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Subject: Classification of Irish Bank Resolution Corporation (IBRC) under ESA 2010

Dear Jennifer,

Thank you for your letter of 24th June 2014. This letter explains and confirms our view on the statistical classification of IBRC under ESA 2010.

The accounting issue

The Irish Bank Resolution Corporation (IBRC) was created in July 2011¹ to merge the former Anglo Irish Bank and the Irish Nationwide Building Society. It is owned by the Irish government. From July 2011 IBRC sold its deposit book and has been in a wind-down phase. In February 2013 a process was initiated to liquidate IBRC, and a procedure is underway to dispose of assets. The issue is the statistical classification of IBRC under ESA 2010.

Methodological analysis and clarification by Eurostat

Applicable accounting rules

The applicable rules may be found in Chapters 2 and 20 of ESA 2010 and more specifically in Section IV.5 of the Manual on Government Deficit and Debt (implementation of ESA 2010).

Analysis

Section IV.5 of the MGDD covers the process of financial defeasance, dealing with the situation where a financial institution has become financially distressed due to its involvement with

¹ On 29 June 2011, the European Commission approved a joint restructuring plan for Anglo Irish Bank (Anglo) and Irish Nationwide Building Society (INBS), which required the merger of the banks, the sale of their deposit books, and the orderly work-out of the merged loan book over a period not to exceed 10 years (see http://europa.eu/rapid/press-release_IP-11-801_en.htm). The term 'creation' in the context of this letter refers to the change in the economic nature of Anglo-INBS following this merger, which took place on 1 July 2011. The merged wind-down entity changed its name to Irish Bank Resolution Corporation Limited (IBRC) in October 2011: for convenience, it is referred to throughout this letter as 'IBRC'.

considerable problematic assets, where the rescue process may involve the creation of an entity dedicated to the management of those problematic assets (a defeasance structure) and where government is involved in such a way that it may be viewed as assuming control or placing itself at risk.

The MGDD provides an indicative list of features which would provide evidence of the defeasance structure nature of a unit, notably being closed (or partly open under restrictive conditions) to new deposits-taking and new lending, strongly external imposed restrictions from competing on banking and financial markets, and (in most cases) a foreseen limited lifetime.

It is clear that the IBRC falls into this situation, as its principle function has been to deal with the problematic assets arising from Anglo Irish Bank and Irish Nationwide Building Society, with associated government support. It has been heavily restricted with regard to its ability to take new business and compete on banking and financial markets, and has the aim of winding down its operations over a limited lifetime.

Furthermore the MGDD describes a number of scenarios in which financial defeasance may take place. One of these is the scenario where a financial institution transfers its commercially profitable activities to other units, and:

"the unit is left with the management of most or all problematic assets, which therefore become its main activity, and this is achieved with a strong support of the government and under its control (government being generally the main shareholder, directly or indirectly through other public bodies)."

This is the case for the IBRC, where the Irish government is the owner and has provided guarantees, and has in this way clearly assumed the majority of the risks of IBRC's activities.

Eurostat is therefore of the view that under ESA 2010 the IBRC should be classified to the general government sector (S.13) from its creation in July 2011.

Eurostat notes that IBRC has been included in the Monetary Financial Institutions (MFI) list, which is compiled by Central Bank authorities, since its creation.

As you are aware, this issue was discussed during the Financial Accounts Working Group meeting on 16-18 June 2014 and there Eurostat reaffirmed its opinion that ESA 2010 shows a change as regards the content of the sub-sector S.122 (Monetary Financial Institutions) compared to ESA95.

Therefore, wherever a unit had unquestionably all features to be classified within the general government, in accordance with the relevant statistical rules as described above, Eurostat believes that such a classification should take place, independently of any administrative arrangements which may have led to the inclusion of such a unit in the MFI list.

Conclusion

According to the Manual on Government Deficit and Debt public financial defeasance structures which demonstrate the relevant characteristics identified in section IV.5 of the MGDD (implementation of ESA 2010) should be classified to the general government sector.

Eurostat is therefore of the view that IBRC should be classified to the general government sector under ESA 2010 from its creation in July 2011, and that the data reported to Eurostat at-end September 2014 in the EDP notification and relevant ESA tables should reflect this classification.

Procedure

In this context, we would like to remind you that Eurostat is committed to adopt a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009, as amended, and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat is therefore publishing all official methodological advice (ex-ante and ex-post) given to Member States on the Eurostat website. In case you have objections concerning the publication of this specific case, we would appreciate if you would let us know *before 10 July 2014*.

Yours sincerely,

(eSigned)
Eduardo Barredo Capelot
Acting Director