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## Comments on Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements

The Swedish National Financial Management Authority (ESV) appreciates the opportunity to comment on the Conceptual Framework.

ESV is the government agency responsible for financial management and development of GAAP in the Swedish central government. Full accrual accounting was introduced in 1993 and we hope that our experience will be a contribution in your work with various accounting issues.

### Overall Opinion

We appreciate the work performed by IPSASB and find the resulting paper highly relevant and interesting.

### Specific Matters for Comment 1

In our opinion the definition of an asset should include both economic benefits and service potential. Many of the assets within the public sector do not generate net cash inflow and therefore we believe it is appropriate to use service potential in the definition. We however have experienced that it sometimes is difficult to distinguish between when a transaction or event should be accounted for as an asset or as expenditure in the current operation. The definition of service potential should be more constrained than to provide goods and services in accordance with the entity's objectives. We however have not developed a wording for a new definition.

The unconditional rights to receive resources in the future should not be included as a benefit. Those rights could be accounted for in a sustainability report but not in the financial statements.

### Specific Matters for Comment 2

In our opinion control is the main approach to associate an asset with a specific entity. Sometimes control could be a too restrained criterion. We consider that the access to the rights of an asset could be a criterion for the definition of an asset. In the Swedish central government we have some jointly controlled assets with e.g. other countries within the European Union. Those are disclosed in the Statement of

Financial Position as assets even if we do not have “control” of the asset, but according to the agreement we have access to the rights of the asset. In notes the entity should disclose the content of the agreement.

#### **Specific Matters for Comment 3 and 8**

In our opinion the occurrence of a past event should be a criterion to define assets and liabilities.

#### **Specific Matters for Comment 4**

In our opinion the public sector rights to tax and levy fees should only be accounted for as assets when those powers are exercised or when the event that gives the public sector the rights to exercise e.g. a specific tax have occurred.

#### **Specific Matters for Comment 6-7**

In our opinion the definition of a liability should cover performance obligations and other obligations if a transaction or event have occurred that makes eligible the right to receive a grant and there is no realistic alternative to avoid the obligation, e.g. if a dentist has the right to receive an amount for an examination that has been done according to contract. Obligations assignable to social benefits should be liabilities only if the entity has not fulfilled a legislative demand.

We support the second approach (b) in paragraph 3.28. The obligation to transfer grants in the future should not be included in the definition of a liability. Constructive obligations that are non-exchange transactions and not legally enforceable should accordingly not be included in the definition of a liability. To go further in the definition would not be understandable to the main users of the financial reports.

#### **Specific Matters for Comment 9**

We think that the assumption about the role that sovereign power plays within the public sector is important. Social benefit obligations in the future should not be liabilities because a government can walk away from the obligations. Those future social obligations could be disclosed in a sustainability report. To go further in the definition would not be understandable to the main users of the financial reports.

#### **Specific Matters for Comment 11 and 14**

In our opinion revenues and expenses should primarily be determined by changes in net assets defined as resources and obligations. It is important that the financial statements can be used for performance management as well as for evaluation of the financial performance within the entity. Therefore deferrals need to be accounted for in the financial statements and to be included as sub-components of assets and liabilities.

**Specific Matters for Comment 15**

We consider net assets/net liabilities primary to be a residual amount. Only if entities have an ownership in a GBE that part could be seen as an ownership interest.

**Concluding remarks**

We hope the comments given will be useful in your continuing work. We would like to take this opportunity to express our support for the development of International Public Sector Accounting Standards and a framework for financial reporting.

Curt Johansson and Claes-Göran Gustavsson have prepared the comments given in this report.

Yours sincerely,

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