers that the dimensions appear to be useful components of fiscal sustainability reporting, particularly the discussion of relevant indicators to portray the dimensions. However, the AASB strongly supports the indication in paragraph 27 that faithful representation of LTFS information can be satisfied by presenting information along those dimensions – without implying that any other approach would be inappropriate. That implication, though, should be made explicit, so that it is clear that the dimensions

discussed in the document are not the only basis upon which LTFS information might be provided.

This approach also would be justified on the grounds that the IPSASB's project on service performance reporting is presently at an early stage. It could well be that that project begins to develop dimensions of service performance reporting that reflect upon LTFS reporting as well, given that LTFS includes a service capacity dimension under the framework set out in the ED.

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 AASB generally agrees with the guidelines proposed in the ED concerning the principles and methodologies underlying the preparation of projections, and provides some specific comments in the following paragraphs. The AASB also notes that paragraphs 38-51 concern more than disclosure of the basis of preparation of projections, and thus the heading before paragraph 38 is too limiting.

In relation to paragraph 39, the AASB is concerned with the implication that annual updating of projections is the preferred frequency. The ED does not specify a recommended frequency of LTFS reporting, which is supported by the AASB. However, it may be appropriate to state the principle that LTFS reporting should be at least as frequent as necessary to ensure that the most recently published LTFS information for an entity does not become misleading. The patronising reference in paragraph 39 to sub-national entities that might be reporting on projections for the first time certainly should be deleted.

A number of specific disclosures are identified in paragraphs 38-51, but the level of detail varies considerably. For example, paragraph 48 specifies disclosure of the "approach" to inflation, but then goes on to identify four disclosures in relation to discount rates, including the reason for changes. The AASB recommends that the IPSASB consider including a general principle for disclosure of the basis of the preparation and presentation of projections and other LTFS information and changes therein. This would cover, for example, changes in the time horizon used for the projections – the Consultation Paper preceding the ED had referred to disclosing the reason for modifying the time horizon, but this does not appear in the ED.

Other Comments

Recommended Practice Guidelines

The AASB supports the issue of Recommended Practice Guidelines at this stage. The AASB also proposes that the IPSASB consider at a later stage whether to make the requirements mandatory for entities that exhibit the characteristics set out in paragraph 15, i.e. that have the power to change their revenue sources and their policies on the provision of goods and services.

The AASB considers that non-mandatory Guidelines do not require an effective date. As soon as they have been published by the IPSASB, it is up to each entity that reports LTFS information thereafter to decide whether to disclose the degree of compliance with the Recommended Practice Guidelines. An entity that considered it needed more time and experience with the subject matter before reporting its compliance with or departure from the Guidelines could simply choose not to report any comparison until it was ready to do so. An effective date therefore would not be useful.

Reporting boundary

The AASB considers that information about LTFS presented within a GPFR should not encompass information about entities outside the boundary of the reporting entity (paragraph 11 would appear to permit this). In that sense, the AASB agrees that the concept of a reporting entity should be reflected in IPSASB guidance on reporting information about LTFS. However, the AASB would not support limiting information about LTFS in GPFRs to being reported only in respect of an entire reporting entity. For example, the IPSASB should not preclude reporting of such information in respect of particular segments of an entity. This is an extension of the approach in paragraph 12, which refers to reporting LTFS information for the General Government Sector, which is a sector of the whole-of-government reporting entity.

The emphasis in paragraph 11 should be reversed – in the event that entities within the reporting boundary for LTFS differ from those for the general purpose financial statements, the LTFS report should disclose the differences and the impacts. This makes the financial statements the primary GPFR rather than the LTFS report.

Presenting projections of prospective inflows and outflows

The AASB supports the flexible approach in the ED to the presentation of LTFS information. The AASB had opposed the dichotomous approach in the Consultation Paper that LTFS information in GPFRs should be presented either through additional statements for details of projections or as summarised projections in narrative reporting. The important point is that guidance on LTFS reporting:

- (a) should not be too prescriptive as to the form of presentation of information about LTFS in an entity's general purpose financial reporting; and
- (b) should focus on whether an entity's GPFRs, collectively, provide all of the information that is useful to users of the entity's GPFRs for accountability and decision-making purposes.

Paragraph 20 refers to “a combination of narrative reporting, graphical presentation and the use of indicators”. It is not clear that these are distinct forms of presentation, and it would be better to use an alternative description.

Paragraph 22 refers to the risk of LTFS information presenting a misleadingly favourable picture, and indicates that consistent formats are important in this regard. The AASB considers that, as also noted in the paragraph, it is the explanation of changes in format that would be important. Consistent formats per se cannot reduce any skewness in the LTFS

information; indeed, consistent formats may serve only to maintain any skewness in the presentation of the information. The wording should be revised to avoid this difficulty.

Paragraph 23 also needs to be redrafted. It begins by referring to assets and liabilities recognised in the statement of financial position, and the assessment of short-term solvency – but including unrecognised assets and liabilities. It concludes with a reference to obligations and inflows that may not be settled for many years, however some of these will be recognised in the statement of financial position in any case. The logic of this paragraph is unclear, and the message needs to be clarified.

Definitions of indicators

The glossary in Appendix A to the proposed Guidelines defines various terms in accordance with GFS and other statistical sources. Therefore, it is uncertain whether it is intended that the calculation of such indicators should be in accordance with statistical requirements or IPSAS requirements. The AASB supports the latter approach. For example, ‘net worth’ is defined as total assets less total liabilities. This should be based on assets and liabilities as addressed in IPSASs, since there are differences between accounting standards and statistics on the scope of both assets and liabilities.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116 / 203-847-0700 ext. 244
www.gasb.org Fax: 203-849-9714



DAVID R. BEAN
Director of Research

April 9, 2012

Ms. Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

Thank you for the opportunity to offer comments in response to the IPSASB Exposure Draft 46, Proposed Recommended Practice Guideline, *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*. This response was prepared by the Governmental Accounting Standards Board's (GASB) staff. A draft of this response was provided to the individual GASB members for their input. Official positions of the GASB are determined only after extensive due process and deliberation.

It should be noted that in November 2011, the GASB issued a Preliminary Views on major issues related to *Economic Condition Reporting: Financial Projections*. The GASB staff responses provided have been influenced by the Board's preliminary views on what it believes are the most fundamental issues associated with the reporting of financial projections and related narrative discussions that will assist users in assessing a governmental entity's economic condition, which includes fiscal sustainability.

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 GASB staff agrees that there are likely to be users for long-term fiscal sustainability information for entities with one or more of the following characteristics: (a) significant tax and/or other revenue raising powers; (b) powers to incur debt; or (c) wide decision-making powers over service delivery levels. However, IPSASB Conceptual Framework Exposure Draft 1 (ED 1), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and*



Ms. Stephenie Fox
April 9, 2012
Page Two

Reporting Entity, paragraph 1.6, states that, “General Purpose Financial Reports (GPFRs) can report information about the past, present, and future that is useful to users—including financial and non-financial quantitative and qualitative information about the achievement of financial and service delivery objectives in the current reporting period, and anticipated future service delivery activities and resource needs,” which implicitly includes information possessing these characteristics. As a result, the GASB staff questions whether it is necessary to identify the characteristics that an entity could possess for users to exist specifically for information on long-term fiscal sustainability. The IPSASB has not presented similar characteristics to identify whether users exist for other types of information included in GPFRs.

The GASB staff also does not agree with the exclusion of Government Business Enterprises (GBE or as referred to be GASB as Business-type Activities). Although we recognize that ED 1 also excludes these types of entities from the Conceptual Framework, users of GBE GPFRs still need information on long-term fiscal sustainability. Further, the financial projections of GBEs could have significant implications on the reporting entity’s long-term fiscal sustainability which will not be provided to users if that information is excluded.

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?

The GASB staff agrees with the three dimensions of fiscal sustainability: fiscal capacity, service capacity, and vulnerability. Further, the GASB staff agrees that these dimensions provide a viable framework for the financial projections and narrative reporting of long-term fiscal sustainability information. The IPSASB’s dimensions of fiscal sustainability are similar to the GASB’s definition of economic condition, which is a composite of a government’s financial position, fiscal capacity, and service capacity, with fiscal sustainability representing the forward-looking aspect of economic condition.

The GASB staff also believes that vulnerability should include other types of transactions rather than just inter-governmental transfers that are noted in paragraph 34. The GASB staff recognizes that the word “principally” is used in paragraph 34; however, we are concerned that some may narrowly interpret the IPSASB’s intentions and therefore exclude transactions with such entities as the World Bank and the International Monetary Fund, which public sector entities have no control over.



Ms. Stephenie Fox
April 9, 2012
Page Three

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 GASB staff agrees with the guidelines in the ED on demographic and economic assumptions, approach to age related and non-age-related programs, impact of legal requirements and policy frameworks, inflation and discount rates, and reliability of projections. However, the GASB staff would recommend modification to the other guidelines noted below.

Updating Projections and Frequency of Reporting—The GASB staff believes that there should be some minimum recommended frequency for updating the projections recommended in the proposal. The GASB staff believes that it is important for the projections to be updated each time a report on long-term sustainability is issued in order to meet the objectives of accountability and decision-making. Providing users with outdated projections would have negative implications on the relevance and reliability of that information and therefore the potential value to users. Further, the GASB staff also believes that a minimum projection period should be recommended to provide greater comparability and ensure that these projections are not prepared for just one projection period, which would again negate the potential value to users. The GASB staff would suggest five years as a minimum projection period. The GASB staff believes that financial projections spanning a five-year period are sufficient to provide users with decision-useful information, while minimizing the potential variance between projected and actual results.

Current and Future Policy and Approach to Revenue Flows—The approach to revenue flows section specifically recommends that, “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.” Although paragraph 43 allows for other options when projecting cash inflows, the final document should clearly state that current or future policy is not the recommended basis for projecting cash inflows, if this is the case. That being said, the GASB staff does not agree with projecting cash inflows or outflow on a basis other than current policy. The GASB staff believes that using a basis other than current policy would allow for too much flexibility and ability to manipulate the projections. Further, the GASB staff believes that the most relevant projections are those that are based upon known information that would influence future financial results. In order for information that informs the projections to be “known,” it needs to be based on current policy.



Ms. Stephenie Fox
April 9, 2012
Page Four

Finally, the proposal makes no mention of the value of considering historical trend information or known future events and conditions to inform the projections of cash inflows and outflows. The GASB staff believes that historical trend information provides known, actual results as the starting point for the projections. Projecting information informed by historical information is similar to traditional modeling methods that utilize historical rates of change and extend these rates to the projection periods. This method is used currently by public sector entities in budgeting and planning and therefore may be readily understood by entities making financial projections and users assessing fiscal sustainability based on these projections.

Sensitivity Analysis—The GASB staff agrees with the principle of providing a narrative discussion of the major changes in assumptions that may have significant impacts on the financial projections. However, the final sentence of paragraph 49 states, “If inflation has been taken into account in making projections, sensitivity analysis should include the effects of variations in inflation assumptions.” The GASB staff believes that this appears to imply that a sensitivity analysis has to be done and that this level of detail would negatively impact the understandability and relevance of the information provided. The proposal has not taken this tone with the other recommendations made throughout the document.

Other Matters

Financial Obligations

Paragraph 3 states that, “the scope of this RPG includes all an entity’s projected flows and is not limited to those related to programs providing social benefits.” However, the GASB staff is concerned with the proposal’s failure to specifically mention the obligations associated with an entity’s programs, including social benefits in other sections of the document. Although the proposal recommends the use of indicators related to debt, it is not specific in its recommendations of providing projections of financial obligations including not only debt, but also pensions and other postemployment benefits. Further, the definition of “total gross debt” provided in Appendix A does not appear to include obligations for pensions, other postemployment benefits, or social benefit programs as it states that, “A debt instrument is a financial claim that requires payment of interest and/or principal by the debtor to the creditor at a date, or dates, in the future.”

Paragraph 20 states that, “A single presentation approach is unlikely to satisfy the objectives of financial reporting.” Although the GASB staff agrees with this statement, we believe that



Ms. Stephenie Fox
April 9, 2012
Page Five

projections of financial obligations should be considered core information necessary to be provided for users to assess fiscal sustainability. Further, if inflows and outflows are projected on a cash basis, it is possible that financial obligations would be increasing if actual outflows are not made in sufficient amounts to meet the annual obligations as they come due. Without a projection of these total obligations, a user would not be informed of this failure which could influence their decision-making processes.

Definition of Inflows

The GASB staff believes that the definition of inflows provided in paragraph 7 is confusing as to what basis (cash or accrual) should be used when projecting inflows. Although it states that they are cash or cash equivalents, it also states that they are "projected to accrue" which may imply accrual basis to some. The GASB staff recommends the use of the cash basis of accounting for projecting both cash inflows and outflows.

Alternative View

The GASB staff agrees with the alternative view presented with the proposal. The GASB staff believes that reporting financial projections addresses an important financial reporting issue. Current annual financial reports do not provide adequate information to users regarding the financial stress facing some public sector entities due to deteriorating financial and economic conditions.

An important objective of financial reporting is to assist users in their decision making. Projections are consistent with that objective. Projections are necessary for users to assess a public sector entity's ability to continue to provide services and to meet its financial obligations as they become due. Finally, the GASB staff believes that without specific reporting requirements many governments will simply choose not to report projections that are needed by users of public sector financial reports. Without a specific requirement, important user needs will go unmet.

Thank you for considering our comments. If you have any questions regarding this response, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "D. R. Bean".

David R. Bean