

The 3rd KIPF
Public Sector Accrual Accounting International Symposium 2022

KIPF
International Symposium



Contingent Liability Management in the Public Sector

Dear Audience and Participants,

Thanks to all of you, the 3rd KIPF Public Sector Accrual Accounting International Symposium was successfully held. We sincerely appreciate you for attending the symposium and for providing meaningful feedback.

The Government Accounting and Finance Statistics Center (hereinafter, GAFSC) of KIPF annually holds an international symposium with the purpose to develop government accounting and enhance the transparency of government finance.

In 2022, the third international symposium took place with the topic of '**Contingent Liability Management in the Public Sector**' with a special focus on **Government guarantees and Indemnities**. This symposium is based on the GAFSC's International Collaborative Research Project in which eminent researchers from Korea and the UK participated.

In the presentation session, the following highlights were presented :

- ❖ Korea case: Choi, Youn Sik(Professor) presented under the theme of "Current Status and Management of Contingent Liabilities in the Government Sector"
Main contents were the necessity of the Contingent liabilities management system, disclosure of contingent liabilities by the central government of Korea and comparison to other countries, and lastly suggestions for improving the management system of contingent liabilities. There are inherent characteristics in management and disclosure in Korea such as insufficient disclosure regulations, absence of market discipline, and other practical difficulties. Proposals for systematic management of contingent liabilities are 1. Restructuring of notes to the government Financial Statements 2. Structuring contingency notes 3. Institutionalizing a system to improve the disclosure quality of contingent liabilities 4. Establishing a basis for quasi-market discipline outside the reporting entity.
- ❖ The UK case: Manj Kalar(Principal Consultant) gave a presentation under the theme of "Analysing the Effect of Contingent Liability Management"
Main contents were defining contingent liabilities in the UK, introducing contingent

liability approval framework and government as insurer of last resort, and Contingent Liability Central Capability, and showing the lessons learnt and advice that could help other jurisdictions. The case study related to the guarantee of payment has been conducted with UK Export Finance. In this case, it was shown how to manage their risk regarding guarantees and how to define unexpected loss. Key lessons are managing data, understanding risk, retaining expertise, and providing guidance.

The informative presentations were followed by meaningful panel discussions with the discussants from the Korea Institute of Public Finance, the Board of Audit and Inspection of Korea, and OECD, IPSASB. The discussants commented as follows:

- ❖ **Park, Sung Jin (Executive Director) from KIPF:** From the point of view of a fiscal authority that comprehensively prepares for fiscal and risk management on a longer horizon, a broader scope of contingent liabilities than the accounting standards needs to be considered.
For more faithful management of contingent liabilities, it is necessary to use an updated fiscal management system rather than general-purpose financial statements as a more conservative measurement standard. Contingent liabilities must be managed in an integrated manner not only by the central government, but also by local governments and financial/non-financial public corporations.
- ❖ **Lee, Eun Kyung(Director) from NABO:** Contingent liabilities of public corporations should be managed as they can eventually lead to financial spending. In particular, Lee, Eun Kyung emphasized the importance of data and at the same time provided examples of contingent liabilities that the government missed, and commented that caution should be taken as these cases may lead to future expenditures.
- ❖ **Choi, Sung Hoon(Audit official) From BAI:** Korea should better reflect the contingent liabilities of public corporations. Although the law does not explicitly state the disclosure of bonds issued by public corporations as government guarantees, these contingent liabilities must nevertheless be well disclosed in the government accounting reports. The reason for the introduction of accrual accounting is to make better use of these contingent liabilities in the future in terms of fiscal soundness.
- ❖ **Ivor Beazley(Lead) from OECD:** Regarding financial reporting, multiple jurisdictions need to disclose more information, and a better narrative is needed, not just a list of disclosures. In addition, the role of international organizations such as the OECD, IPSAS, and IFAC is to promote good practice and support the management of contingent liabilities.
- ❖ **Ross Smith(Director) from IPSASB:** Agreeing that the UK is a good practice for managing contingent liabilities, Ross Smith explained how public financial management can be improved through the UK's Whole of Government Accounts. Since the disclosure of contingent liabilities on financial statements alone is not sufficient, it is recommended

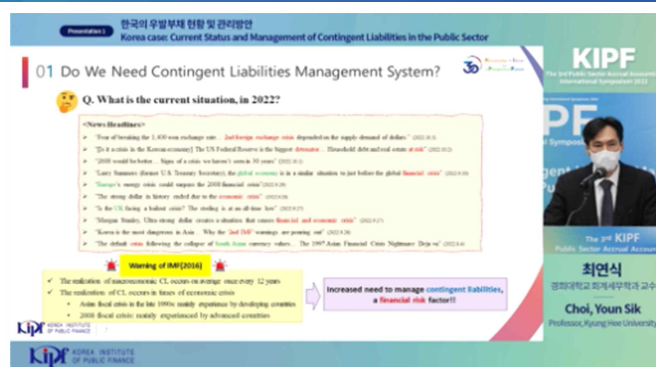
to refer to the IPSASB guideline (RPG1) that explains how to disclose contingent liabilities beyond financial statements.

The GAFSC will continuously hold the symposium by engaging international practitioners and experts in the field of public sector accounting and public financial management. We look forward to your continuous support and participation.

Once again, thank you for your invaluable time and feedback.

See you all at the 4th KIPF Public Sector Accrual Accounting International Symposium in 2023!

❖ Pictures



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발표 2
영국의 우발부채 관리체계 효과분석
Manj Kalar | Kalar Consulting 대표

Presentation 2
UK case: Analysing the Effect of Contingent Liability Management
Manj Kalar | Principal Consultant, Kalar Consulting

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영국의 우발부채 관리체계 효과분석
UK case: Analysing the Effect of Contingent Liability Management

5 STAGE
Contingent Liability Checklist

Start RATIONALE EXPOSURE
Finish AFFORDABILITY RISK MANAGEMENT & MITIGATION

Question A: What is the problem that needs to be solved and why is government intervention necessary?
Question B: Why is a contingent liability necessary?
Question C: What alternatives have been explored? Why were these rejected?

Manj Kalar
Kalar Consulting CEO
Principal Consultant, Kalar Consulting

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IPSASB

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(Youtube Link) Official Youtube Channel of KIPF

<https://www.youtube.com/user/kipflove>

(Presentation Materials) Official Website for KIPF Public Sector Accrual Accounting Int'l Symposium

<http://en.gafsc-seminar.kr/>