INTOSAI
International organization of Supreme Audit Institutions

Working Group on Public Debt

Report on the investigation results

Contingent Debt

Kyiv 2011

Content

Glossary of abbreviations

CIS	Commonwealth of Independent States
GDP	Gross Domestic Product
IAS	International Accounting Standard
IDI	INTOSAI Development Initiative
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
SAI	Supreme Audit Institution
WGPD	Working Group on Public Debt

Introduction

1. At the meeting of the INTOSAI Working Group on Public Debt held in July 2008 in Nadi (Fiji) it was decided to appoint the Accounting Chamber of Ukraine as responsible executor for the investigation on Contingent Debt. Co-executor of the investigation is the Committee on Audit and Inspection of Korea. At the meeting of the Working Group in Kyiv (Ukraine) in October 2009 the SAI of Argentina and Brazil joined the investigation group.

2. Investigation was carried out in accordance with the Strategic Plan of INTOSAI Working Group on Public Debt for 2007-2012, in particular in the part concerning preparation of documents on public debt definition features, reporting and assessment in this sphere. Investigation on contingent debt is envisaged by the Accounting Chamber of Ukraine Calendar plan for 2009-2011 in the part concerning the participation in the activities of INTOSAI in public debt management and auditing sphere.

3. The main task of the investigation was the generalization of practice and experience of the biggest number of INTOSAI member states possible on contingent liabilities management and conducting audits on this subject. In addition, the Accounting Chamber of Ukraine set a goal to uncover a number of problems and peculiarities that exist in different countries in the issue of the definition of "contingent debt" and its state condition.

4. During the investigation special attention was paid to the observance of the principle of continuity, including changes that occurred in managing the contingent debt since the end of the previous investigation on this subject conducted by SAI of the UK in 2004-2006. Guidelines and documents of the INTOSAI, IMF, the World Bank as well as scientific articles and other sources on the subject of disclosure in them the notion of contingent debt were analyzed.

5. Specially designed by the Accounting Chamber of Ukraine the “Questionnaire on contingent debt” was distributed among 176 INTOSAI members, the answers to which were summarized in a separate section of this document. In preparing this report there were used the analysis materials of status of accounting and management of contingent debt in Ukraine, conducted by the Accounting Chamber in 2008.

6. The investigation was conducted under the overall supervision of a member of the INTOSAI Working Group on Public Debt, Chief Inspector-Director of the Department, a member of the Accounting Chamber of Ukraine Yuriy Ivanenko, by analytical group consisting of the Deputy Director of the Department Andrii Mamyshev, Head of Division Olena Myznikova and auditors Dmytro Zhevago, Oleksandr Zhyhanov and Svitlana Chepiha. Communication with INTOSAI Member States and the Secretariat of INTOSAI Working Group on Public Debt was provided by the International Relations Department of the Accounting Chamber of Ukraine.

7. This report contains the main observations, generalizations, conclusions and recommendations for the INTOSAI WGPD members on contingent debt management. The Accounting Chamber of Ukraine is grateful to co-investigators and the Secretariat of the INTOSAI Working Group on Public Debt for their kind help in its organization. It

should be noted that substantial comments were received from experts of Mexico SAI at the stage of investigation preparation and experts of Canada SAI at the stage of finalizing this report and we thank them for their work and contribution.

8. Overall, responses were received from 45 countries - INTOSAI members to questionnaire on contingent debt. In this regard, we would like to express sincere gratitude for understanding and willingness to cooperate to the following SAIs: Austria, Albania, Argentina, Bahrain, Belgium, Brazil, Bulgaria, the Czech Republic, Chile, Cyprus, Colombia, Denmark, Estonia, Italy, Japan, Kenya, Kyrgyzstan, Latvia, Lithuania, Madagascar, Malta, Mexico, Moldova, Morocco, Netherlands, Norway, Panama, Portugal, Romania, Russia, Rwanda, Santa Lucia, Senegal, Slovakia, Suriname, Switzerland, Sweden, Trinidad and Tobago, Turkey, Uganda, USA, Yemen, and Zambia.

1. State of contingent debt problem development

9. The contingent debt problem is not new to INTOSAI members. Back in 1998, the INTOSAI Working Group on Public Debt developed additional guidance on measurement and identification of public debt (as a supplement to the Guidelines for identification and disclosure of public debt in 1995). The document mentioned contains analytical materials of the first investigation, conducted on the subject of contingent debt. Main results and conclusions of that investigation were reflected in the Guidance on the Reporting of Public Debt in 2000.

10. Certain development the notion of contingent liabilities received after the development of the following guidelines, issued by the Working Group in 2003: Public Debt Management and Fiscal Vulnerability: Potential Roles for SAIs and Fiscal Exposures: Implications for Debt Management and the Role for SAIs. In reviewing the fiscal impact in both documents the risks associated with the contingent liabilities were recognized as a potential source of significant public debt.

11. Carring out the decision of the INTOSAI Working Group on Public Debt meeting in Mexico City, Mexico, in 2003 the UK SAI conducted an investigation among members of the Working Group on the definition, identification and assessment of contingent liabilities. The results of this survey were presented during the regular annual meeting of the Working Group in Buenos Aires, Argentina, in 2006. Nine SAI-members of INTOSAI offered practical advice on organizing and conducting expert analysis and audit activities associated with contingent debt (see below).

Insertion 1.1

Recommendation 1 – when conducting work on contingent debt, the SAI should use terminology with the agreement with relevant entities.

Recommendation 2 – when conducting an audit of contingent debt figures, the SAI should consider the integrity of the systems that produced them - for example to ensure the completeness and correct disclosure of the figures presented for audit. On the whole, the SAI activities may be directed on supplementing the value through examining the way the government identifies and classifies its liabilities, including contingent debt.

Recommendation 3 – when examining the expected cost of contingent debt the SAI should include consideration of the following issues:

- has the government attempted to assess (a) the total potential liability and (b) the expected cost, for each type of identified contingent debt. Does the assessment encompass a range of scenarios?
- For those areas where no attempt has been made to assess the potential liabilities and expected cost – could such an assessment be made using practical and reliable techniques or is the contingent debt unquantifiable?
- does the government produce appropriate descriptive information about non-quantifiable contingent debt?
- For those areas where the total potential liabilities and expected cost have been estimated – have suitable techniques been used to produce reliable figures?
- is implicit contingent debt a neglected subject? – given the potentially large scale of the contingencies that fall into this debt classification is there a need for work on the absolute value and expected cost of implicit contingent debt, taking into account the risk of 'moral hazard'?

Recommendation 4 – when considering the reporting information on contingent debt, the SAI should assess whether the information provided is:

- complete – does it cover all material elements of contingent debt?
- understandable – can it be understood by those receiving it?
- accurate – where it's appropriate, does it reflect audited amounts?
- regular and consistent – does the frequency and form of the information provided facilitate effective ongoing oversight?

Recommendation 5 – when considering information on contingent debt, the SAI should consider whether the government and the authorities take into consideration the outcomes of the contingent debt. In practice the budget amounts should adequate to cover the costs if contingent debt appears.

Recommendation 6 – when examining the control and risk management processes around contingent debt, the SAI should make arrangements and practical improvements that are most appropriate for the country's circumstances.

Recommendation 7 – because of their potentially complex and specialized nature and also for detailed study of papers, the SAI should ensure that it has suitably skilled resources available for the expert assessment of government risk management systems.

Recommendation 8 – where SAIs do not have a mandate to undertake financial and performance audit on contingent debt, they should consider the merits of seeking to extend their powers to allow such work to take place.

Recommendation 9 – the SAI should ensure that its work in respect of contingent debt reflects its own and Parliament's assessment of the relative importance of this issue in their country

12. Given the significant challenges for all states, all Supreme Audit Institutions, especially in the global financial crisis, the INTOSAI Working Group on Public Debt has decided to continue and deepen the generalization of international experience and practice of contingent liabilities for detecting the problems in this area and find a better understanding of the purpose of applying this knowledge to national audits in future.

2. World financial and economic challenges and contingent debt

13. Understanding the value of contingent liabilities and assessment of their impact on the structure and volume of public debt is essential for managers of public debt and for auditors. The existence of numerous and expensive contingent liabilities substantially affect the financial solvency of the state.

14. As a result of various factors (social, economic, legal) contingent liabilities may take the form of direct public debt and in the case of its excessive amount bring state to default. Events in Asia and Latin America in the 1990's indicated that contingent liabilities can cause significant financial expenditures for the state budget. In particular, the major external "cheap" borrowings from large corporations, supported by the state were among factors which generated the development of Asian crisis in 1997-1998.

15. Insolvency of local authorities, state enterprises, state agencies and large (private) banks may make the government face the need to assume their debts, i.e. burdening the budget with indirect contingent liabilities. Data on these institutions, state authorities and enterprises is not usually represented in the government's fiscal reports, but disclosure requirements should apply to them as well because their commitment is a source of fiscal risk to government.

16. Also, international experience shows that banking and currency crisis put a high financial burden on the corporate sector. However, in crisis the government does take the initiative to develop strategies for financial recovery of companies. As a result, in many cases, government involvement in the settlement of corporate debt requires a significant infusion of public funds (programs of bank recapitalization in East Asia can serve as an example).

17. Also, please note that borrowers in international markets are important economic actors (both public and private companies), problems of which may extend to the entire economy. Many of these companies have a strategic importance for the state economy and security, and so their defaults are deemed unacceptable. This requires active participation of government and use of state funds to restore their solvency.

18. Taking into account the above mentioned information there is a need to make efforts to disclose accurate information about these liabilities, their prerequisites and possible negative consequences for the stability of the state financial system. In many INTOSAI

member states they exist in different forms and, of course, have a significant impact on the formation and execution of national budgets.

3. Value of contingent liabilities in Ukraine

19. The issue of contingent debt is especially urgent in the current financial crisis. In Ukraine, the relative amount of direct public debt had constantly been decreasing till 2008 and before the development of financial and economic crisis made up 10 percent of GDP, which was one of the lowest indices among states with transition economies. Instead, corporate external debt of Ukraine sharply had increased and at that time amounted about 60 percent of GDP.

20. Crisis in world financial markets for many Ukrainian companies and banks made it impossible to attract new loans to extinguish existing debt. In addition to this spreading panic among depositors exacerbated the problem of banking liquidity and the decline of world prices for traditional Ukrainian export goods complicated external debt service by exporting enterprises. Now the amount of contingent liabilities of the central government in Ukraine, according to experts, exceeds the amount of direct public debt in many times.

21. According to the experts of the Accounting Chamber of Ukraine and international financial organizations contingent liabilities in Ukraine include: guaranteed public debt, deposits of individuals in state banks, devalued savings in State Savings bank of the former USSR, bonds and loans of National joint stock company Naftogaz of Ukraine in foreign banks, municipal Eurobonds, Eurobonds of state Ukreksimbank, domestic bonds of state monopolies (Energoatom, Ukrzaliznytsya) and net payables of state energy companies.

22. Direct contingent liabilities for reimbursement of the cost savings that had been placed in the period to 1992 in the institution of the Soviet Union Savings Bank became one of the most important contingent liabilities of the Government of Ukraine in terms of volume and social significance. The approximate amount of such commitments is 110 billion. In official reports on the public debt, these amounts do not appear, although the cost of their coverage is provided by the state budget.

23. The analysis of contingent debt accounting and management in Ukraine, conducted by the Accounting Chamber of Ukraine in 2008 found that total direct and indirect, overdue and outstanding public debt and contingent liabilities in Ukraine reached 377 billion hryvnias, which amounted to about 50 per cent of state GDP. As a result, the aggregate amount of contingent public liabilities along with the direct public debt has drawn closer to a critical level of 60 per cent. GDP, taking into account that fact that a lot of contingent liabilities have a high risk degree of transferring into public obligations it has a negative impact on debt and financial stability of the state.

24. Taking into account pre-crisis calculation and the estimation of the direct contingent liabilities execution at the level of 50 percent and indirect contingent liabilities at 30

percent during 2006-2015, experts estimated that if macroeconomic conditions stay constant, the level of public debt at the end of 2015 in Ukraine can reach 40 percent of GDP. However, the financial crisis makes its adjustments. In particular, the volume of GDP was reduced and the debt was rapidly accumulated, that's why the task is to use warning measures to keep public debt in economically safe limits.

4. Theoretical generalization of contingent liabilities

4.1. Obligations and contingent liability measurement

25. Accounting standards recognize the obligations based on the identification, probability and measurement criteria. With these criteria the accounting standards distinguish types of commitments: obligations (debt, liability), possible liabilities such as contingencies (contingent liabilities) and obligations (commitments). Obligations usually arise from current events which are clearly defined. Contingent liabilities arise from uncertain events that will be determined in future. This term is usually used in "contractual contingent liabilities» combination which brings a need to raise funds in future. For example, Canada SAI defines contingent liabilities as financial liabilities which are obligations of such liabilities, if the conditions of existing contracts, agreements or legislation are adhered.

26. According to the IAS 37 article 18 a contingent liability is defined as:
    - a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
    - a present obligation that arises from past events but is not recognized because:
    - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    - the amount of the obligation cannot be measured with sufficient reliability.

27. Also, there are some definitions of contingent liabilities as mentioned in INTOSAI, the IMF, the World Bank documents, namely:
    - Commitments that are not always included in the financial reporting in part concerning obligations, however, they can significantly affect future demand for loans and, consequently, the future demand for economic resources of the country;
    - Potential debt, prescribed by obligations of current or previous government, which has a serious possibility to become real in the event of certain specified future events defined in advance;
    - Public authority obligation to make payments to third parties at a future date, depending on the occurrence of one or more uncertain future events, if it is a contingent commitment;
    - Possible debt that is dependent on future events; it is not known, whether they will happen or not. The concept of possibility that applies to the national debt is difficult to determine, however, recently contingent debt in some countries has greatly increased, exactly the number of cases where the contingent liability becomes a fact. Such developments in the past have largely been limited in the attention because of differences of criteria for recognition and measurement in different countries.

4.2. Types of contingent liabilities

28. According to the International practices contingent liabilities are divided into direct and indirect:

- *Direct contingent liabilities* are referred to commitments made as contractual liabilities, which upon the occurrence of certain conditions may have requirements for disbursement in a given amount. Direct contingent liabilities arise from legal or contractual obligations.

- *Indirect contingent liabilities* do not arise from legal or contractual obligations, but are recognized as the actual liabilities after a certain event or circumstance occur.

29. Characteristics of direct public and contingent debt, as well as direct (explicit) and indirect (implicit) contingent liabilities are presented in Matrix Financial Risk, compiled by Anna Poļakova Brix, the World Bank expert on contingent liability (see Table 4.1).

Hana Polackova Brixi Matrix on public and contingent liabilities

Table 4.1

Liabilities	***Direct*** (obligation in any event)	***Contingent*** (obligation if a particular event occurs)
Explicit Government liability as recognized by a law or contract	· Foreign and domestic sovereign borrowing (loans contracted and securities issued by central government) · Budgetary expenditures · Budgetary expenditures legally binding in the long-term (civil servants' salaries and pensions)	· State guarantees for non-sovereign borrowing and obligations issued to subnational governments and public and private sector entities (development banks) · Umbrella state guarantees for various types of loans (mortgage loans, student loans, agriculture loans, small business loans) · Trade and exchange rate guarantees issued by the state · Guarantees on borrowing by a foreign sovereign state · State guarantees on private investments · State insurance schemes (deposit insurance, income

		from private pension funds, crop insurance, flood insurance, war-risk insurance)
Implicit A "moral" obligation of government which reflects public and interest group pressures	· Future public pensions (as opposed to civil service pensions) if not required by law · social security schemes if not by law · future health care financing if not by law · future recurrent cost of public investments	· default of subnational government, and public or private entity on non-guaranteed debt and other obligations · liability clean-up in entities under privatization · banking failure (support beyond state insurance) · investment failure of a non-guaranteed pension fund, employment fund, or social security fund (social protection of small investors) · default of central bank on its obligations (foreign exchange contracts, currency defense, balance of payment stability) · bail-outs following a reversal in private capital flows · environmental recovery, disaster relief, military financing, ...

30. In many CIS countries state guarantees on foreign debt are legally included in government debt. The IMF, for its part, encourages the governments to monitor contingent liabilities in order to identify future risks. This recommendation is fully accepted by INTOSAI. However, unlike most other state financial obligations, contingent liabilities are characterized by some degree of uncertainty: they may appear only upon the occurrence of certain events, and the size of budgetary payments depends on their structure.

4.3. Financial risks

31. Contingent liabilities are often associated with the risk of irresponsible behavior by individual government agencies, as the likelihood of their materialization increases with the timely allocation of funds to cover such liabilities (e.g. government guarantees). Therefore, governments should monitor the potential risk to assume direct contingent

liabilities and be kept informed about the possible consequences of making such commitments. They should also be clear about the conditions under which indirect contingent liabilities should be covered, such as: poor management of assets and liabilities in the banking sector, which is caused by inadequate management decision making, can lead to the necessity of government financial intervention.

32. *Financial risk* is a broad term that goes beyond traditional analysis of accounting and budget, which is used during the consideration of various commitments, programs and activities being implemented by national governments and which can be financed by future funds. Examples of the financial risks are *loans and guarantees to third parties*. Government guarantees are usually defined as a type of contingent liabilities, which are executed only if the specific event occurs. This category may include loan guarantees issued by other organizations both in public sector and private or quasi-public institutions and guarantees for most other purposes, such as financing the export and exchange rates.

33. Potential loans from future public funds have various sources. They may be explicit and implicit (those that are implied); they may exist right now or depend on future events. Associated with them final costs sometimes but not always can be adequately assessed. Given this range, it is appropriate to consider financial risks within the framework of explicit (formal) obligations under the law and implicit (those implied) obligations, that are included in the current political or social expectations. Within this limits legal obligations of the government have different effect, and the expected costs have different degrees of certainty. Some expenses such as delayed compensation to worker or elimination of environmental pollution usually appear in balance sheets as a liability. Others, such as court cases under consideration, or pending orders are usually disclosed in the footnotes of financial statements as contingent liabilities (contingencies) or as an obligation to be fulfilled (commitments).

The range of financial risks

Table 4.2

Source	Example
Explicit obligations under the law	- Public debt - Payments to hired employees and veterans - Commitments to environment - Accounts of creditors - Requirements for payment of insurance compensation
Explicit liabilities	- Backlog - Long-term lease - Commitment to long-term contracts
Explicit possible financial liabilities	- Government guarantees on loans and credits - National Insurance Programs (bank deposits, partial loss of crops, flood, etc.)
Expectations regarding costs arising from the potential "moral" or "social" attacks based on	- Future payments for social security (old-age pensions) - Costs for service period: the acquisition of fixed assets may lead to future operating costs and maintenance costs - Help to big institutions to overcome the economic difficulties:

current policies and/or public understanding of the role of government	the national government may intervene to reduce losses due to defaults by: - Local governments; - Enterprises owned by the state; - Private companies that have political/economic importance. - Help in case of natural disaster: the national government usually assumes responsibility for financial losses arising from catasptophes and disasters.

4.4. Measurement of debt

34. Measurement and prediction of the costs, related to contingent liabilities, is a very difficult process. Nevertheless, it is extremely important to identify, classify and take into account the full range of contingent liabilities which may hereafter become an actual liability and require payment of funds from the state budget.

35. Measurement of debt means a monetary value of the total payable amount. Concerning the measurement by such elements as guarantees against loss, guarantees of third parties, and letters of guarantee or other form of legally optional assurances, it is known that each of these categories has a certain contingent liability, but it's impossible to measure precisely the amount needed.

36. SAI can determine the accuracy of various assessments undertaken to determine the amount of public debt (future interest rate and exchange rate, the probability of payment of contingent payments, etc.), by testing the accuracy of the assumptions on which they are based. It is also an issue of relevant judgment.

4.5. Reporting and disclosure of contingent liability information

37. Government agencies must include amounts of debts and liabilities that meet the proper definition of public debt in their reports on public debt. Each state makes its own decision about what should be included into reports on public debt. Assessment of actual and contingent liabilities included in any definition of public debt, can be applied to all the debt or the net amount to increase or decrease of debt within some period of time.

38. Reports, which are produced to formulate and control the overall economic and tax policy, should generally include data on various components of debt, which could affect the public sector ability to fulfill future cash requirements. For each element of the debt, the amount of any future payments can be fixed, variable, according to formula set in advance, or uncertain. Furthermore, in case of rise of obligation to make certain payments it is possible to see different levels of contingencies.

39. According to the IAS 37 article 86, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:

- an estimate of its financial effect;
- an indication of the uncertainties relating to the amount or timing of any outflow;
- the possibility of any reimbursement.

40. Today number of governments which prepare financial statements based on accrual is increasing. The balance section on liability includes such items as future pension payments to workers, the costs for the elimination of environmental pollution and paid claims for payment of insurance compensation. Probable liabilities are recognized in the balance sheet through a provision for expected losses, if it is only assumed that the loss is probable and can be reasonably evaluated. Some type of commitments like contingencies, which do not meet these criteria are not directly reflected in the body of financial statements and, more often are disclosed in footnotes to the reports.

41. As for the contingent liability, the spectrum of the information provided can cover a wide range and will probably require the adoption of the wide classification. Code on respectable practice in the sphere of financial transparency issued by the IMF requires publication of financial statements together with the annual budget, which should have a description of the nature and significance of possible financial/contingent liabilities and other items such as expenditure on payment of taxes and quasi-financial activity.

42. A number of countries have already taken measures to improve disclosure of liabilities (contingencies) and other obligations (commitments). Examples of different approaches to disclosure of the amount of contingent debt compared to the actual debt are as follows:
    - In Canada, the reports on public debt are followed by explanatory note. An audit of the note is conducted, but the individual contingent liabilities are not disclosed and are not included in total amount of public debt.
    - In the UK contingent liabilities are also excluded from total amount of public debt, but where possible, some obligations are defined and revealed. However, the audit of these amounts is not conducted, although given the innovations in the accounting system of state authorities, this situation may change.
    - In Portugal, the national debt (actual and certain contingent liabilities) is disclosed in financial statements, audit of which is conducted by SAI of this country. However only contingent liabilities relating to guarantees are revealed; moreover the amount of information given is smaller than that of the actual debt.

43. In case of existence of contingent liabilities (for example, when the state acts as a sponsor of direct schemes of payment insurance) information about their cost and risk features should be disclosed in public statements as much as possible. Concerning the disclosure of component of debt, it’s worth summarizing and displaying the nature and amount of each major contingent liability or contingent liabilities type. This category may include the probable costs to eliminate damage caused to the environment.

4.6. Contingent liabilities management

44. One of the important factors of the origin or spread of economic crises is inefficient structure of debt in terms of significant not secured by reserves contingent liabilities. Though the responsible debt management along with proper contingent liabilities control will reduce vulnerability of countries in the crisis and financial risks.

45. Although government debt management policy has not always been the only or main cause of these crises, the paying off structure and currency structure of portfolio government debt, along with its significant contingent liabilities often lead to crisis worsening. Even in situations with reliable macroeconomic framework risky debt management techniques raise the vulnerability of the economy during economic and financial shocks. In this section it is mentioned that one of the methods for eliminating these risks is to review the criteria and mechanisms of control used for contingent liabilities.

46. Today, the debt management function often includes exercise of overall control of liquid financial assets and potential risks in connection with outbalanced requirements of the central government, including such contingent liabilities as government guarantees. During the development and implementation of debt management strategy by the central government aimed at achieving the objectives of costs and risks as well as any other sovereign debt management goals, central governments should, whenever possible, provide monitoring and analysis of potential risks that may arise due to debt guarantee of the lower subordinate state bodies and state enterprises, and should be aware of the general financial situation of borrowers from the public and private sector. Apart from the need to coordinate schedules of attracting loans by the central government and subordinate state control bodies in order to provide the necessary spacing between auctions of new bond issues.

47. Risks inherent in the structure of public debt should be carefully monitored and evaluated. These risks need to be removed to the maximum extent possible by making changes in the structure of debt, but taking into account the associated costs. One of those risks can be providing false statements on contingent liabilities and debt guarantees, which can lead to an underestimation of the real assessment of state liability. As a result, the following disadvantages exist:
    - Insufficient coordination of procedures in matters attracting loans of subordinate state bodies (sometimes under the guarantee of the central government) or state enterprises;
    - Regular debt relief for subordinate state bodies or state enterprises;
    - Provision of guarantees on loans, payment probability of which by guarantor is high (in the absence of respective budget allocations).

48. When making decisions on attracting loans, debt managers should consider the impact of contingent liabilities on the government's financial situation, including its overall liquidity. Experience demonstrates that contingent liabilities are very significant, especially when they include recapitalization of the banking system by the government or result from the structure of privatization of state property programs. Also, if the structure of such obligations does not provide adequate incentives or control mechanisms, they often can be accompanied by the threat of moral hazard for the government, because the promise of advance payments may increase the probability of these obligations. Accordingly, governments should find the right combination of benefits from information disclosure and consequences in the form of moral hazard that may arise in connection with contingent liabilities, especially when it comes to indirect liabilities.

49. Governments should monitor the level of risk, i.e. the size of positions in connection with the adoption of direct contingent liabilities, and do everything necessary for a full awareness of the risks associated with such obligations. Governments are also advised to take into account conditions, which can become the impetus for the emergence of indirect contingent liabilities, such as weak assets management practices and liabilities in the banking sector. Governments of some countries consider appropriate to centralize functions of such monitoring. In all cases it is necessary for managers to know about the conventional liabilities adopted by the government.

50. Fiscal authorities should consider the necessity of creation of reserves to cover anticipated losses from open contingent liabilities. In cases where it is impossible to obtain reliable estimates, available information about value of contingent liabilities and their risk levels or risk of "liquidity drain" can be summarized in the notes to the tables of the budget or financial statements of the government, since contingent liabilities may represent a considerable risk for the general government balance.

51. Risks that accompany the contingent liabilities can be significantly reduced by strengthening prudential supervision and regulation, creation of necessary systems of contribution insurance, carrying out reforms aimed at ensuring secure management of public sector enterprises, and improving the quality of macroeconomic management and other measures in the sphere of law regulation.

52. As already stressed above, in case of corresponding circumstances appearance, contingent liabilities may become actual liabilities of the state and lead to situation when government face the necessity to pay large sums from the state budget. Even countries with quite stable financial situation now may find themselves in hazardous situations as a result of cost increase in connection with large-scale programs, if these costs were not fully accounted in the state budget.

53. Many countries face serious demographic problems, such as population ageing. In future this trend might lead to the need for substantial costs for pensions from the state budget and the financing of medical care. Such potential costs must be estimated beforehand; otherwise they can lead to serious budgetary imbalances.

54. Research conducted by the IMF and the World Bank staff in collaboration with specialists in debt management in various countries showed that only in some countries debt managers were involved in managing indirect contingent liabilities. Despite this, indirect contingent liabilities as a category of monetary demands from the state budget can cause significant risks for the government.

55. Only in some countries ministries of finance have special units that coordinate the activities of management of financial guarantees including debt management activities. It should be noted that such coordination is extremely important because in many transition economies guarantees given by the government continue to constitute a substantial part of public debt. Typically, guarantees are considered in debt management strategy determination, especially during the “stability verification” of the proposed strategies.

56. Governments should identify and classify the full range of contingent liabilities, which can cause claim of cash demands in future. Because a large variety of these liabilities, during the analysis the following considerations should taken into account:
    - The nature of contingent liabilities in terms of their belonging to the category of direct or indirect liabilities;
    - Statistical probability of occurrence of an event that creates a risk of transforming contingent liabilities into actual liabilities. It should also be considered whether there is a demand for payment from the state budget as a result of events that have taken place, or this requirement depends on a certain event in the future.

57. Usually the following algorithm of contingent liabilities analysis is suggested:
    1. Monitoring and analysis of the impact of macroeconomic factors, the evolution of the balance of payments on the ability to pay off and operate its debt.
    2. Definition and classification of risks.
    3. Accounting risks in the presence of the following contingent liabilities:
    - Loans and guarantees in favor of third parties;
    - Insurance and reinsurance;
    - Social welfare programs;
    - Program on financing health care and education.
    4. Evaluation of the expected risk “price”.

4.7. Role of Supreme Audit Institutions

58. There is a common practice that SAI should do everything in its power, within its competencies and capabilities to convince the government to adopt a suitable definition of public debt and methods of its disclosure. If information is incomplete, SAI can define additional information on debt, which should be, in its opinion, made available and actively urge the government to disclose such information. In particular, public authorities should include assessment of actual and contingent liabilities (that meet the relevant definition of public debt) in their reports on the public debt.

59. To protect the financial position of government, debt managers should develop a balanced strategy of debt management and take actions on risk management. SAI may also make its active contribution to support positive financial situation in their countries, arguing the need for sound debt management strategies, and applying best practices for risk management, implementing correct policy towards information disclosure and maintenance of effective control and regulatory mechanism in the banking sector, in order to minimize risks associated with future obligations and demands of the private sector, as well as possible passive (contingent) liabilities of the sector. It should be emphasized that the proposed role of the SAI should stay within their legal powers.

60. One of the issues that could be included in audits of debt management, conducted by SAIs is the question of risk management. Market, interest, credit risk, liquidity and operational risks of characterizing uncertainties also affect the management of public debt. SAI may conduct audits of the procedures by which such risks can be identified, tested, monitored and eliminated. SAI also can check rates on account of the vulnerability of debt management, management of assets and liabilities, the application of load tests and consequences of contingent liabilities and guarantees of the obligations.

5. Results of survey on contingent debt conducted among INTOSAI members

61. At its 2009 meeting in Kyiv (Ukraine) INTOSAI Working Group on Public Debt approved questionnaire prepared by the Accounting Chamber of Ukraine to carry out investigation on the subject of contingent debt (see annex 1). The questionnaire contains 15 questions that describe the different aspects of the problems concerning contingent debt. Questions in the questionnaire formed so as to get information on the legal definition of contingent debt in national legislation, the availability of its accounting and reporting, management system, strategy and special financial reserves, the role of SAIs - their powers to audit the contingent liability and the availability of information on the contingent debt and results of audit in society.

62. Answers only of 37 SAIs gave some information on the status and classification of contingent debt used in these countries. The investigation showed the lack of a unified position among INTOSAI members on the definition, classification of contingent debt and common methodology for its measurement. Almost all respondents said that the issue of definition and classification of contingent debt in their countries is not regulated by law. 27 SAIs gave their classification based on the nature of contingent liabilities and adapted to the specific country.

Types of contingent liabilities in some INTOSAI member-countries

Table 5.1

No.	Type of contingent liabilities	SAIs notified the existence of contingent liabilities
1.	Credit loans gained under Government's guarantees	Czech Republic, Germany, Lithuania, Bulgaria, Romania, Denmark, Yemen, Brazil, Sweden, Slovakia, Lithuania, Latvia, Estonia, Russia, Bulgaria, Albania, Turkey, Colombia, Kyrgyzstan, Morocco, Uganda, Suriname, Moldova, Trinidad and Tobago, Italy, Argentina, Canada
2.	Municipal debt	Romania, Yemen, Brazil, Russia, Bulgaria, Morocco
3.	Public entities' debt	Romania, Malta, Chile, Denmark, Yemen, Brazil, Russia, Turkey, Morocco, Trinidad and Tobago, Italy
4.	The system of guarantee on pensions	Chile, Japan
5.	The financial deposit insurance	Chile, Japan

	system	
6.	Liabilities in connection with future lawsuits	Chile, Japan, Uganda, Brazil
7.	Liabilities in the system of public life and health insurance	Japan
8.	Guarantees on compensation for damages, losses	Uganda

63. Though some respondents indicated that their countries legislation does not contain the term "contingent liability", but they reported some features. Thus, the law of Chile on the financial governance provides examples of contingent liabilities, but does not define "contingent debt". Canadian legislation contains principles for the determination of liabilities that the country can not fulfill. Maltese legislation defines the term "contingency fund", which funds may be used, including the financing costs that were not foreseen in other expenditure.

64. Analysis of responses showed that the contingent debt was mainly represented by loans received under government guarantees. And hence the reporting on contingent debt, its calculated maximum and inclusion in the government debt was done only as a part of this debt.

65. Nearly half of respondents noticed that they include conditional debt to the public one. During the analysis of responses it’s been revealed that this inclusion is mostly concerned debt on loans obtained against the Government. In particular, loans under government guarantee is part of Albania's public debt and is approximately 5.9% of the total public debt.

66. Some SAIs made additions to our proposed classification of contingent debt (liabilities) that can be used in the country. In addition to such proposed forms of contingent debt, as debt of municipalities and state enterprises debt, respondents incorporated debt in deposit insurance system and system of public works, pension guarantees, comfort letters, compensation for judicial lawsuits and insurance payments.

67. There is no uniform position towards the issues of measuring the size of contingent debt and determination of its maximum. Specific calculations of maximum for some types of contingent debt (liabilities) were obtained during the investigation.

68. Special reports on conventional debt in most countries are practically absent. However, in some cases there are separate forms for reporting contingent liabilities.

69. Only a quarter of SAIs notified about the existence of the reserve funds provided for in case contingent debt transforms into direct public debt. One of the SAIs mentioned clear limits to determine the amount of reserve funds in case of transformation of government

guarantees into direct public debt. It should be noted that most respondents reported a risk of transformation of loans that are guaranteed by the Government into public debt.

70. The strategy on the contingent debt management was available in one fourth of the respondents. Most of them indicated that the strategy of contingent debt was part of their strategy for managing public debt, and therefore did not report the presence of a specific document on contingent debt management strategy.

71. Less than half SAIs reported about the practice of conducting contingent debt audits and the presence of powers to do so. Some respondents mentioned that they have the authority to inspect the contingent debt in that part which belongs to the national debt.

72. In addition, the aforementioned respondents at the request of the Accounting Chamber of Ukraine to provide audit reports on contingent liabilities did not send any. Some SAIs put in the questionnaire links to official sites where one can find mentioned reports (though not in English).

Conclusions and recommendations

1. The problem of public debt is important for all INTOSAI member states. This was confirmed by the results of the investigation. At the same time, big differences exist among SAI – INTOSAI members concerning definition of term, classification, methodology of contingent debt measurement and information disclosure about it in state financial report.

The principles of dividing contingent liabilities into direct and indirect are relative agreed. *Direct contingent liabilities* are referred to commitments recognized as contractual liabilities, which upon the occurrence of certain conditions may have requirements for disbursement in a given amount. *Indirect contingent liabilities* do not arise from legal or contractual obligations, but are recognized as the actual liabilities after a certain event or circumstance occur.

The analysis shows that the issue concerning definition and classification of contingent debt is not commonly regulated by law. It is mainly represented by loans received under government guarantees. And hence the reporting on contingent debt, its calculated maximum and inclusion in the government debt is done only as a part of this debt.

Recommendation 1. SAI should conduct national investigations on contingent debt management and their influence on the state of public debt.

2. Contingent liabilities are often connected with high risk decision-making by separate governmental bodies because likelihood of their materialization increases with the timely allocation of funds to cover such liabilities (e.g. government guarantees). Potential loans may be explicit and implicit (those that are implied); they may exist right now or depend on future events.

Recommendation 2. Given this range, it is appropriate to consider financial risks within the framework of explicit (formal) obligations under the law and implicit (those implied) obligations, that are included in the current political or social expectations.

3. One of the important factors of the origin or spread of economic crises is inefficient structure of debt in terms of significant unsecured by reserves contingent liabilities. Only a quarter of SAIs notified about the existence of the reserve funds in case contingent debt transforms into direct public debt.

Recommendation 3. To reduce the risk of bringing state to default **SAI should draw government attention to necessity to build the reserve funds in case of transformation contingent debt on direct public debt. After estimating possible finance risks, SAI can give government recommendation to place the limit of reserve (for example, percentage of amount providing guarantees).**

4. The possibility of contingent debt choice is one of the important elements of public security of the state. In spite of complexity of these calculations, the country should have the data on the amount of contingent liabilities, time of its probable transformation to direct liabilities to assume reserves for their discharge. The results of the investigation revealed that near half of responding SAI informed about inaccessibility for public of information concerning contingent debt.

The important role in evaluation of contingent debt amount is on Supreme Audit Institutions because they accumulate the data about contingent liabilities and can make a forecast concerning critical situations. Most important aspects of SAI activity are: audit conducting, calculation of rate of vulnerability and preparation of recommendations. The information from SAI is public source of full information concerning contingent debt. On the ground of this information public body may develop preventive measures for decreasing its negative influence.

Recommendation 4. Taking into account the important role of foreign supervision on the state of public finance we recommend SAI to monitor the state of risk management by Government in connection with possible assumption of direct contingent liabilities and to inform government and the society about risks related to such liabilities.

5. If there are contingent liabilities, information about their cost and risk features should be disclosed in public statements as much as possible. As for disclosure of the volume of contingent debt (liabilities) it should be said that for each element of the debt, the amount of any future payments can be fixed, variable (according to formula set in advance), or uncertain. Each state should decide about the content of state debt report and its components. It should remember about existence of different possible and contingent liabilities, which could affect the public sector ability to fulfill future cash requirements. At the same time more than half respondents informed about the lack of special forms of accounting contingent debt.

Recommendation 5. We recommend the SAI member countries to determine the list of contingent liabilities on the national level, which should be reported by government. SAI should give recommendations on the development the documents (special reposting, official information etc.) on contingent debt. At the same time SAI need to summarize and display the nature and amount of each major contingent liability or contingent liabilities type. Also SAI should focus on determining the Government needs to provide loans under state guarantees and display accurate and reliable information on this subject in the relevant reports.

6. World financial crisis essentially stirred the economics of different countries and raised the problem of transformation of contingent liabilities into direct liabilities; though the passivity of such cases can be reduced by the corresponding supervision by state. There is a need to build in the country the protection system against crisis situations: at first consider the potential risks and secondly provide reliable monitoring, thirdly, exclude the risky methods of debt management. The practice shows that one of the reliable ways to control the level of contingent liabilities is centralization of all data about them (the amount of contingent liabilities, monitoring, and assessment methodology) by one institution, which can constitute the part of the Ministry of Finance or be an independent body.

Recommendation 6. Resulting from fact that there is no consolidated position among SAIs about the definition of contingent liabilities, reporting about them and audit procedures accordingly, it is worth continuing the discussion of these matters within the activity framework of the INTOSAI Working Group with the aim to gradually find the understanding of this problem.

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Annex 1

Contingent Debt Questionnaire

0. Respondent Information

Country ______________________________

SAI ______________________________

Address ______________________________

Contacts ______________________________

Date ______________________________

1. Does national legislation in your country defines the term "contingent debt"?

☐ Yes ☐ No

If yes, specify please

____

____

____

2. Is there a national classification of the "contingent debt" in your country?

Municipal debt ☐

Public entities' debt ☐

Credit loans gained under Government's guarantees ☐

Other (specify please) ☐

____

____

____

3. Have it been calculated in your country the amount of contingent debt and anticipated expenses for its service?

☐ Yes ☐ No

4. Is the contingent debt an element of your country's public debt?

☐ Yes ☐ No

If yes, please specify in what part?

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____
____

5. Can you determine an amount of your country's contingent debt within the liabilities?

☐ Yes ☐ No

If yes, please specify what are those liabilities and their amounts?

____
____
____

6. Is the limit of contingent debt determined in you country?

☐ Yes ☐ No

If yes, please specify to what extent and what manner?

____
____
____

7. Is there a special agency in your country responsible for contingent debt calculation and forecasting the risks of contingent debt's transformation into direct public debt?

☐ Yes ☐ No

If yes, please specify what is the agency and in what manner it performs?

____
____
____

8. Does your national Government report on the contingent debt issues?

☐ Yes ☐ No

If yes, please specify details of such report.

____
____
____

9. Are there any special requirements to the contingent debt reporting in your country?

☐ Yes ☐ No

If yes, please specify what are those requirements? Can you provide a copy of such report?

____
____
____

10. Does your country national budget provide for the reserve assets in case the contingent debt transforms into direct public debt?

☐ Yes ☐ No

If yes, please specify in what way it is provided?

____
____
____

11. Is the information on contingent debt open for public in your country?

☐ Yes ☐ No

If yes, please specify where information on contingent debt is published?

____
____
____

12. Is there any strategy (or any other document) on the contingent debt management in your country?

☐ Yes ☐ No

If yes, please specify what kind of document it is?
Can you provide a copy of the document?

____
____
____

13. Does your national SAI perform ongoing monitoring of contingent debt?

☐ Yes ☐ No

14. Is your national SAI empowered to audit contingent debt management issues?

☐ Yes ☐ No

15. Has your national SAI performed a contingent debt audit?

☐ Yes ☐ No

If yes, please specify on the audit themes (for the last 5 years).
Can you provide a copy of any audit report?

___

___

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Annex 2

Peculiarities of contingent debt management and audit in different INTOSAI member states

1. Does national legislation in your country defines **the term "contingent debt"**?	**Netherlands** – No. Allthough the term is not legally defined contigent debt is incoporated in several respects. The outstanding garantuees of government to third parties (e.g. export garantuees) are included in het annual accounts of government. These garantuees add up to an amount of about 50% of GDP. Furthermore expenditures (and revenues) are valued for 4 years in advance in the annual budget law . And in the political debate future costs with respect to the ageing problem and other issues as climate change and the consequences of these developments for public debt have an important impact on fiscal policy. However, these possible future expenditures are not considered as contingent debt as it depends on policy decision if they will be realised. Allthough not very likely, pension schemes for elder people for example can be cut back by a political decision.
	Lithuania - Term contingent liability in Lithuania includes only credit loans gained under Government's guarantees. Starting with 2012 according to the law financial statements for whole public sector will be prepared in accordance with international accounting standards; therefore it will be a requirement to disclose all public liabilities including all possible contingent liabilities.
	Latvia – No. In Latvia the procedures for the formulation, approval and implementation of the State budget and local government budgets, and responsibilities in the budget process are stipulated by *Law on Budget and Financial Management*. Financial management within the meaning of this Law applies to budgetary funds of the State budget and local government budgets. The provisions of this Law apply to the financial activities of merchants in cases where they have been allocated funds from the State budget or local government budgets, a share of capital has been invested by the State or local governments in them, or it is specially so determined by law or regulations of the Cabinet of Ministers (Government). The provisions of this Law also apply to State and local government agencies and to public foundations. At the beginning of *Law on Budget and Financial Management* terms used in this Law are specified and there are such terms as "loans", "liabilities", "short-term liabilities", "State budget long-term liabilities", "national debt" etc. explained, but there is no such term as "contingent debt". However, from *Law on Budget and Financial Management* one can see that in case of

	Latvia for purposes of the term “contingent debt” the following wording in is used – “the forecasted amount for meeting the liabilities of guarantees issued in the name of the State” and “maximum permissible amount of the State budget long-term liabilities”. The abovementioned wording comes from Section 22 titled “Adoption of an Annual State Budget Law” of *Law on Budget and Financial Management* and namely: “(2) A State Budget Law shall contain: 1) the State budget financial balance sheet and the maximum allowable amount of the national debt at the end of the financial year, as well as the forecasted amount for meeting the liabilities of guarantees issued in the name of the State in the national debt, and the amounts of guarantees to be issued anew in the financial year; … 4) Maximum permissible amount of the State budget long-term liabilities in conformity with the budget expenditure classifications.”
	Bulgaria – Yes. All financial obligations, for which the Council of Ministers has issued guarantees on behalf and for the account of the government in compliance with the requirements of the Constitution, are government-guaranteed debt. Municipality-guaranteed debt are all financial obligations in respect of which guarantees have been issued on behalf and for the account of the municipality by resolution of the Municipal Council in compliance with the requirements of the Municipal Debt Act.
	Romania – No. But, according to EOG no.64/2004, government public debt is defined as total state obligations at any moment, from reimbursable financing either committed on contractual basis or guaranteed by the government through the Ministry of Finance while the local public debt as the obligations of the territorial units, at any moment, from reimbursable financing either committed on contractual basis or guaranteed by local public administration authorities.
	Albania – Yes. The Law Nr. 9665 date 18.12.2006 “On state borrowing state debt and state loan guarantees in republic of Albania” defines not exactly ‘Contingent debt” but specifies “The loan Guarantees “which are one type of contingent public debt. This Law determines: Article 3. The state loan guarantee is a written agreement containing rules on the rights and obligations of parties, conditions and ways, according to which the state is responsible for the financial obligations of a borrower, in cases when the Borrower is not able to repay the owed amount on time. The guarantee is the obligation for the payment of the financial liability on behalf of a legal entity, in

	cases when this legal entity, being directly responsible for the payment of the financial obligation, does not manage to pay it back on time. The state loan guarantee is the total amount of loans, for which the Minister of Finance has signed guarantee agreements on behalf of the Council of Ministers.
	Malta – No. Although the Maltese national legislation does not define the term ‘contingent debt’, Section 105 of the Constitution of Malta makes reference to the term ‘Contingencies Fund’ as follows: “Parliament may provide for the establishment of a Contingencies Fund and for authorising the Minister responsible for finance, if he is satisfied that there has arisen an urgent and unforeseen need for expenditure for which no other provision exists, to make advances from that Fund to meet that need. (2) Where any advance is made in accordance with sub-article (1) of this article a supplementary estimate shall be presented and a supplementary appropriation bill shall be introduced as soon as practicable for the purpose of replacing the amount so advanced.” The Contingencies Fund’s balance is limited up to a maximum of €1,164,687 (Appendix K1of the Financial Report).
	Canada – No. Our national legislation does not define the term “contingent debt” but we provided more context. In the Public Accounts of Canada, the note about the Summary of Significant Policies, the Government of Canada is disclosing that: “Contingent Liabilities, including provision for losses on loan guarantees, are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. If the future event is likely to occur or fail to occur, and a reasonable estimate of the lost can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements”.
	Chile - No. Decree Nr. 1.263 (adopted by the legislature), which is the Law on Financial State Management, contains only examples of contingent liabilities. In the annual report of the Controller-General Office of the Republic of Chile, prepared in accordance with the state law, contingent liabilities are defined as obligations that may or may not be recognized, no matter which conditions or limits of a range of basic indicators’ value they’re referred. The main indicators that monitor contingent liabilities may be either exogenous in relation to government policy (e.g. if they are related with natural disasters) or endogenous to it (e.g. if they depend on public policy).
	Moldova – Yes. This term is defined as "state guarantees" as follows: *State guarantee contract* - guarantee contract between

	the state and lender, whereby the state undertakes to pay all or a part of the guaranteed debtor's debt to creditor (entities which has obtained loans under state guarantee), arising from internal or external loans if the guaranteed debtor does not execute its obligations to creditor (Article 2 of Law no. 419-XVI of 22.12.2006 on the debt, state guarantees and lending). *State guaranty* – commitment undertaken by Government on behalf and on the account of the State, as guarantor to pay at maturity outstanding obligations.
	Brazil - Yes. Act nº 12.017/2009 (LDO), in the Annex VI, called Fiscal Risks Annex, defines contingent asset as follow: The second kind of debt risk comes from that known as contingent assets and it is referred to new liabilities from an event that may or may not happen. The probability that it may happen and to what extent, will depend on the conditions beyond us and whose incidence is difficult to forecast. That is why measuring this liabilities is more difficult and uncertain. In this sense the connotation assumed by the term "contingent" is clear in the conditional and probabilistic sense.
	Portugal - Yes. A number of items that can be classified as contingent debt, loan guarantees, insurance guarantees and investment guarantees, are defined by specific legislation but there is nothing like a broad definition of contingent public debt. Those contingent items are not part of public debt as it is defined by legislation.
	USA – No. National (Federal) legislation is not used to define accounting standards and accounting terms in the United States of America.
2. Is there a national **classification** of the "contingent debt" in your country?	**The Czech Republic -** Other - One possible part of the "contingent debt" is "state guarantees". These guarantees are mentioned in the Act Nr. 218/2000 Coll. Since the year 2001 new guarantees can be provided only under a special law.
	Germany - Other. The German Constitution stipulates that the borrowing, the giving of guarantees and other warranties require a statutory authorisation. The annual Federal Budget Act imposes a ceiling for guarantees. Similar provisions apply to the budgets of the German states. Specific laws e.g. Financial Market Stabilisation Act also impose a ceiling on guarantees.
	Bulgaria - Other. It comprises the state – guaranteed debt and financial obligations which have been municipality-guaranteed.
	Romania - Municipal debt, Public entities' debt, Credit loans gained under Government's guarantees.
	Malta - Public entities' debt, Credit loans gained under Government's guarantees, other - Contingent Liabilities are reported upon in the Government of Malta Financial Report. The position of Contingent Liabilities at year end is analyzed

	as follows: - Government Guarantees (differentiating between Local and Foreign); - Letters of Comfort.
	Chile - Other: In general, the unique classification is applies, based on the nature of contingent liabilities. The main contingent liabilities that are regularly realized are the following: The system of guarantee on pensions The system of guarantee on the provision of public works Guarantee against state enterprises' liabilities Guarantee on financing the higher education institutions Requirements for State Budget Resolving disputes in the provision of public works The financial deposit insurance system
	Japan - Public entities' debt, Credit loans gained under Government's guarantees, Other: Damage claims of pending litigations (over 1 billion yen); refund of postal savings deposits and payment of their interest; payments of insurance, pension and others under the contract of former postal life insurance contracts
	Denmark - Public entities' debt, Credit loans gained under Government's guarantees
	Yemen - Municipal debt, Public entities' debt, Credit loans gained under Government's guarantees, Other
	Brazil - Contingent liabilities from the states and the Federal District, Contingent liabilities for the state enterprises, Contingent liabilities of the enterprises and termination or liquidation, Contingent liabilities native of debt in recognition, Contingent liabilities derived from endorsements and guarantees from the Union *(Credit loans obtained with government guarantees)*, Contingent liabilities concerning to regional funds, Contingent liabilities from direct administration, autarchys and foundations *(Debt of public entities)*
	USA - In federal accounting standards, there are two terms similar to "contingent debt", namely, "contingent liability" and "contingent loss". Contingent liabilities are recognized (reported) on the Balance Sheets of the Federal government when two conditions are simultaneously met: 1. a past transaction or event has occurred, and 2. a future outflow (payment) or other sacrifice of resources s is probable and measurable. The estimated contingent liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, then that amount is recognized. If no amount within the range is a better estimate than any

	other amount, then the minimum amount in the range is recognized and the range is disclosed. Contingent liabilities that do not meet the above criteria for recognition (reporting), but for which there is at least a reasonable possibility that a loss may have been incurred, are disclosed separately in the notes of the financial report of the US government, as a Loss Contingency. Loss contingencies involve situations where there is an uncertainty of a possible loss. The reporting of loss contingencies in notes of the financial statements depends on the likelihood that a future event or events will confirm the loss. Terms used to assess the range for the likelihood or probability of loss are probable, reasonably possible, and remote. As explained above, loss contingencies that are probable and measurable are accrued in the financial statements. Loss contingencies that are assessed as remote are not reported in the financial statements, nor disclosed in the notes. All other material loss contingencies are disclosed in the notes of financial statements.
3. Have it been calculated in your country the amount of contingent debt and anticipated **expenses** for its service?	**Netherlands** - No. Actually the answer should be yes and no. There's is no formal calculation of the contigent debt, but forecasts of the governments planning bureau and government itself provides a clear picture of te outcome on public debt of for instance the demographic changes in the decennia to come.
	Canada – Yes. But only if the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. No estimate is made for the anticipated expenses associated with future debt servicing re. those liabilities.
4. Is the contingent debt an **element** of your country's public debt?	**Slovakia** – No. Some guaranteed loans were already included in debt by change of debtor. From beginning of year 2007 there are no risky guaranties.
	Russia – Yes. Regarding the state guarantees of Russian Federation and public debt of constituent entities of the Russian Federation.
	Romania – Yes. 1) Governmental guarantees statement (Appendix to the execution of the general annual account of the state budget) 2) Local authorities guarantees statement (Appendix to the execution of the general annual account of the state budget).
	Albania – Yes. The Contingent Debt- The state loan guarantee is an element of Public debt and represent approximately 5.9 % of total public debt (stock).
	Turkey – Yes. In our general administration budget the contingent debt takes place as a part of public debt.
	Canada – No. The contingencies which are not sufficiently

	likely to be accounted for as liabilities (see answer to question 1) are only disclosed in the audited financial statements. Conversely, the contingencies which are considered likely are accounted for as liabilities.
	Colombia – Yes. The debt that the SAI presents, includes the secured debt by the nation, and is presented separately from the National Government debt.
	Chile - Yes. In the report the State Department of Finance, which is issued annually by the Office of the Controller-General of the Republic of Chile? This report is posted on the website (in Spanish) www.contraloria.cl. The above mentioned contingent liabilities are related only to guarantee of public debt for services conducted by the State budget for institutions of public sector.
	Japan - Yes. Since contingent debts are not yet the actual debt, they are separated from other public liabilities. Contingent debts are listed in the notes to the financial statements.
	Morocco - Partially. Yes. Some components of the contingent debt are indeed considered as elements of the public debt such as foreign Loans gained under State guaranty by public establishments as well as private ones, and also loans in local currency gained under State guaranty.
	Suriname – Yes. Contingent liabilities which are undisbursed commitments on loans and non-called guaranteed debt are registered and are part of the gross debt (external and domestic) of the Central Government debt.
	Moldova – Yes. A separate section of public debt is called "State guarantees"
	Mexico - Yes. The Income Tax Law established the obligation of reporting to the Congress, each three months, contingent liabilities assumed during that period.
	Argentina - Yes Partially. Indirect, contractual debt (endorsements, and warranties from the national Government in subnational levels for the payment of multilateral loans and bonds) and debts in head of the nation with third parties warranty.
	USA - Contingent liability is a separate concept from “public debt”. In the US, “public debt” is disclosed as “Federal debt securities held by the public and accrued interest”.
5. Can you determine an **amount** of your country’s contingent debt within the liabilities?	**The Czech Republic –** No. The Ministry of Finance monitors and states in the State Final Account an amount of state guarantees. But these state guarantees are not included in liabilities in the balance.
	Germany - Yes. Federal Budget 2009: 469 billion € incl. 100 billion € for a special program to overcome the economic crisis (ceiling for guarantees) Financial Market Stabilisation: 400 billion € (ceiling for guarantees)

	Netherlands – No. We should add that it is of course possible to calculate the contigent debt on some major items as expenditures for ageing and for climate. But this would deliver a very uncertain outcome. Moreover, it is not certain that government and parliament decide will decide to implement such a policy.
	Lithuania – Yes. Only credit loans gained under Government's guarantees. 31 December 2008 data – about 350 million Euros.
	Latvia – Yes. The maximum allowable amount of the central government debt at the end of the financial year, as well as the forecasted amount for meeting the liabilities of guarantees issued in the name of the State in the central government debt are determined by the Annual State Budget Law, in accordance with Section 22 titled "Adoption of an Annual State Budget Law" of *Law on Budget and Financial Management*. For example, *State Budget Law for 2009* contains two specific annexes: – Annex 14 "Maximum permissible amount of the State budget long-term liabilities" specifies limits for particular projects and activities in 2009, 2010, 2011 and following years till full implementation of projects listed. In 2009 liabilities sum up to one billion lats (~2 billion USD) and in comparison State budget planned expenditures in 2009 amounts to 5.5 billion lats (~11 billion USD); Annex 15 "Guarantees issued in the name of State in 2009" includes guarantees for study and student loans, for infrastructure projects implemented by Latvian Olympic Committee, as well as guarantees for business activities stimulation etc. and these sum up to almost 230 million lats (~460 million USD).
	Estonia – Yes. 4,8 million EUR (3 guaranteed loans).
	Russia – Yes. As of October, 1st, 2009: 3, 3 bln. US dollars - the state guarantees of the Russian Federation; 25,9 bln. US dollars - public debt of constituent entities of the Russian Federation; 441,2 bln. US dollars - debt before non-residents sectors of economy except for sectors of the government management and monetary and credit regulation
	Bulgaria – Yes. Calculations are made annually for the amount of the state guarantees and they are referred to as reserve in the State Budget Act of the Republic of Bulgaria for the respective year.

	Romania – Yes. The amount of Governmental guarantees at 31.12.2008 is 2.160 mil euro. The amount of Local authorities guarantees at 31.12.2008 is 178 mil euro.
	Albania – Yes. For 2008 the external public guaranteed debt of Albania was 359.2 million $.
	Canada - Yes. Allowance recorded for Guarantees by the federal government - $514 million Callable share capital in certain international organizations – amount not disclosed in the Public Accounts of Canada Contaminated sites - $3.2 billion Claims and pending and threatened litigation – amount not disclosed in the Public Accounts of Canada Comprehensive land claim by aboriginal groups - $3.5 billion Assessed taxes under objection or appeal – $16,2 billion Crown corporations insurance programs operated for the federal government - $0
	Chile - Yes. Answering the previous question we inform that as of December 31, 2008 guarantee domestic public debt increased by $ 918.341,1 million, and foreign debt reached US $ 446,3 million.
	Morocco - Partially**.** Yes. For example, the foreign loans under State guaranty outstanding is approximately 65 Billions DHS (or 8 billions USD) at the end of 2008.
	Suriname – Yes. The total gross outstanding external Central Government debt according to the definition in our National Debt Act was at ultimo September 2009: US$ 650.9 million of which US$ 394.1 million were contingent liabilities. For domestic debt the figures per ultimo September 2009 were: US$ 400.7 million of which US$ 82.3 million contingent liabilities.
	Denmark – Yes. The amount of contingent debt pr. 31st December 2008 is 214.457,3 million Danish kroner
	Moldova – Yes. Guaranteed external debt at the situation of 31.12.2008 - is 10.9 million USD. We want to mention that in the last 5 years the Government of Moldova has not issued state guarantees for external and internal loans.
	Norway – Yes. Government guarantees as of 31 December 2008: NOK 89,889 million.
	Santa Lucia – Yes. As at March 31st, 2003: External indirect $155,236,628 Domestic indirect $150,789,701
	Trinidad & Tobago – Yes. (i) Loans or Credits Guaranteed by the Government of Trinidad and Tobago as at 2008 September 30 amounts to TT $12,275,799,372.23. (ii) Letters of Comfort issued by the Government of Trinidad and Tobago as at 2008 September 30 amount to TT$5,047,669,880.32.

<table>
<tr><td></td><td>(TT$6.38=US$1.00)</td></tr>
<tr><td></td><td>Italy – Yes. € 14 billions export credit guarantee scheme (SACE)</td></tr>
<tr><td></td><td>Mexico - Yes.
<table>
<tr><th>Contingent Liabilities</th><th>Estimated Value, R$ millions</th></tr>
<tr><td>1)Lawsuits against the Union</td><td>151.507</td></tr>
<tr><td>2)Lawsuits against the state enterprises</td><td>1.670</td></tr>
<tr><td>3)Lawsuits coming from privatizations, liquidation or termination of bodies/esterprises</td><td>12</td></tr>
<tr><td>4)Debts in the process of Union recognition</td><td>98.600</td></tr>
<tr><td>5)Endorsement operations and guarantees given by the Union</td><td>92.800</td></tr>
<tr><td>6)Lawsuits against the Central Bank of Brazil</td><td>285</td></tr>
<tr><td>TOTAL</td><td>344.874</td></tr>
</table>
</td></tr>
<tr><td></td><td>USA - Yes. Three types of contingent liabilities are listed separately:
(1) Insurance and guarantee program liabilities - $166.2 billion;
(2) Loan guarantee liabilities - $69.4 billion;
(3) Liquidity guarantee - $91.9 billion.
Each of these three categories are further explained in notes of the financial statements.</td></tr>
<tr><td>6. Is the limit of contingent debt determined in your country?</td><td>The Czech Republic – No. In the Act No. 218/2000 Coll. there is stipulated that the state guarantees can be provided only under a special law.</td></tr>
<tr><td></td><td>Lithuania – Yes. Government’s guarantees should not exceed 7 percent of GDP at the end of the year.</td></tr>
<tr><td></td><td>Latvia – Yes. The maximum allowable amount of the central government debt at the end of the financial year, as well as the forecasted amount for meeting the liabilities of guarantees issued in the name of the State in the central government debt are determined by the Annual State Budget Law, in accordance with Section 22 titled “Adoption of an Annual State Budget Law” of Law on Budget and Financial Management.</td></tr>
<tr><td></td><td>Russia - Yes. Concerning the state guarantees of the Russian Federation it is established be Law on the federal budget. The debt of the subject of the Russian Federation according to the Budgetary Code cannot exceed 100 % of the incomes volume without nonrefundable grants from the federal budget.</td></tr>
<tr><td></td><td>Bulgaria - Yes. The State Budget Act of the Republic of Bulgaria for the respective year determines the limit of the state - guaranteed debt. Municipal guarantees are issued following the order stipulated in the Municipal Debt Act.</td></tr>
<tr><td></td><td>Romania - Yes. Through EOG no.99/2009 concerning ratification of stand-by arrangement between Romania and IMF, the ceiling for general government guarantees to be issued in 2009 and 2010 is established.</td></tr>
<tr><td></td><td>Turkey - Yes. The limit of treasury guarantees is defined in the</td></tr>
</table>

	article 19th of The Law on Regulating Public Finance and Debt Management (Law:4749). This limit is two billions USD for the year 2008.
	Suriname - No, not specifically. There is a limit for the total gross outstanding external and domestic debt of which the contingent liabilities are part off. The debt ceiling for external debt is 45% of GDP and for domestic debt 15% of GDP.
	Norway – Yes. Government guarantees as of 31 December 2008: NOK 186,532 million.
	Trinidad & Tobago – Yes. The Government guarantees loans for state enterprises and statutory authorities. There is a limit of guarantees for state enterprises of $TT 9 Billion but there is no limit for guarantees for statutory authorities. The limit for loans guaranteed for the University of the West Indies (UWI) is TT$100 million under the Guarantee of Loans (UWI) Act 1993 however, there is no limit for loans guaranteed for UWI under the National Development (Inter-American Development Bank) Loans Act, Chapter 71:07.
7. Is there a **special agency** in your country responsible for contingent debt calculation and forecasting the risks of contingent debt's transformation into direct public debt?	**Germany** - Yes. The Federal Ministries of Finance and of Economic Affairs forecast the possible implications for the annual budget.
	Slovakia – No. Transferred loans are treated in the frame of debt management strategy. The Debt and Liquidity Management Agency has been established as a budgetary organisation linked to the state budget via the budgetary chapter of the Ministry of Finance of the Slovak Republic under Article 14 of the Act No. 291/2002 Coll. on State Treasury. The Agency is a state administration body and, at the same time, it trades in securities. The role of the Debt and Liquidity Management Agency is the following: • provide, based on the analysis of market, debt portfolio and a developed risk management system, professional debt and liquidity management in order to optimise the associated costs; • facilitate separating the operating debt and liquidity management from formulating the policy and checking the observance of limits and regulations; • significantly improve the communication with financial and capital markets and investors – in co-operation with the Ministry of Finance of the Slovak Republic and other institutions operating on financial and capital markets improve the liquidity and transparency of the

	state securities market; • make sure the operating debt management is flexible.
	Latvia – Yes. The Treasury is a direct administration institution subordinate to the Ministry of Finance, which shall assign and effect payments for specified purposes from the State budget, perform the implementation and accounting functions of the State budget and management of the central government debt functions.
	Estonia – Yes. Treasury Department; Ministry of Finance.
	Bulgaria – Yes. Government Debt and Financial Market Directorate at the Ministry of Finance is responsible for contingent debt calculation and the risks related to it.
	Albania – Yes. Ministry of Finance (General Directory of Public Debt). The foreseen debt limitation shall refer, first and foremost, to the amount of debt and guarantees recently taken, and secondly, to unpaid guarantees at the end of the year._ The Ministry of Finance carries out the economic and financial analysis, and risk evaluation.
	Turkey - Yes. In the Organisation of Treasury Under secretariat The General Directorate of Public Finance is responsible for the management of contingent debt. Moreover, In this directorate there is a special unit which called the department of risk management for loans.
	Malta – No. There is no specific agency, but the Ministry of Finance, the Economy and Investment is responsible for Government Guarantees and Letters of Comfort's approval and calculation. It is this Ministry that receives and processes applications for Letters of Comfort and Bank Guarantees, and processes same in consideration of conditions applicable. Monitoring the overall financial situation of all entities forms part of MFEI's functions, and so any risks which may come to bear through the changes of a Government Guarantee being called in, are assessed as they may arise, as part of this monitoring function.
	Colombia – Yes. The responsible Entity in Colombia us the Ministry of Finance and Public Credit.
	Chile - Yes. This is the Office of the Budget at the Ministry of Finance. It is a technical body that receives offer for allocations of public financial resources and shall direct and control the budget drafting process and as well as regulate and control the execution of public expenditure. In connection with contingent liabilities, the Office of the Budget annually develops a report that embraces the overall size and characteristics of liabilities that received state guarantees. This report also includes assessing the financial obligations arising from the use of legal or contractual provisions, and that generate contingent liabilities, such as minimum pension guaranteed by the state,

	and guarantees on infrastructure concessions.
	Japan – Yes. Each ministry calculates its own contingent debts when it prepares financial statements. All the financial statements of each ministry are submitted to the Ministry of Finance (MOF). MOF gathers each ministry's contingent debts as a whole Japanese government (MOF prepares financial statements of Japanese government as a whole).
	Morocco - No. However, the Ministry of finance through various departments mainly the treasury department is dealing with the issues above mentioned, although for only some components of the contingent debt (such as foreign loans under State guaranty).
	Suriname – Yes. The Suriname Debt Management Office is responsible for the registration and monitoring of the Central Government Debt, including the contingent liabilities.
	Moldova – No. This is functions of the Public Debt Department of the Ministry of Finance.
	Rwanda – Yes. The Macroeconomic Department in the Ministry of Finance and Economic Planning
	Santa Lucia – Yes. Public debt and investment unit within the Ministry of Finance but only calculates the contingent liability amount.
	Trinidad & Tobago – Yes. The Ministry of Finance is responsible for monitoring the contingent debt. There is uncertainty as to whether the Ministry forecasts the risks identified above. It has been reported that if an agency cannot meet its payment obligation, the Government meets the payment.
	Zambia - Yes. Investment and debt management department in the ministry of finance and national planning
	Mexico - Yes. The Secretary of Public Credit belonging to the Secretariat of Finance and Public Credit (SHCP)
	Argentina - Yes. The national agency of public credit reports about the indirect public debt (ART. 69 LAW 24.156)/
8. Does your national Government **report** on the contingent debt matters?	**The Czech Republic –** Yes. The Government reports on state guarantees in the State Final Account.
	Sweden – Yes. Central Government Annual Report.
	Germany - Yes, the Federal Ministry of Finance (MoF) does so regularly, e.g. by annual accounting or monthly reporting on the federal budget (see attached report dated 20 August 2009/para 4 on guaranteed debt). The appropriations committee also receives a "contingent debt" – report every six months from the government.
	Lithuania – Yes. Lithuanian Government prepares annual report on Government guarantees issued during the year. Reports are available in Lithuanian only.

	Latvia – Yes. *Law on Budget and Financial Management*, Section 31 titled "Financial Year Report" determines that the Cabinet of Ministers (Government) shall submit to the *Saeima* (Parliament) a report on the financial year concerning the implementation of the State budget and local government budgets (their financial position) in the relevant financial year. Regarding debt issues the report on the financial year shall include: 1) a comparative table setting out: a) the outstanding central government debt and payments which in accordance with liabilities for debts have been made in the current year and the last three years; b) the annual debt obligations in respect of the next five years; 2) an exhaustive list of outstanding central government debt, State borrowings and State loans; report regarding guarantees issued in the name of the State and transactions in connection with guarantee liabilities of the State.
	Estonia – Yes. Consolidated Annual Accounts of State
	Bulgaria - Yes. The report on the state budget execution contains a part related to the public debt and to the state – guaranteed debt.
	Romania – Yes. In the Public Debt report which is issued by the Ministry of Finance are presented the amounts of contingent debt and its evolution.
	Albania - Yes. The Minister of Finance prepares the annual report on the state debt status (which includes the report of the state loan guaranteed), which shall be approved by the Council of Ministers and submitted to the Parliament, as an integral part of the report for the implementation of the consolidated budget for the respective year.
	Turkey – Yes. The Treasury Undersecreteriat of the Republic of Turkey, reports on the contingent debt issues annually and monthly on behalf of the government. The reports which are called "Public Depth Management Report" are issued monthly.
	Canada – Yes. The Public Accounts reports on contingent liabilities issues. Crown corporations/agencies would report in their annual report their explicit contingent debt.
	Chile - Yes. The main content of this publication is divided into three sections. The first section describes the sources of contingent liabilities found to be vital to the Chilean Treasury. Some of them it gives the most informative by its nature partners' compromises and assesses the feasible value of future

	payments to be mandatorily implemented by the Treasury. Then, it describes some mechanisms for managing contingent liabilities. Finally, the report terminates with a brief analysis of financial solvency.
	Morocco - Partially. Yes. The Ministry of finance reports on some aspects of the contingent debt, such as foreign loans under State guaranty.
	Uganda – Yes. Contingent debt is reported in 2 financial statements 1. <u>Statement of Contingent Liabilities</u> In this statement, <u>quantifiable</u> contingent debt is reported under the following classifications: Domestic ✓ Legal Proceedings ✓ Guarantees and Indemnities ✓ Guarantees of bank overdrafts ✓ Other Contingent Liabilities Foreign ✓ Legal Proceedings ✓ Guarantees and Indemnities ✓ Guarantees of bank overdrafts ✓ Other Contingent Liabilities 2. Statement of Non-Quantifiable Contingent Liabilities
	Suriname – Yes. When the debt statistics are presented the amount of undisbursed commitments and called and non-called guaranteed debt of the government is presented.
	Norway – Yes. In Annual Government Financial Report.
	Rwanda - The Ministry of Finance and Economic Planning does not specifically report on the contingent debt issues but report generally on the public debt.
	Trinidad & Tobago – Yes. Entities are identified as well as the amount outstanding in the annual Public Accounts of the Country (See attachments to e-mail under cover of which this Questionnaire is forwarded.)
	Zambia - Yes. The data base on contingent debt is currently being developed contingent debt will be reported in the domestic debt management report.
	Mexico - Yes. Reports about economical situation, public finances and public debt.
	Argentina - Yes. Investment Account, National administration Budget.
	Portugal - Yes. Annually the central government reports on the amount of the outstanding guarantees in aggregated and detailed terms (by currency, beneficiary, etc) and on the revenues and expenditures associated with them within that year.
9. Are there any special	**The Czech Republic –** No. Since the year 2010 organizational

requirements to the contingent debt reporting in your country?	units of the state will be obliged to report on their contingent liabilities.
	Netherlands – No. Only as mentioned for garantuees to third parties and for part of the garantuees that are incoporporated in the national accounts.
	Lithuania – Yes. Lithuanian Government prepares annual report on Government guarantees issued during the year and submits it to the Parliament. Report should include data about dynamic movements of the Government guarantees issued during the year; data are distributed among residents/nonresidents (local and external loans guaranteed by the Government).Reports are available in Lithuanian only.
	Latvia – Yes. *Law on Budget and Financial Management*, Section 31 titled "Financial Year Report" determines that "(4) The Ministry of Finance shall prepare a financial year report according to the procedures and in the amount specified by the Cabinet of Ministers (Government), regarding also the report on guarantees issued in the name of the State, and transactions in connection with guarantee liabilities of the State." Report on Guarantees covers information on guarantees by loan and lender, regarding contracted amount, debt at the beginning of the period, transactions during the reporting period, debt at the end of the period, undisbursed amount at the end of period. In accordance with the *Law on Budget and Financial Management* Section 21 titled "Submission of a Draft Annual State Budget Law (a Package of Budget Bills) and Amendments to the Annual State Budget Law" of the Explanations of a draft State Budget Law (a package of budget bills) shall contain: "a summary of central government debts and financial obligations of guarantees in respect of the current financial year and in the medium term, including in such calculations the allowable limits of actions of the government to cover expenditures which may arise fulfilling debt obligations attributable to the State budget".
	Bulgaria – Yes. The Ministry of Finance maintains an official registry for the public debt and state-guaranteed debt. Monthly bulletin is issued. The Ministry of Finance determines the order for submission of information for the municipality – guaranteed debt.
	Albania – No. Clarification: Based on the Law ""On state borrowing state debt and state loan guarantees in republic of Albania" article 6 determines that: The Minister of Finance prepares the annual report on the state debt status, which shall be approved by the Council of Ministers and submitted to the

	Parliament as part of " On Implementing of Budget year Report".
	Turkey - Yes. In The Law on Regulating Public Finance and Debt Management, there are requirements which oblige the administration to declare the reports on the contingent debt issues.
	Moldova – Yes. In accordance with the Article 8 of Law on the public debt, state guarantees and refinance, no. 419-XVI of 22.12.2006, Ministry of Finance is the only body authorized to establish and to take, including the State Register on state guarantees, which are recorded in chronological and systematic order the information on the state conditional obligations arising from internal and external contracts for state guarantees, identification number of the guarantees, the aggregate amounts, payments, future payments. State Register has the following sub-registers: a) Sub-register of internal state guarantees; b) Sub-register of external guarantees. And in accordance with the Article 9 of the same Law, Ministry of Finance include in its regular reports on the state budget execution, presented to the Government and Parliament, information on the volume and status of public debt, sate guarantees and refinance. The report can be viewed on the website of the Ministry of Finance: www.mf.gov.md
	Norway – Yes. See appendix Regulations on Financial Management in Central Government: III Implementation of the budget decision of the Storting, section 8 Grants and guarantees, and chapter 8 Administration of guarantee schemes.
	Santa Lucia – Yes. Section 16 (4) (i) of the Finance (Administration) Act No. 3 of 1997 required that the Accountant General prepares an annual Statement of Contingent Liabilities.
	Trinidad & Tobago – No. The Ministry of Finance requires contingent debt to be reported to them in a particular way. (See attachments to e-mail under cover of which this Questionnaire is forwarded for how Loans and Credits Guaranteed by the Government and Letters of Credit are reported in the Public Accounts.)
	Brazil - Yes. As required by Complementary Act n° 101/2000, published as an Annex to the Budget Guidelines Act, Fiscal Risk Annex. In this annex we present each type of contingent liabilities concept, as well as their respective values, when estimated. In the case of lawsuits, legal proceedings in which the Union already been convicted on merit are crushed, but have not yet

	been identified and audited the values.
	Argentina - Yes. There are procedures of the General Accounting of the nation that establish exposure and valuation mechanisms of the indirect debt.
	Portugal - Yes. The government reports what legally has to be reported. There is no separated report on guarantees. Those items are reported as part of the annual financial demonstrations.
10. Does your country national budget provide for the **reserve assets** in case the contingent debt transforms into direct public debt?	**Sweden** – No. However, risk adjusted fees are levied on guarantees making them in theory cost-neutral over time. The budget further law stipulates that if the government assesses that there is a risk for guarantees to bring about actual costs, those have to be accounted for in the balance sheet.
	Lithuania – Yes. When Government prepares next year budget forecasts it includes amount which is calculated taking into account risks of credit loans with public guarantee.
	Latvia – Yes. In accordance with the *Law on Budget and Financial Management* Section 7 titled "Basic Budget" loans from the State budget, repayment of loans from the State budget, expenditures for meeting liabilities regarding guarantees provided in the name of the State, as are to be covered from State budget funds, shall be applicable only to the basic budget unless otherwise provided for by law."
	Bulgaria – Yes. Reserve funds are annually envisaged in the State Budget Act of the Republic of Bulgaria.
	Romania – Yes. In the state budget there is a „risk found" which can be used by the Ministry of Finance for payments which are not feasanced by the final beneficiaries of the governmental guarantees.
	Albania - Yes. The state loan guarantee becomes a state debt upon the Finance Minister's determination that the payment or payments for the guaranteed loan have not been made in accordance with the loan terms and conditions, thus causing the non-fulfilment of the beneficiary liability. The action which has to be undertaken for the payment of this liability is evidenced by an official document of the Ministry of Finance, which confirms that the conditions for accepting to make the payment for the guarantee have been met. The annually budget law determines the limit of the state loan guarantee and the service guaranteed debt.
	Turkey – Yes. In our national budget, in the case of the transformation of the contingent debt into direct public debt, the reserve assets are provided under the name of "Risk Account".
	Chile - Yes. The state has introduced additional measures to protect one or another form of specific, unforeseen

	circumstances that could affect the stability of budgetary expenditures. Among them there are the creation of the Fund for Economic and Social Stabilization (FESS), whose main objective is to supplement the financial rules on the basis of the structural balance and financial stability of the Treasury, while maintaining a surplus of the budget for the financing of the budget in further years with a deficit. Public expenditures of special social significance, ups and downs of the economic cycle or target prices for copper and public savings to improve the competitiveness of the Chilean economy are considered beforehand. FESS, established in 2007, is growing with new contributions from the public sector budget. In October 2008, a stock market was fixed with the volume of US $ 18.791 million. In 2006, the Fund of reserves pension provisions (FRPP) was established to complement the financing of tax liabilities arising from guarantees given by the pension system. The value is an annual fee of FRPP that belongs to the effective fiscal surplus with the upper limit of 0,5% and 0,2% of GDP minimum from the previous year. Annual contributions are made only a year in which, according to the assessment, the amount of resource accumulation fund reaches a single value equivalent to 900 million (approximately US $ 36.000 million). It is important for maintaining the competitiveness of the State budget to cover the activation of the payment of pensions. FRPP balance in October 2008 was the stock price of US $ 2.231 million.
	Moldova – Yes. In accordance with the Article 8 of Law on the public debt, state guarantees and refinance, no. 419-XVI of 22.12.2006 (2) Based on risk assessment, the Ministry of Finance set payment for each state guarantee worth 5 to 25 percent of the amount to be guaranteed by state guarantee. This payment is transferred by the applicant for the state guarantee to the Ministry of Finance after that ministry concluded a contract with this person, unless the contract provides otherwise.
	Trinidad & Tobago – Yes. Subvention is provided to state enterprises and statutory bodies to repay their debts secured using government guarantees
	Brazil - Yes. The government Budget provides a reserve of credits annually to meet any contingent liabilities. The complementary Act n° 101/2000 requires in Art. 5, subsection III, that the annual Budget bill contemplates reserve of contingency for the attention of other contingent liabilities and other risks and unforeseen fiscal events. In turn, the Budget Guideliness Act, Act n° 12.017/2009, establishes in art. 13 as follows: *Art. 13.Contingency Reserve, observed the item IIIof art. 5 of*

	the Complementary Act in 101, of 2000, shall be constituted exclusively, by fiscal Budget reserves, In the order, in the project of Budgetary Acto f 2010 in 2% (two percent)of the net current income as a minimum and in the Act in 1% (one percent), being at least half of the Reserve, in the Bill, considered as a primary expenditure for the effects of draining the tax.
11. Is the information on contingent debt **open for public** in your country?	**The Czech Republic –** No. Only information on state guarantees is open for public in the State Final Account. This document is approved by the Parliament and published on the Internet pages of the Ministry of Finance.
	Sweden – Yes. By the National Debt Office and in the Central Government Annual Report.
	Netherlands - Yes. As far as government has gathered information on contingent public debt issues it is available for the public.
	Lithuania – Yes. Lithuanian Government prepares annual report on Government's guarantees issued during the year and submits it to the Parliament. This report is official and published together with SAI opinion on Government, Ministry of Finance, SAI websites.
	Latvia – Yes. The information on contingent debt is published on the website of the Ministry of Finance (the Explanations of a draft State Budget Law (a package of budget bills) and the annual State Budget Law) and on the Treasury website (financial year report, regarding also the report on guarantees issued in the name of the State, Public Debt Management Reports).
	Russia - Regarding the Russian Federation state guarantees and a debt of its constituent entities information is published on official site of the Ministry of Finance of Russia. The information on debt of the sectors of economy before nonresidents – on official site of Bank of Russia.
	Bulgaria – Yes. On a monthly and annual basis the Ministry of Finance issues an official bulletin on the public debt and state – guaranteed debt and the information is published on its web site.
	Romania – Yes. The Annexes concerning general government guarantees (state and local) to general account of public debt present information related to the government issued and law for approval of general account of public debt and the Annexes are published in the national gazette.
	Malta – Yes. A detailed breakdown of collective figures reported upon in the Financial Report is provided by the Auditor General in his Annual Audit Report, specifically the audit report portraying an Analysis of the Financial Report which once published is available for public consumption.

	Canada – Yes. Contingent liabilities are reported annually in the Public Accounts of Canada tabled in Parliament. Annual reports of Crown Corp/Agencies are also made public.
	Chile - Yes. The information on contingent liability was published by the Budget Directorate of the Ministry of Finance in November It is also available in electronic format PDF on the web page www.dipres.cl
	Morocco - Partially. Yes. The information on foreign loans under State guaranty is regularly up-dated and published in the Finance Ministry web site.
	Suriname – Yes. When the debt statistics are presented the amount of undisbursed commitments and called and non-called guaranteed debt of the government is presented.
	Santa Lucia – Yes. After the audit report has been tabled it becomes a public document, therefore all information contained therein is accessible to the public.
	Brazil - Yes. The information on contingent liabilities are mandatory disclosed annually in the annex of Fiscal Risks of the Budget Guidelines Act, but the process of publishing and tracking can be improved.
	Argentina - Yes. Investment Account, National administration Budget.
12. Is there any **strategy** (or any other document) on the contingent debt management in your country?	**Netherlands** – Yes. For some specific riskfull garantees there are documents available. For issues as the costs for managing the ageing and climate change as well.
	Bulgaria – Yes. The Ministry of Finance develops a three - year public debt and state-guaranteed debt management strategy. A separate document is not developed. Please find attached below the latest public debt management strategy.
	Romania – Yes. The strategy concerning the guarantees issued by the state is part of the strategy concerning government public debt management on medium term, taking into account that guaranteed debt is part of government public debt according to national legislation.
	Albania – No. Clarification: Ministry of Finance prepares the strategy for Public debt not only for Contingent debt management specifically.
	Turkey – The department of Risk Management for loans is primarily responsible for this issue. There is a strategy on the contingent debt management, but there is not a special document. Additionally in Public Debt Management Report 2009. There is a special part about the contingent debt management.
	Canada – Yes. Risk management practices would be in place in each department and agencies/Crown Corporations in

	regard to the management of contingent debt (be it loan guarantees or litigation for example). Rules for writing-off debt would also be applied. The Department of Finance and the Treasury Board Secretariat would closely monitor the recording of contingent debt in the government consolidated financial statements. Responsible for the management of Canada's sovereign debt, the Department of Finance would use sophisticated risk management techniques and apply the Treasury Management Governance Framework for managing the federal government's financial assets and liabilities. Similar risk management regime would be in place for other government entities managing liabilities and assets (such as Crown corporations/agencies).
	Chile - Yes. The information on contingent liability, which mentioned earlier, embraces the analysis and discussion of the basic policies on this issue. In addition, there is information on public finances, provided the National Congress for discussion and approval, and accompanied by the draft budget of the State sector. This information provides quantitative analysis and assessment of potential liabilities in the provided infrastructure. (Both information prepared by the Budget Directorate of the Ministry of Finance). Information is also available in electronic format POP on the web page www.dipres.cl
	Kyrgyz Republic – No. Kyrgyz Republic has no strategy on the contingent debt management, it has strategy on the government debt management.
	Zambia - Yes. Issues of contingent debt are covered in the public debt management strategy.
	Mexico - Yes. The Annual Financing Plan
13. Does your national SAI perform ongoing **monitoring** of contingent debt?	**Netherlands** – Yes. More or less. We are monitoring fiscal policy en public debt issues and are participating in the network on fiscal policy, sustainable government budgets and financial crisis of the SAI's of the European Union.
	Moldova – Yes. Audit of contingent debt will be annually carries out in the framework of audit of public debt, including internal, external debts and refinance. Court of Accounts carries out the monitoring of the execution of the decision of the Court of Accounts on the Audit report of public debt.
	USA - Yes. GAO audits the annual Financial Report of the United States Government. GAO also conducts selected performance audits of federal programs and their risk management practices, in response to requests from Congress.
14. Is your national SAI **empowered to audit** contingent debt management issues?	**The Czech Republic –** No. Supreme Audit Office of the Czech Republic is only entitled to audit financial resources for which the state has assumed guarantees.
15. Has your national SAI	**The Czech Republic –** No. Supreme Audit Office of the Czech

performed a contingent debt audit?	Republic is only entitled to audit financial resources for which the state has assumed guarantees. Last audit in this area was performed in the year 2003 - audit No. 03/10 „State guarantees provided beyond the approved development programmes”. The audit conclusion in Czech language is available via Internet site www.nku.cz.
	Sweden – Yes. On going audit, not yet published.
	Germany – Yes. E.g.: audits on specific guarantee cases; general aspects of the federal guarantee system; and audits in the field of financial market stabilisation. The relevant audit reports are not public and cannot be communicated.
	Lithuania – Yes. SAI is responsible for carrying out annual audit on mentioned Report on Government’s guarantees issued during the year and submits its opinion to the Parliament. The purpose of the audit (financial) is to evaluate if: - the report is prepared in accordance with required regulation and legislation - the data presented in the report are true and fair. For a number of years we have been recommending to assess and disclose all information about contingent liabilities, not only public guaranties. The Ministry of Finance will start implementing our recommendation starting with 2010 when new public sector accounting standards which are based on IPSAS will be introduced in the whole public sector. Reports are available in Lithuanian only.
	Russia - Yes. The analysis of a cumulative external debt of the Russian Federation and its influence on development of the crisis phenomena in the financial market was carried out. The corresponding analytical note was approved by Collegium of the Accounts Chamber of the Russian Federation on March, 27th, 2009. The document can be provided additionally.
	Bulgaria – Yes. The BNAO conducts a contingent debt audit within the framework of the public debt audit every year. A separate audit on the state – guaranteed debt has not been performed.
	Romania – Yes. One of the audit themes was „The manner of contraction and the use of funds for an external loan guaranted by the state at S.C. Electrocentrale Bucuresti S.A.”
	Albania – Yes. Every year our SAI carries out the audit of public debt and prepares the “Report for Public Debt” wich includes the guaranteed debt matters, conclusions or findings and is an integral part of the report for the implementation budget for the respective year which SAI submit to the Parliament.
	Turkey – Yes. The contingent debt is audited by means of utilisation, repayment, legal regulatory and it’s included in Treasury Transactions Report which is produced by Turkish

	Court of Accounts.
	Canada – No. The OAG does annually audit the liabilities associated with the contingent debt. For example, the sovereign debt is audited on an annual basis. Estimations of contingent liability are also audited (e.g. potential costs of litigations are reviewed). There has not, however, been a separate audit of just this issue.
	Colombia – Yes. The most recent audit of resources to projects that have guaranteed by the Nation is the mass transit system in the cities of Bogotá, Cali, Pereira, Barranquilla and Cartagena.
	Moldova – Yes. The Audit of contingent debt are carries out annual during the audit of public debt and public debt audit report (for 2008) is placed in the Official Gazette "Monitorul Oficial" (from 14.08.2009 Nr.124-126 Article 21) and on the web-site of the Court of Accounts www.ccrm.md
	Trinidad & Tobago – Yes. Movement in contingent debt during a financial year is verified as well as balance at year end. A separate report is not issued unless an audit issue arises.
	Zambia - Yes. 1. The audit of contingent debt has been a component of the audit of public debt in general. 2. The audit of contingent debt has been limited in that the department in charge of contingent liabilities is still establishing a data base