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

Dear Stephenie,

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

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

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

Yours sincerely,

SRS-CSPPC



Prof Nils Soguel, President



Sonja Ziehli, Secretary

Swiss Comments to ED 46

## Swiss Comments to

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

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## 1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) has discussed ED 46 *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances* and comments as follows. The SRS-CSPCP was established in 2008 by the Swiss Federal Ministry of Finance together with the Ministers of Finance at the cantonal level. One of its aims is to provide the IPSAS Board with a consolidated statement for all the three Swiss levels of government (municipalities, cantons and Confederation).

## 2. Comments to Exposure Draft

### 2.1. General Remarks

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

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

### 2.2. Specific Matter for Comment 1

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

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

### 2.3. Specific Matter for Comment 2

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

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

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

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

#### 2.4. Specific Matter for Comment 3

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

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

#### 2.5. Glossary of Indicators

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

On one term we have a comment of detail:

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