



**EUROPEAN COMMISSION**  
EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality  
**Unit D-2: Excessive deficit procedure (EDP) 1**

Luxembourg, 08 November 2017

## **FINAL FINDINGS**

### **EDP standard dialogue visit to Sweden**

**1-2 June 2017**

## **Executive summary**

Eurostat undertook a standard EDP dialogue visit to Sweden on 1-2 June 2017.

The main objectives of this EDP dialogue visit were (1) to review the existing institutional responsibilities for compiling GFS and EDP statistics, focusing on the improvements achieved for financial accounts as well as for quarterly data for other local government bodies (OLGB), (2) to clarify technical issues relating to the EDP data provided in the context of the 2017 April notification, (3) to analyse aspects related to the practical implementation of the market-non-market test as well as on the sector classification of some specific units, (4) to discuss the recording of taxes and interest accrued and (5) to clarify the recording of specific government transactions such as capital injections into public corporations, dividends and super-dividends as well as the classification of Private-Public-Partnerships (PPPs).

Eurostat reviewed the institutional responsibilities with respect to the reporting of data under government finance statistics and EDP. Eurostat briefly discussed with the Swedish statistical authorities the division of responsibilities for the compilation of EDP statistics and government accounts and the developments since the latest EDP dialogue visit, which took place on 19-20 of May 2015. As far as the split of responsibilities is concerned, there have been no major changes compared to the previous EDP visits. In Sweden, several institutions are involved in the compilation of the EDP data. The main compilers are Statistics Sweden (SCB), the Swedish National Financial Management Authority (ESV), the Ministry of Finance (MOF) as well as the Swedish National Debt Office (SNDO). Statistics Sweden informed Eurostat that since September 2016, Statistics Sweden was formally appointed as National Statistical Institute. This new status provides the institution the full responsibility for co-ordination of European statistics in accordance with EU statistical legislation. In addition, SCB informed Eurostat that there were no significant changes in the institutional arrangements since the last 2015 EDP dialogue visit, nevertheless there are some new developments relating to the work of the EDP Steering group. Furthermore, the Swedish statistical authorities explained the use of the integrated central government data source for both non-financial and financial accounts, as well as the progress achieved in the compilation of financial accounts. Regarding financial accounts for central government, several aspects were improved since the last EDP mission, such as data reporting from the SNDO to ESV, the consolidation process as well as data on cash holdings between central government authorities. Further significant progress was noted on quarterly data sources for other local government bodies (OLGB) by introducing a new survey on other local governmental bodies. During the 2015 EDP mission, Eurostat invited the Swedish statistical authorities to reconsider the current policy in relation with the reclassification of units, so that consistent time series could be ensured and correct deficit and debt data could be reported for the whole reporting period. SCB informed Eurostat on the progress with regard the new revision policy.

The Swedish statistical authorities confirmed during the discussions that there were no changes in the quality management framework, audit and internal control arrangements compared to last EDP 2015 visit. The system of internal controls and internal audit is

established in all central government agencies and ESV has overall responsibility for the development, management and coordination of the government internal audit. ESV has a normative role by issuing provisions of regulations referring to the government internal audit system. Eurostat concluded during the discussions that there were no problematic areas identified within the quality management framework, audit and internal control arrangements or cooperation with the upstream data suppliers. With regard the Council Directive 2011/85/, Eurostat took note that its requirements are fully implemented in Sweden.

Furthermore, Eurostat thanked the Swedish statistical authorities for the comprehensive feed-back provided on the status of implementation of the action points resulting from the May 2015 EDP mission. The follow-up of three remaining action points was further discussed with the Swedish statistical authorities. The outstanding action points were related to the sector classification of Kommuninvest AB, to the recording of the accrued pension contributions of the local government pension scheme during the transitional management phase as well as to the recording of the annuities guaranteed by government at the retirement phase of the Premium Pension Scheme. Eurostat highlighted that there are still some open issues which need to be clarified regarding the sector classification of Kommuninvest AB, notably on the board composition and on the government control on the assets and liabilities. In addition, Eurostat also asked the Swedish statistical authorities to review the current classification in the financial sector S.122 (Deposit-taking corporations except the central bank), which does not seem to correspond to the main activities of the unit. Regarding the recording of the accrued pension contributions of the local government pension scheme during the transitional management phase, it was agreed during the discussions that the accrued pension contributions which are gradually collected during the year should be recorded as government borrowing from the financial sector and as a consequence, should impact the calculation of the general government Maastricht debt. As regard the recording of the annuities guaranteed by government at the retirement phase of the Premium Pension Scheme, Eurostat agreed with the current recording implemented by Swedish statistical authorities.

The agenda point regarding the analysis of EDP data for the April 2017 EDP notification, focussed on the figures provided in the EDP tables as well as on the few outstanding issues from the April 2017 EDP notification which were clarified under this point.

The discussion continued on the application of the ESA2010 sector classification rules. Eurostat discussed with the Swedish statistical authorities about the state of play of the implementation of the new provisions of the new MGDD version. The discussions focussed on the implementation of the chapters which were updated in the new version of the manual, notably on public units in liquidation as well as on specific cases of public TV and radio broadcasting.

Sector classification issues in the light of ESA2010 rules as well as changes in the sector classification since the last 2015 EDP visit were also discussed under this agenda point. 89 government owned companies have been reclassified into general government since the 2015 EDP mission. Eurostat took note of the significant progress achieved in relation with

the classification of public holdings companies and thanked SCB for the work undertaken. The questionnaire on government controlled entities classified outside general government for the reference year 2015 was further discussed with the Swedish statistical authorities. Additional discussions focussed on the practical implementation of the market/non-market test. Aspects such as calculation of the depreciation of assets and how depreciation costs and interest charges were reflected in the market/non-market test were analysed in detail.

On the implementation of the accrual principle, Eurostat discussed recent improvements in the quality of tax data as well as issues regarding the recording of interest. No specific issues were discussed in relation with EU flows and military expenditure.

With regard the recording of specific government transactions, the discussions focused on topics such as guarantees, government claims as well as capital injections into public corporations. Eurostat also further discussed with the Swedish statistical authorities other topics such as dividends paid by public corporations to government, the super-dividend test as well as recording of interim-dividends. Extensive discussions took place on Public Private Partnerships (PPPs) and Concessions, notably on possibilities to gather more systematic data on such projects for the future. The implementation of the guidance on the recording of mobile phone licences, exploration rights and other licences, the recording of emission permits as well as of energy performance contracts were other complex technical topics which were clarified during the discussions.

Eurostat appreciated the information provided by the Swedish Statistical Authorities prior and during the EDP standard dialogue visit. Eurostat also thanked the Swedish statistical authorities for their co-operation during the EDP visit and considers that the discussions were open and constructive.

## **Final findings**

### **Introduction**

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty on the functioning of the EU, Eurostat carried out an EDP dialogue visit to Sweden on 1-2 June 2017.

The delegation of Eurostat was headed by Ms Lena Frej Ohlsson, Head of Unit D-2 Excessive Deficit Procedure (EDP) I. Eurostat was also represented by Mr Luca Ascoli, Ms Rasa Jurkonienė and Ms Camelia Jüttner. Representatives of the European Central Bank (ECB) and DG ECFIN also participated in the meeting as observers. The Swedish authorities were represented by Statistics Sweden (SCB), the National Financial Management Authority (ESV), the Swedish National Debt Office (SNDO), the Ministry of Finance (MoF) and the National Central Bank (NCB).

The previous Eurostat EDP dialogue visit to Sweden took place on 19-20 May 2015.

Eurostat carried out this EDP dialogue visit in order to review institutional responsibilities in the field of government finance statistics (GFS) including EDP reporting and discuss the improvements for financial accounts as well as for quarterly data for other local government bodies (OLGB). In addition, Eurostat also reviewed the implementation of the ESA2010 methodology in the recording of government transactions and in the sector classification of units.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, indicating that within days the main conclusions and action points would be sent for comments to the Swedish statistical authorities. Within months, the provisional findings would be sent in draft form for review. After amendments, the final findings will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

#### **1. Statistical institutional issues**

##### **1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation**

Institutional responsibilities

###### *Introduction*

In Sweden, several institutions are involved in the compilation of the EDP data. The main compilers are Statistics Sweden (SCB), the Swedish National Financial Management Authority (ESV), the Ministry of Finance (MOF) as well as the Swedish National Debt Office (SNDO). Within Statistics Sweden, two different units, one located in Stockholm and one located in Örebro, are involved in the compilation of the EDP and GFS tables. The Financial and Sector Accounts (FSR) unit is located in Stockholm and is responsible for the

financial accounts for all the institutional sectors as well as for EDP tables related to the financial accounts and compilation of Maastricht debt. The Public Finances and Microsimulations (OEM) unit is located in Örebro and is responsible for the non-financial accounts for general government, as well as for EDP tables related to non-financial accounts. The co-ordination responsibility for the EDP work in Sweden is under the responsibility of the Financial and Sector Accounts (FSR) unit. The EDP Co-coordinator at Statistics Sweden is responsible for both ensuring the internal consistency of the EDP tables and transmission of EDP tables in accordance with the EU regulation. In the documentation sent prior to the mission, the Swedish statistical authorities informed Eurostat that since September 2016, formal steps were taken in order to strengthen the role of Statistics Sweden as main coordinator of statistics and key responsible for the quality of the national statistical system.

### *Discussions and methodological analysis*

Statistics Sweden confirmed during the discussions that there have been no changes in the institutional responsibilities for the compilation of EDP deficit and debt data and EDP tables compared to the last 2015 EDP dialogue visit or to the information already provided in the EDP Inventory. In addition, it was also confirmed that the number of staff involved in the compilation of EDP and GFS statistics has not changed since the last 2015 EDP Dialogue visit despite the increasing workload. However, Statistics Sweden informed Eurostat that since September 2016, Statistics Sweden was formally appointed as National Statistical Institute. This new status provides the institution the full responsibility for co-ordination of European statistics in accordance with EU statistical legislation. This has also resulted in some changes in the role and the composition of the Council for Official statistics. According to the new government decision, Statistics Sweden and not the Council for Official statistics is currently responsible for enabling the cooperation between authorities with statistical responsibilities, the so-called “SAM” (statistikansvariga myndigheter). Statistics Sweden's role is to provide advice and support referring to quality issues as well as to provide a list of products classified as official statistics. In this role, Statistics Sweden has the authority to issue regulations referring to the design of the SAM's evaluation of the quality in the official statistics. The SAM's quality evaluations should be analyzed by Statistics Sweden and annually reported to the government. In addition, Statistics Sweden is responsible for the annual reports to be sent to Eurostat referring to actions needed to be taken in order to preserve or increase the confidence for European statistics within the national statistical system. Other recent changes relate to the fact that Statistics Sweden increases its presence in Örebro city. In a government decision in April 2017, the government announced its decision to partly relocate some of Statistics Sweden's departments to Örebro such as the IT and the "Data Collection from Enterprises and Organisations" department, the departments responsible for administrative support and communication as well as the Director General Office. SCB stressed that the National Accounts Department will not be affected by these changes.

## *Findings and conclusions*

Eurostat took note that Statistics Sweden was formally appointed as National Statistical Institute taking the full responsibility for co-ordination of European statistics in accordance with EU statistical legislation.

### Institutional arrangements

#### *Introduction*

There have been no significant changes in the institutional arrangements since the last 2015 EDP dialogue visit.

There are currently two agreements defining cooperation among the institutions. One of the Memorandum of Understanding is of a more general nature and is defining the EDP reporting responsibilities following the requirements in the Council regulation 479/2009. It is signed between Statistics Sweden (SCB), the Swedish Financial Supervisory Authority (*Finansinspektionen*), the Legal, Financial and Administrative Services Agency (*Kammarkollegiet*), the Swedish National Debt Office (*SNDO, Riksgälden*) and the Swedish National Financial Management Authority (*Ekonomistyrningsverket, ESV*). This Memorandum of Understanding was updated in the beginning of 2015, when all the references were changed to ESA2010. In addition, in May 2015, a Memorandum of Understanding between the SCB and the ESV was signed. This Memorandum covers aspects related to data deliveries for central government non-financial and financial accounts and is a statistical service level agreement frequently used by the SCB to ensure smooth delivery of data for national accounts and which is basically a formalization of the existing working arrangements.

#### *Discussions and methodological analysis*

SCB informed Eurostat prior to the mission that there have been some changes relating to the work of the EDP Steering group. According to Government Decision of 16 December 2010, authorities involved in the EDP reporting must set up a Memorandum of Understanding that regulates in detail the responsibilities for the EDP reporting to the Commission (Eurostat) according to Council regulation (EC) No 479/2009. The current version of the memorandum was updated beginning of 2015. The Memorandum is normally reviewed once per year. The 2017 review has been initiated and will focus on changes relating to the work in the EDP steering group. The steering group for EDP was created in 2010, at the initiative of Statistics Sweden, as part of Statistics Sweden's co-ordination responsibility for the EDP reporting. The group meets 5 to 6 times per year. SCB explained that when the steering group was established, there was a need for periodic meetings, due to the quality issues affecting the EDP statistics. Nevertheless, since 2010 a lot of progress has been achieved, therefore the organization of work in the steering group changed accordingly. The number of meetings has been reduced to two per year, one after each notification. The representatives from the Legal, Financial and Administrative Services Agency (*Kammarkollegiet*), the Swedish Financial Supervisory Authority

(Finansinspektionen) and the Ministry of Finance (Finansdepartementet), which are not directly involved in EDP related issues participate at their own discretion, provided that they keep themselves informed of EDP related matters. The smaller group within the steering group, with representatives from the Swedish National Financial Management Authority (ESV), Swedish National Debt Office (SNDO) and Statistics Sweden organize their meetings within the framework of the development project aiming at having a complete electronic transmission of data for the central government debt from the SNDO to the ESV. The project should end in December 2017<sup>1</sup>. Eurostat asked about the advantages of the new changes and their impact. SCB explained that the changes consist in making the process and the communication between the different institutions involved in EDP more formalised. Eurostat asked whether the updated versions of the two memoranda could be provided. SCB explained that the specific Memorandum of Understanding between SCB and the ESV is available only in Swedish. The general Memorandum of Understanding for all authorities involved in the EDP reporting is currently under review, and the new version will be approved by the EDP steering group at their next meeting in October, therefore the updated version will be provided afterwards.

### *Findings and conclusions*

#### Action point 1:

The Swedish statistical authorities will send to Eurostat the latest version of the general Memorandum of Understanding defining the EDP reporting responsibilities as well as the specific Memorandum of Understanding between SCB and the ESV. *Deadline: when available.*

## **1.2. Data sources, Revision policy**

### *1.2.1. Integrated data sources for non-financial and financial accounts*

#### *Introduction*

Starting with 2012 an integrated data sources compilation for non-financial and financial accounts was implemented in Sweden. This new compilation system implied that there were two independent central government calculation of B.9f on a quarterly basis; one performed by the ESV, another by the SCB. These parallel calculations were supposed to run for a period of one year as a pilot exercise aiming at comparing and reconciling the compilation results.

#### *Discussions and methodological analysis*

SCB explained that the pilot project is already closed, and as a result ESV now delivers all financial accounts data for the B9f calculations but SCB continues to be the responsible

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<sup>1</sup> Statistics Sweden informed Eurostat after the June 2017 EDP mission, that at the steering group meeting organised in September 2017, the end date of the project was moved forward to 30 June 2018.



authority for the financial accounts B9f. For transactions in deposits, repos, loans, shares and other accounts receivable/payable, the SCB uses the ESV data source for the calculation of SCB financial accounts. Nevertheless, SCB continue to remain the responsible authority for the financial and non-financial accounts, providing final reconciliation between non-financial and financial accounts. The Swedish statistical authorities explained that the use of the integrated central government data source for both non-financial and financial accounts has resulted in a decrease of discrepancies between the B.9 and B.9f. Eurostat asked whether there is any assessment report available regarding the results achieved by the pilot project. SCB explained that there is no public report available, there are only internal documents. Eurostat further inquired which are the quality controls still performed by SCB with regard the data, taking into account that ESV is calculating both financial and non-financial accounts. SCB explained that there are still several quality checks done by SCB mainly regarding data inconsistencies. In addition, SCB is also comparing the data provided by ESV with other sets of data received from other entities or from SNDO and evaluate them. SCB is also compiling the B9 and compare the results with the compilation undertaken by ESV. Eurostat asked whether there are differences between the two B9 calculations. SCB explained that the results are very much the same, nevertheless in case there are differences, meetings between SCB and ESV are organised to clarify and reconcile the results.

### *Findings and conclusions*

Eurostat took note on the co-operation in the compilation of B9 and B9f between SCB and ESV.

#### 1.2.2. *Financial Accounts data*

##### *Introduction*

Prior to the mission, SCB explained that since 2011 a lot of progress was achieved in the compilation of financial accounts. The progress relates to the development of a new/expanded IT system, changes in the reporting codes and improved guidance for all central government authorities, reconciliation of tax data between non-financial and financial accounts at the ESV, training and education referring to financial accounts and ESA 2010. Furthermore, a new work process was developed in order to enable ESV to produce all necessary data not only for the non-financial accounts but also for the financial accounts.

##### *Discussions and methodological analysis*

SCB explained that in the framework of action point 3 of the 2015 EDP visit, further progress was foreseen regarding the financial accounts for central government in relation to the data reporting from the SNDO to ESV, to the consolidation process as well as to the data on cash holdings between central government authorities.

Eurostat thanked for the extensive final report regarding the improvements done in relation to the above mentioned aspects. Regarding the **progress in the data reporting from the**

**SNDO to ESV**, it was explained that currently the data is transmitted from SNDO to ESV, however, the operations of the SNDO are complex and manual work is required, especially regarding the debt information. Therefore, the authorities involved launched a development project in May 2016, in order to reduce the amount of manual work and to have a more efficient and reliable process for the central government debt information. The project aims at replacing the tables currently used to calculate the central government debt with a complete electronic transmission of data from the SNDO to the ESV. ESV leads the project while the SNDO are investing the main resources. Steering group meetings are therefore organized each month. The project deadline has been set to December 2017<sup>2</sup>. Eurostat asked whether SCB is also involved in this project. SCB explained that they are also involved in the project and invited to participate to the steering group meetings.

Regarding the **data on consolidation**, SCB explained that progress has been made regarding the various consolidation issues. For example, consolidation referring to central government bonds and the treatment of more complex units such as Kammarkollegiet, are now harmonised between SCB and ESV. In addition, the newly established quarterly survey for other central government bodies for financial accounts (OCGB), which was launched in 2016, allows improving the consolidation process also at the level of these units. In addition, previous inconsistencies in consolidated flows between main central government units are now considerably smaller.

Regarding **data on cash holdings between central government authorities**, SCB explained that the discrepancies regarding the ESV cash holdings item (referring to cash holdings between central government authorities and their relation to the SNDO) have been improved and are at a reasonable level. Currently there were no unexplained transactions in cash holdings. In addition, SCB explained that development work on financial accounts has become part of the regular production process. Since 2016, SCB uses all financial accounts data from ESV, except for data referring to counterpart for taxes and derivatives. The ESV differences in net lending/net borrowing (B.9-B.9f) on an aggregated level, is still high probably due to inconsistencies in F.89 in the data from the ESV. Nevertheless, SCB mentioned that the electronic transmission of data from the SNDO to the ESV, with all the necessary elements to calculate the central government part of the Maastricht debt will further improve the quality of data delivery. Weekly meetings between ESV and the financial accounts team of SCB will continue to carry the work forward within the regular production process of non-financial and financial accounts data. Nevertheless, elimination of discrepancies in central government B9-B9f remains a priority for the authorities.

### *Findings and conclusions*

Eurostat took note of the significant progress regarding financial accounts for central government notably in relation with data reporting from the SNDO to ESV, the

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<sup>2</sup> Statistics Sweden informed Eurostat after the June 2017 EDP mission, that at the steering group meeting organised in September 2017, the end date of the project was moved forward to 30 June 2018.

consolidation process as well as data on cash holdings between central government authorities.

### 1.2.3. *Development of quarterly data source for other local government bodies (OLGB)*

#### *Introduction*

In the framework of Action Point 9 of the 2015 EDP visit, Eurostat invited the Swedish statistical authorities to explore the possibility to establish a quarterly data source for other central government bodies and other local government bodies (OLGB), in order to use this information for the first EDP notification (year n in April n+1). As a result of this action point, SCB put in place a quarterly data collection for the OLGB units, excluding hospitals, municipal associations as well as minor units such as, local government theatres and non-profit institutions serving households (NPISH). The collection of quarterly data is based on a new designed survey “Kommunala bolags resultat- och balansräkning (KOREBA)”.

#### *Discussions and methodological analysis*

SCB explained prior to the mission that the time table for the survey follows the data collection time table for the main quarterly source for the main entities within local government financial accounts. I.e. the first data from the survey is available by mid-March each year referring to year t-1. The questionnaire is an integrated customized non-financial/financial accounts questionnaire asking for both profit/loss data, as well as, balance sheet data. Eurostat focused the discussions on the advantages of the collection of quarterly data for OLGB via the KOREBA survey. SCB explained that the main advantage relates to the fact that this data enables a better reconciliation between the non-financial and financial accounts since the survey, on an annual basis, collects both profit/loss and balance sheet data. Nevertheless, SCB pointed also out that the new collected data should be considered preliminary, until EDP October 2017, mainly due to nonresponse of some units and missing counterpart information. Eurostat noticed that, as explained by SCB, the survey does not include hospitals, municipal associations and minor units such as local theatres and NPISH. SCB recalled that the reason why these units are excluded is that their impact on B.9 is small and that the debt is “spread out” over a large number of units implying that the response burden and cost would be high in relation to the effect on the calculations. Regarding quarterly data for the non-financial accounts, SCB explained that the national account management analysis indicated that it would not be cost effective to have quarterly collection of data for the OLGB, especially not in relation to the historical effect on B.9. At the end Eurostat asked whether it could be possible to have a report on the evaluation of the survey results when available. SCB informed Eurostat that data for 2016 will be updated in connection with the calculations of the 1st and 2nd quarters of 2017 after reconciliation with the annual reports of the main units and after reconciliation with the non-financial accounts final calculations for 2016. In connection with the 2nd quarter calculations of 2017, the survey will be evaluated and compared to the annual reports of the units and, if necessary, adjusted. Eurostat welcomed the progress undertaken in the quarterly data collection and

asked the Swedish statistical authorities to inform Eurostat on the progress and results in relation to the newly introduced survey on other local governmental bodies.

#### *Findings and conclusions*

##### Action point 2:

The Swedish statistical authorities will inform Eurostat on the progress and results in relation to the newly introduced survey on other local governmental bodies. *Deadline: progress report April 2018 EDP notification.*

#### 1.2.4. *Revision policy*

##### *Introduction*

During the 2015 EDP mission, Eurostat invited the Swedish statistical authorities to reconsider the current policy in relation to the reclassification of units, so that consistent time series could be ensured and correct deficit and debt data could be reported for the whole reporting period. SCB informed Eurostat on the progress undertaken with regard to the changes in the revision policy.

##### *Discussions and methodological analysis*

SCB explained that the Swedish National Accounts revision policy for non-financial and financial accounts has been updated by a formal national accounts decision. As a consequence, several aspects were re-considered, for example that annual time series revision should be performed only in connection with the second quarter calculation for each year, i.e., in time for the October notification and harmonized with the calculations of the final annual accounts of year t-2 referring to GDP. In case of reclassification of units, SCB will assess the time period for which the unit should be classified into the government sector and will implement the revisions for the entire time series, i.e. back to 1993, if necessary. Nevertheless, revisions should only be implemented if the impact is substantial. Eurostat asked more details about what is exactly meant with “substantial”. SCB explained that how "substantial" the impact is, depends on several aspects such as type of transaction, impact on GDP, net lending/net borrowing and Maastricht debt. In case of revisions, threshold values for consumption expenditure, net lending/net borrowing and Maastricht debt have been determined in order to decide for which time period revisions will be performed. The determined threshold values were applicable since March 2016. SCB also explained that the threshold values are to be used as guidelines when deciding if revisions should be implemented for the notification period, for the historical years (full time series revision) or to be postponed for the next benchmark revision. Eurostat welcomed the changes implemented and agreed with the new revision policy.

#### *Findings and conclusions*

Eurostat welcomed the new revision policy introduced by the SCB.

### **1.3. Upstream issues. Audit and internal control arrangements; cooperation with the upstream data suppliers.**

#### *Introduction*

The Swedish statistical authorities provided prior to the visit detailed notes on the quality framework, on audit and internal control arrangements as well as on the existing cooperation with the so-called upstream data providers.

#### *Discussion*

The Swedish statistical authorities confirmed during the discussions that there were no changes in the quality management framework, audit and internal control arrangements compared to last EDP 2015 visit. Statistics Sweden is certified according to the international quality standards. Every third year, a re-certification is performed by an external auditor. Statistics Sweden was re-certified in 2017. One of the products reviewed within the 2017 re-certification process were the financial accounts. Regarding the *quality management framework*, it seems that, as reflected in the latest peer review report<sup>3</sup>, “Statistics Sweden exhibits a high degree of compliance with all aspects of the Code of Practice”. The process for producing EDP statistics is very well documented. All the responsibilities for collecting, processing, and disseminating the EDP statistics are clearly specified and documented. There is also a reference quality manual for national accounts. Regarding the *audit aspects*, the Swedish National Audit Office audits the central government bodies. The financial audit is performed on an annual basis. Municipalities, county councils/regions and associations of municipalities and county councils are subject to annual financial audit from external private firms. The Pension funds are annually audited by the auditor assigned by the Government Office of Sweden. The system of internal controls and internal audit is established in all central government agencies and ESV has overall responsibility for the development, management and coordination of the government internal audit. ESV has a normative role by issuing provisions of regulations referring to the government internal audit system. When it comes to the local government entities, they need to comply with the Code of Audit in local government issued by the Association of Local Authorities and Regions (*Sveriges Kommuner och Landsting*). Eurostat highlighted during the discussions that there were no problematic areas identified within the quality management framework, audit and internal control arrangements or cooperation with the upstream data suppliers. As regards the *data collection from the so called upstream entities*, Eurostat asked for more detailed information on the possible risks due to missing data flows or due to the use of non-harmonized public accounting systems by entities at the various government levels. SCB stated that there is a well-functioning flow of data between the upstream providers, and that there are no problematic aspects in this respect. Nevertheless, SCB explained during the discussions, that there are some aspects which could be improved such as better information on counterpart transactions, which would allow avoiding the risks of double-counting, for financial as well as for non-financial accounts. In addition, SCB also explained that missing

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<sup>3</sup> The Peer review report from January 2015.

counterpart information sometimes also creates problems in the consolidation process, notably for other local governments units. Regarding possible risks from the use of non-harmonized public accounting systems by entities at the various government levels, SCB also confirmed that there are no such risks, despite the fact that due to the complexity of national accounts; neither a single nor a standardized data source is available. Data is collected from a large variety of sources and in various ways - through official transmissions from data suppliers. Other data are collected in a standardized way, by receiving data in excel or by receiving figures from the data supplier based on a mutual agreement. The main part of data is collected and received by an electronic transmission directly into databases at SCB. An exception is data for central government financial accounts which is received via the ESV. Eurostat asked whether SCB currently have access to databases at ESV, Ministry of Finance or SNDO. SCB explained that there is no direct access; nevertheless there are standardized transmissions as well as bilateral agreements with the institutions. The agreements specify the dates when the data files should be provided to SCB. In this context, SCB explained that in addition to the standardized transmissions, they can also address ad-hoc requirements about specific data needs to the above-mentioned institutions.

#### *Findings and conclusions*

Eurostat concluded that no problematic areas were identified within the quality management framework, audit and internal control arrangements or cooperation with the upstream data suppliers.

### **1.4. Compliance with Council Directive 2011/85**

#### *Introduction*

The implementation and the compliance with the Directive 2011/85 on national budgetary frameworks were further discussed under this agenda point.

#### *Discussion*

Eurostat mentioned during the discussions that an assessment of the compliance with the directive requirements is performed each year by Eurostat. The Directive 2011/85 requires the publication of the following data:

"(a) cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) at the following frequencies:

- monthly for central government, state government and social security sub-sectors, before the end of the following month, and

- quarterly for the local government sub-sector, before the end of the following quarter;

(b) a detailed reconciliation table showing the methodology of transition between cash-based data (or the equivalent figures from public accounting if cash-based data are not available) and data based on the ESA 2010 standard."

Eurostat mentioned during the discussions that the fiscal data as well as the reconciliation table fulfil the requirements of the directive. In addition, the directive also requires the publication of data on contingent liabilities. Eurostat highlighted that the data published nationally for all of the indicators required by the directive are consistent with the data published annually by Eurostat in the contingent liability data base. Eurostat also mentioned that, in addition to the compulsory indicators, SCB is publishing also data on government participation in the capital of corporations.

### *Findings and conclusions*

Eurostat took note that the requirements of the Council Directive 2011/85/ are fully implemented in Sweden.

## **2. Follow-up of the previous EDP visits**

### *Introduction*

Eurostat thanked the Swedish statistical authorities for the comprehensive feed-back provided on the implementation of the action points resulting from the May 2015 EDP mission. Almost all the action points were implemented by the Swedish statistical authorities. Three action points remained open due to ongoing discussions with Eurostat. Eurostat proposed to further discuss these outstanding issues under this agenda point. One outstanding action point was related to the sector classification of Kommuninvest AB. Two other action points were related to the pension schemes; one on the recording of the accrued pension contributions of the local government pension scheme during the transitional management phase and another one on recording of the annuities guaranteed by government at the retirement phase of the Premium Pension Scheme. As a follow-up of these action points, Eurostat required some additional clarifications, nevertheless, there was no final agreement on their implementation.

### *Action point 10<sup>4</sup>*

#### Sector classification of Kommuninvest AB

### *Introduction*

Kommuninvest consist of two entities, of Kommuninvest AB, a limited liability company which provides credit and financial advice services as well as of Kommuninvest Cooperative Society (ekonomisk förening). Kommuninvest Cooperative Society is entirely owned and controlled by its members, municipalities and county councils/regions<sup>5</sup>. The unit

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<sup>4</sup> Action point 10 from the May 2015 EDP visit in relation to Kommuninvest : "In order to decide on the proper sector classification, the Swedish statistical authorities will send the statute of the Kommuninvest AB and a note analysing the activities of this entity, as regards the constrains on assets and liabilities, the decisions in the lending process, and the nature of the "directives" of the Kommuninvest ekonomisk förening".

<sup>5</sup> The Cooperative Society has 90 % of the local government sector as members.

is classified inside the local government sub-sector since October 2014. Kommuninvest AB is a subsidiary of Kommuninvest Cooperative Society and is mainly responsible for coordinating the financing of the Swedish municipalities and county councils which are members in Kommuninvest Cooperative Society. Kommuninvest AB operates as a non-profit institution and is currently classified within the financial sector (S.122 Deposit-taking corporations except the central bank).

### *Discussions and methodological analysis*

Eurostat thanked SCB for the detailed notes provided in relation with Kommuninvest AB and mentioned that there are still some open issues which need to be further clarified before deciding on the appropriate classification of the unit. Eurostat highlighted that the methodological part on captive financial institutions was further developed in the MGDD and that this part is relevant for the classification of Kommuninvest AB which has some features similar to those of a captive financial institution. Eurostat focussed the discussion on three aspects which are decisive in determining the appropriate classification.

One aspect relates to the composition of the board. Eurostat mentioned that from the information provided by SCB it was not very clear whether the board members of Kommuninvest AB are officials of local government or not. SCB explained that the board is composed by 9 members and a chair. The composition of the board members is publically available, nevertheless it is not clear from the information available on the website whether the board members are government officials. Eurostat explained that this information is relevant in order to determine the government control over the entity.

In addition, Eurostat also mentioned that, as stipulated in the MGDD, the activities of a captive unit are carried out within a limited framework and under conditions which are significantly influenced and determined by the parent unit, in this case a local government unit. A captive unit, as defined in the MGDD, has a limited capacity of decisions and is dependent on the parent company, whose influence goes beyond the notion of control and might even influence the daily activities of the unit. The control of the parent unit could be observable also in relation with the management of its assets and liabilities which are also mainly determined by the parent company. Regarding the activities undertaken by Kommuninvest AB, as well as the constraints on assets and liabilities, SCB explained that Kommuninvest AB undertakes financial market operations as well as the financial risk analysis of the members of the Kommuninvest Cooperative Society. The market operations undertaken by Kommuninvest AB according to the statute<sup>6</sup> includes deposit taking, borrowing on the market by issuing bonds or other comparable evidence of indebtedness. The main debt instruments used by Kommuninvest AB are bonds and certificates. In 2014 about three quarters of the outstanding debt was backed by government guarantees. On the asset side of the balance sheet, lending to local government units and their corporations

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<sup>6</sup> Cf. Articles of association, §5



accounted for a majority of the financial assets. Even if the local government guarantee commitments allow to Kommuninvest AB to borrow at lower interest rate, the corporation is sufficiently creditworthy to be able to act on the open market even without the guarantee commitment<sup>7</sup>. In addition, SCB explained that the guarantees provided by Kommuninvest AB should be signed by all the members of the Society. In general, these guarantees are covering all of Kommuninvest AB's obligations. In order not to misuse the guarantees provided by the local government, there are some strategic limits which should not be overrun. SCB also mentioned that the general policy of Kommuninvest AB is laid down in directives. These directives stipulate that the Society (Kommuninvest ekonomisk förening) decides on the general policy of Kommuninvest AB. It is further stated in the directive that, Kommuninvest AB shall operate its activities so that the profit and loss account each year is positive. This shall be achieved by a sufficiently good margin in the normal borrowing/lending activity of the unit. SCB explained that the parent company does not go any further in its control of Kommuninvest AB than formulating its general policy. Regarding the strategy of Kommuninvest AB it is pointed out in the directives that a certain minimum level of liquidity reserves shall exist in order to ensure that Kommuninvest AB can meet the need of credits by the members of the Society. The strategy includes an upper limit of the credit risk that Kommuninvest AB could assume. Kommuninvest AB shall also have a sufficient high profit margin in the lending activity with a reasonable rate of return on the investment capital so that dividends can be paid to the owner and further distributed to the members in relation to their financial involvement. The economic profit shall in the longer term also be sufficiently high to convert the debenture given by the Society into new shares in the corporation.

Kommuninvest AB shall offer credit to its members on equal terms but the interest rate can be differentiated according to market circumstances and differences in the costs of handling. In addition, the cost of the financing also depends on the investment capital the member has put into Kommuninvest AB. Nevertheless, SCB emphasized during the discussions that Kommuninvest AB can decide itself on the credit limits. The limits are decided on a group level, i.e. for a local government unit or for corporations, foundations and associations under its control. Kommuninvest AB analyses the credit limit for a member using a risk model with both quantitative and qualitative judgements. Credit decisions implying an increase of the decided limit shall be preceded by an investigation.

Eurostat further asked whether there is an obligation for Kommuninvest AB to finance each municipality which is part of the Kommuninvest cooperative or, if a unit which is member of the Society, could hypothetically also be refused in their request for financing. SCB explained that Kommuninvest AB is continuously evaluating the credit worthiness of the Society members. The evaluation is made on group level (community level and municipality level) and is based on economic as well as on demographic factors. Each member is

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<sup>7</sup> Some of the largest municipalities and county councils (notably Stockholm) are not members of the Kommuninvest Cooperative Society because they are big enough to achieve equal or better borrowing terms on their own.

assessed on a scale ranging from 1 to 13, with 1 indicating the lowest and 13 the highest credit risk. Based on the risk analysis, Kommuninvest AB can refuse further lending to a member of the Society. This can be the case when a member reaches the loan ceiling and asks for increased credits. If the credit analysis by Kommuninvest AB indicates that a member's credit worthiness has decreased, the member will face a lower lending facility or previous loans will not be renewed when they have reached maturity.

Eurostat mentioned that in its understanding only additional funding and further lending can be refused by Kommuninvest AB in case that the loan ceiling was already reached by the entity which wants a further financing. If this is the case, Eurostat considered that Kommuninvest AB has a limited capacity of decision as regards their management and acts under constraints. Eurostat mentioned that several conditions are stipulated in the directives of Kommuninvest AB stating how the unit may act, on the nature of the assets it can hold, the type and size of its intervention, the return on some assets, on the limits of the loans (§ 6.2 ) and on the restriction in the risk behaviour of the unit (§ 7.3.1) . In addition, the customer range is also limited for the Kommuninvest AB – only the members of the Kommuninvest Cooperative Society or the public corporations under their control could benefit from financing. Eurostat stressed that all the conditions specified in the directive and under which the unit acts, should be further analysed in order to assess the capacity and autonomy of decision of the unit.

Eurostat asked additional questions in relation to the demographic and economic factors taken into account in the formula of the risk analyses model. SCB explained that such detailed information on how these factors are reflected in the formula is not yet available but could be provided in a note including also more detailed information on the loan threshold for each local government entity and the conditions under which a loan could be refused or not. A third aspect tackled by Eurostat concerned the fact that Kommuninvest AB is licenced as a credit institution being classified in the financial sector S.122 (Deposit-taking corporations except the central bank). Eurostat mentioned during the discussions that the main activities of Kommuninvest AB are mainly related to the issuance of bonds and the granting of loans and financial advice for the local authorities. Kommuninvest AB seems to carry out the economic activities of Kommuninvest Group mainly related to intermediation of financing. SCB explained that indeed, Kommuninvest AB has the right to take deposits or other repayable funds from the public and to grant credits for its own account but its main activity is not focussed on deposit-taking activities. Nevertheless, the unit is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen) and the Swedish deposit guarantee rules apply also to Kommuninvest AB. In this context, it was agreed that SCB will review the current classification of the entity as deposit-taking institution and inform Eurostat on their analyses.

Eurostat also mentioned that additional information found in relation with Kommuninvest AB in the paper "Reducing financing costs for local Communities Welfare. An analysis of the Swedish local government funding agency Kommuninvest AB from the perspective of

the social and public economy<sup>8</sup>, mentioned that in 2014 and 2015, it has been decided at Kommuninvest to re-inject the members' surplus of the years 2014 and 2015 and to raise the capital contribution of each member as well as to introduce separate capital contributions, the so-called debenture shares also open for non-members of the co-operative society to increase the group's capital. SCB explained that indeed, they were informed about the issuance of so-called debenture shares for non-members but that they don't know the extent of their participation in the group's capital.

In the light of these aspects, it was agreed that further analysis on the appropriate classification of the unit will be provided by the Swedish statistical authorities.

### *Findings and conclusions*

#### Action point 3:

In relation to Kommuninvest AB, Eurostat considers that the current classification of the entity as deposit-taking institution, except Central Bank (S.122) needs to be reviewed. The Swedish statistical authorities will send to Eurostat a note including a detailed description on the composition of the board, as well as a description of the risk analysis model used by Kommuninvest AB in order to establish the loan threshold for each local government entity and the conditions under which a loan could be refused or not. In addition, information should be provided on the level of autonomy of Kommuninvest AB in the context of setting quantitative and qualitative criteria for the loans provided to its members. *Deadline: progress report: end of August 2017*<sup>9</sup>.

#### Action point 14<sup>10</sup>

### **2.1 Recording of the accrued pension contributions of the local government pension scheme during the transitional management phase**

#### *Introduction*

The pension scheme agreement between the local government employers and employees has changed in Sweden several times over the last years. In its current form, the pension system for local government employees consists in Sweden of three parts: (1) a defined individual contribution pension plan, (2) a defined benefit pension plan for earnings from 1998 onwards and (3) a defined benefit pension plan for earnings until 1997. The defined contribution pension plan has become main part of the local government pension

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<sup>8</sup> Schmitt, Esther M (2015): Reducing Financing Costs for Local Communities' Welfare. An analysis of the Swedish local government funding agency Kommuninvest from the perspective of the social and public economy. Page 36

<sup>9</sup> The progress report was provided to Eurostat, nevertheless the action point is still under discussion.

<sup>10</sup> Action point 14 from the May 2015 EDP visit in relation with the recording of the transitional period of the local government pension scheme: "Eurostat will reflect on the correct recording of the transitional period of the local government pension scheme".

obligations. The Swedish statistical authorities explained that, as regards the defined individual contributions to the pension plan of local government, there are currently two stages: the temporary funding phase classified inside the local government sector (S.1313) and the so-called investment phase which is classified in the financial sector (S.12). The temporary phase covers the period between the time in which the individual contributions are collected and the time in which the accumulated funds are transferred to the individually chosen fund managers. During the temporary management phase which takes on average about eight or nine months but no longer than 14 months, the contributions gradually collected are not invested. In addition, during this period there are neither service charges paid nor investment income earned on the accumulated funds.

### *Discussions and methodological analysis*

Eurostat recalled that in the note provided on 18 December 2015, Statistics Sweden considered that there are several options to record the pension contributions accrued during the temporary funding phase. Statistics Sweden underlined during the discussions that there are two important aspects which should be taken into account while deciding the appropriate recording. One aspect relates to the fact that the accrued contributions represent a liability for the local government. This fact is recognised also in the local government accounts by the mean of recording a provision (liability) for the accrued pension costs. One other aspect relates to the fact that the legal and economic owners of the funds are the participants (households). The gradually accumulated contributions are to be transferred to the pension investment funds in March  $t+1$ , while the exact amounts to be transferred are defined in advance. In this context, Statistics Sweden proposed that one option could be to record the accrued amounts related to the pension contributions during the temporary funding phase as a sort of zero-interest rate loans for government. In order to preserve the identities of each of the transactions related to this recording, Statistics Sweden proposed to create a notional pension fund unit classified outside the local government sector and belonging to the financial sector (S.12). This alternative would allow following the different transactions on the pension assets/liabilities through the national account system from the date they accrue as social benefits until the date of final pension benefit payment.

Statistics Sweden also mentioned as a possible option to record the accrued contributions as other accounts receivable/payable (F.89) due to the timing difference as described in ESA 2010 (§5.241). The pension costs are recorded as part of the social contributions (D.12) paid by local governments to the household in the period in which these contributions accrued. Nevertheless, in this particular case there is no actual payment to the households. The amounts collected as contributions from households and accrued over the one year period are later transferred to the pension fund chosen by the households. During the discussion, it was agreed that these amounts don't have the nature of other accounts receivable/payable (F.89), mirroring the timing difference between accrued transactions and their corresponding payments but are rather having the features of an imposed borrowing scheme. Therefore, it was agreed with Statistics Sweden that the first option of recording is preferred, notably due to the fact that the amounts collected as pension contributions during

the temporary funding phase can be used by government in order to finance its expenditure. As a consequence, government could avoid raising debt.

Eurostat mentioned during the discussions that several aspects should be taken into account while deciding on the appropriate recording. One aspect relates to the fact that the pension contributions collected during the transitional period might in substance be considered having the features of deposits with zero interest rate, a kind of imposed savings scheme. Therefore, Eurostat considers that the amounts collected as pension contributions during the temporary funding phase should be recorded as debt. Eurostat agreed with Statistics Sweden and considered that in order to consistently trace the different transactions on pension assets/liabilities through the national account system, transactions should be recorded in the financial sector during the temporary funding phase.

Statistics Sweden recalled during the discussions that, as also explained in their notes, during the transition phase, the employer's social contributions for pensions are to be recorded each quarter on an accrual basis. The discussions focussed on the nature of the different transactions and sub-sectors involved. It was agreed that the accrued pension contributions which are gradually collected during the year should be recorded as government borrowing from the financial sector and as a consequence, the amounts which are borrowed by government from the financial sector should impact the calculation of the general government Maastricht debt. Nevertheless, due to the complexity of the different transactions involved, it was agreed that Eurostat will provide its official advice to the Swedish statistical authorities via an ex-ante advice-letter.

#### *Findings and conclusions*

##### Action point 4:

In relation to the transitional period of the local government pension scheme, Eurostat agrees with the proposal of the Swedish statistical authorities to create a notional pension unit, and proposes to record the accrued pension contributions which are kept by government during a whole year before being transferred to the pension fund, as local government borrowing from S.12. Eurostat will provide its advice, including the arguments for recording local government borrowing also for the amounts kept by government for less than 1 year, to the Swedish statistical authorities and publish it on its web site. *Deadline: end of July*<sup>11</sup>

##### Action point 15<sup>12</sup>

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<sup>11</sup> Action point implemented. The ex-ante advice letter was provided to the Swedish statistical authorities.

<sup>12</sup> Action point 15 from the May 2015 EDP visit in relation to the recording of the annuities guaranteed by government: "Eurostat will reflect on the correct recording of the annuities guaranteed by government at the retirement phase of the Premium pension scheme".

## **2.2 Recording of the annuities guaranteed by government at the retirement phase of the Premium pension scheme**

### *Introduction*

In October 2014, the Swedish statistical authorities reclassified a part of the Swedish Premium Pension scheme, the central government Pension system, inside general government. The reclassification did not substantially impact the government B.9. The Swedish statistical authorities explained that the reclassification undertaken in 2014 was triggered by the fact that the management of the Premium pension scheme was taken over by the Swedish Pensions Agency (SPA), a unit created in 2010 and classified in the social security sector (S.1314). The reclassification was implemented in 2014 as a part of the benchmark revision of national accounts. During the discussions, the remaining open issue on how to record the annuities guaranteed by government at the retirement phase of the Premium pension scheme was clarified.

### *Discussions and methodological analysis*

Eurostat recalled that due to its complexity the Premium pension scheme required a lot of analyses before an appropriate decision could be taken.

The Premium pension scheme in Sweden consists of three main stages: transitional period, funding period and retirement period (the conversion into annuity). The temporary management stage is administrated by the SPA. This stage covers the period from the initial earning of the preliminary contributions which are paid as part of social contributions in the first year until the contribution is finally settled in the tax assessment in the second year. The feature of the temporary management scheme is that all the contributions are managed collectively. The Swedish statistical authorities explained that during the temporary management solely the SPA is managing and administrating the contributions according to central government regulation until the final settlement of contributions is made and the amounts are transferred to the investment funds classified in the financial sector (S.12). The investment policy is established by government and neither households nor investment funds have any an influence on it. As for the recording in national accounts, the SPA balance sheet shows debt of pension entitlements (AF.63). The pension entitlements are in practice mainly invested in government bonds, real interest bonds and asset-backed securities. Part of the entitlements is being kept as a liquidity reserve at the Swedish National Debt Office (SNDO) bank account. Once the final assessment is done, the entitlements are transferred to the individual accounts and invested following the choices of the policy holders. The participants can choose the investment fund and the investment strategy. The returns on investment vary following the investment strategy. The SPA is administrating the individual accounts and charges service charges. For the first and second phase, a notional pension fund unit classified in S.129 had been created. The third stage of the Premium pension system is, upon the request of the policy holder, classified inside the general government in national accounts.

In the final stage – the retirement - there is an option to convert the fund value into annuity. At retirement, or at any point in time after retirement, a participant can choose to return to the so called “*traditional insurance plan*”. In this case, the accumulated funds would be transferred to the Swedish Pension Agency and the latter would assume the risk of the future payments of the annuities. Once the decision on annuity is taken, there is no possibility for policy holders to switch back to investment funding. The SPA acts as an insurance enterprise and charges annual fees for the administration. The Swedish statistical authorities explained that the SPA assumes the risk of the future payments, thus the investment risk is transferred to government. Annuities constitute a small part of the premium pension scheme. They are currently recorded in the social security sector (S.1314).

Eurostat mentioned that there are still some open questions before concluding on the correct recording of the annuities guaranteed by government at the retirement phase of the Premium pension scheme. The questions were related to how the annuities are calculated and which factors or risks factors are taken into account in the calculations. SCB explained that the funds already collected are transferred after retirement to the Swedish Pension Agency at the will of the insured and the Swedish Pensions Agency (SPA) assumes all investment risk. SPA acts as an insurance enterprise collecting premiums for a conventional (traditional) insurance policy. After the funds have been transferred they are treated as part of the insurance undertakings of SPA but separated in the accounts from the conventional insurance scheme. The SPA can use the premiums (including money transferred from the investment funds) to fulfil its objectives of investing the premiums in order to pay pensions according to the promises, in the form of entitlements. SPA can also use the premiums to cover labour costs and other costs related to the management of the conventional insurance policy. SPA fulfils this task by charging the account of the insured with an annual fee for the administration of the conventional insurance scheme. As an insurance enterprise SPA has a legal obligation to record the assets and liabilities in the insurance activity separate from its other business. Entitlements are not transferred between the investment funds and the conventional (traditional) insurance scheme. All insurance policies are recorded on individual accounts by the SPA. The earmarked assets and liabilities are shown in the accounts of SPA. On the assets side the main financial instruments are shares and bonds. On the liability side the reserve is part of SPA net worth (owner equity) and life assurance provisions corresponds to the entitlements of households. These entitlements are recorded on individual accounts whereas all other entries in the accounts are recorded as owned by SPA. In addition, SCB also highlighted that the insured does not bear any risk on the asset side of the scheme. Holding losses will first of all be covered by the reserve and secondly by the central government. But since the SPA acts prudently the risk for central government is minimised.

Eurostat mentioned that, taking into account all these considerations, it could be concluded that the current recording of the annuities in the social security sector (S.1314), in which SPA is classified, is the correct one.

## *Findings and conclusions*

### Action point 5:

As regard the recording of the annuities guaranteed by government at the retirement phase of the Premium Pension Scheme, Eurostat agreed with the current recording implemented by Swedish statistical authorities.

### **3. Analysis of EDP data for the April 2017 notification**

#### **Examination of the EDP tables and the Questionnaire relating to EDP tables of the April 2017 notification**

##### *Introduction*

The discussions focussed on the figures provided in the EDP tables as well as on the few outstanding issues from the April 2017 EDP notification.

#### **3.1 EDP tables**

##### *EDP table 2A*

During the 2015 EDP mission, the revenue and expenditure of the units reported under the line “other central government bodies” in the EDP table 2A was extensively discussed. It was agreed in the framework of action point 8 that the Swedish authorities will report in table 2A the B.9 of the Other Central Government Bodies (OCGB). SCB confirmed that the action point was implemented and currently the B9 is reported and not the difference between the amounts reported in the WB and elsewhere in EDP table with the B.9. Eurostat asked also some details on the B9 for the OCGB; whether this is compiled at individual or at group level. SCB explained that, the B9 is calculated for each entity and summed up in order to compile the B9 for the whole group. During the discussions, the Swedish statistical authorities proposed that the Nuclear waste fund and the Swedish National Export Credits Guarantee Board (Exportkreditnämnden), currently reported under Other Central Governmental Bodies (OCGB) in the EDP table 2A, to be moved to the starting line of the EDP table 2A. Swedish statistical authorities explained that these units are rather normal authorities and not OCGBs, therefore their B9 should be reflected in the working balance. Eurostat agreed with this proposal.

##### *EDP table 2C*

Eurostat enquired about the composition of the EDP table 2C adjustment line “investment grants and capital transfers”. The SCB explained that this line comprises a number of flows, including also local government capital injections recorded as D.9 in national accounts. SCB explained that the full split of this adjustment line is available and will be provided in the future.

Eurostat mentioned that there is no data available for the April notification under "other adjustments" related to "Write down / depreciation of financial assets" and "Reversal of



write down" in 2016. SCB recalled that, as explained during the April 2017 notification, such data is not available for the April notification but is reported for the EDP October notification. However, amounts for "write down/depreciation of financial assets" and "Reversal of write down" are included in the row "Other adjustments" under item "Other adjustments" in table 2C in every April notification but can only be specified separately in the October notification. Eurostat mentioned that it is aware that the impact on the B9 is not significant, nevertheless the figures reported in April are very important for Eurostat users.

#### *EDP table 3A-D*

Eurostat mentioned that statistical discrepancies are for all years (2012-2016) and all sub-sectors negative (except for 2015 local government). In addition, the sum of the amounts included under "difference between capital and financial accounts" in table 3A is around -20 bill (approx. 0,4% of GDP). SCB explained that they are aware of the size of the statistical discrepancies, nevertheless, recently due to the implementation of some action points related to the revision of the time series, reclassification of holding companies and development of new quarterly sources for other government bodies, the statistical discrepancies have decreased. Eurostat noted that statistical discrepancies have improved for all years 2013-2015 for general government as a whole, nevertheless, the amounts reported show that the B9 is potentially underestimated.

In addition, Eurostat recalled that as discussed during the April 2017 notification, there were no amounts (but instead "L" – not available) recorded under appreciation/ depreciation of foreign-currency debt at local government level despite the fact that the loans are not hedged. SCB confirmed that local government Maastricht debt is not exclusively in national currency. It was agreed that the Swedish statistical authorities will provide to Eurostat data on stocks of local government foreign currency debt, including details on the estimations made for appreciation/depreciation, as reported in EDP table 3D.

As regards the adjustment for "Appreciation(+)/depreciation(-) of foreign-currency debt" reported in the EDP table 3A and 3B, Eurostat noted that on average during the period 2013-2016 it amounted to 0.7% of GDP. In this respect Eurostat asked about the magnitude and the composition of the foreign currency central government debt and which part of it is hedged. The Swedish statistical authorities agreed to provide also these details to Eurostat.

Eurostat inquired whether the consolidation is done in EDP tables 3 for the items "issuances above (-)/below (+) nominal value" or "redemptions/repurchase of debt above (+)/below (-) nominal value" in accordance with the updated EDP guidelines. Eurostat recalled that in those cases when one government sub-sector is holding other sub-sectors debt issued above/below par, consolidation entries should appear in one of the above EDP table 3 items, depending on whether the securities were bought on the primary or the secondary market. The Swedish statistical authorities agreed to investigate this issue further and report to Eurostat the results.

### **3.2 EDP related questionnaire**

The discussions mainly focussed on EDP related questionnaire table 10. Eurostat recalled that a capital injection of 1770 mil SEK was recorded in Västerås stadshus in 2016. During the April 2017 notification, it was explained that, Västerås stadshus is a newly created unit. By the end of 2015, the Västerås municipality decided to form a group of units consisting of all the municipalities' fully-owned units.

Västerås stadshus includes among other units also Västerås Flygplats AB, nevertheless the airline operations previously performed by Västerås Flygplats AB have been moved to another daughter entity within the group. Eurostat recalled that before restructuring the unit, Västerås Flygplats AB was a loss making company. SCB reiterated that Västerås Stadshus AB is under observation for further analysis. Due to the fact that the unit is new and annual definitive data were not available, the capital injection into the company was recorded as a financial transaction without impact on the B9. Eurostat recalled that, due to the fact that there were no private shareholders participating in the capital investment and because the newly created unit also includes a previous loss-making company, the capital injection into the unit should be further monitored. In case the unit records losses in 2016, the transaction should be reclassified from a financial to a non-financial transaction.

Eurostat further discussed the figures included in the Questionnaire table 10.1.A and noticed that the figures are higher than the amounts of capital injections provided to Eurostat before the EDP visit. The SCB explained that Questionnaire table 10.1A included all the capital transfers, also those relating to guarantee cash calls of export credits. Eurostat recalled that, in this part of the table, the capital transfers not relating to equity operations of government should be excluded, whereas total capital transfers are to be reported in the part 10.1A(m) Memo items. SCB agreed to revise the EDP related Questionnaire table 10.1.A accordingly for the October 2017 notification.

## *Findings and conclusions*

### *Action point 6 (previous action point 20):*

Eurostat took note that the two units: Nuclear waste fund and Swedish National Export Credits Guarantee Board (Exportkreditnämnden), currently reported under Other Central Governmental Bodies (OCGB) in the EDP table 2A, will be moved to the starting line of the EDP table 2A. *Deadline: October 2017 EDP notification.*

### *Action point 7 (previous action point 12):*

The Swedish statistical authorities will report the split of the EDP table 2C line "investments grants and capital transfers" so that local government capital injections, in national accounts recorded as capital transfers, can be identified. *Deadline: October 2017 EDP notification.*

### *Action point 8 (previous action point 6):*

The Swedish statistical authorities will provide a note on the recording of the capital injection in 2016 in the newly created unit Västerås stadshus, taking into account the financial perspective of the unit, as reflected in the business plan. *Deadline: end of August 2017<sup>13</sup>.*

### *Action point 9 (previous action point 14):*

The Swedish statistical authorities will revise Questionnaire table 10.1.A so that all capital transfers not relating to equity operations of government are excluded. *Deadline: October 2017 EDP notification.*

### *Action point 10 (previous action point 15):*

The Swedish statistical authorities will provide to Eurostat detailed data on hedged foreign currency debt. *Deadline: October 2017 EDP notification.*

### *Action point 11 (previous action point 16):*

The Swedish statistical authorities will provide to Eurostat data on stocks of local government foreign currency debt, including details on the estimations made for appreciation/depreciation, as reported in EDP table 3D. *Deadline: April 2018 EDP notification.*

### *Action point 12 (previous action point 9):*

The Swedish statistical authorities will investigate whether in EDP tables 3 the consolidation of the entries included under the item "issuances above (-)/below (+) nominal value" or redemptions/repurchase of debt above (+)/below (-) nominal value" should be

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<sup>13</sup> Action point implemented.

made taking into account the clarifications recently introduced in the "Guidelines for completing the general government deficit and debt notification under the Excessive Deficit Procedure". *Deadline: October 2017 EDP notification.*

#### **4. Methodological issues and recording of specific government transactions**

##### **4.1 Delimitation of general government sector**

###### *4.1.1 Implementation of the new MGDD (2016 edition). State of play*

###### *Introduction*

Eurostat published in 2016 a new edition of the Manual on Government Deficit and Debt (MGDD). During the April 2017 notification, Eurostat asked SCB about the state of play of the implementation of the new provisions of the new MGDD version. In the context of the April 2017 Notification, Statistics Sweden confirmed that no changes were necessary in order to implement the new MGDD.

###### *Discussions and methodological analysis*

Eurostat and SCB have made an overview of the implementation of the chapters which were updated in the new version of the manual. Eurostat asked some questions about the implementation of the chapter I.2.4.4 "Public units in liquidation". In the documentation sent by SCB prior to the mission, it was explained that in Sweden, there is no systematic data collection referring to companies in liquidation. The knowledge of upcoming/on-going units in liquidation at central and local government level is based on dialogue with the government offices in Sweden (MoF e.g.), on discussion in different reference groups e.g. between Statistics Sweden, the Swedish Association of Local Authorities and Regions (SALAR) and individual municipalities, as well on public information available in different media. SCB explained that for central government, no companies are or have been in liquidation in recent years. For local government, the quarterly survey on financial assets and liabilities for municipalities and county councils (KTS/LTS) contains detailed information on assets and liabilities. In the survey, the respondents are also asked to report any "other changes" of claims and debts. The results of this survey showed that for the years 2013-2016, the changes referring to "liquidation" in any form amounted to negligible amounts (SEK 20 million). SCB stressed that any significant unit in liquidation would be further analyzed and accurately included in the national accounts. Eurostat asked whether information on liquidation is not included in the Business register. SCB welcomed the proposal to verify the information available in the business register and it was agreed that the Swedish statistical authorities will take further measures to ensure a comprehensive information collection on units in liquidation at all government levels, possibly also using information from the business register.

Regarding the parts which are totally new in the MGDD, such as chapter III.7 on the impact on government accounts of the transfer of decommissioning costs as well as the chapter VI.4 on Public-Private-Partnership, it was agreed to discuss these topics separately under the agenda point "Recording of specific government transactions".

Eurostat proposed to focus the discussions on the changes in chapter I.2.4.7 Specific case of public TV and radio broadcasting. Eurostat mentioned that, from the information provided in the EDP Inventory, the authority responsible for public TV and radio in Sweden is the Swedish Broadcasting Authority. This central government unit supervise the TV and radio broadcasts, issues licenses and sets the fees. The major part of the public service is financed by fees and the corporation is classified as a non-financial corporation.

Eurostat explained that the delineation between taxes and fees was emphasized in the MGDD update and recalled that the amounts collected for the public broadcast services have the nature of taxes and not of fees, in case the consumers of the services cannot opt out from making the payments requested for public broadcast services if they do not wish to watch/listen to public TV/radio. Clearly there is no link between the individual consumption of a service and an amount charged. Eurostat noted that in Swedish case it is difficult to see that the service fee is charged by volume, as there is one single TV fee per household, regardless of how many TV receivers there are<sup>14</sup>.

SCB explained that there are several reasons why they consider that the amounts collected are considered fees and not taxes. The reading of MGDD paragraph 80 is that, the opt-out option is seen as a choice to have or not to have a TV receiver. If an individual is choosing not to have this device, there is no obligation to pay the fee. The radio- and TV-fee is decided annually by the Swedish parliament (Riksdag). Consumers of public broadcasting services are obligated to pay a licence fee, if they have a television receiver. The definition of a television receiver is that the receiver should be technical equipment designed for receiving television or radio programs, regardless of other use of the equipment. SCB explained that there is a fine borderline between television equipment and computers and smartphones. Currently, this issue is under discussion in Sweden. It seems that no fee can be charged based only on having ordinary computers or smartphones (except computers with an installed TV-card). The fee is therefore compulsory, given certain conditions but not compulsory for all households, organisations or corporations.

The Swedish statistical authorities explained that the whole financing of the public broadcasting is undergoing a political review. A new broadcasting licence period will begin in 2020 and it might be that the new system of collecting funds for public broadcasting could be introduced.

Eurostat mentioned that regarding the public Radio and TV broadcasting, there are two aspects to be considered. The first aspect relates to the recording of the amounts received from the households for the public Radio and TV services provided. For the moment, all the Member States, except France and Sweden, record these amounts received from households for TV and Radio services as taxes. The rationale for this recording is further developed in the MGDD in chapter 1.2.4.7. The second aspect relates to the sector classification of such public units. In most of the Member States, the public Radio and TV entities are classified

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<sup>14</sup> The definition of a household includes also multiple homes (e.g. holiday cottages).

inside general government. There are nevertheless some cases when such units remain classified outside general government due to the fact that the units still have revenues from commercial activities such as advertising, etc and the market/non-market test is therefore above 50%. As a result of the discussions, the Swedish statistical authorities were asked to reclassify the fees as taxes at the latest in the next benchmark revision. After this reclassification, SCB can analyse whether the public Radio and TV entities are still fulfilling the 50% test or need to be classified inside general government.

### *Findings and conclusions*

#### Action point 13 (previous action point 7):

In relation to the classification of public units in liquidation, Eurostat invited the Swedish statistical authorities to take further measures to ensure a comprehensive information collection at all government levels, possibly also using the business register. *Deadline: progress report April 2018 EDP notification.*

#### Action point 14 (previous action point 11):

Following the MGDD rules, Eurostat considers that the current TV radio licence has the nature of a tax rather than that of a sale of services. The Swedish statistical authorities are asked to reclassify the fees as taxes at the latest in the next benchmark revision.

#### *4.1.2 Changes in sector classification since the May 2015 EDP visit*

##### *Introduction*

Sector classification issues in the light of ESA2010 rules as well as changes in the sector classification since the last 2015 EDP visit were discussed under this agenda point.

##### *Discussions and methodological analysis*

In the documentation sent prior to the mission, SCB explained that Statistics Sweden accomplished a lot of work during the last few years regarding government sector delimitation. The market/ non-market test is implemented on a regular basis according to the criteria stated in ESA 2010 and the MGDD 2016 edition. As a part of the work performed in connection to the transition to ESA 2010, SCB completed a detailed analysis of holding companies and head offices. At the end of these investigations, 138 government owned companies have been reclassified into general government from which 108 into the local government. Three non-profit organisations have been removed outside general government. SCB mentioned that during this exercise, there were still cases when more information was needed in order to determine the appropriate classification, notably for cases when the unit was newly created and financial reports were not available or the unit was under restructuring process. SCB highlighted that in these particular cases, the units were put on an observation list for further analysis. Regarding possible aspects which could be further improved, SCB explained that more thorough investigation could be envisaged regarding small units and units classified in the NPISH sector. Regarding the classification of the Oil stock companies, Eurostat recalled that this topic was briefly discussed with the

Swedish authorities in October 2014. SCB explained that there is no central oil stock agency in Sweden, however the Swedish authorities investigated whether the oil stocks maintained by larger industries and local government energy corporations should be reclassified into the central government sector due to the fact that they are obliged to maintain a minimum stocks of oil. It was agreed that the current classification of the oil stocks in the company's balance sheet is appropriate.

Regarding newly created entities, Eurostat asked for some details on how new created units are classified. SCB explained that for central government, the Swedish National Financial Management Authority (ESV) is responsible for collecting data for central government units also for the new ones. SCB is responsible for collecting data for local government authorities and when a new local government unit is established (split or emerge) the new unit/units are immediately included in national accounts. SCB also explained that the newly created units are included under the observation list.

Regarding public holdings, Eurostat thanked SCB for the significant work undertaken in connection with action point 13 from the last 2015 EDP visit. A report on the progress achieved in relation to public holdings companies was provided to Eurostat in March 2016. SCB explained that one of the concerns is to ensure a stable process so that the basis for reclassification is never ad-hoc based but solid and transparent for national accountants, as well as, for users of data. Therefore, several criteria were established by SCB in order to determine whether a unit is a holding. Aspects such as number of employees, kind of income/expenditure; government ownership share; borrowing on the market; risks undertaken; other control criteria (ESA 20.309 e.g.) were taken into account. A public corporation with zero employees and no activity was considered as a holding company and, as such, reclassified into government or in other cases was recorded as a head office together with the enterprise group.

SCB informed Eurostat that in the framework of this investigation approximately 500 units were analyzed. As a result of this investigation, 70 units were reclassified inside general government. In addition, SCB also highlighted that 16 other units will be reclassified inside general government for the October 2017 notification. Concerning the central government sector, three development foundations have been removed from the central government sector. Despite the huge amount of work and effort invested, SCB explained that there is still some remaining work to be done, notably on performing calculations for the time series 1993/1996 for both non-financial and financial accounts; on reconciling the non-financial and financial accounts for the time series as well as on continuing the follow-up of entities from the observation list.

### *Findings and conclusions*

Eurostat took note of the significant improvements in relation with the classification of public holdings companies and thanked SCB for the significant work undertaken.

#### *4.1.3 Government controlled entities classified outside general government (public corporations)*

##### *Introduction*

Data provided in the 2016 *Questionnaire on government controlled entities classified outside the general government* sector was discussed under this point.

##### *Discussions and methodological analysis*

The questionnaire on government controlled entities classified outside general government provided in December 2016 and referring to data for 2015 was analysed in detail. Eurostat mentioned that there were no units included in the questionnaire which are under indirect control of government. SCB explained that there are no such units in Sweden. Eurostat noticed that there are some units which were having results under 50% for three consecutive years. Eurostat provided some concrete examples. SCB agreed to re-analyse the entities identified by Eurostat and which are below the threshold for at least three consecutive years. The data provided in the Questionnaire on government controlled entities classified outside the general government is also used by Eurostat in order to calculate the total amount of liabilities of public corporations, data which is published on Eurostat's website. In this context, Eurostat thanked the Swedish Authorities for providing also consolidated data for the liabilities of public corporations in the framework of the pilot project initiated by Eurostat. In case of Sweden, there is a clear overestimation of the total amount of liabilities due to non-consolidation. The total amount of liabilities at intragroup consolidated level of 36.9% of GDP is much lower than the unconsolidated amount of liabilities 44.7%. Eurostat asked during the discussions whether the reason for this difference is the fact that a lot of holding companies have debt towards each other or towards the mother company. SCB explained that they did not investigate the reasons for the differences between consolidated and un-consolidated data.

##### *Findings and conclusions*

##### *Action point 15 (previous action point 8):*

In relation to the classification of units and the fulfilment of the market/non market test, the Swedish statistical authorities agreed to analyse the entities identified by Eurostat as being below the threshold for at least three consecutive years. *Deadline: October 2017 EDP notification.*



#### *4.1.4 Practical implementation of the market/non-market test*

##### *Depreciation of assets and negative interest charges*

###### *Introduction*

The discussion focussed on the methods used for the calculation of the depreciation of assets as well as on the recording of interest charges and their implementation in the calculation of the market/non-market test.

###### *Discussions and methodological analysis*

Eurostat recalled that the issue of the practical application of the market/non-market test was discussed in the June 2016 EDP statistics working group. Prior to the mission, SCB sent to Eurostat a note describing the methods used for the calculation of the depreciation of assets. SCB explained that when performing the market/non-market test, they use the depreciation of assets as reflected in the business accounts. This amount is used as a proxy for the consumption of fixed capital.

Nevertheless, for the units included in government sector, consumption of fixed capital is calculated on the basis of the information available on gross fixed capital formation for all the units included in the government sector. Consumption of fixed capital is not calculated on individual basis, but at sub-sector level. Eurostat confirmed that this treatment is in line with Eurostat's requirements.

Nevertheless, Eurostat mentioned that in the EDP inventory chapter on the practical implementation of the market/non market test, there is no information provided on how the consumption of fixed capital is calculated. Therefore, Eurostat proposed the Swedish statistical authorities to update the EDP inventory with this information.

Prior to the mission, SCB sent a note explaining the treatment of interest charges. SCB confirmed that in the calculation of the market/non-market test, the net interest charge is included in the production costs as an approximation of the cost of capital. In case that the amounts are negative, they are replaced by zero in the calculations of the market/non-market test. In addition, SCB provided also an extensive list of units concerned by the negative net interest. Eurostat asked during the discussions whether there were cases of reclassification due to this. SCB explained that no unit was reclassified due to negative net interest charges. Eurostat took note that the provisions on the negative net interest charges were implemented in Sweden, nevertheless asked SCB to update the EDP inventory chapter on the practical implementation of the market/non market test with additional information on the practice of recording of negative interest charge.

The Swedish statistical authorities confirmed that no other adjustments to the nominator (sales) or denominator (costs) is done while performing the market/non market test.

## *Findings and conclusions*

### Action point 16 (previous action point 10):

The Swedish statistical authorities will update the EDP inventory chapter on the practical implementation of the market/non market test, by describing which business indicator is used as a proxy for sales and how the consumption of fixed capital is calculated, as well as describing the practice of recording of negative interest charge. *Deadline: October 2017 EDP notification.*

## **4.2 Implementation of accrual principle**

### *4.2.1 Taxes and social contributions*

#### *Introduction*

The recent improvements in the quality of tax data were discussed under this point of the agenda.

#### *Discussions and methodological analysis*

The Swedish statistical authorities summarised the information on progress made towards improving tax related data, as was described in the April 2015 EDP notification. Currently, ESV performs not only annual accrual tax adjustments for central government, but also accrual adjustments on a quarterly basis. Therefore, the previously used modeling of quarterly figures on other accounts receivable /payable (F.8) relating to taxes is no longer necessary. Another improvement relates to the fact that the ESV provides net data of receivables/payables (F8) by type of tax. Consequently, a more detailed breakdown of F.8 by type of tax is available. In September 2016, SCB informed Eurostat about the implementation of a new method for compiling taxes on capital gains. SCB explained that, due to these improvements, the amounts recorded under capital gains (D.51C) for the period 2008 onwards were revised. SCB further explained that in the previous calculations there was an incorrect distribution regarding taxes on capital gains between sub-sectors. The amounts were overestimated for D.51B with taxes not associated to taxes on corporate income or profits but associated to taxes on capital gains regarding pensions. So the part of taxes regarding pensions has been removed from D.51B to D.51C. Previously, an estimated/model based distribution between S.11/S.14 was used, currently actual data is available.

#### *Findings and conclusions*

Eurostat took note of the improvements achieved by the Swedish statistical authorities in relation with the quality of tax data.

## 4.2.2 *Interest*

### *Introduction*

Prior to the visit, the Swedish statistical authorities provided a table on the recording of interest covering the central government sub-sector. This table, as well as the description available in the EDP Inventory, were used as input for discussion.

### *Discussions and methodological analysis*

With regard to the data sources for interest, SCB explained that for central government (S.1311), a separate report on interest is collected both for financial and non-financial accounts. For the central government level, data is available both cash and accrual and by category of instruments for the financial accounts. Accrued interest is recorded under the respective instrument. Eurostat thanked the Swedish statistical authorities for filling in the new template on interest recording. Eurostat asked very punctual questions on the data on interest provided in the table. Eurostat noted that the data provided is reconcilable with the figures shown in the adjustment lines of EDP table 2A and 3B. Eurostat noted some differences between the amounts recoded as coupon sold in the table provided prior to the mission and the amounts provided in the EDP tables. SCB explained that, the data provided in the context of the current mission were updated with recent data from the National Debt Office (SNDO) and that the EDP table 2A will be revised accordingly in the October 2017 EDP notification.

Eurostat asked also more details about the interest calculation for the national debt and the availability of data sources. SCB mentioned that the figures for the national debt are published by two institutions in Sweden, by SCB as well by SNDO; nevertheless, two different methodologies are used.

### *Findings and conclusions*

Eurostat took note of the explanations provided.

## 4.2.3 *EU flows and Military expenditure*

Eurostat noted that there are no specific issues to be clarified regarding the EU flows. Regarding the amounts related to Amending Budget 5/2016 (AB5), adopted on 1 December 2016 and implemented on the first working day of January 2017, SCB confirmed that the flows were recorded in line with Eurostat guidance in 2016.

Eurostat asked about the use of the so called EU financial instruments (FI) in Sweden. The Swedish statistical authorities explained that the sector classification of the unit responsible for FI is currently under review.

Regarding military expenditure, Eurostat noted that there are no specific questions to be clarified.

## 4.3 Recording of specific government transactions

### 4.3.1 Guarantees

#### *Introduction*

The discussion focussed on questions related to one-off government guarantees, including stocks, guarantee calls and repayments.

#### *Discussions and methodological analysis*

Prior to the visit, the Swedish statistical authorities provided a detailed list of one-off government guarantees including stocks, guarantee calls and repayments. The detailed table showed guarantees provided to public and to private corporations. Eurostat noted that there were only two public corporations benefiting from SNDO guarantees. The other reported guarantees were: export credit insurance guarantees (managed by the EKN), guarantees for housing construction and renovation loans (managed by the BKN/Boverket) and guarantees issued by the Swedish International Development Cooperation Agency. In the framework of action point 21 from the 2015 EDP mission, it was agreed that SCB will investigate whether the guarantees provided by Exportkreditnämnden (EKN) can be considered as standardised guarantees. A detailed analysis was provided to Eurostat. SCB explained that the EKN guarantees should remain treated as one-off guarantees, as they do not fulfil the definition of standardised guarantees. Eurostat welcomed the progress done in relation with data on local guarantees, available since the April 2016 EDP notification, notably for county councils. This data is complimented with estimates on municipality guarantees, whereas for the October EDP notifications data from the annual questionnaire are used. Regarding the guarantees, SCB explained that guarantees are provided mainly to government-owned but also to private corporations. Municipalities and most of the county councils provide guarantees. For county councils the amounts for outstanding guarantees are negligible but they are significant for the municipalities. However, cash calls are very small. Local government only provide credit guarantees. For most guarantees the provider charges a fee. Eurostat asked whether the guarantees provided by the municipalities to Kommuninvest AB are included under local guarantees. SCB explained that these guarantees are not included under local government guarantees. Furthermore, SCB explained that outstanding guarantees are recorded off balance sheet in public accounts. The authorities make provisions for the expected costs on the liability side of their balance sheets. When a guarantee is called, the guarantor immediately repays the original creditor the full value of the loan including interest or other costs and registers an equivalent claim on the original debtor. Eurostat noticed that the amounts on guarantees provided in the table sent prior to the mission was slightly different from the amounts provided in the questionnaire on the structure of government debt. After checking the data, SCB noted that the differences are due to the fact that the questionnaire on the structure of government debt includes also the guarantees towards the sector Rest of the World (S.2). It was agreed that the questionnaire on the structure of government debt will be revised accordingly.

## *Findings and conclusions*

### *Action point 17:*

The questionnaire on the structure of government debt will be revised in order to correct the stock of guarantees given to sector Rest of the World (S.2). *Deadline: as soon as possible*<sup>15</sup>.

#### *4.3.2 Government claims; debt assumptions, debt cancellations and debt write-offs*

### *Introduction*

The discussion focussed on government claims at central and local government, including the stocks, transactions increase/decrease and other changes.

### *Discussions and methodological analysis*

Prior to the EDP visit, the Swedish statistical authorities provided a detailed list with government claims for all sub-sectors. In addition, SCB explained prior to the mission that there are no significant changes in the recording referring to debt cancellation, debt write-offs or debt assumption compared to the previous EDP visit in 2015. Most of the debt cancellations were observed during the period 2013-2016 and relate to student loans or to loans provided by *Almi Företagspartner lending*, a company which helps with advice and finance young growth companies. Concerning Almi, the debt cancellation refers to granted loans to new companies which were not able to repay the loan or part of the loan or interest. Other central government debt cancellations or debt write-offs during the period 2013-2016 were zero. Debt write-offs are very rare. SCB also explained that the loans are mainly treated as recoverable loans until an official decision on debt cancellation is made. If the loan is not paid, the Enforcement Authority claims the non-paid instalment.

Eurostat mentioned that the amounts of the non-performing loans published by SCB in 2016 in the framework of the Directive 85/2011 shows a relative stable trend for the stock on non-performing loans of around 0,8% of GDP for most of the years between 2010 and 2015. Almost all the non-performing loans are recorded at central government level. The amount of non-performing loans at local government level is insignificant. Eurostat asked whether SCB has more details on the nature of these non-performing loans. SCB agreed to analyse the available data on the non-performing loans (NPLs) in order to identify the nature of these claims and quantify the amounts of capitalised interest on the NPLs.

The discussions continued on the nature of the loans provided to the National Central Bank. Statistics Sweden confirmed that they are closely monitoring this loan. According to the Swedish law, SNDO is allowed to borrow money to supply the National Central Bank with foreign currency, when the purpose is to increase the foreign currency reserve. The National Central Bank should reimburse the SNDO for all costs connected to the borrowing,

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<sup>15</sup> Action point implemented.

including e.g. interest. The agreement can be terminated (by either part) with one month's notice. Termination/discontinuance of the agreement does not affect previously agreed existing lending according to the agreement. Furthermore, Eurostat asked to what exactly refer the 17 billion reported under revaluation of Riksbanken loan in 2016. SCB recalled that this re-evaluation was due to the movements in exchange rate of SEK versus USD and EUR.

In addition, Eurostat pointed out that during the 2015 EDP mission, it was also agreed under action point 17 that SCB will analyse the recoverability of government claims and monitor that debt cancellations should be recorded in cases when there are no repayments over a number of years. In particular, the cases of Stiftelsen Industrifonden and A-train needed to be analysed. In this context, SCB explained that the monitoring of claims will be performed through the monitoring of non-performing loans for central and local government. In case the non-performing loans amount is above SEK 100 million, the unit will be contacted and the decision whether to record a debt cancellation will be taken on a case by case analysis. SCB stressed that the social security sector operates under special circumstances, therefore, Statistics Sweden is not analysing the claims of social security funds. In addition, as a result of action point 17, from the 2015 EDP dialogue visit, SCB noticed that further development of the current methodology is needed due to the fact that, at present, no debt cancellation is recorded unless found in the basic sources. Therefore, SCB considered that a methodology to monitor repayments of claims must be developed and a debt cancellation should be recorded if no repayments have been made over a number of years, at least over a period of 5 years.

Regarding the particular case of A-train, SCB explained that in 1995, A-Train was assigned by the state to finance, build and operate Arlandabanan. Commissioned by the Government, the National Debt Office issued a conditional loan of 1 billion SEK to the company. Instead of interest and amortization, the government has the right to royalty payments at certain conditions. Profit sharing is done only when the owners of A-Train has reached a certain return on their invested capital. The principles of royalty payments to government depend on a number of criteria stipulated in the loan agreement. Both the size and time of repayments are determined by A-Train's financial results and the size of "dividends" received by the owners. The return that A-Train's shareholders receive on their invested capital is called "actual return rate". This financing is currently booked as loans (AF.4) in the national accounts.

### *Findings and conclusions*

#### Action point 18 (previous action point 19):

The Swedish statistical authorities will analyse the available data on the non-performing loans (NPLs) in order to identify the nature of these claims and will quantify the amounts of capitalised interest on the NPLs. *Deadline: April 2018 EDP notification.*

### 4.3.3 *Capital injections in public corporations, dividends, privatization*

#### *Introduction*

Prior to the visit, the SE authorities provided a list with all the capital injections by companies as well as a list of dividends by companies and associated profits by all general government sub-sectors.

#### *Discussions and methodological analysis*

Eurostat noticed that there are insignificant capital injections at central government level, but considerable amounts of capital injections at local government level. Eurostat recalled that the capital injection for 2016 in Västerås stadshus should be further analysed by SCB and asked additional questions on the capital injections into other government bodies of 2,2 bill SEK in 2013, 1,5bill SEK in 2014, 300 mill SEK in 2015 and 853 mill in SEK. Eurostat asked also for some general explanations on the data sources with regard capital injections. SCB explained that capital injections are normally recorded in the annual data sources for all sub-sectors. The capital injection test is performed on a regular basis. The data source for the capital injections for central government is captured by ESV.. Capital injections at local government level are based on the quarterly data source for assets and liabilities. The data is collected via a survey for the first three quarters (KTS) and via a census which include all units for the fourth quarter. However, the timeliness for KTS is deferred compared to the regular quarterly non-financial data sources for local government. This implies that a full analysis of the data should be performed for a correct recording in the October notification. For social security funds, the recording is based on information given in annual reports. SCB stressed that the recording for social security funds could be further improved. Eurostat asked if there are any plans to improve this recording. SCB explained that efforts have been undertaken in order to improve the data collection on capital injections for social security funds. It was agreed that SCB will inform Eurostat on their progress. The discussions continued on the figures reported for dividends for the years 2013-2016. SCB informed Eurostat that the super-dividend test has been performed the last years on a regular basis. For the central government the test is performed by ESV based on instructions provided by SCB. The super-dividend test for the national central bank is nevertheless carried out by SCB. The discussions focused on the formula used for the calculations of super-dividends. SCB explained that the proxy for the entrepreneurial income for central government corporations is considered to be the annual operating result which includes net interest cost from the income statement. Eurostat pointed out, that as stipulated in ESA 4.55, the distributable income should be taken into consideration while calculating the super-dividend test. The entrepreneurial income and distributable income concepts are often used in an interchangeable way. Nevertheless the concept of distributable income is more appropriate and the MGDD takes also the distributable income as a reference concept. So, in the distributable income the interest costs should be included and the transactions generating holding gains/losses should be excluded. Additionally, the income tax should be also included as expenditure. According to ESA2010 and MGDD the distributable income is

equal to the entrepreneurial income (B.4) and should be calculated on net basis. In addition, Eurostat stressed that the consumption of fixed capital should be included as expenditure while calculating the distributable income.

Eurostat mentioned that in the past, notably during the 2015 EDP mission, there were discussions on the calculation of the super-dividend test for the National Central Bank. SCB confirmed that it is possible to calculate the entrepreneurial income for the National Central Bank in line with ESA 2010 and MGDD. The calculation of the distributable income of the National Central Bank is calculated taking into account the entrepreneurial income (B4) plus all current transfers receivable, less all current transfers payable, and less the adjustment for the change in pension entitlements. Regarding the calculation of local government super-dividends, it was recalled that the proxy for entrepreneurial income are earnings after financial entries. For social security funds, the data source is the annual reports and the proxy for entrepreneurial income are earnings after financial entries before value changes and taxes, adjusted for financial transactions included in the result. The super-dividend test is performed also for the units part of local government. For local government, the total amount of dividends received is recorded in the annual data source, but not split by dividend and corporation. The super-dividend test is performed also for the social security funds (SSF). The total amount of dividends is recorded but not each dividend split by corporation. Eurostat noticed that since April 2015 a super-dividend is recorded in the SSF sub-sector for the years 2014, 2015 and 2016.

Eurostat asked also whether there are interim dividends cases in Sweden. SCB explained that there was one single potential case of such dividend payment. After discussions, it was concluded that it was actually an ordinary dividend split into two different payments, and not an interim dividend. Eurostat pointed out that there are strict rules stipulated in the MGDD with regards the interim dividends. An interim dividend payment is recorded as property income (D.42) in national accounts only if two conditions are fulfilled. First, the amount of dividend paid is based on short-period accounts available to the public, covering at least two quarters (thus, there must be evidence that the entrepreneurial income (or operating surplus in business accounting as a proxy) would be able to fund the dividends. Second, the interim dividend should be consistent with the level of distribution of dividends observed in previous years, taking into account the trend in profitability of the company. If both conditions are not met, the interim payment is to be recorded as a financial advance. SCB agreed to take into accounts these conditions in their assessment in case there will have other cases of interim dividend payments.

Eurostat took note that the super-dividend test is well performed for all units at all government sub-sectors.

### *Findings and conclusions*

#### Action point 19 (previous action point 13):

The Swedish statistical authorities will report to Eurostat on their progress of collecting data on capital injections for social security funds. *Deadline: April 2018 EDP notification.*



#### 4.3.4 *Others: Financial derivatives, Sale and leaseback operations. PPPs and concessions, UMTS, Emission permits, government interventions in the context of financial turmoil*

##### ***Financial derivatives***

During the April 2017 notification, SCB informed Eurostat about the operations in financial derivatives for 2016. SCB explained that, in Swedish national accounts, derivatives are reported on a gross basis, on both assets and liabilities. Eurostat confirmed that gross reporting is also favoured in the *Guidelines for completing the general government deficit and debt notification under the Excessive Deficit Procedure*. SCB explained that most of the special operations such as lump sum payments on swap cancellations; swaptions and/or options on interest and swaps with embedded options were performed since a long time ago and/or the figures involved were small.

##### ***Public Private Partnerships (PPPs) and Concessions***

###### *Introduction*

Prior to the mission, the Swedish Statistical Authorities provided an updated list of on-going or planned PPP projects as well as on concessions.

###### *Discussions and methodological analysis*

In Sweden, there is currently only one on-going PPP (Nya Karolinska Solna) recorded on government balance sheet (county councils). Eurostat focussed the discussions on the data sources in relation with PPP projects. SCB explained that in Sweden, there is no exhaustive systematic data collection referring to PPPs. The data on PPP projects for central and local government level is based on information resulting from SCB's participation in government committees or discussion in different reference groups between SCB, the Swedish Association of Local Authorities and Regions (SALAR) and individual municipalities. In addition, sometimes also public information from media is used. SCB explained that since 2016, in the annual source "Annual accounts for the municipalities", respondents were asked whether the municipalities have income or expenditure related to PPPs. SCB mentioned that the questionnaire explained what is exactly meant with a PPP because the concept is not very well known at the level of local administrations.

SCB informed Eurostat that out of 290 municipalities, 186 replied to the question and only one municipality answered "Yes". SCB further investigated this case and came to the conclusion that the joint construction of the elderly home by the municipality/private company in the municipality was not a PPP as defined in the national account manuals. In addition, SCB pointed out that an official committee was established by the Government in 2017. The committee is investigating the possibility to create a more systematic approach concerning the involvement of private funding in the area of government infrastructure investments. SCB is also participating in this committee. The committee's first recommendation to the Swedish government was to create a responsible institution, a new one or within an already existing authority. The institution should help increasing

knowledge about PPPs and procurement procedures etc. In addition, the first report of the committee clarifies also some technical issues on PPPs such as the impact on government accounts over time.

Eurostat highlighted that also at Eurostat level a lot of work was done in the field of PPPs such as the updated chapter on PPPs in the MGDD as well as a new guidance on PPPs projects published by the European Investment Bank in co-operation with Eurostat. In addition, Eurostat point out that it organizes meetings in Member States in order to explain complex aspect related to PPPs. SCB expressed their interest in organizing such meetings also in Sweden. Furthermore, Eurostat discussed with the Swedish Statistical Authorities the treatment of concessions in national accounts as well as their data collection. SCB explained that as in the case of PPPs projects, there is no systematic data collection referring to concessions. The knowledge of concessions at central and local government is based on the same sources as the PPPs projects. The major concession contract in Sweden is Arlandabanan, the train between Stockholm and Arlanda airport. The corporation responsible for operating the traffic is A-Train. A-Train has a concession contract on passengers transport to and from Arlanda airport until year 2040, i.e. contract period of 45 years. A-Train decides on the ticket price and collects the related fees without any government's intervention. Another large infrastructure project was the building of the bridge between Denmark and Sweden (Öresundsbron) which was completed in year 2000. The traffic, both road and railway tracks, is owned and maintained by a consortium owned by 50 percent each by a Danish corporation (A/S Øresund) and a Swedish corporation (SVEDAB AB). Both corporations were included in general government in Denmark and Sweden. SCB explained that from their knowledge there is no other large concession project where government is involved. However, due to the fact that there is no explicit data collection referring to concession contracts, there is some uncertainty that all concession projects, notably also those at local government level, are fully captured in the data collection. Consequently, Eurostat invited the Swedish statistical authorities to take steps in order to gather information on the major ongoing concession contracts.

### *Findings and conclusions*

#### Action point 20 (previous action point 18):

The Swedish statistical authorities were invited to take steps in order to gather information on the major ongoing concession contracts, especially those involving building of infrastructure. *Deadline: progress report April 2018 EDP notification.*

## ***UMTS***

### *Introduction*

Eurostat published on 27 March 2017 a note on the recording of mobile phone licences, exploration rights and other licences. The implementation of the guidance in Sweden was discussed under this agenda point.

### *Discussions and methodological analysis*

With regard the implementation of the guidance, SCB informed Eurostat that in the framework of the April 2017 notification there have been four auctions regarding mobile phone licences (3G/4G) in 2008, 2011, 2012, 2016. SCB confirmed that currently these transactions are recorded as acquisition less disposals of non-produced assets. Nevertheless, due to the new guidance note, SCB will record the licenses as rent (D.45) over the lifetime of the license in line with the new guideline. These changes will be implemented in September 2017 and included in both non-financial and financial accounts. SCB pointed out that the revisions due to these changes will impact the time series backwards, nevertheless the amounts affecting the net lending/net borrowing each year spread over the life time of the licences are relatively small. Total auction amount for all the auctions amounted to approximately 5.6 billion SEK.

### *Findings and conclusions*

#### Action point 21 (previous action point 23):

In relation to the UMTS recording, Eurostat took note that the Swedish statistical authorities will implement the new guidance starting from the October 2017 EDP notification. This will imply revisions to all the years starting with 2008.

## ***Emission permits***

### *Introduction*

Prior to the mission, SCB provided an annex including the reporting of the emission permits for the period 2012-2016 as well as some additional metadata.

### *Discussions and methodological analysis*

SCB explained in their metadata that the figures for permits surrendered, are based on the period when the permit is surrendered, i.e. year t+1 for emissions in year t. The D.29 is calculated from the amounts of permits surrendered, using a model similar to the suggested model in the MGDD, where D.29 is resulting from the [number of surrendered permits from auctions] \* [average price]. Eurostat confirmed during the discussion that indeed, the MGDD is providing a clear guidance for the calculations of tax revenues from emission permits. The number of allowances surrendered used in the MGDD algorithm should not include the permits which had been allowed for free and are still valid. Eurostat asked also

some detailed questions on the source data. SCB explained that emission permits are sold by the Swedish National Debt Office (SNDO). The Swedish system is connected to EU ETS. In addition, also an administrative register/data base has been developed to record information about both the pollution and the permits. This data base is called “Unionsregistret” and is under the responsibility of the Swedish Energy Agency. Eurostat asked whether the revenue from the sale of permits is included in the working balance. SCB confirmed that this is the case.

### *Findings and conclusions*

Eurostat took note of the current reporting of the emission permits as well as of the data sources available.

### ***Energy performance contracts (EPCs)***

#### *Introduction*

Eurostat published in August 2015 a guidance note on the impact of energy performance contracts on government's accounts. The status of the implementation of the guidance was discussed under this agenda point as well as further developments with regard to the methodology to be applied for energy performance contracts.

#### *Discussions and methodological analysis*

Statistics Sweden informed Eurostat during the EDP 2017 request for clarification that they contacted the Swedish Energy Agency, which is responsible for the co-ordination of the work related to energy efficiency measures as well as for energy performance contracts. From the information received from the agency, it seems that there is no data referring to EPC investments in national currency. However, according to the Swedish Energy Agency, the buyer, in general the government, records the investments referring to EPCs, indicating that these investments are already recorded in the balance sheet of government, and therefore reflected in the national accounts. Nevertheless, this kind of contracts cannot be distinguished in the public accounts. SCB pointed out that this topic is very technical therefore they would appreciate to have more information on how these contracts are recorded in other Member States. Eurostat pointed out that regarding the Energy Performance Contracts, Eurostat does not have an overview of the situation in each of the Member States. Therefore, Eurostat is considering asking all the Member States about the existence of such contracts and about the current recording. Nevertheless, currently Eurostat tries to focus its work on providing an updated guidance note on the appropriate recording of such contracts. This proposal as well as the proposals for the recording in the T accounts should be discussed with the Member States in the June EDPS working group meeting. After consultations with the Member States, Eurostat intends to publish an updated guidance note in September. Nevertheless, Eurostat pointed that, if the government records the investment and therefore the assets are on balance sheet, this should also imply that an imputed debt should be recorded for the whole amount of the investment in the year in which the investment takes place and not be spread over the duration of the contract. This recording is similar to the recording of the PPPs projects on balance sheet. After analysing

the situation of the recording of such contracts in Sweden, it was agreed that the current recording may not be fully in line with the existing guidance. Eurostat invited the Swedish Statistical authorities to review this recording also with the view of the outcome of the ongoing consultations on this issue in the EDPS WG and DMES.

*Findings and conclusions*

Action point 22 (previous action point 21):

The current recording in Sweden of Energy Performance Contracts (EPCs) may not be fully in line with the existing guidance. Eurostat invited the Swedish Statistical authorities to review this recording also with the view of the outcome of the ongoing consultations on this issue in the EDPSWG and DMES. *Deadline: progress report October 2017 EDP notification.*

### **Decommissioning**

Eurostat focussed the discussion on the new chapter III.7 on the impact of transfer of decommissioning costs on government accounts and its implementation. Eurostat asked SCB whether there are such operations in Sweden and if the Swedish statistical authorities had some information on the impact of transfer of decommissioning costs on government accounts. Statistics Sweden explained that, a decommissioning fund exists in Sweden. Nevertheless, SCB informed Eurostat that the appropriate classification of this specific fund, which should be responsible for the financing of the decommissioning, will be analysed by SCB. SCB agreed to inform Eurostat about their analyses.

*Findings and conclusions*

Action point 23 (previous action point 22):

The Swedish statistical authorities will analyse the current recording of decommissioning of nuclear power plants in Sweden, as well as the classification of the specific fund, used for the financing of the decommissioning. *Deadline: progress report April 2018 EDP notification*

# **EDP dialogue visit to Sweden, 1-2 June 2017**

**Starting on 1 June 2017, 9:00**

## **Draft Agenda**

### **1. Statistical organisational issues**

- 1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation.
- 1.2. Data sources. Revision policy.
- 1.3. Upstream issues. Audit and internal control arrangements.
- 1.4. Compliance with Council Directive 2011/85

### **2. Follow-up of the EDP dialogue visit of 19-20 May 2015**

- Temporary management and the retirement stages of the Premium pension system
- Transitional period of the local government pension scheme
- Kommuninvest AB

### **3. Follow-up of the April 2017 EDP reporting**

### **4. Methodological issues and recording of specific government transactions**

#### **4.1. Delimitation of general government, application of market / non-market rule in NA**

- 4.1.1. Implementation of the new MGDD (2016 edition). State of play.
- 4.1.2. Changes in sector classification since the May 2015 EDP visit.
- 4.1.3. Government controlled entities classified outside the general government (public corporations).
- 4.1.4. Practical implementation of the market/non-market test:
  - Depreciation of assets
  - Negative interest paid

#### **4.2. Implementation of accrual principle**

- 4.2.1. Accrual taxes and social contributions
- 4.2.2. Accrued interest
- 4.2.3. EU flows
- 4.2.4. Military expenditure

### **4.3. Recording of specific government transactions**

4.3.1. Guarantees

4.3.2. Government claims; debt assumptions, debt cancellations and debt write-offs

4.3.3. Capital injections in public corporations, dividends, privatization

4.3.4. Others: Financial derivatives, PPPs and concessions, Sale and leaseback operations, UMTS, Emission permits, government interventions in the context of financial turmoil

### **5. Other issues**

5.1. ESA 2010 Transmission Programme

5.3. Any other business

## List of Participants

### SCB - Statistics Sweden

Marcus Andersson	Statistician
Johan Norberg	Statistician
Melita Paripovic	Statistician
Leyth Ameri	Statistician
Helena Kaplan	Head of unit, Financial and Sector Accounts
Katarina Johansson	Statistician
Marcus Otterström	Statistician
Jens Dahlstrand	Statistician
Michael Wolf	Senior Advisor
Elisabeth Hopkins	Director of National Accounts Department

### ESV - The Swedish National Financial Management Authority

Eva Engberg	Senior Advisor
Pia Heyman	Head of Central Government Accounting and Finance Department
Mikael Marelius	Senior Advisor
Hans Åhlander	Senior Advisor
Kikki Johansson	Head of Central Government Accounting Department
Emelie Brunhage	Advisor

### Riksgälden - National Debt Office

Erik Andersson	Economic Department
Camilla Kullander Berglund	Guarantee Department
Magdalena Belin	Deputy Head of Debt Management
Johan Sandberg	Senior Analyst

### Finansdepartementet - Ministry of Finance

Johan Wikström	Desk Officer at Economic Affairs Department
Thomas Pettersson	Deputy Director of Economic Affairs Department
Hwan Willén	Desk Officer at Economic Affairs Department

### Riksbanken - Central bank

Anders Lindström

### Eurostat

Lena Frej Ohlsson	Head of Unit D2 Excessive Deficit Procedure (EDP) 1
Ascoli Luca	Unit D1 Excessive deficit procedure and methodology
Rasa Jurkonienė	Unit D2 Excessive Deficit Procedure (EDP) 1
Camelia Jüttner	Unit D2 Excessive Deficit Procedure (EDP) 1



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