

March 6, 2012

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

**Re: PSAB Staff Comments on Exposure Draft (ED)
“Reporting on the Long-Term Sustainability of a Public Sector Entity’s Finances”**

Thank you for the opportunity to provide input on the proposals in this Exposure Draft (ED). We would like to express our support for the proposals set out in the ED.

Responses to the Specific Matters for Comment are set out in Appendix A to this letter. Additional comments about the ED by paragraph are provided in Appendix B. As well, we wish to draw the attention of the IPSASB to the following issues:

(i) Objective of the ED

The objective of the ED indicates that it is to provide guidance on how to supplement the financial statements and meet the objectives of financial reporting (accountability and decision-making) by presenting projections and complementary information about long-term fiscal sustainability (LTFS). If this objective means that projected LTFS information is considered necessary to meet the objectives of financial reporting, then the Recommended Practice Guideline (RPG) is really advocating for the provision of LTFS information by public sector entities. We agree with advocating for the provision of this information. It would be ideal to require that public sector entities, especially those at the national and whole of government level, provide LTFS information. However, we agree with the IPSASB’s pragmatic decision to issue the guidance as

“recommended”, rather than “required” at this stage in the evolution of practice regarding LTFS reporting.

However, we also believe that it is important that the RPG not overemphasize the importance of sustainability to the exclusion of all else - for example the performance of government programs. Some programs need not be sustainable as their need is short-lived. Some programs may not be sustainable because of economic considerations that require a re-prioritization of where/how resources are applied.

To illustrate, an extreme example might be “sustainable” roads paved in indestructible materials while people are dying in the streets. Some mention of this necessary balance between sustainability and levels of performance should be included in the final RPG, perhaps in the Definitions area of the RPG, after or part of paragraph 8.

For example, text could be added that states:

“Ideally, it is expected that, over time, the sustainability of programs will be balanced with the performance of programs and resource re-allocations made accordingly. However, sustainability reporting under this Guideline is assumed to be based on projections of current policies over a pre-determined time period.”

(ii) Categorization of indicators into dimensions

The narrative reporting discussed under paragraph 20 mentions a number of possible indicators that would complement the projections of inflows and outflows. Then in paragraph 27, the three dimensions of fiscal sustainability are identified for the purpose of presenting the narrative information. The text that follows paragraph 27 mentions some of the indicators from paragraph 20 but there is no explicit association of each of the indicators in paragraph 20 with the three dimensions in paragraph 27. A more explicit association between paragraphs 20 and 27 would be helpful to entities seeking to apply the RPG.

(iii) Introduction to RPGs

An introduction to Recommended Practice Guidelines is needed to explain their objectives, their authoritative status (e.g., non-GAAP, non-mandatory). This is done in the ED in paragraph 2 and also in the “At a Glance” document but needs to be a permanent part of the International Handbook and not just in one RPG. The Introduction to Statements of Recommended Practice in the Canadian Handbook might be a good reference.

We appreciate the opportunity to comment on this Exposure Draft. It is an important first Recommended Practice Guideline that illustrates the IPSASB intention and mandate to issue guidance that goes beyond financial statement reporting.

Please note that these comments are the views of PSAB staff and not those of the Public Sector Accounting Board (PSAB).

Sincerely,



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Principal
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Appendix A
Responses to Specific Matters 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.**

Yes. The characteristics to look at to determine whether users exist for information on long term sustainability set out in paragraph 15 are appropriate.

- 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?**

Yes. The dimensions of long term fiscal sustainability provide a viable framework for narrative reporting on the long term sustainability of an entity’s finances that complements and interprets the projections. [see also Issue (ii) in letter above]

- 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?**

Yes. The proposed disclosure of principles, assumptions and methodologies, including risks and uncertainties set out in the ED are appropriate.

Appendix B
Detailed PSAB Staff Comments on the Exposure Draft

Paragraph 7, “long-term fiscal sustainability” definition

The dimensions of long term fiscal sustainability set out in paragraph 27 include fiscal capacity, service capacity and vulnerability. However, the definition of long-term fiscal sustainability in paragraph 7 mentions only service delivery and financial commitments. For consistency, some reflection of the notion of vulnerability should appear in the “long-term fiscal sustainability” definition. [see also paragraph BC8]

Paragraph 7, “outflows” definition

We assume that the “expenditures” included in this definition include capital expenditures. Paragraph 33 mentions that the dimension of service capacity for capital intensive activities includes the assessment of infrastructure lives and replacement cycles in order to ensure that net outflows on property, plant and equipment are recorded. However, this is the only mention of capital in the RPG. It is not entirely clear in the RPG how capital expenditures fit into an assessment of sustainability of a public sector entity. The condition of capital assets (including maintenance and replacement), such as major infrastructure networks, and the ability of such assets to continue to deliver government services over the long term may be more relevant sustainability information with respect to capital than including capital expenditures in outflow projections for programs.

Paragraph 30 - net debt as a percentage of revenue

We believe that this indicator is just as important at the national whole of government level as it would be for a sub-national government.

Appendix A, Glossary - “Net financial worth”

Are non-financial liabilities defined in the IPSAS? They are the corollary of “financial liabilities” so a definition that mentions “financial liabilities” almost presumes their existence. Are financial liabilities defined in the *Government Finance Statistics Manual 2001*? If so, then maybe a footnote with the definition would help. Or are all liabilities “financial liabilities”?

Alternative view included in ED

This is a precedent for the IPSASB. We would suggest that it should be a one-time event reflecting the fact that creation of RPGs was not considered until a later stage of the project. We would suggest that such views be only explored at the consultation paper stage in the future as the nature of an exposure draft is to reflect the proposed content of the final Handbook material. We do not believe that it would be appropriate to include an alternative view in a final published standard/guideline.