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Comments on the Amendments to IPSAS 25 Employee Benefits

The Swedish National Financial Management Authority (ESV) appreciates the opportunity to comment on the ED 59 Comments on the Amendments to IPSAS 25 Employee Benefits.

The Swedish National Financial Management Authority 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

Our overall opinion is that we support the amendments to IPSAS 25, e.g. removing of the corridor approach from the standard and recognizing remeasurements in net assets/equity in the period in which they occur. This means that changes in actuarial assumptions will be recognized only in the statement of financial position.

The standard raises two issues.

To what extent should other changes of gains and losses be recognized in net assets/equity? ESV considers that the method to present gains and losses in net assets/equity should not be restricted to changes in actuarial assumptions for employee benefits. In Sweden e.g. we use actuarial assumptions for valuation of student loans that are very similar to valuations of the pension liability.

Should the public sector have a report of overall comprehensive income (OCI) like the private sector? ESV's consideration is that if other changes of gains and losses should be recognized in net assets/equity it would probably be more transparent to introduce an OCI also in the public sector.

Specific Matters for Comment

From Sweden we would also like to question the mandatory use of the PUCM method for calculation of the employee pension plan liabilities. The Swedish pension plans are all based on a paid-up policy technique, meaning that if an

employee leaves his employment long before retirement, he will get a pension anyway according to an earned share of a full pension. On the other hand, if a person is employed in the government sector for the first time at the age of 48, he will not get the full pension as if he had been employed for e.g. thirty years if that is the requirement for full pension. Normally he will then have a separate pension from his earlier private sector employment. Our method, consequently, is to record a liability in accordance with the pension earned at the end of each year with a calculated yield on the paid-in premium. Later there can be recalculations due to changes in prices or salaries. The liability will however not be affected by forecasts on expected future salary at the time of retirement. With this background we believe that the PUCM method does not in all cases show the best possible value of the liability. Our opinion is that the PUCM method should not be mandatory for countries or entities where the paid-up policy technique is applied.

Especially this is the case for the individual units (agencies) of the government sector, where the effects are more obviously hard to handle. In the private sector in Sweden the PUCM method is only mandatory if you present financial statements according to IASB's standards, not according to the national legislation. If the IPSASB still would decide that the PUCM method should be mandatory for governments applying IPSAS, our opinion is that it should only be mandatory for the consolidated level of local or central government.

Concluding Remarks

We hope the comments given will be useful in your continuing work with accounting standards. We would like to take this opportunity to express our support for the development of International Public Sector Accounting Standards.

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

Yours sincerely,

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