Treasury Board of Canada Secretariat
Secrétariat du Conseil du Trésor du Canada

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Ms. Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, ONTARIO
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Dear Ms. Fox:

SUBJECT: Reporting on the Long-Term Sustainability of Public Finances

Thank you for the opportunity to comment on the Consultation Paper – *Reporting on the Long-Term Sustainability of Public Finances* that was issued in November 2009.

By the way of background, the Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). Our government is not required to follow the International Public Sector Accounting Standards (IPSAS), however, IPSAS have become increasingly important as a secondary source of generally accepted accounting principles (GAAP) for Canadian governments Consequently, we have read the consultation paper with interest, and our specific comments on the preliminary views posed are included in the attached Appendix.

Overall we do not support a mandatory standard on *Reporting on the Long-Term Sustainability of Public Finances*, and would prefer that any document produced by IPSAS be a recommended practice rather than a requirement for General Purpose Financial Reporting. As noted in the Consultation Paper, various countries already have legislation or policy that

requires sustainability reporting, the requirements of which are through legislation or policy. The development of such legislation or policy will have considered the needs of legislators and other users of the reports. Should IPSAS put in place mandatory requirements it could result in either reports that do not meet the needs of legislators/users in various jurisdictions or the need to prepare two reports, one as stipulated in legislation/policy and one for compliance with IPSAS. Also, most governments currently have various mechanisms for reporting on programs of a long-term nature. For example budgets provide long term views on financing and programs to be delivered by governments. There are also various reports on social benefit programs that discuss in more detail, and with proper context, the future sustainability of the programs (i.e. Canada Pension Plan Annual Report).

We thank you again for providing the opportunity to comment on this consultation paper. If you have any further questions related to these comments, please do not hesitate to contact either Ms. Diane Peressini at Diane.Peressini@tbs-sct.gc.ca (613-957-9671) or myself at Bill.Matthews@tbs-sct.gc.ca (613-957-9659).

Yours sincerely,

Bill Matthews
Assistant Comptroller General
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Analysis Sector

c.c.: James Ralston
Comptroller General of Canada

Appendix

Consultation Paper – Reporting on the Long-Term Sustainability of Public Finances – Comments on Preliminary Views

1. *The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (Section Two).*

   Response:

   - We believe that the International Public Sector Accounting Standards Board (IPSASB) should obtain consensus and issue a final standard on the "*Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*," and complete the conceptual framework project before continuing to develop the guidance on "*Reporting on the Long-Term Sustainability of Public Finances*".

   - Our fundamental issue is that the primary objective of financial reporting by governments is accountability. Therefore, we view the proposed scope of General Purpose Financial Reports (GFPRs) in the IPSASB conceptual framework as too broad, and should be limited to historical information, and exclude prospective and non-financial information.

   - In our opinion, the proposed information on long-term fiscal sustainability does not meet the qualitative characteristics of faithful representation and verifiability as proposed in the conceptual framework. Completeness, neutrality and some minimum level of accuracy are necessary attributes to support the qualitative characteristic of faithful representation. However, the proposed long-term projections would necessarily entail a high level of speculation and, in many instances, arbitrary assumptions, given such long time horizons as envisaged in the paper. Sensitivity of the projections to small changes in assumptions will result in information that does not have a verifiable minimum level of accuracy, and that could be potentially subject to political bias.

   - We suggest that this guidance be issued as a recommended practice rather than a reporting requirement. Various governments choose to report on long-term fiscal sustainability and this guidance would provide a framework to develop a consistent approach to this type of reporting; however, where legislators have developed legislation or policies that

outline the form and content of such reporting, a requirement to issue reports based on IPSASB standards will only increase the reporting burden on governments.

2. *IPSASB guidance should recommend that long-term fiscal sustainability information in GPFRs be presented either through:*

   - *Additional statements providing details of projections; or*
   - *Summarized projections in narrative reporting (Section Three).*

   Response:

   - As noted in our response to Question 1, we believe that a long-term fiscal sustainability report should not be within the scope of GFPRs, and, therefore, would need to be issued as a stand-alone document when a government chooses to provide this type of information.

   - Summarizing the projections in narrative reporting that is presented with financial statements, such as the Management, Discussion and Analysis, would attribute undue credibility to the projections, which could then be viewed as having qualitative characteristics similar to those of the information contained in the balance of the annual report.

3. *IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).*

   Response:

   - We agree that IPSAS guidance should provide recommended practice for the government reporting entity as defined for the government's general purpose financial reports.

4. *IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).*

Response:

- Based on our comments in the attached letter and in the response to Question 1, we do not believe that the long-term sustainability reporting can sufficiently meet the qualitative characteristics of financial information. However, the plausibility of the reported information could be enhanced by criteria for the selection of indicators that take the qualitative characteristics of financial reporting into consideration.

- We agree that the guidance should not be prescriptive in terms of the financial indicators selected; but a list of commonly used indicators is desirable.

- We agree that it is good practice to provide comparative information and the reasons for ceasing to report indicators.

5. *IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:*

   - *Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;*
   - *The basis on which projections of inflows from taxation and other material revenue sources have been made;*
   - *Any other key assumptions underpinning long-term fiscal sustainability projections; and*
   - *Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).*

   Response:

   - We agree with these recommendations. It is important that the report contains these disclosures in order to promote understandability and provide support for the projections.

6. *IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:*

   - *Time horizons for fiscal sustainability projections presented or discussed in the GPFRs as well as the reason for modifying time horizons and any published plans to modify those horizons;*
   - *Discount rates, together with the reason for their selection;*
   - *Results of key sensitivity analyses; and*
   - *Steps taken to ensure that projections are reliable (Section Seven).*

Response:

- We support the recommendations on the disclosures of time horizons, discount rates and key sensitivity analysis. We also note that the report should provide some guidance on the criteria for the initial selection of a time horizon. While the consultation paper notes that the robustness of the assumptions declines inversely to its length, and that short time horizons run the risk of ignoring key events just beyond the period, positive selection criteria would also be useful.

- Based on our response to Question 1, we believe that the wording in 7.5.1 stating that "the projections should be reliable for that purpose" requires modification. The extent to which the projections contained in the report could sufficiently possess the characteristic of reliability is questionable given the long time horizons. This section should instead only address the reasonability of the projections given a specified set of assumptions.

- Since we believe that the long-term sustainability report should not be within the scope of GFPRs, obtaining assurance from the government's auditors would be, therefore, outside the scope of the assurance model. The significant complexities that would arise under audit of this information serve to further indicate that the long-term sustainability report should not be a reporting requirement. However, the suggested disclosures related to the extent to which those responsible for preparing the report have confidence in the information presented, and performance of peer reviews, would assist in strengthening its plausibility.

7. *IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).*

Response:

- A balance is required between the resources required to compile the long-term fiscal sustainability report compared with the relevance of a report that is more than two to three years old. We believe that governments should make this decision based on the rate of change of their fiscal policies and the relevance of the underlying economic and demographic assumptions in previous reports. As well, requirements in legislation for sustainability reports should be adhered to and respected.