INTOSAI

# Public Debt Committee

Guidance on the Reporting of Public Debt

Final Report

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**Public Debt Committee**
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This booklet has been prepared for official publication in separate English, French and Spanish versions by the Public Debt Committee of the International Organization of Supreme Audit Institution (INTOSAI).

# INDEX

# PART 1
*Introduction*

## Background

1. Under the terms of reference laid down by the Governing Board of INTOSAI the Public Debt Committee was given the task of publishing guidelines and other information for use by Supreme Audit Institutions (SAIs) to encourage the proper reporting and sound management of public debt. In October 1995 INCOSAI XV approved the document "Guidance on Definition and Disclosure of Public Debt" prepared by the Public Debt Committee. At INCOSAI 1998 held at Montevideo, additional guidance on the measurement and identification of public debt, both actual and contingent, was presented and approved for publication. This new guidance was to be incorporated into a revised paper covering definition and disclosure as well.

2. The revised guidance now covers the following issues relating to public debt:

   - Part 2: The role of the SAI in reporting Public Debt;
   - Part 3: General guidance on the definition of public debt;
   - Part 4: Identifying and measuring public debt;
   - Part 5: General guidance on the disclosure of public debt.

3. The remainder of this document identifies a number of factors that SAIs should consider in making judgements as to the nature and extent of their examinations and reports on public debt. This guidance is in the form of broad principles and we do not prescribe a model definition of public debt. Rather, we identify various elements which may constitute liabilities of public bodies and the circumstances in which it would be appropriate to disclose them as part of public debt. Additional guidance to SAIs on other aspects of public debt will be developed and issued separately in future years.

4. Similarly, the guidance provided in this document does not prescribe one basis of accounting or one type of report to be used for disclosing information about public debt. The Committee recognizes that information about public debt may be provided through general purpose financial statements, but also through reports on compliance, performance and individual government departments and agencies.

## Membership surveys

5. Because of the lack of information on public debt we have initiated two major surveys of members to establish the range of work performed in this field:

   - An initial survey was carried out designed to obtain more general information about public debt issues covering definition, planning, management and control, measurement and disclosure. An interim report was distributed to all SAIs in April 1994.

   - A second survey, finalised in 1998, was designed to elicit information on contingent liabilities within public debt. The full results of this survey are available separately on request. This guidance incorporates the main findings of the survey and summary information is presented at Annexes B and C. Out of 41 INTOSAI members approached for information, 30 SAIs responded with a geographical breakdown as indicated in Annex C.

## Other sources of information

6. The Committee has taken into account work already done by the INTOSAI committees on internal controls, accounting standards, and auditing standards. The INTOSAI Accounting Standards Committee work has focused on the question of the role of the SAI in prescribing accounting policies and standards, whereas we have focussed on the role of the SAI in the evaluation of the basis of measurement used in reports on public debt. The Committee has also consulted a number of international organisations with an interest in public debt matters, including the World Bank, the Inter-American Development Bank, the Organization for Economic Cooperation and Development (OECD), the United Nations, and the European Union.

7. We have examined the definition of public debt developed and used by the International Monetary Fund (IMF) and taken into account studies published by the Public Sector Committee of the International Federation of Accountants. These studies also examine the definition of public debt, including different ways of recording it which arise from the adoption of various bases of accounting ranging from modified cash to modified accruals and full accruals.

8. Issues concerning public debt also concern the private sector from whom public debt is often (and ultimately) raised. In addition the private sector also needs to finance its own debt. The international financial markets are places where both the public and private sector (especially the large multi-national companies) come together to seek to meet their own needs. These markets are highly dynamic and have seen widespread developments in traditional primary financial instruments such as bonds and in derivative financial instruments such as futures and options. The development of accounting guidance for derivatives in particular is an evolving area.

9. Debt instruments can be complex: a key aim of accounting standards setters has been to ensure that entities portray the risks associated with their debt and financial instrument portfolios and the action taken to combat those risks. International and national accounting standards setting bodies which have recently issued or are about to issue disclosure and accounting standards concerning capital instruments and derivatives include:

- USA: Financial Accounting Standards (FAS) No.s 105, 107, 119 and 133;
- United Kingdom: Financial Reporting Standards (FRS) No.s 4 and 13;
- International Accounting Standards Committee (IASC): IAS No.s 32 and 39.

# PART 2

## *The Role of the SAI in Reporting Public Debt*

### General considerations

1. The proper reporting and sound management of public debt are important. SAIs should do whatever they can, within the limits of their powers and responsibilities, to encourage governments to adopt sound and appropriate practices for the financial management and control of public debt.

2. The amount of public debt raised and the purposes for which it is used are generally matters of policy determined through normal constitutional and policymaking processes within the relevant country. Decisions taken by governments about the manner in which public debt is raised and managed are likely to be based on policy judgements as well as financial considerations, for example, to maintain a specified spread of debt maturities.

3. In many countries, the right of the SAI to examine or question policy judgements is limited, and the extent of the SAI's responsibilities will depend on political and constitutional circumstances in the relevant country. SAIs will therefore need to exercise their own judgement when considering the nature of their examinations of public debt within their own countries.

4. While the SAI may have no direct part to play in deciding the level or the purpose of public debt, the SAI may nevertheless have a role in helping to ensure that decisions with respect to public debt are based on the disclosure to all interested parties of complete and reliable information on a government's liabilities. After funds have been borrowed, the SAI should aim to ensure the publication of complete and reliable information on the government's performance in raising and managing its public debt.

5. The examination of matters related to public debt may present SAIs with unique problems due to the technical complexity of the subject. Outputs of this Committee can assist SAIs in providing guidance but this work may require specialised training or perhaps even the recruitment of specialists into the SAIs.

## Possible responsibilities of the SAI

6. There are a number of responsibilities that an individual SAI may be required to fulfil. These could include any or all of the following.

7. Most SAIs have the primary responsibility for the audit of publicly disclosed debt information. The particular role of the SAI will depend on its powers and responsibilities with respect to the financial reports or other documents in which the amounts of public debt are disclosed. Based on the results of our initial survey these may include reviewing the basis of measurement used by the reporting entity and participating in the formulation of accounting standards for the measurement of public debt. Nevertheless, in over a quarter of responses to our survey, the SAI has no role either in the review of the basis of measurement or in the formulation of accounting standards for the measurement of public debt.

8. Reports disclosing information about public debt vary from country to country and can range from financial statements presented to the legislature after formal audit by the SAI to purely statistical reports produced only for government's internal purposes. Where the amounts of public debt are disclosed in financial statements which are subject to formal audit by the SAI, the SAI will need to satisfy itself, in accordance with appropriate auditing standards, as to the reasonableness of the amounts included. This should include not only verification of the total figures against details of the amounts due to creditors but also the adoption of the appropriate basis of measurement. If there are any perceived shortcomings in this, the SAI's ability to qualify its audit opinion on the statements concerned should normally provide it with the means of identifying and advising on any necessary improvements.

9. Where the amounts of public debt are recorded in reports made to various international bodies (such as the IMF, World Bank, OECD and European Union), the amounts recorded should be calculated in accordance with the requirements, including any prescribed basis of measurement, of the international body concerned. Insofar as such reports are subject to verification by the SAI, it should be able to ensure compliance with these requirements.

10. Public bodies should include in their reports on public debt a value for all the liabilities and commitments meeting the appropriate definition of public debt. They should also present the basis of measurement used, any changes introduced since the prior report that affects comparability, all the key assumptions made for measuring or estimating specific items, in particular those subject to some kind of variability, uncertainty or contingency, and other information to facilitate the correct understanding of disclosed figures. On contingent debt, the spectrum of information presented may cover a wide range and it may be necessary to adopt broad classifications. Following our survey of member SAIs, examples of contingencies by type and their source are shown at Annex B.

11. Information on public debt may also be found in reports and statements prepared to assist the government in the formulation and monitoring of economic, monetary and fiscal policy and in the planning and management of borrowing programs which are not subject to formal audit by the SAI. The SAI should do whatever it properly can within the limits of its powers to ensure that the amounts of public debt recorded in such reports and statements are measured on appropriate bases and adequately disclosed.

12. Where debt disclosure is incomplete, the SAI may wish to identify additional elements of debt that should be disclosed and actively encourage the government to make such disclosure. In addition, the SAI may undertake independent analyses of the data disclosed to foster improved management of the debt and improved understanding of the current and future implications of commitments.

# PART 3

## *General Guidance on the Definition of Public Debt*

1. The use of an appropriate definition for public debt in the compilation of the various types of government financial reports referred to above is of considerable practical importance. The reliability of these reports depends to a large extent on the soundness of the definitions used in preparing them. The preparers of reports on public debt need to ensure that any definitions used are:

   - Precise - to avoid doubt or dispute about the inclusion or exclusion of particular elements;
   - Clear - to make the reports readily understandable by users;
   - Consistent - both from year to year, with other financial statistics or accounting records within a particular country and, where relevant, between countries;
   - Appropriate - the criteria for inclusion of particular elements should be based on their relevance to the objectives that the reports are designed to satisfy;
   - Comprehensive - to ensure that all particular elements of debt are brought within the scope of appropriate approval, planning, management and control procedures.

2. The content of government financial reports must be appropriate to the purpose for which they are prepared. Such reports may be prepared and used for a wide variety of purposes, including those summarized below:

   - Reports may assist in the formulation and monitoring of:

     ➢ general economic policy, because of the effect of public borrowing on the use of resources;

- ➢ monetary policy, because of the effect of public borrowing on the money supply;

- ➢ fiscal policy, because of the desire to balance the sharing of financial burdens between existing and future taxpayers, and to ensure that the future cost of servicing and repaying outstanding debt will be sustainable; and

- ➢ exchange rates and balance of payments policies. If external public debt is a significant part of a country's total external debt, the division of total public debt between domestic and foreign currencies and between internal and external creditors may influence exchange rate and balance of payments policies.

- International reports, for example to fulfill international obligations of membership of bodies such as the IMF, the World Bank, the OECD, and the European Union. These should be compiled in accordance with the rules of the bodies concerned, including definitions of public debt. Some reports may demonstrate a country's credit-worthiness.

- Of particular importance is the use of government financial reports showing accountability such as that of the executive to the legislature for the exercise of borrowing powers and the use of the related proceeds.

- Various financial reports may be used in the planning and control of a public body's borrowing programs.

3. The scope of financial reports on public debt and the nature or type of liabilities shown will vary depending upon the different purposes for which the reports are prepared. Different definitions of public debt will be used for different purposes, and there are many instances of variations in scope between the resulting types of reports. For example, reports produced for macroeconomic analysis could cover the whole of the public sector, whereas the scope of reports used to demonstrate accountability of particular bodies involved in public administration might be much narrower. In addition, the scope of reports might be quite different as between unitary and federal states. All reports should disclose clearly their intended scope.

4. The Committee has not attempted to develop an all-embracing single model definition of public debt. Rather, the Committee has identified and defined various elements of public debt which could be considered for inclusion in various types of reports.

5. Depending on the purpose for which a financial report is prepared, an appropriate definition of public debt might include the following:

   - Liabilities or other commitments incurred directly by public bodies such as:

     - central government, or a federal government, depending on the manner of political organisation in the country;

     - state, provincial, municipal, regional and other local governments or authorities;

     - owned and controlled public corporations and enterprises; and

     - other entities that are considered to be of a public or quasi-nature.

   - Liabilities or other commitments incurred by public bodies on behalf of private corporations or other entities.

The appropriate treatment of borrowings by those central banks that are not considered public bodies will depend on the precise status of the banks and their relationship with the public sector.

## Contingent debt

6. A liability or commitment could be considered as public debt if it falls within the above categories and is measurable. The issue of measurement will arise in the context of any report which discloses information about public debt and guidance is offered on measurement in Part 4 of this document.

7. Debt may be actual, or contingent upon the occurrence of a future event which may be uncertain. The concept of contingency relating to public debt is difficult to define but in recent years levels of contingent debt have grown considerably for some countries as have the number of instances where contingent debt has become actual debt. These developments may have largely escaped attention in the past, possibly because of the diverse criteria for recognition and measurement that exist amongst countries.

## Elements of Debt to Consider

8. Annex A shows the major elements of debt that might exist for public bodies. The elements of liabilities and other commitments incurred by public bodies or by corporations sponsored by such bodies can be shown as lying on a spectrum that extends from direct borrowing through a range of other financial obligations from trade accounts payable to various contingencies and commitments. These commitments may or may not be recorded as liabilities in financial statements. However, they may have a significant effect on future borrowing needs and, therefore, future demands on the country's economic resources.

9. While each SAI will need to exercise its own judgement on the appropriate content of reports on public debt produced for particular purposes, those used to assist in the formulation and monitoring of general economic and fiscal policies should normally cover all relevant items identified above. In particular, SAIs should be aware that the existence of various contingencies and commitments such as those described in Annex A may well affect the ability of public sector entities to meet future cash requirements. Such liabilities could derive from moral or social obligations in addition to those of a strictly legal nature. The appropriate treatment of these liabilities will depend on their materiality.

10. The valuation of liabilities or other commitments included in any definition of public debt may be applied to the total debt outstanding or to establish the net increase or decrease in debt during some period of time. General guidance on disclosure of public debt is provided in Part 5 of this document.

# PART 4

# *Identifying and Measuring Public Debt*

## General

1. Public debt constitutes an obligation on a public body to make payments to a third party at some future date, subject to the occurrence of one or more uncertain future events if it constitutes a contingent liability. Measuring public debt means to assign a value, in monetary terms to the total amount due.

## Factors to be considered in the measurement of debt

### General

2. If the amounts of all the payments due were fixed and certain the resultant public debt could be measured simply by summation of individual amounts. The audit of the measurement process might then be limited to verification of the completeness and accuracy of the basic records and the reliability of the accounting procedures through which they were summarised. Where the amount of at least some part of the future payments is variable, uncertain or contingent, the measurement of public debt is not so clear-cut and will require judgements to be made.

### Variability

3. Variability of the amounts happens, for example, when the interest rates are not fixed and uncertainty can be found when payments are fixed but expressed in a foreign currency. Measuring the debt then implies assuming that a particular interest rate or exchange rate is appropriate and this may depend on the purpose for which the report is prepared and on other circumstances.

### Need for judgement and consistency

4. The most appropriate basis to use in statements prepared for different purposes will be a matter for judgement. If, for example, the amounts due are expressed in a foreign currency there may be a range of possible exchange rates at which these amounts could be converted into the relevant currency (e.g. into £sterling for the UK). For monitoring the economic use of the proceeds of borrowing it might be appropriate to use the rate in force when the debt was first incurred; for most financial statements it might be more appropriate to use the rate current at the date of the statement; and for the planning and management of future borrowing programmes it might be desirable to attempt some forecast of the likely rate when the debt matures for payment. Even the very choice of the most appropriate exchange rate is also a matter for judgement, for example, the market rate; the exchange rates may be administratively established; and there are a number of other possible exchange rates to consider. Consistency will be important in such situations.

### Indexation

5. Similar questions may arise when the amounts of the payments are subject to variation, as for example, in the case of borrowings where the repayments are index-linked by reference to rates of inflation or other indicators. The amount of indexation (as at the date the debt was incurred, at a current date or a forecast of the likely rate at the date of maturity) to be taken into account in any particular statement of public debt will depend upon the purpose for which it is prepared.

### Probability

6. Measuring contingent payments will always imply the adoption of some estimate or forecast because, even when the amounts are fixed, the probability of materialisation can only be estimated. If the amounts are variable or uncertain estimation will be used at two levels: estimation of the amounts and estimation of the probability of occurrence.

### Use of estimates

7. Appropriateness of the various estimates produced for measuring public debt (future interest and exchange rates, the probability of occurrence of contingent payments etc.) may be assessed by the SAI by examining the validity of the assumptions on which they were based. This will also be a matter for judgement.

### Treatment of interest and fees

8. Another aspect to be considered is the way to deal with interest payments and other service costs. The repayment of some liabilities includes principal, interest and other costs such as fees. The amounts due as principal are included in any evaluation of the debt, but the same is not always the case for interest payments; and fees are generally excluded from debt. If the purpose of the report is to disclose the use of the proceeds of borrowing it will normally exclude interest and fees from the value of the debt; if the purpose is to evaluate the financial condition of a public body, for example by means of some relevant indicators, it would be advisable to include all the interest and fee payments due in the future.

### Inflation

9. Where a significant rate of inflation exists the interpretation of aggregated values of public debt, resulting from the summation of nominal values for the amounts due in different periods of time, should be done with special care since the real value of the total debt might be considerably different. Although institutions may consider that inflation accounting is not relevant, the SAI may wish, at least, to verify if the reports on public debt contain all the elements of information necessary to the complete understanding of the meaning of disclosed figures. The extent of this problem will depend on the rate of increase and level of rates of inflation and the lengths of term of the public debt concerned.

## Specific elements of public debt

10. Annex A provides an indication of the basis of measurement which would normally be appropriate and any circumstances in which a departure from that basis might be necessary.

# PART 5

## *General Guidance on the Disclosure of Public Debt*

1. Regular disclosure of a country's public debt can reveal whether debt levels have been kept within the country's ability to support them and can help ensure that potential problems become visible. Such disclosure may provide the impetus to address potential problems before they become crises.

2. One of the most troublesome issues in public debt disclosure is how to make it understandable, and thus relevant to the reasonably informed and interested, but non-expert, reader. In considering the adequacy of disclosure, SAIs should look for and encourage the use of generally accepted ways of bringing sometimes huge numbers to life for users of the reports. There are a number of what might be called "simple indicators" of a government's overall financial condition that could be considered in this regard (e.g. "interest bite", "expenditure ratio", "debt-to-GDP" ratio) and these will be covered in more detail in a separate publication being prepared by the Committee.

### Information to Disclose

3. SAIs may need to consider whether and what more specific information needs to be disclosed when reviewing and commenting on the adequacy of disclosure of public debt. The type of information suggested is summarised at Annex A under the categories of reporting elements used in earlier parts of this document.

4. This information should be presented separately for each public body and in aggregated and consolidated form depending on the purpose of the report within which it is shown. In all cases, consideration might be given to disclosing both total cumulative public debt as at the end of the reporting period and new debt incurred during the period. Public debt should not normally be reduced by related assets such as gold and foreign currency holdings or sinking funds. In some cases it may be appropriate for these to be taken into account if they are freely available for the redemption of debt, but not if they are retained for other purposes.

5. While disclosures and the basis of accounting suggested for specific debt instruments are given at Annex A, more general information, for example about risk and the attitude of debt managers to risk, is now being provided more and more by both the public sector and private sectors in different countries around the world (e.g. USA, Canada, New Zealand, Australia and United Kingdom). Often published guidance is aimed at the private sector, but in many instances this can be used by the public sector, adapted where appropriate. The extent of disclosure often depends on whether the institution is in the business of dealing in debt and financial instruments on behalf of others (e.g. banks) or solely on its own behalf (e.g. a multi-national company). Public sector institutions could come under either or both classes of entity. The main focus of such guidance, however, is in transparency of reporting for often complex debt instruments and of their implications for the financial risk profile of the entity.

6. An example of the information that may need to be disclosed depending on the circumstances of the entity is given below:

**Example of disclosure requirements required in the United Kingdom and followed by the public sector (for example the United Kingdom Debt Management Office):**

**Definitions:** Financial instruments include both primary financial instruments (such as bonds) and derivative financial instruments. Capital instruments are instruments issued by bodies as a means to raising finance e.g.: loans, debentures, shares and other debt instruments. Derivative financial instruments are a financial instrument that derives its value from the price or rate of some underlying item. Underlying items include bonds, commodities, interest rates, exchange rates and even stock market indices. Derivative financial instruments include futures, options, forward contracts, interest and currency swaps.

**General requirements:**

- explanation of risk profile and risk management policies followed by the entity giving narratival disclosures covering for example:
  - the nature and purpose for which financial instruments are held/issued;
  - policies on interest rate, currency and maturity profile;
  - accounting policies for derivatives;
  - currency options;
  - hedging policies.
- numerical disclosures that are required include, for example:
  - interest rate profile/risk, showing liabilities held under fixed, variable/floating and nil rates;
  - debt maturity analysis and liquidity: amounts due are shown in bands of less than one year; greater than one year but less than two; between two and five years; and over five years;
  - currency risk: analysis of debt instruments under each significant foreign currency denomination;
  - fair values of debt instruments and any associated assets. In some instances it may not be possible to estimate reliable fair values in which case sufficient information should be given about the characteristics of the assets or liabilities;
  - hedging showing gains and losses of hedging, policy and the extent of hedging;
  - analysis of counterparty credit risk;
  - significant concentrations of credit risk;
  - maturity analysis of credit exposures.

- discussion of the magnitude of market price risk is also encouraged. Various methods can be used e.g.:
  - **sensitivity analysis**: the hypothetical effects on net assets or profits of various possible changes in market prices e.g. the impact of effects of increases or decreases in interest rates;
  - **gap analysis**: this involves an analysis of assets and liabilities into time bands by reference to interest rate re-pricing dates or maturity dates. This tool only covers interest rate risk;
  - **"value-at-risk"**: measuring the expected loss that will arise on assets and/or liabilities due to an adverse market movement, with a specified probability and period of time.
- accounting policies will cover:
  - methods used to account for derivative financial instruments, the types covered and criteria for choice of method;
  - basis for recognition, measurement and ceasing to recognise financial assets and liabilities;
  - how income and expenses and gains and losses are recognised and measured;
  - the treatment of financial assets and liabilities not recognised and policies for offsetting assets and liabilities.

**Management of short-term debt and cash requirements:**

If the accounts report the activities of an entity which manages both sovereign long-term debt and short-term debt and assets and there is active management of cash requirements (e.g. for government) then policies and disclosure need to be appropriate. For example interest risk disclosures would require aggregate assets and liabilities to be shown in time bands of at least:

- less than 3 months;
- over three months and less than 6 months;
- over 6 months and less than one year;
- over one year and less than two years;
- over 2 years and less than 5 years;
- over 5 years.

**Active participation in the markets:**

In some instances the entity may actively trade in the market e.g. to provide liquidity. Actively traded assets ("trading book") and liabilities should be distinguished from those assets and/or liabilities that will be held to maturity ("non-trading book"). It may be more appropriate to value the former at a fair value.

Other assets and liabilities may be held for structural or strategic reasons. If such assets and liabilities are not going to be traded actively but held to maturity, then these should be valued at cost. Assets used to hedge liabilities valued at cost should be valued on the same basis as the liabilities against which they are matched.

## Disclosure of contingent liabilities

7. For each item of public debt, the amount of any future payment may be fixed, variable according to some pre-established formula or uncertain. Different levels of contingency may also be found in the very occurrence of the obligation to make some payments. This means that there may be a considerable degree of uncertainty about the value to assign to certain items included in any definition of public debt. Because of that, measurement of aggregated public debt can only be made using a substantial degree of estimation. Examples of differing practice for disclosing the extent of contingent debt as opposed to actual debt include the following:

   - in Canada, a note to the statements concerning public debt is appended. This note is audited, but the value of individual contingent liabilities is not disclosed and is not included within the overall public debt totals (see Annex D for the detail of the Canadian disclosure);

   - in the United Kingdom, contingent liabilities are also excluded from public debt totals but, where possible, individual liabilities are identified and disclosed. These amounts are not, however, audited although developments in government accounting may mean that this situation may change (see Annex E for a specimen page of reported actual and contingent liabilities in the UK);

   - in Portugal, public debt (actual and some contingent amounts) is disclosed in financial statements and is audited by the SAI (Tribunal de Contas). However only contingent liabilities relating to guarantees are disclosed and with less information than for actual debt (see Annex F for detail of the Portuguese disclosure).

## Where to disclose Public Debt information

8. Financial information about public debt may be reported in a wide variety of documents. General purpose financial statements and related notes could disclose many of the items discussed above. In addition, information could be disclosed in financial reports on compliance, performance and individual government departments, and agencies.

Other public documents could also be used including: budgets, central bank bulletins, and a variety of other reports to legislatures.

9. It is helpful to disclose planned and actual public debt periodically as part of the ongoing budget decision-making and accountability process. Opportunities may also exist in the government's normal fiscal policymaking and reporting cycle for reporting the elements of planned and actual debt.

10. For example, planned levels of debt could be disclosed in the budget, with the actual levels realized periodically reported during the year as appropriate. In addition, a year-end account of debt could be provided, possibly through audited general purpose financial statements and possibly through other types of centrally provided reports.

11. As explained in Part 2 of this document, SAIs have many opportunities to examine and report on issues related to the definition and disclosure of public debt. The extent of SAIs' concern with the form and content of reports on public debt will vary according to the purposes for which the reports are produced and used. For example:

   - *Reports produced by governments to assist in the formulation and execution of their economic, monetary and fiscal policies.* These reports may not be subject to formal verification by SAIs. However, if they are submitted to the legislature to support budget proposals, the SAI might wish to review the reports to determine whether they are compiled on an appropriate basis and whether information is presented in an understandable and consistent manner.

   - *Forecasts of annual changes that are expected to result from budget proposals.* These reports may not be subject to direct verification either, but the audit of subsequent results might provide the SAI with an opportunity to comment on the bases used to prepare the reports.

- *Forecasts of the long-term impact on public finances of the future costs of servicing and repaying outstanding debt.* Although not subject to direct verification, SAIs might consider and comment on the apparent relevance and understandability of the reports if they are submitted to the legislature.

- *Reports on results, both to changes in debt and to debt outstanding, to help ensure appropriate accountability of public bodies with borrowing powers.* These "after-the-fact" reports are likely to be subject to formal audit by SAIs, which provides an opportunity to examine and comment on both the reasonableness of the bases on which the reports have been compiled and their general understandability and relevance.

- *Returns to international bodies.* These returns are compiled in accordance with rules prescribed by the bodies, which may also govern the possible involvement of SAIs.

# ANNEX A

## *Bases of Debt Measurement*

| Element | Includes | Measurement |
|---|---|---|
| 1. Securities. | These include traditional borrowings from creditors, including those within government, under formal agreements which normally specify the amount borrowed, the interest rate charged or discount required, the security to be given (if any), and the period over which repayment is to be made. For purposes of this document, securities include those executed for the short, medium and long term. | Where the amounts payable on redemption of the securities at maturity are fixed, the resultant public debt should normally be measured throughout on the basis of those fixed amounts. Any differences from the amounts initially borrowed, due to the issue of the securities at discount (or premium), should normally be treated as part of the initial borrowing costs (or off-setting income). An exception might be made if the amount of discount is large and the period of borrowing long, leading to an undue loading of the costs onto the first year of the borrowing period; it might then be appropriate to amortise the amount of the discount (or premium) over the period of the loan. The policy of the United States of America for fixed and variable value securities is given in Appendix 1 to Annex A (at end of document).<br><br>If the securities are readily marketable they may have market values differing appreciably from their face values. This should not normally affect the basis of measurement of the resultant public debt; but if there is a public body actively trading in government securities it might be appropriate for any public debt to be measured at its market value.<br><br>More complex securities may be used. For example interest rate and currency swaps and auditors will need to look carefully at the basis used to value such securities (usually based on discounted cash flows). |
| 2. Bank loans. | | The amounts repayable in respect of bank loans are normally clearly specified and these amounts should normally provide an appropriate basis for the measurement of the related public debt. Only if the loan arrangements incorporated unusual features would any departure from this basis seem justified. |
| 3. Loans from foreign governments or international bodies. | | Such loans are usually provided in foreign currencies and also require eventual repayment in those currencies. Insofar as the amounts outstanding need to be incorporated in public debt statements in the appropriate currency (e.g. in £ sterling in the case of the United Kingdom), they should be converted at current market exchange rates. It should normally be sufficient for this to be done periodically, but in any long term planning (rather than for audit purposes) of borrowing programmes it might also be necessary to attempt some forecast of the likely rate at redemption. |
| 4. Proceeds of public savings schemes. | These include amounts on deposit in savings banks operated by a government and other similar programmes. | The amounts owed to savers are normally clearly specified and provide an adequate basis for the measurement of the related public debt. By their nature they normally comprise large numbers of comparatively small amounts, often administered by intermediary bodies; the main problem in measurement may therefore be in ensuring the reliability of the basic records. |

**Disclosure**

The following should be considered for disclosure:

- The total amount due, showing separately the gross amount borrowed and the portion thereof represented by borrowing of agencies included in the entity.
- Amounts held by foreigners, where possible. This disclosure is important because the outflow of interest and principal to other countries may limit the growth of the debtor's economy. Where public debt is issued through marketable notes, the nationality of holders may not be known.
- Amounts denominated in foreign currencies and the exchange rates used in its valuation. Debt denominated in foreign currencies may be more volatile than debt denominated in the country's own currency, because of the effects of changes in exchange rates.
- New liabilities. For liabilities incurred during the period, disclosure would include the types of lenders, the terms of the issues and loan agreements, and perhaps future disbursements.
- Types and terms of instruments. For types of instruments, issued debt would be broken down between various major classifications such as bills, notes and bonds. For terms of instruments, the disclosure would set out information respecting maturities, callable features and the like. Other useful information on maturities could be the consolidated amounts due in the short, medium, and long term, and the long-term or average maturity of amounts outstanding.
- Measurement bases. Both the bases of measurement and any changes since the prior report would be disclosed. The use of different measurement bases can produce significantly different results. For example, depending on the type of bond issue, the market value of bonds can fluctuate widely with changes in interest rates. Different methods of amortizing premiums and discounts can affect significantly the amount of disclosed debt service costs, and debt values may be restated if being retired prior to maturity.
- Principal repayments. Disclosure would include the amounts of principal repayments during the reporting period, the means used to finance these repayments, and the effects on related sinking fund balances.
- Debt service costs. This disclosure would include interest payments and other administrative and commission costs paid during the reporting period.
- Restructured debt. Disclosure would include the results of any public debt renegotiations that occurred during the period, together with the terms and conditions of the renegotiated debt.
- The use of funds. When funds are borrowed for specific projects, details could be shown with respect to the purpose and expected benefits of the projects. Where possible, information would also be provided on expected revenue sources and cash flows to finance the debt and the expected life of the project.
- Actual levels versus estimates. Disclosure should include an appropriate comparison between the forecasts and the actual levels of total debt, principal repayments, service costs, and interest rates. Explanation for any significant deviation, where possible, should also be given.
- Risk assessment. Information would be provided to describe potential vulnerabilities to fluctuations in interest rates, currency values, or other factors that affect repayment costs. Debt pegged to floating interest rates would be disclosed, for example. Information would also be provided with respect to actions taken in derivatives markets, such as interest rate and currency swap agreements, in order to limit such vulnerabilities. Because activities in derivatives markets may be highly complex and technical in nature, care should be taken to ensure that the information provided can be easily read and understood by individuals who may not have specialized and technical knowledge of derivatives products.
- Legal requirements and restrictions. All significant legal requirements and restrictions would be appropriately disclosed. The information provided should be sufficient to demonstrate that all such requirements have been satisfied. In considering what to disclose, a number of sources could be reviewed, including constitutional and other legal limits on the amount of public debt or debt service costs; limits on the uses of proceeds of borrowed funds; regulations specifying who may borrow on behalf of a public body; laws outlining the public bodies which are responsible for public debt incurred by others; and requirements regarding the currency in which public debt may be held or the lenders who are to be used.

If liabilities were incurred by one public body on behalf of another, disclosure would be limited to the amount of debt, the types of instruments and the use of the proceeds. All other information would be provided by the entity that received the borrowed funds.

| Element | Includes | Measurement |
|---|---|---|
| 5. Issues of national currency, notes, and coins. | These include banknotes and coins issued by or for a government and in circulation. | Issues of currency by or for a government constitute in effect an interest-free loan to it. The face value of the cumulative net issues should therefore be recorded as part of the public debt. Since there is inevitably some waste of both coins and notes, which disappear from circulation, it is not unreasonable for appropriate amounts to be written off from time to time in the light of the best information available as to the scale of such losses. Any such policy should be disclosed. |
| 6. Accounts payable for goods and services. | | If a country's public debt accounts are prepared on an accruals basis they will automatically cover the costs of goods and services as they are provided. It is only where the accounts are prepared on a receipts and payments basis that some adjustment is necessary to cover goods and services provided but not yet paid for. The most appropriate method of calculating the amount of the adjustment required will depend on the form of the country's public accounts but will be likely to involve compromise between accuracy and economy of effort. |
| 7.Liabilities under long-term leases. Leases that extend beyond one year and that may be for either capital or operating purposes. | | The appropriate treatment of such liabilities will depend on the precise terms and purposes of the leases concerned. Insofar as the benefits secured under the leases are concurrent with the liabilities, there would not normally be any need to record an element of public debt; only if the two were out of balance would this be necessary. |
| 8. Pension liabilities and health care benefits for public employees. | | If pensions and health care benefits of public employees are covered by funded schemes, there will be no need for any further provision to be made for them in figures for public debt. The cumulative funds built up from past contributions and their investment should be sufficient to meet the future entitlements already earned by current employees; and periodic actuarial reviews of the funds should ensure this. Only in the absence of funded schemes is separate provision necessary in the public debt figures. The amount of that provision should be equal to the amount which would be required in a properly funded scheme. The entitlements of public employees are usually sufficiently well defined to enable this to be done with reasonable precision. It should also be open to the SAI to ensure the application of proper actuarial principles and the use of appropriate parameters in the calculations. |

**Disclosure**

Information would include banknotes and coins issued by the public body and in circulation as of the reporting date, and whether they are backed by retention of separately earmarked holdings of monetary assets. Generally speaking, currency is issued by a country's central bank and the relationship between a central bank and its government may vary from one country to another. Full details regarding this relationship should be obtained and analyzed in order to determine whether it would be appropriate to consolidate a central bank with its government for financial reporting purposes.

These types of liabilities are often recorded in the accounts and reported on the financial position statement or balance sheet of the public body to which they relate. For long-term leases and pension and health care benefits, additional information can be provided in footnotes to the statement.

For leases, this information would include the operating and capital components of the liability and minimum annual payments for each of the next five years. The liabilities for pension and health care benefits are determined by actuaries. Details with respect to the actuarial approach followed and significant assumptions used would be summarized and reported in the footnotes. Sensitivity analyses, setting out the extent to which the recorded liabilities would vary if actuarial assumptions were to change, would also be desirable.

| Element | Includes | Measurement |
|---|---|---|
| 9. Taxation repayable. | | The importance and appropriate treatment of this item will depend on the nature of the system in the country concerned. If it operates a system of self-assessment with an incentive to maximise payments on account, the total amounts repayable might be on a sufficient scale to merit inclusion as a separate item in any statement of public debt, estimated on the basis of the best information available to the revenue authorities. Under the systems of taxation, where the amounts repayable simply represent the correction of erroneous charges, they may be regarded as no more than fluctuations in the timing of collection and not of sufficient materiality to merit separate treatment. |
| 10. Other benefits provided by public sector entities. | These include social commitments that involve explicit or implicit obligations by a government to pay future claims under a variety of programs. While they may be difficult to quantify, they are almost always significant and should therefore be considered, perhaps on a best estimates basis, in any assessment of public sector debt. | Similar principles apply to these benefits as to the benefits for public employees, save that the entitlements are not normally so clearly defined and may be more subject to future political decisions. Insofar as these benefits are not covered by funded schemes, provisions should be made for them in the public debt figures. Proper actuarial principles should be applied as far as possible but, because of the doubts about continuing future entitlements, final provisions may not be a very precise one. |
| 11. Indemnities. | | In each of these categories there is only a contingent liability, and the amount which might materialise cannot be forecast with precision. While the existence of such contingent liabilities should be fully disclosed, with as much information as possible on the maximum possible liabilities, it may not always be possible to attach precise figures to them. |
| 12. Guarantees to third parties. | These would include, where appropriate, guarantees of borrowing, both by other public sector bodies and by private or quasi-public bodies, together with guarantees for a variety of other purposes such as financing for exports and exchange rates. | |
| 13.Comfort letters or other forms of legally non-binding assurances. | | |

**Disclosure**

Disclosure would include the long-term fiscal effects of public pension programs as currently defined and other similar long-range commitments of public resources. A brief description of the programs and their sources of financing would be provided as well as actuarial and economic assumptions used, as appropriate, in determining best estimates of costs and benefits. In future years, the Committee will study such disclosure further and provide additional guidance to SAIs to the extent possible.

Disclosure would include a description of the terms and conditions of indemnity agreements in force; the conditions under which amounts are payable; the amounts paid under the agreements during the reporting and prior periods; and, if possible to forecast, amounts that will likely be payable in future periods.

Disclosure with respect to guarantees can include a description of the policies and/or the programs that underlie the guarantees; the maximum exposure to the public body that issued the guarantee, including responsibilities for principal repayment and interest costs, commissions, and exchange rate risks, if applicable (subdivided into domestic and foreign currency denominated responsibilities); amounts paid during the period to honor guarantees; default experience in prior periods; and, where possible, forecasts of amounts that are likely to default in future periods. With respect to comfort letters and other similar instruments, disclosure can include a description of the nature and extent of the assurances; the policies and/or programs that underlie them; amounts paid under them during the reporting period; and, if possible to forecast, amounts that are likely to be paid in subsequent periods. The exchange rates used in the valuation of these liabilities would also be disclosed.

| Element | Includes | Measurement |
|---|---|---|
| 14. Insurance and reinsurance programs. | | It is possible, in the light of past experience and with professional judgement, to arrive at a reasonable estimate of the likely liabilities outstanding under insurance schemes. The SAI can ensure that appropriate advice is sought and followed. |
| 15. Other commitments. | These are other obligations arising from existing contracts, agreements or legislative enactments or regulations that could become actual liabilities upon fulfilment of specified conditions. | These could cover a very wide range of circumstances, each of which need to be considered separately on its merits. Clear policies will need to be adopted and applied consistently. |

**Disclosure**

Disclosure would include a description of the major features of each significant program, its funding, trend information on claims paid and premiums received, and estimates of future losses.

If a fund is maintained, details respecting the value of the fund and its adequacy to cover losses would also be provided.

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The nature and amount of each significant commitment or type of commitment would be summarized and provided. These might include costs expected to be incurred to repair environmental damage.

## Appendix 1 to Annex A

An example of an accounting policy for the measurement of fixed and variable value securities (see Annex A, paragraph 1).

**VALUATION METHOD USED FOR VALUATION OF FIXED AND VARIABLE VALUE SECURITIES (USA)**

**Fixed value securities** have a known maturity or redemption value at the time of issue. These securities are measured at their original face (par) value net of any unamortised discount or premium. Securities sold at face (par) have no discount or premium and are valued at face (par).

Securities sold at a discount will increase in value between sale and maturity; securities sold at a premium will decrease in value. Amortisation of the discount or premium may follow the straight-line method or interest method. Either method is acceptable in the cases of:

- short-term securities that have a maturity of 1 year or less; and
- longer-term securities for which the amount of amortisation under the straight-line method would not be materially different from the amount of amortisation under the interest method.

In all other cases, the interest method for amortising any discount or premium should be used.

**Variable value securities** have unknown redemption or maturity values at the time of issue. Values of these securities can vary on the basis of regulation or specific language of the debt offering. These securities are originally measured and periodically revalued at their current value, on the basis of regulations or the debt offering language.

# ANNEX B

## *Examples of the Different Types of Contingencies Reported by SAIs*

| Type of liability identified | Example given |
|---|---|
| Guarantees | ✔ Guarantees to meet borrowing and lending costs of the European Community in relation to the budget (UK)<br>✔ Increasing claims against the constituted Fund guaranteeing saving protection in case of bankruptcies - FOBAPROA - (Mexico) |
| Legal Litigations | ✔ Liability or third party claims in excess of the operator's liability in the event of a nuclear accident in the UK (UK)<br>✔ Litigation against the Government by owners of nationalised companies to be indemnified for the losses incurred during the period of public management (Portugal)<br>✔ Litigation against the Government due to aboriginal land claims (Canada)<br>✔ Claims on significant tax refunds (Canada)<br>✔ Litigation against the Government filed by pension beneficiaries due to law changes caused by the fiscal crisis (Argentina) |
| Uncalled Capitals | ✔ Callable capital subscription to the Asian Development Bank, Inter-American Bank, and to the European Investment Bank (UK) |
| Compensations/ Indemnities | ✔ Indemnities provided to ship owners against third party claims claims arising from the dumping of radioactive waste at sea (UK)<br>✔ Indemnity to a truck terminal due to the abolition of internal European frontiers that reduced the expected earnings of the company (Portugal)<br>✔ Indemnities stemming from allegations of negligence for infections transmitted through blood and blood products (Canada)<br>✔ Agreement to compensate Government suppliers through Treasury Bonds on account of pending unsettled demands and debts (Argentina)<br>✔ Indemnities provided to former prisoners under the military regime, according to the duration of imprisonment (Argentina) |

| | |
|---|---|
| Insurances | ✔ Insurance for public sector schools that are unable to obtain commercial insurance cover (UK). |
| Aids for damage | ✔ Provision of funds in the case of an emergency to the European Union (UK). |
| Pensions | ✔ Agreement to meet any deficiency in respect of the ability of certain pension schemes to fund payments to their members (UK)<br>✔ Agreement to compensate pensioners through Treasury Bonds due to settlements arising from pending debt recognition (Argentina) |
| General Commitments | ✔ Potential liability under the European Patent Convention (UK)<br>✔ Help to credit card debtors (Mexico)<br>✔ Cover for liabilities arising from the restructuring of the Army National Bank (Mexico). |

Comment: the examples given indicate the wide variety of commitments entered into and how these are sometimes identified as contingent liabilities. Liabilities can result from, for example, public policies to support different social or economic sectors or if there are changes in economic or social conditions which will lead to governmental assistance and support.

# ANNEX C

## *Main Results of Survey of SAIs on Levels, Type and Role of the SAI in the Audit of Contingent Debt*

### Background

1. Because of the lack of information the Public Debt Committee decided to institute its own survey on contingent public debt.

2. The main objectives of the survey were to:
   - raise awareness of the topic among SAIs;
   - gather better information about the different forms of public debt liabilities; and
   - gain an understanding about the different ways SAIs understand their roles and how their governments control liabilities of this sort.

3. The methodology adopted consisted in preparing a preliminary questionnaire which was tested by a small number of SAIs. After this a full survey document was produced based on the experiences of our initial trial. A full questionnaire was then sent out to 41 INTOSAI members.

4. Countries from all continents were invited in order to have a representative sample of its diverse membership of around 160 SAIs. The majority of selected SAIs responded to the questionnaire.

### Main survey outcomes

5. The questionnaire sent to a total of 41 SAIs represents approximately 25% of total INTOSAI membership. 30 replies were received representing 18% of the INTOSAI universe and 71% of the SAIs invited to participate in the survey.

6. The questionnaire contained the following eight questions:

- Question 1: Do you use any definition of contingent liabilities?
- Question 2: Have you ever identified any kind of contingent liabilities incurred by your government or by other public bodies you audit? If the answer is yes please describe them.
- Question 3: What are the most common sources of contingent liabilities?
- Question 4: In your country, are there any bookkeeping actions or reports on contingent liabilities?
- Question 5: Can you provide information on contingent liabilities in terms of their estimate significance?
- Question 6: Has the Federal Government assumed any liabilities from lower levels of Government?
- Question 7: Which is the bookkeeping or report method adopted regarding contingent liabilities?
- Question 8: Are you encouraging audit programs on contingent liabilities?

7. Responses from individual countries were grouped according to continent (Africa, America, Asia, Europe and Oceania) with the following distribution:

| **Continent** | **Responses Received** |
|---|---|
| Africa | 1 |
| America | 8 |
| Asia | 7 |
| Europe | 12 |
| Oceania | 2 |
| **TOTAL** | **30** |

8. Most SAIs (67%) use a definition of contingent liabilities but this is not necessarily their own. In some countries, definitions are given by law or statute. On the other hand, other countries adopt General Accepted Accounting Practice (GAAP) or international definitions as their reference. Some SAIs use their own definition.

9. There is a general consensus in defining a contingent liability as a potential debt established by a current or previous government commitment which may crystallise if certain predefined future events take place.

10. Although the majority of countries do have policies concerning contingent liabilities, it has not been possible so far to establish any pattern or make general comments on these.

11. Nearly three quarters (72%) of SAIs state that they have identified some kind of contingent liabilities while auditing. Guarantees represent the most frequent liability identified and the most important source of contingent liabilities. The following table shows a summary of the most common contingent liabilities identified (see also Annex A):

| **Identified Liabilities** | **Frequency** | **%** |
|---|---|---|
| Guarantees | 17 | 38.7 |
| Legal Litigations | 4 | 9.2 |
| Uncalled Capitals | 1 | 2.3 |
| Compensations/Indemnities | 6 | 13.6 |
| Insurances | 6 | 13.6 |
| Aids for damage | 2 | 4.5 |
| Pensions | 2 | 4.5 |
| General Commitments | 6 | 13.6 |
| **TOTAL** | **44** | **100.0** |

Note: Due to the wide range of types, several contingents have been grouped as general commitments: bonds to cover deficits, international agreements, state restructuring, environmental liabilities, tax reforms, loans to students guarantees, guarantees for exports, price fixing support of basic foods.

12. An overwhelming majority of SAIs (almost 84%) state that their respective countries have bookkeeping methods or reports on contingent liabilities. All European countries that participated in the survey responded positively to this question. The most common way of recording or reporting contingent liabilities is through financial statements (more than half of consulted SAIs). Almost 20% of SAIs are issuing reports covering contingent debt. Administrative reporting is also employed as a way of Contingent Liabilities disclosure. In only two responses are reports covered by some form of budget law.

13. The main government departments involved in this area are, not surprisingly, the Ministry of Finance or the General Accounting Departments. They are often involved in compiling additional information on contingent liabilities.

14. Estimates have been produced by respondents of the level of contingent liabilities in terms of Gross Domestic Product (GDP) or Public Expenditure (PE). As a broad average, Contingent Liabilities may represent around 10% of GDP and nearly 47% of PE. Unfortunately, it is not possible to deduce further information due to the lack of more accurate information available at this stage of the survey.

15. On the acceptance of liabilities from lower levels of Government, only 40% of the countries stated that Federal Governments assumed liabilities from provinces and municipalities (local authorities). Instances were also provided where contingent liabilities are accepted on behalf of public enterprises, health and education services.

16. The majority of SAIs (50%) report at least an intention of encouraging audit programs on contingent liabilities. Most information would be required from respondents to establish if specific projects or programs on Contingent Liabilities were being undertaken.

## Preliminary conclusions

The following general conclusions can be suggested at this stage of the survey:

- contingent liabilities are generally understood as potential debts which will arise if pre-defined events occur;
- contingent liabilities are mainly identified and incurred as government guarantees;
- Financial Statements are the most common channel of reporting contingent liabilities;
- contingent liabilities are significant sources of potential public debt in terms of Gross Domestic Product or Public Expenditure;
- Federal Governments are not assuming automatically contingencies arising from lower levels of government;
- SAIs are generally encouraging audit programs on contingent liabilities.

# Annex D

# *Example of Disclosure of Debt Matters (Canada)*

*(C) Hepatitis C Assistance*

The federal, provincial and territorial governments announced their readiness to offer financial assistance to Canadians who were infected by Hepatitis C through the Canadian blood system between 1986 and 1990. The federal government has agreed to share up to $800 million in this assistance. The Government has recorded a liability of £800 million at March 31, 1998 and charged other transfer payments for this measure.

**6. Accumulated Deficit**

In accordance with its stated accounting policies, the Government includes in its revenues and expenditures, the transactions of consolidated Crown corporations and of certain accounts established for specified purposes. Legislation requires that the revenues of these specified purpose accounts be identified and that related payments be charged against such revenues. Any deficiency of payments over revenues must be met through future revenues from these accounts. The following table shows the balances of these consolidated accounts and the retained earnings of the consolidated Crown corporations included in the accumulated deficit:



| | (in millions of dollars) | |
|---|---|---|
| | 1998 | 1997 |
| Accumulated deficit excluding consolidated accounts | 592,142 | 589,045 |
| Consolidated accounts— | | |
| Employment Insurance Account | -12,860 | -6,468 |
| Western Gram Stabilization Account | 1,085 | 1,085 |
| Crop Reinsurance Fund | -1 | 222 |
| Other insurance accounts | -270 | -261 |
| Agriculture Commodities Stabilization Accounts | -2 | -11 |
| Other consolidated accounts | -378 | -377 |
| | 579,716 | 583,235 |
| Consolidated Crown corporations | -8 | -49 |
| Accumulated deficit | 579,708 | 583,186 |

Details (unaudited) can be found in Section 4 of this volume

**7. Unmatured Debt and Other Financial Instruments**

*i Unmatured debt*

The following table presents maturity of debt issues and interest rates by currently and type at face value

(in millions of dollars)

| Maturing year | Marketable bonds: Canadian $ | Marketable bonds: US $[1] expressed in Canadian $ | Treasury Bills | Canada savings bonds[2] | Bonds for Canada Pension Plan | Canada bills: US $ expressed in Canadian $ | Foreign currency notes: US $[3] expressed in Canadian $ | Total |
|---|---|---|---|---|---|---|---|---|
| 1999 | 35,975 | 2,840 | 112,300 | 2,920 | 12 | 9,356 | 1,076 | 164,479 |
| 2000 | 44,903 | | | | 18 | | 248 | 45,169 |
| 2001 | 26,950 | 2,129 | | | 23 | | 638 | 29,740 |
| 2002 | 21,121 | 1,420 | | 2,350 | 17 | | 298 | 25,206 |
| 2003 | 21,825 | 4,259 | | 2,127 | 17 | | | 28,228 |
| 2004 and subsequent | 143,831 | 4,003 | | 23,082 | 3,369 | | 916 | 175,201 |
| | 294,605 | 14,651 | 112,300 | 30,479 | 3,456 | 9,356 | 3,176 | 468,023 |
| Less Government's holdings of unmatured debt | 22 | | | 710 | | | | 732 |
| | 294,583 | 14,651 | 112,300 | 29,769 | 3,456 | 9,356 | 3,176 | 467,291 |
| Nature of interest rate[4] | Fixed[5] | Fixed | Variable | Variable | Fixed | Variable | Fixed[6] | |
| Effective average annual interest rate excluding swap | 7.83 | 6.09 | 4.41 | 3.61 | 10.22 | 5.49 | 5.87 | |
| Range of interest rates | 4.00-15.75 | 5.625-6.75 | 3.60-5.20 | 3.00-6.75 | 8.77-17.51 | 5.38-5.80 | 4.00-6.68 | |

Details (unaudited) can be found in section 6 of this volume

[1] Includes marketable bonds that were issued in other currencies and which were subsequently swapped into US dollars

[2] Canada savings bonds are redeemable on demand

[3] Foreign currency notes are comprised of Canada notes issued in US dollars and Euro medium-term notes issued in US dollars and foreign currencies but which were subsequently swapped into US dollars

[4] Debt with maturity terms of less than one year is considered to have a variable interest rate

[5] Includes real return bonds which have a variable component based in the consumer price index

[6] Includes medium-term notes which have variable rates

*PUBLIC ACCOUNTS OF CANADA, 1997-98*

*ii. Derivative financial instruments and Foreign Currency contracts*

*(a) Swap agreements*

Government debt is issued at both fixed and variable interest rates and is denominated in Canadian dollars, US dollars, and other currencies. The Government has entered into interest rate and cross currency swap agreements to facilitate management of its debt structure. In the case of interest rate swap agreements, fixed interest rate funding has been converted to variable rates tied to the Banker's Acceptance rates. In the case of cross currency swap agreements, Canadian dollar and other foreign currency debt has been converted into US dollars with either fixed interest rates or variable interest rates tied to the London Interbank Offered Rates (LIBOR). As a normal practice, the Government swap positions are held to maturity. The interest paid or payable and the interest received or receivable on all swap transactions are recorded as part of public debt charges in the Statement of Revenues, expenditures and Accumulated Deficit.

Swaps with contractual or notional principal amounts outstanding at March 31, 1998 are as follows:

| | (in millions of dollars) | | | |
|---|---|---|---|---|
| | 1998 | | 1997 | |
| Maturing year | Interest rate swaps Canadian $ | Cross currency swaps Canadian $ | Interest rate swaps Canadian $ | Cross currency swaps Canadian $ |
| 1998 | | | 4,200[1] | |
| 1999 | 1,350 | | 1,350 | |
| 2000 | 500 | 400 | 500 | 400 |
| 2001 | | 25 | | |
| 2002 | 250 | 1,360 | 250 | 1,360 |
| 2003 | | 2,633 | 50 | 681 |
| 2004 and subsequent | 50 | 4,391 | | |
| | 2,150 | 8,809 | 6,350 | 2,441 |

[1] Includes $1,100 million of rate-adjusting swaps overlaid on existing swaps

*(b) Credit risk to swap agreements*

The Government manages its exposure to credit risk by dealing principally with financial institutions having credit ratings of at least Standard & Poor's AA- for instruments with remaining maturity terms between 3 and 10.5 years and at least A for terms of up to 3 years.

The Government does not anticipate any significant loss with respect to its swap agreements.

The following table presents the swap agreements by internationally accepted ratings assigned by Standard & Poor's.

| | (in millions of dollars) | |
|---|---|---|
| Standard & Poor's | 1998 | 1997 |
| AAA | | |
| AA+ | 4,031 | 2,741 |
| AA | 1,383 | 1,350 |
| AA- | 5,395 | 4,200[1] |
| A+ | | 350 |
| A | 150 | 150 |
| A- | | |
| | 10,959 | 8,791 |

[1] Includes $1,100 million of rate-adjusting swaps overlaid on existing swaps

*(c) Foreign currency contracts*

The Government has entered into forward currency transactions to hedge against exchange rate fluctuations relating to Canada's Reserve Position in the International Monetary Fund (IMF), which forms part of Canada's Foreign Exchange Accounts. Canada's IMF Reserve Position is denominated in Special Drawing rights (SDRs). The hedging transactions involve the forward purchase and sale of the composite currencies of the SDRs (ie US dollar, French franc, Deutsche mark, Pound sterling and Japanese yen).

As at March 31, 1998 the notional value of these outstanding forward currency contracts is $5,720 million ($5,197 million in 1997) and the unrealized gain which is not recognized in the books is $63 million ($49 million in 1997). All forward currency transactions have a maximum term of about 12 months or less. All financial institutions involved in the forward currency contracts have at least a AA- credit rating, based on the Standard & Poor's international long-term credit rating.

*1 18 FINANCIAL STATEMENTS OF THE GOVERNMENT OF CANADA*

The Canadian dollar notional values of the forward currency contracts outstanding as at March 31 are presented in the following table:

| | (in millions of Canadian dollars) | | | |
|---|---|---|---|---|
| | 1998 | | 1997 | |
| Currency | Forward sale contracts | Forward purchase contracts | Forward sale contracts | Forward purchase contracts |
| US Dollar | 2,704 | 1,533 | 2,150 | 1,359 |
| Deutsche Mark | 513 | | 696 | 330 |
| Japanese Yen | 449 | | 292 | |
| Pound Sterling | 256 | | 198 | |
| French Franc | 265 | | 172 | |
| Total | 4,187 | 1,533 | 3,508 | 1,689 |

*iii Fair values of financial instruments*

*(a) Financial assets and liabilities*

The following table presents the carrying value and the fair value of financial assets and liabilities. Fair values are Government's estimates and are generally calculated using market conditions at a specific point in time where a market exists. Fair values are assumed to approximate carrying value where no market exists.

Fair values may not reflect future market conditions nor the actual values obtainable should the instruments be exchanged on the market. The calculations are subjective in nature and involve inherent uncertainties due to unpredictability of future events.

| | (in millions of Canadian dollars) | | | | | |
|---|---|---|---|---|---|---|
| | 1998 | | | 1997 | | |
| Financial assets and liabilities | Carrying Value | Fair Value | Difference | Carrying Value | Fair Value | Difference |
| Financial assets | | | | | | |
| Cash | | 11,691 | 11,691 | | 10,175 | 10,175 |
| Accounts receivable | 4,122 | 4,122 | | 4,416 | 4,416 | |
| Foreign Exchange Accounts | 28,968 | 30,082 | 1,114 | 26,813 | 28,094 | 1,281 |
| Loans Investments and Advances excluding investments in enterprise Crown corporations | 12,626 | 13,312 | 686 | 15,579 | 16,077 | 498 |
| Financial Liabilities | | | | | | |
| Accounts payable, accruals and allowances | 43,700 | 43,700 | | 40,100 | 40,100 | |
| Unmatured debt | 467,291 | 509,070 | -41,779 | 502,110 | 502,110 | -25,258 |
| Pension and other accounts | 123,329 | 106,775 | 16,554 | 119,987 | 99,356 | 20,631 |
| Canada Pension Plan deposit | 4,205 | 4,205 | | 3,718 | 3,718 | |
| Net fair value in excess of carrying value | | | -23,425 | | | -2,848 |

Fair values are determined using the following methods and assumptions.

The carrying values of short-term financial instruments are assumed to approximate their fair values due to their short-term maturity. These include cash, accounts receivable, account payable, accruals and allowances, and Canada Pension Plan deposit.

Short-term financial claims and obligations denominated in foreign currencies in the Foreign Exchange accounts are reported at Canadian dollar equivalents at March 31, which is assumed to approximate fair value. Fair values of gold reserves held in the Foreign Exchange accounts reflect market values at year-end. Fair values of assets for which no market exists are deemed to approximate carrying values.

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Fair values of loans to enterprise Crown corporations are generally established by using their carrying values. For portfolio investments, market values are established using stock market quotes or other available information.

Fair values of other loans, investments and advances are assumed to approximate carrying values since allowances are used to reduce the carrying value of these items to amounts that approximate their estimated realizable value.

Marketable bonds denominated in Canadian dollars and foreign currencies and treasury bills issued in Canadian dollars are valued at market. Fair values of other instruments comprising the unmatured debt are deemed to approximate carrying values due to their short life span or their non-negotiable nature.

The fair values of pension liabilities are assumed to approximate actuarial liabilities. These are established by projecting benefits expected to be paid in the future and calculating their present value. This process includes making assumptions of future inflation, interest rates, general wage increases, work force composition, and retirement and mortality rates.

*b) Derivative financial instruments and foreign currency contracts*.

The following table presents the fair value of derivative financial instruments and foreign currency contracts with contractual or notional principal amounts outstanding at March 31:

| | (in millions of dollars) | | | |
|---|---|---|---|---|
| | 1998 | | 1997 | |
| | Notional Value | Fair Value | Notional value | Fair Value |
| Interest rate and cross currency swaps | 10,959 | 337 | 8,791 | 331 |
| Foreign currency contracts— Forward sales | 4,187 | 8 | 3,508 | -14 |
| Foreign currency contracts— Forward purchases | 1,533 | 55 | 1,689 | 63 |

Fair values of the swap agreements are the estimated amount the counterparty would receive or pay to hypothetically terminate the agreement based on market factors.

Fair values of the forward contracts are estimated based on year-end spot rates and approximate the estimated amounts required to close out the position.

**8. Public Sector Pensions**

The Government is responsible for defined benefit pension plans covering substantially all of its full-time employees (including the Public Service, Canadian Forces, Royal Canadian Mounted Police and certain Crown corporations) as well as federally appointed judges and Members of Parliament. Pension benefits are generally calculated by reference to highest earnings for a specified period of time. They are related to years of service and are indexed to inflation. Separate market invested funds are not set aside to provide for payment of these pension benefits.

Annually, pension obligations are estimated by projecting benefits expected to be paid in the future and calculating their present value. Many assumptions are required for this process, including estimates of future inflation, interest rates, general wage increases, workforce composition, retirement rates and mortality rates. The long term rate of inflation used in the valuation is 2.0 percent.

The Government uses its best estimates for the assumptions affecting these pension obligations. Changes in assumptions can result in significantly higher or lower estimates of liabilities. For example, an increase of 1 percent in the inflation rate would increase the pension liability by approximately $12,400 million whereas an increase of 1 percent in the interest rate would reduce the pension liability by about $12,700 million.

The pension liability recorded in the financial statements is comprised of the accrued benefit obligation determined as of March 31, 1998, which amounted to $100,903 million ($93,574 million in 1997) and unamortised pension adjustments of $16,554 million ($20,631 million in 1997). Pension adjustments arise when actual experience varies from estimates and will be amortised over periods ranging from 7 to 14 years, which will affect expenditures in those years.

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PUBLIC ACCOUNTS OF CANADA, 1997-98

**10. Foreign Exchange Accounts**

*i. Foreign exchange accounts*

Foreign exchange accounts represent financial claims and obligations of the Government as a result of Canada's foreign exchange operations.

The following table presents the balances of foreign exchange accounts:

| | (in millions of dollars) | |
|---|---|---|
| | 1998 | 1997 |
| International reserves held in the Exchange Fund Account | 28,198 | 26,726 |
| International Monetary Fund - Subscriptions | 8,194 | 8,295 |
| | *36,392* | *35,021* |
| Less | | |
| International Monetary Fund - | | |
| Notes payable | 5,946 | 6,712 |
| Special drawing rights allocations | 1,478 | 1,496 |
| | *7,424* | *8,208* |
| Total Foreign Exchange Accounts | 28,968 | 26,813 |

Details (unaudited) can be found in Section 8 of this volume

*ii Gold reserves*

The Government keeps certain investments in its Exchange Fund Account to aid in the control and protection of the external value of the Canadian dollar. Part of these investments is kept in the form of gold 3.1 million fine ounces (3.1 million fine ounces in 1997). These gold holdings are valued at 35 Special Drawing Rights (SDRs) or $66.38 per fine ounce ($67.20 in 1997), which approximates cost. An SDR is a unit of account used by the International Monetary Fund valued in terms of a basket of five major currencies. This valuation results in a recorded value of $205 million ($207 million in 1997), which is much lower than the market value of $1,319 million ($1,488 million in 1997) using a value of $427 36 per fine ounce ($481 98 in 1997).

Further details are provided in the financial statements of the Exchange Fund Account in Section 8 of this volume.

**11. Crown Corporations**

The Government wholly owns fifty-four corporations referred to as Crown corporations.

Some of these corporations rely on the Government for most of their financing. There are twenty-two such corporations (22 in 1997) whose financial activities are consolidated in these financial statements. The major corporations are Atomic Energy of Canada Limited, Canadian Broadcasting Corporation, Marine Atlantic Inc and VIA Rail Canada Inc. Details of these corporations are included in Section 4 of this volume.

Other corporations are able to raise substantial portions of their revenues through commercial business activity and are self-sustaining; these corporations are called enterprise Crown corporations. Their assets, liabilities, revenues and expenses are not included in these financial statements, except that in addition to recording the Government's investment in these corporations as described in the paragraph below, their borrowings are recorded as liabilities of the Government when they are not expected to be repaid directly by these corporations.

Details of these corporations are included in Section 9 of this volume.

The following table presents the Government's recorded financial assets for enterprise Crown corporations. Of this amount, $3,440 million ($3.338 million in 1997) represents investments in capital stock and contributed capital of the corporations. The balance represents loans and advances made by the Government.

| | (in millions of dollars) | |
|---|---|---|
| | 1998 | 1997 |
| Enterprise Crown corporations - | | |
| Canada Mortgage and Housing Corporation | 6,733 | 6,964 |
| Farm Credit Corporation | 3,045 | 3,625 |
| Export Development Corporation | 983 | 983 |
| Canada Deposit Insurance Corporation | 395 | 855 |
| Business Development Bank of Canada | 403 | 403 |
| Other | 1,042 | 1,012 |
| Total enterprise Crown corporations | 12,601 | 13,842 |

Details (unaudited) can be found in Section 9 of this volume

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Financial results for the enterprise Crown corporations are summarised as follows:

| | (in millions of dollars) | |
|---|---|---|
| | 1998 | 1997 |
| Assets (including capital assets and deferred charges of $5,909 ($5,719 in 1997) | 89,481 | 81,301 |
| Liabilities | 83,857 | 76,528 |
| Net equity | 5,624 | 4,773 |
| Revenues | 20,310 | 18,316 |
| Expenses | 18,167 | 16,205 |
| Net income for the year | 2,143 | 2,111 |
| Other charges in equity | | |
| Dividends(1) | -1,555 | -1,371 |
| Other | 263 | -149 |
| | 851 | 591 |
| Opening net equity | 4,773 | 4,182 |
| Closing net equity | 5,624 | 4,773 |
| Contractual commitments | 9,952 | 7,346 |
| Contingent liabilities | 627 | 877 |

Details (unaudited) can be found in Section 9 of this volume
(1) Amounts reported as dividends include $1,509 million ($1,310 million in 1997) from the Bank of Canada

Financial statements on all Crown corporations are included in the President of the Treasury Board's Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada.

**12. National Governments, including Developing Countries and International Organisations**

*i. Loans to developing countries*

Included in loans to national governments of $2,859 million ($3,074 million in 1997) are loans to developing countries of $1,586 million ($1,676 million in 1997). Due to the concessionary nature of these loans (extended terms, low interest rates or no interest), loans signed before April 1 1986 have been fully provided for in the allowance for valuation of assets. Any repayments received on these loans are included in revenues when received. All similar loans disbursed after April 1, 1986 have been treated as budgetary expenditures.

Details (unaudited) can be found in Section 9 of this volume.

*ii. Loans, investments and advances to international organisations*

Loans, investments and advances to international organisations, including development banks and their related funds, total $4,010 million ($5,617 million in 1997). Generally, advances to the funds are considered to be of a more concessionary nature as the funds lend to developing countries on beneficial terms. Accordingly, advances to the funds prior to April 1, 1986 have been fully provided for in the allowance for valuation of assets. Advances to the funds after April 1, 1986 have been treated as budgetary expenditures.

In addition, as explained in Note 2, previously, deferred costs were recorded when notes payable were issued to these organisations and, an expenditure recorded when the note payable was redeemed. Effective April 1, 1997, an expenditure is recorded when an note is issued. Accordingly, deferred costs of $1,812 million have been fully provided for in the allowance for valuation of assets.

Details (unaudited) can be found in Section 9 of this volume.

**13. Contractual Commitments**

The nature of government activity results in some large multi-year contracts and obligations. Major contractual commitments that can be reasonably estimated are summarised as follows:

| | (in millions of dollars) | |
|---|---|---|
| | 1998 | 1997 |
| Transfer payment agreements | 13,669 | 11,308 |
| Benefit plans for veterans | 5,750 | 5,811 |
| Operating and capital leases | 4,074 | 4,198 |
| Acquisition of property and equipment, and goods and services | 4,435 | 3,775 |
| International organizations | 1,290 | 1,734 |
| Pension liability under Communication Acts | 185 | 210 |
| | 29,403 | 27,036 |

Details (unaudited) can be found in Section 10 of this volume

*PUBLIC ACCOUNTS OF CANADA, 1997-98*

Estimated expenditures against these commitments in future years are as follows:

| Year | (in millions of dollars) |
|---|---|
| 1999 | 7,756 |
| 2000 | 5,807 |
| 2001 | 4,673 |
| 2002 | 3,984 |
| 2003 | 3,684 |
| 2004 and subsequent | 3,499 |
| | 29,403 |

Details (unaudited) can be found in Section 10 of this volume

*i. Transfer payment agreements*

Included in the transfer payment agreements commitments of $13,669 million ($11,308 million in 1997) is an amount of $9,035 million ($8,692 million in 1997) related to various contractual obligations of the Government through Canada Mortgage and Housing Corporation (CMHC) for social housing programmes. These agreements are made to provide funding for projects for up to 40 years. Honouring these obligations currently amounts to about $1,800 million per year. Uncertainty in forecasting makes estimates beyond the year 2003 unreliable. Accordingly, the amounts reported for CMHC under transfer payment agreements cover only to 2003.

*ii. Operating and capital leases*

Capital leases have various terms up to 50 years. Of the total of $4,074 million ($4,198 million in 1997) in operating and capital leases, $2, 827 million ($2,804 million in 1997) represents future payments for capital leases. Of this, $1,600 million ($1,591 million in 1997) in imputed interest and executory costs.

*iii. Benefit plans for veterans*

Under the *Pension Act*, the Government provides pensions and benefits for disability or death arising from military service. Estimated annual expenditures under this Act will approximate $1,200 million per year over the next few years. Uncertainty in forecasting makes estimates beyond the year 2003 unreliable. Accordingly, the amounts reported under benefit plans for veterans cover only to 2003.

**14. Insurance Programmes**

Three enterprise Crown corporations, whose financial affairs are not consolidated with these financial statements, operate insurance programmes for the Government. In the event the corporations have insufficient funds, the Government will have to provide financing.

Canada Deposit Insurance Corporation provides basic protection coverage to depositors for up to $60,000 deposited with each member bank, trust or loan company. Total insured deposits on March 31, 1998 amounted to $305,014 million ($317,053 million in 1997). The Corporation is expected to be self-financing through premiums collected from members. However, at March 31, 1998, it has accumulated a shortfall of $539 million ($1,176 million in 1997). The Government expects that this amount will be made up from members' premiums in future years and that no cost will be incurred by the Government.

Canada Mortgage and Housing Corporation operates the Mortgage Insurance Fund which provides insurance for mortgage lending on Canadian Housing by private institutions. Insurance in force at March 31, 1998 was $168,900 million ($135,100 million in 1997). The Fund has a surplus of $21 million at March 31, 1998 ($19 million in 1997). Budgetary financial assistance, although rare, is provided at the discretion of the Government.

Export Development Corporation (EDC) provides export and foreign investment insurance to help with export trade. Insurance in force at March 31, 1998 was $11,500 million ($9,329 million in 1997). The EDC insurance portfolio has a surplus of $252 million at March 31, 1998 ($217 million in 1997). The premiums collected by the Corporation are expected to cover the cost of both current claims and possible future claims.

Details (unaudited) can be found in Section 10 of this volume.

**15. Contingent Liabilities**

Contingent liabilities which may become actual liabilities are summarised as follows:

| | (in millions of dollars) | |
|---|---|---|
| | 1998 | 1997 |
| Guarantees by the Government | 43,606 | 39,314 |
| Less allowance for loss | 4,188 | 5,253 |
| | 39,418 | 34,061 |
| International organisations | 17,097 | 16,233 |
| Claims and pending and threatened litigation | 8,142 | 13,358 |
| | 64,657 | 63,652 |

Details (unaudited) can be found in Section 10 of this volume

The Government records an allowance for losses on loan guarantees and for borrowings of enterprise Crown corporations when it is likely that a future payment will be made and a reasonable estimate of the loss can be made. All other loan guarantees are reported as contingencies.

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The Government has callable share capital in certain international organisations that could require payment to these agencies.

Included in claims and pending and threatened litigation are Aboriginal claims of $2,721 million ($8,167 million in 1997) and comprehensive Aboriginal land claims of $756 million ($581 million in 1997). In addition, the Government is aware of approximately 2,000 potential claims which are currently being researched by the First Nations. However, a reliable estimate of potential liability cannot be made at this time. The Government is also in the process of assessing Aboriginal claims which are before the courts, for which a reliable estimate of potential liability cannot be made at this time. The Government is also in the process of assessing Aboriginal claims which are before the courts, for which a reliable estimate of potential liability cannot be made at this time. There are an additional 57 comprehensive land claims that have not been totally quantified in 1998 (57 in 1997).

There are a number of individual as well as class actions suits which have been commenced against the Government with allegations of negligence for infections transmitted through blood and blood products. Because of the complexity involved in determining any federal obligation, particularly in relation to Hepatitis C claims which represent the majority of cases, a reliable estimate of potential liability cannot be made at this time. On March 27, 1998, the federal, provincial and territorial governments agreed to offer up to $1,100 million in financial assistance to Canadians who were infected by Hepatitis C through the Canadian blood system between 1986 and 1990. The federal portion of the financial assistance is described in Note 5.

Also included in claims and pending and threatened litigation is $1,188 million ($1,349 million in 1997) relating to tax refunds that are significant and were under appeal to the Federal Court of Canada or the Supreme Court of Canada at March 31, 1998.

**16. Environmental Liabilities**

While estimates of total radioactive and non-radioactive waste clean-up costs for Canada have ranged as high as $30,000 million, much of this amount is clearly the responsibility of other levels of government and the private sector. Some estimates place the federal share at $2,800 million. However, reasonable estimates of costs attributable to the Government cannot be fully determined at this time. The determination of these costs will be subject to and depend on evolving public policy, legislation and results of the search for long-term cost-effective waste disposal solution. The Government will continue to work towards the reasonable determination and disclosure of environmental liabilities in accordance with generally accepted accounting principles.

**17. Uncertainty due to the Year 2000 Issue**

The Year 2000 issue relates to the Government's computerised systems' use of two digits rather than four to identify a year. Date-sensitive systems may recognise the Year 2000 as some other date, resulting in errors when information using Year 2000 dates is processed. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Government's ability to conduct its operations.

The Government is working to resolve the potential adverse impacts of the Year 2000 issue on its operations. However, it is not possible to be certain that all aspects of the Year 2000 issue affecting government operations will be fully resolved prior to the 1999-2000 fiscal year, including those related to non-government entities who exchange information with the Government's systems and facilitate the Government's operations.

# Annex E

# *Example of Disclosure of Actual and Contingent Liabilities (United Kingdom)*

**Actual and Contingent Liabilities**

| DEPARTMENT/STATUTE | NATURE OF LIABILITY | AMOUNT OUTSTANDING AT 31.3.97 | AMOUNT OUTSTANDING AT 31.3.98 |
|---|---|---|---|
| | | ***£m*** | ***£m*** |
| FOREIGN AND COMMONWEALTH OFFICE | | | |
| | NON-STATUTORY LIABILITIES CHARGED TO VOTES | | |
| | Indemnities against loss or damage given by the Commonwealth Institute to the owners of objects exhibited on its premises. | 0.3 | 0.3 |
| | Indemnities given by the British Council to the owners of objects exhibited overseas against loss or damage. | 7.5 | 13.0 |
| | Contractual liability of the BBC to Merlin Communications International Limited resulting from the privatisation of the BBC's Overseas transmission business. | 50.0 | 50.0 |
| | STATUTORY LIABILITIES CHARGED TO VOTES | | |
| *Commonwealth Institute Act 1958* | Commonwealth Institute: liability for maintenance of building and other statutory requirements, in the event of closure. | 0.8 | 0.9 |
| DEPARTMENT OF HEALTH | | | |
| | STATUTORY LIABILITIES CHARGED TO VOTES | | |
| Water Act 1991 | An indemnity to water undertakers in respect of costs, damages and expenses not otherwise covered by insurance arising from claims or proceedings on the grounds of alleged harm to health arising solely from fluoridation. | Unquantifiable | Unquantifiable |
| NHS and Community Care Act 1990 Section 64 and Schedule 3 | Overdraft guarantees for NHS Trusts. | 52.5 | 45.9 |
| Regulation 2(a) of the Employers Liability (Compulsory Insurance) (Amendment) Regulations 1974 | The Department has issued an exemption Certificate to the National Radiobiological Protection Board in respect of any liability to its employees of the kind mentioned in Section (1) of the Employers Liability (Compulsory Insurance) Act 1969. | Unquantifiable | Unquantifiable |
| | NON-STATUTORY LIABILITIES CHARGED TO VOTES | | |
| | As indemnity to water undertakers in respect of costs, damages and expenses not otherwise covered by insurance arising from claims or proceedings on the grounds of alleged harm to health arising solely from supplying water which has been fluoridated by another water undertaker and which therefore is not covered by the statutory guarantee. | Unquantifiable | Unquantifiable |
| | The Department has undertaken to meet the cost of compensation payments arising from claims for injury arising from trials of a whooping cough vaccine development by the Microbiological Research Authority. | Unlimited | Unlimited |

*continued ...*

**STATEMENT OF CONTINGENT OR NOMINAL LIABILITIES**—*continued*

| DEPARTMENT/STATUTE | NATURE OF LIABILITY | AMOUNT OUTSTANDING AT 31.3.97 | AMOUNT OUTSTANDING AT 31.3.98 |
|---|---|---|---|
| | | *£m* | *£m* |
| DEPARTMENT OF HEALTH—continued | NON-STATUTORY LIABILITIES CHARGED TO VOTES | | |
| | The Department has undertaken to meet the cost of compensation payments arising from claims for injury arising from the immunisation of voluntary donors with specialised immuno-globulins subsequently harvested and used in the treatment of haernolytic diseases of newborn babies. | Unlimited | Unlimited |
| | In the event of a nuclear emergency it would be necessary to distribute stable iodine tablets to the general public to prevent the uptake of radioactive iodine. The Department has undertaken to indemnity those other than qualifed medical personnel distributing the tablets against any action resulting from adverse reactions. | Unquantifiable | Unquantifiable |
| | The Government originally paid £42 million to a Trust from which payments are made to Haemophiliacs infected with HIV virus following treatment by the NHS with infected blood products. The Department has agreed to pay to the Trust any sums required to make payments if the funds already provided prove insufficient. | Unquantifiable | Unquantifiable |
| | A letter which the Department sent to the Association of British Health Care Industries on 9 June 1992 may be construed as a letter of comfort in respect of contracts entered into by NHS Trusts and hence result in a non-statutory liability. The letter was withdrawn on 17 August 1993 but a residual contingent liability may remain in respect of contracts entered into between the issue of the letter and its withdrawal. | Unlimited | Unlimited |
| | The Department has undertaken to meet legal and other costs of medical and nursing staff engaged on clinical trials approved by the National Blood Authority of new blood products manufactured by the Bio-Products Laboratory a part of the NBA, and the costs of any claims for damages from patients arising from clinical trials of the new products. | Unquantifiable | Unquantifiable |
| | To cover the cost of the Family Fund meeting its duties, under legislation to its staff in the event of it being wound up by the Government. | 0.5 | 0.5 |
| | As indemnity to Higher Education providers to cover a proportion of any redundancy cost, which may arise in respect of pre-registration nurse education, which has now moved to a higher education sector, should a contract of education not be renewed. | 60.0 | 60.0 |
| | The Department was found negligent in failing to stop treating patients with Human Growth Hormone by 1 July 1997 - at a time when possible consequences should have been apparent. Compensation will need to be paid to patients treated after this date who subsequently die from CJD. | _ | Unquantifiable |
| HOME OFFICE (HM Prison Service) | NON-STATUTORY LIABILITIES CHARGED TO VOTES | | |
| | Crown as insurers of last resort in respect of contracts to design, construct, manage and finance new prisons. | Unquantifiable | Unquantifiable |
| LORD CHANCELLOR'S DEPARTMENT | NON-STATUTORY LIABILITIES CHARGED TO VOTES | | |
| | Collection of paintings and works of art. | 1.3 | 1.3 |

**STATEMENT OF CONTINGENT OR NOMINAL LIABILITIES**—*continued*

| DEPARTMENT/STATUTE | NATURE OF LIABILITY | AMOUNT OUTSTANDING AT 31.3.97 | AMOUNT OUTSTANDING AT 31.3.98 |
|---|---|---|---|
| | | *£m* | *£m* |
| DEPARTMENT FOR CULTURE, MEDIA AND SPORT (FORMERLY THE DEPARTMENT OF NATIONAL HERITAGE) | | | |
| | STATUTORY LIABILITIES CHARGED TO VOTES | | |
| National Heritage Act 1980 Section 16 | Government Indemnity Scheme. Works of art on loan to: | | |
| | British Museum | 29.5 | 47.3 |
| | Imperial War Museum | 2.9 | 1.4 |
| | National Gallery | 428.7 | 398.9 |
| | National Maritime Museum | 15.7 | 16.9 |
| | National Museums and Galleries on Merseyside | 34.2 | 16.7 |

# Annex F
## *Example of Disclosure of Actual and Contingent Liabilities (Portugal)*

### Definitions used

1. The following definitions are used:

   - **Internal Actual debt,** composing mainly of securities (including bank loans taken over by central government) is disclosed at original face value, except for Treasury bills which are measured at their liquid value, after discount and non negotiable savings securities which include capitalised interest;
   - **External actual debt,** composing securities, bank loans and loans from international bodies, is measured by the amounts received amortised over the period of the loan and disclosed in Portuguese Escudo (although the values in foreign currency are also included in the notes to the statements). Promissory notes, related to uncalled capital subscriptions to international organisations are considered to be actual debt and disclosed by their total amounts;
   - **Guarantees,** are disclosed by the value of the existing responsibilities, and the criteria used for measurement are as for actual debt. A list of all beneficiaries is appended to the financial statements.

2. The financial statements disclose information concerning each loan, security and guarantee. This information is summarised below in the form that it appears in the financial statements:

## Internal actual debt (PTE billions)

| Internal debt | Value in 31.12.95 | Issues (a) | Capitalization of interest (b) | Total (a+b) | Amortization | Value in 31.12.96 | Variation | % |
|---|---|---|---|---|---|---|---|---|
| **Medium/long term:** Securities/bank loans | 5,473,314 | 1,335,162 | 20,570 | 1,355,732 | 1,275,795 | 5,553,251 | +79,937 | +1.5 |
| **Short term:** Treasury bills | 1,250,620 | 2,560,955 | – | 2,560,955 | 2,460,091 | 1,351,484 | +100,864 | +8.1 |
| Others | – | 20,000 | – | 20,000 | 20,000 | – | – | – |
| **Non negotiable savings securities** | 2,004,527 | 308,523 | 163,574 | 472,097 | 234,253 | 2,242,371 | +237,844 | +11.9 |
| **Total** | **8,728,461** | **4,224,640** | **184,144** | **4,408,784** | **3,990,139** | **9,147,106** | **+418,645** | **+4.8** |

# External actual debt (PTE billions)

| External debt | Value in 31.12.95 | Issues | Amortizations | Results of exchange rate variations (net) | Total | Value in 31.12.96 | Variation | % |
|---|---|---|---|---|---|---|---|---|
| Securities and bank loans (a) | | | | | | | | |
| International bodies (b): | | | | | | | | |
| • EIB | | | | | | | | |
| • IBRD | 1,837,589 | 426,855 | 238,433 | 52,031 | 290,464 | 1,973,989 | +136,391 | +7.4 |
| • IDA | | | | | | | | |
| • CEF | | | | | | | | |
| • KFW | | | | | | | | |
| Promissory notes | | | | | | | | |
| Others | | | | | | | | |

a) General expenditure financing.

b) Specific projects financing.

## Contingent debt (PTE billions)

| **Guarantees to** | **Value in 31 December** | | | | **Variation** | |
|---|---|---|---|---|---|---|
| | **1995** | | **1996** | | | |
| Internal Loans (1) | 348,587.9 | 34.6 | 403,375.4 | 37.6 | 54,787.5 | 15.7 |
| External Loans (1) | 658,966.8 | 65.4 | 668,366.4 | 62.4 | 9,399.6 | 1.4 |
| **TOTAL** | **1,007,554.7** | **100.0** | **1,071,741.8** | **100.0** | **64,187.1** | **6.4** |

(1) A list of all the beneficiaries, with the responsibilities incurred towards each one of them, is annexed to the financial statements.

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