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International Federation of Accountants
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Comments on the Exposure Draft, "Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances"

Dear Ms. Fox,

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Exposure Draft, "Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances" (ED), as follows.

General Comments

1. According to the paragraph BC5 of the ED, reporting on the long-term sustainability of a public sector entity's finances is considered to be within the scope of General Purpose Financial Reports (GPFRs), as defined in the Conceptual Framework ED, *Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity.*
2. In regards to this, we propose that the ED should clarify the following:

(a) further explanations on the objectives of GPFRs—accountability and decision-making— with regard to the long-term sustainability of a public sector entity’s finances; and

(b) how the qualitative characteristics would serve in reaching the objectives of GPFRs, accountability and decision-making, relating to the long-term sustainability of a public sector entity’s finances. (For example, in the paragraph 15, only the relevance of reporting is stated in determining whether to report on a public sector entity’s long-term fiscal sustainability.)

Specific Matters for Comments

> 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.

3. We agree with the proposal. We believe that “Significant tax and/or other revenue raising powers” and “Powers to incur debt”, stated in the paragraphs 15 (a) and (b) respectively are consistent with the ability of an entity to meet financial commitments, stated in the definition of the long-term fiscal sustainability in the paragraph 7. In addition, the statement in the paragraph 15(c) “Wide decision-making powers over service delivery levels” is also in line with the ability of an entity to meet service delivery as stated in the definition of the long-term fiscal sustainability.

> Specific Matter for Comment 2:
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> 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?

4. We agree with the SMC2, with the exception of the definition of vulnerability in paragraph 34, for reasons stated below.
5. The ED defines vulnerability only from the perspective of revenues of an entity, as can be noted from the proposed definition:

   “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."

6. We consider that this proposed definition of vulnerability is incomplete, since it only refers to the revenues of an entity. Therefore, we propose to add to its definition, "the extent to which an entity can reduce its expenditures."
7. With respect to the vulnerability of finances, entities' fiscal sustainability would vary for those that have performed financial or administrative reforms, and for those that have not. Entities in a public sector can reduce some of their expenditure more easily than others. For example, entities may be able to reduce their public investments in infrastructure with less difficulty, compared to decreasing their investments in social securities. Their fiscal sustainability would also be influenced by factors such as, for example, which expenditure would account for a significant proportion of the total expenditure of the entities.

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?

8. We agree with the guidelines, subject to consideration of the following matters in paragraphs 9 to 13:
9. In paragraph 39, it is stated that the disclosure of "the date at which a full set of projections was made and the basis and timing of subsequent updating" is required. In addition to this, it should also be required for entities to disclose their policy on updating assumptions underpinning their projections. (e.g. the assumptions shall be updated once every few years, or shall also be updated after an unexpected event such as a natural disaster.)

   If entities are not required to disclose their policy for updating their assumptions, there may be a risk that some entities may not update their assumptions for a long period of time and their assumptions would become unreasonable.
10. Furthermore, we suggest that projections be also updated after some unexpected events such as accidents or emergencies. Paragraph 39 provides a case that, during

periods of global financial volatility, projections made before the reporting date may become outdated. But, in addition, we recommend that paragraph 39 should also take into account certain catastrophic events as a reason for updating the projections.

11. With respect to "sufficient information on underlying macro-economic policy and fiscal frameworks" stated in the paragraph 47, we suggest that the ED should require the disclosure of sources of the information. Disclosing the sources of information may increase the degree of reasonableness of an entity's assumptions and would enhance verifiability of their projections.
12. Paragraph 48, which advise an entity to disclose its approach to inflation and its application of discount rates, calls for projections on present-value basis. We believe that projections at nominal value basis would also be useful and such a statement need to be included in the ED or its Basis for Conclusions (BC).
13. We suggest that the ED should require the following disclosures:

    (a) comparative information for the projections and, subsequently, the actual results for the same period of time; and

    (b) while the regular updates are expected, when an entity cannot update assumptions of their projections, a statement to that effect and related reasons.
14. The reasons for the above suggestions are as follows :

    (a) the comparative information would assist users of long term sustainability report to analyze the reasonableness of the projections; and

    (b) when there are major changes(*) in an entity's assumptions, but the entity cannot update its projections due to time constraints, we believe that the entity needs to disclose such facts and the reason for not updating their projections in order to alert the users.

    (*) We presume such changes as exemplified below:

    -when the level of pension benefit has been reduced; or

    -when the value-added tax rate has been raised.

Other Comments

Comment on paragraph 18

15. Paragraph 18 states that "it should assess the extent to which it can draw on the projections and indicators prepared by other governmental bodies, such as

ministries of finance, rather than making the projections itself, in order to reduce the cost of such reporting.”

16. In addition to the condition of the cost reduction stated in the paragraph 18, we believe that the ED should also include the following condition:

    “If the projections and indicators prepared by official governmental bodies are reliable, these may be considered by an entity in preparing its projections.”

    If we only include the current statement on the condition of the cost reduction, there may be cases when some entities would neither make the projections by themselves, nor disclose their projections even when they have adequate projections prepared internally.

Comments on the paragraphs 46 and 47

17. We suggest that the ED should clarify that projections and budgets are different. In many jurisdictions, the legislature approves the budget and gives authorization to the government. The budget serves to authorize the government to execute its policies, and informs the citizens of its plan of actions. On the other hand, the projections described in the ED are made based on the current governmental policies. Therefore, we suggest that the ED should clarify the fact that the projections on future outflows are different from expenditures that are budgeted, or the expenditures that are incurred.

Yours sincerely,

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