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Comments on Consultation Paper Recognition and Measurement of Social Benefits

The Swedish National Financial Management Authority (ESV) appreciates the opportunity to comment on the Consultation Paper, Recognition and Measurement of Social Benefits.

ESV is the government agency responsible for financial management and development of GAAP in the Swedish central government.

Specific Matter for Comment 1

We agree about the scope of the CP. We also believe that the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits.

This is very much in line with how Sweden has regarded these questions. We have generally built our routines and regulations on classification of social benefits (transfers and grants) in agreement with the SNA as much as possible. This of course makes it easier to report and classify for everyone involved, and also to without much recalculations or adaptations use the accounting information for statistical purposes.

Specific Matter for Comment 2

We support, as the IPSASB considers in Preliminary View 2, the obligating event approach as the primary approach. In a few cases the insurance approach could be appropriate.

The obligating event approach shows the most natural solutions from a general accounting practice point of view. The social contract approach includes some good thoughts, but also several problems which the CP describes. The insurance approach is applicable only in few cases where the systems or schemes are very similar to that of an insurance company.

Specific Matter for Comment 3

We have not found any social benefits transactions which could not be addressed by the options set out in the CP.

Specific Matter for Comment 4

In our view, the obligating event should in most cases arise when a claim is enforceable. That is in practice the point where Sweden has recognized the liability so far.

However, in Sweden the difference between the points c), d) and e) is in most cases very small, since most social benefits are paid out every month or even twice per month. This means that the eligibility criteria for e.g. old age pensions or child allowances are measured automatically by the turn of the month, and no claim has to be made. Hence the effect of applying point c) would be that the benefits for a period from the first day of the month up to the day of payment would be recognized as a liability, but the cost for each coming month would not change more than marginally. In some cases point c) or d) might be the most appropriate, but we are not able today to describe these cases and it would not lead to a major difference.

Generally the problem is of course the possibility for the government, sometimes through the parliament, to change the law or ordinance regulating a certain social benefit. When this is possible the “liability” would not meet the definition of a liability, since it can be settled in another way than with a cash transfer. For this reason we believe that sustainability reporting, disclosures and supplementary information and in some cases maybe contingent liabilities should be applied. This is an important difference for the obligations of this type in the public sector, compared to a business or other private law agreement between two parties. Of course when a public entity is a party in a business agreement, the liabilities should be recorded in the same way as those of any other unit.

Specific Matter for Comment 5

We believe that the obligating event should not occur earlier for contributory schemes than non- contributory schemes. If it did, this would implicate that you apply the point b) threshold eligibility criteria, where the liability is recognized when an individual has joined the system (by paying contributions).

Specific Matter for Comment 6

Social benefits provided through an exchange transaction should be covered in some way in the future IPSAS on social benefits. This could be obtained by referring to another IPSAS.

Specific Matter for Comment 7

In our view scheme assets should be included in the presentation in all cases, as long as there are designated and funded assets. This would normally occur only for contributory schemes, but technically the government can set aside a part of general taxation for a specific scheme.

Specific Matter for Comment 8

We choose not to comment on this matter since the social contract approach will probably not be used.

Specific Matter for Comment 9

We agree on the overall conclusions about the applicability of the insurance approach. However we have not been able to go into details concerning this approach, since it will not be very common.

Specific Matter for Comment 10-14

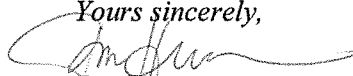
Since we have not gone into details concerning the insurance approach, we choose not to comment on these matters.

Concluding remarks

We believe that it is of great importance that information on social benefit commitments, not agreeing with the conceptual framework definition of an obligation, is provided. For this purpose separate sustainability reporting and sometimes disclosures in the annual report will be appropriate. The Swedish Pension agency annually produces a separate report, the Orange report, where future contributions are calculated as an asset (<https://secure.pensionsmyndigheten.se/23539.html>). This report is intended to show the sustainability of the old age pension system in Sweden, and it is a valuable complement to the financial reports.

Senior Advisors Ingemar Härneskog and Anne-Marie Ögren have prepared the comments given in this report.

Yours sincerely,



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