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Ms. Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board (IPSASB)
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the IPSAS ED relative to Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances. We are pleased to see the IPSASB address the critical area of sustainability.
2. Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to its membership through an international network. ICGFM represents a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this exposure draft is one from an international perspective.
3. We have stepped back to consider the purpose of this ED and the goals it hopes to achieve. It appears that this is similar to the "going concern" criteria in IFRS for commercial entities. If this is the case, we would agree with the alternative view of David Bean -- this should be mandatory. If a public body is not fiscally sustainable, then all of the valuation models may be inappropriate.

4. We have also thought about this ED in the context of three types of public bodies where there are current problems.
 - a. **Sub-national entities** - In the United Kingdom, "Health Trusts" are autonomous public sector bodies responsible for managing individual hospitals or groups of hospitals. A number of these Trusts have recently emerged as having expenditures exceeding revenues with inadequate reserves to meet the deficit. Within the view of this ED, they are not fiscally sustainable. These entities would be addressed by the ED as they are unable to meet their long term service obligations. On the other hand, it is likely that such Trusts will in some way be "rescued" by central government so that the health services will continue to be provided -- so is it appropriate to classify them as not fiscally sustainable?
 - b. **Sovereign governments** - Within the Eurozone, there are several governments (e.g. Greece) unable to service their debt without the support of other government entities. Again these entities would not be fiscally sustainable under the ED definitions. But unlike a commercial entity, a sovereign government does not disappear or is not taken over because it cannot pay its debts. It simply defaults, as has happened many times, and then carries on functioning. It would be appropriate for the entity's finances to reflect the projected shortfall. It would be preferable to request "real world" examples in the ED without presuming to draw conclusions.
 - c. **Other governmental entities** – We believe governments, especially municipalities, have balanced efforts in sustainability including environment, social equity and the economy. These should be considered in the context of this ED. While the emphasis is not on meeting obligations, we should also look at benefits exceeding obligations.
5. For many countries the issues of fiscal sustainability are even more complex. It has been suggested that most European countries are in the long run unlikely to be able to repay or sustain their public sector debt because of social welfare obligations to an ageing population. Such countries may change their tax and/or benefit policies to avert the above problem. In such cases, they would likely have to report that they are not fiscally sustainable because that is the situation under present policies and taxation. This is a major issue because, if this ED is to have value, any country providing IPSAS-compliant financial statements should also report on long-term fiscal sustainability. There is no guidance in the ED.
6. Hence our concern is not so much with the detail of the ED as with broader issues concerning when it should be applied. If the ED is to be of value, there should be examples of how each of the above real world situations should be addressed. If this led to every public sector entity and national government providing an assessment of long-term fiscal sustainability, this would certainly make financial statements more widely read and publicized.
7. Our response to each of the specified comments is as follows:
 - a. In response to 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?), we believe that indicators are identified in paragraph 15, not characteristics. We consider these indicators broad enough to be inclusive. While certainly inclusive, we see these indicators as too broad and suggest they include

additional information to increase their meaning. For example, an entity can have significant tax and/or other revenue raising powers, but if these are concentrated in an area that is vulnerable to economic shifts, government regulations, natural disaster, or attack, they can abruptly be lost. Additionally, an entity's power to incur debt can be vulnerable to political pressures and public sentiment, which is not captured. Finally, many sub-national government entities have wide decision-making powers over their service deliver levels but are heavily reliant on federal funding, making them vulnerable to policy shifts. Including more specific indicators in the ED would make this a better tool for conducting long-term financial stability assessments.

- b. In response to 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?), we agree with the dimensions but believe they are not sufficient. We would like to see the following included as part of the framework:
 - i. To truly be sustainable the government must be able and willing to generate inflow needed to maintain service commitments and meet financing obligations as they come due, while maintaining a balanced inter-period and inter-generational fiscal structure. This is particularly relevant for entities with strong ties to international markets (e.g., a retirement fund holding European bonds or significant reliance on government transfers). But all public entities are subject to these risks in some way and should address them in their narrative discussion.
 - ii. The EU Maastricht criteria are (1) the annual budget deficit as a percentage, and (2) public debt/GDP ratio. Hence these would seem very relevant criteria for this ED.
 - iii. Gross Domestic Product (GDP) is a common indicator used at the national level in assessing fiscal sustainability and should be included more prominently in this ED.
 - c. In response to Comment 3 (Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties?), we believe these guidelines are too general to be of value to the users or the preparers. We suggest the following be considered:
 - i. We believe the ED could benefit by making an overarching differentiation between national and sub-national level government entities due to the fundamental differences in their debt holding, borrowing, and revenue raising capabilities and the effects these have on long-term fiscal sustainability. Whether this is done through additional language throughout the course of the ED or by creating two separate documents, this would improve and simplify the process of long-term fiscal sustainability reporting.
 - ii. Some illustrations should be included to demonstrate the applications. Certain information should be required (i.e., Debt/GDP ratio since it has become an informal standard throughout the world).
8. In addition, please consider the following:
- a. In paragraph 5, it would be helpful to include a link to how sustainability is addressed in the private sector.

- b. We suggest that the following be added to paragraph 13: “In addition, the budget is primarily concerned with fiscal discipline in the short or medium term, while fiscal sustainability is concerned with the long-term.”
 - c. Gross Domestic Product should be included in paragraph 20. The Debt/Equity ratio is commonly used in the private sector to measure sustainability and a similar measure should be included here. These indicators, by themselves, are meaningless unless they relate to some other measure to reflect a meaningful ratio.
 - d. Examples, such as the following that are commonly used in the private sector, should be added to paragraph 23 for entities that have implemented accrual accounting:
 - i. A Quick Asset Ratio (quick assets/current liabilities),
 - ii. A Current Ratio (current assets/current liabilities plus commitments), and
 - iii. A Debt/Equity ratio.
 - e. An illustration should be added to paragraph 28 to more clearly identify the concept.
 - f. In paragraph 30, deficit by itself is meaningless; GDP should be mentioned here.
 - g. An illustration is needed in paragraph 32 to more clearly explain the concept.
 - h. In paragraph 33, the impact of social security schemes should be mentioned (i.e. the change in retirement age).
 - i. In paragraph 34, an illustration is needed.
9. We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Dr. Jesse Hughes, CPA, CIA, CGFM at jhughes@odu.edu or 757.223.1805.

Sincerely,



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