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EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality

Luxembourg,
ESTAT/D1/EBC/LA/DC/ms

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Subject: Statistical treatment of the Société National de Crédit et d'Investissement (SNCI) under ESA 2010

Ref: Note ref. 990-14 NW dated 18.08.14 sent to Mr Walter Radermacher

Dear Mr Weydert,

Thank you for your note above ref. concerning the classification of the SNCI according to ESA2010 rules. After a careful examination of the issue, I am now in the position to provide Eurostat's opinion on the statistical treatment of the SNCI in national accounts (under ESA 2010).

1. The accounting issue

The issue for which an opinion is being sought is the statistical classification of the Société National de Crédit et d'Investissement (SNCI) in the light of the forthcoming ESA2010. The entity was classified in the financial corporation sector (S.12) under ESA95.

1.1 Documentation provided

STATEC provided to Eurostat in its first email, on 8th of August 2014, a note concerning the classification of the SNCI as well as the legislation that defines the status of SNCI. In its note, STATEC concluded that the SNCI should be classified in the general government sector (S.13).

STATEC also forwarded to Eurostat in its second email, dated 12th of August 2014, a note produced by the SNCI itself describing its view on its classification. According to the SNCI's note, the SNCI should continue to be classified in S.12 even under ESA2010

1.2 Description of the case

The SNCI was established with a special law on 2nd August 1977¹ (further referred to as SNCI law). According to the above law, SNCI is a public-law institution entirely owned by the Luxembourgish government, specialized in medium and long term financing to Luxembourg based companies. The activity of SNCI is mainly to provide medium and long term loans, in order to promote the creation, the extension, the conversion and the rationalisation of industrial companies, in order to contribute to the economic development of Luxembourg. Such activities must also contribute to the general economic interest of the country and to a better geographical distribution of economic activities in the country. As far as the provision of loans and credits is concerned, these are subject to limitations concerning their duration (which cannot normally exceed 10 years, or 15 years only in exceptional circumstances and subject to the authorisation of government). The SNCI might also acquire participation of companies, subject nevertheless to the previous authorisation of government and under strict limitations defined by law and in the framework of general economic interest; in particular, the SNCI can own more than 49% of the capital of any company only following previous direct authorisation of government.

The funds necessary for carrying out the activity of the SNCI are provided by government. The SNCI can issue bonds only after authorisation of government, which fixes the conditions of every emission. Such emissions cannot exceed by more than ten times the amount of the own funds of the SNCI. The principal and interest to be paid by SNCI in the context of the bonds issued are fully guaranteed by government.

The board of Directors is composed by nine members all nominated by government. Government can also revoke the nomination of any of the 9 members at any time.

2. Methodological analysis and clarification by Eurostat

2.1 Applicable accounting rules

Paragraphs 2.35 and 2.38 on government control and paragraphs 2.56 and 2.57 of the ESA 2010, as well as paragraphs 2.21 to 2.23 concerning captive financial institutions are relevant. Part I.5 Units engaged in financial activities: 'general issues' of the MGDD is applicable. In addition, guidance provided by the MGDD in part I.6, 'Specific public entities on Captive financial institutions' will also be relevant.

¹ <http://www.snci.lu/files/52238.pdf>

Being SNCI engaged in financial activity, the market/non-market criterion as defined in ESA2010 Chapter 20 is not relevant (see ESA2010 § 20.34).

2.2 Availability of national accounting analysis

STATEC provided to Eurostat in their first email, on 8th of August 2014, a note on the case. In its note STATEC concluded that SNCI should be classified in the general government sector (S.13). This conclusion is based on ESA2010 § 2.27 and 2.28 and on the consideration that SNCI does not have the power to act independently, can only engage in a limited range of activities and, does not bear the risks related to its liabilities.

STATEC also provided to Eurostat in a second email, on 12th of August 2014, a note directly drafted by the SNCI's staff describing their view on the re-classification issue. The SNCI's note highlighted that the SNCI should be considered a market producer, since its production costs are largely covered by revenue and it complies with the 50% rule. The note also highlighted that the SNCI has a complete accounting system, is able to incur liabilities and to enter into contracts on its own behalf, has autonomy of decision for most of its operations, with authorisation from the Ministry of Economics required only in "exceptional cases". According to the SNCI's note, based on all the above arguments, SNCI should continue to be considered a public company and remain part of the financial sector and outside General Government.

2.3 Eurostat's analysis

Eurostat considers that the SNCI is an institutional unit controlled by government, although with limited autonomy of decision. Being a unit engaged in financial activity, the market/non market criterion as defined in ESA2010 chapter 20 is not relevant.

The SNCI however cannot be considered as a financial intermediary because it does not place itself at risk. Government fully guarantees the reimbursement of the principal and the payment of interest of the securities issued by the SNCI as well as on the deposits linked to the operations of loans and credits granted by SNCI.

Moreover, the SNCI is controlled by government and carries out a limited range of activities and in narrow conditions which have been designed by government and are strictly influenced and monitored by government, clearly in the context of specific government objectives. Some of the activities of the unit requires specific government authorisation. The SNCI is also either financed directly by government or finances itself on the market with full government support. Control of government is exercised simultaneously over assets and liabilities of the units. Government does not moreover require a market rate of return from the SNCI and the SNCI does not behave, nor is required to do so, as a normal commercial entity. Finally, the Board of Directors of SNCI is composed by a majority of government officials.

Eurostat notes that the SNCI is included in the Monetary Financial Institutions (MFI) list, which is compiled by Central Bank authorities. 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 has 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.

3. Conclusion

According to the above analysis, Eurostat considers that the SNCI must be considered as an entity having the features of a captive financial institution controlled by government, to be therefore classified inside the general government sector.

4. Publication procedure

Eurostat is committed to adopting 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, presented to the CMFB and cleared by the Commission and the EFC.

Eurostat intends, therefore, to publish this bilateral methodological advice note on Eurostat web site. In case you have objections, we would appreciate if you let us know.

In any case (regardless of whether you have objections or not) we would like to receive an answer from you on the issue no later than **05 September 2014**.

Yours sincerely,

(e-signed)

Eduardo Barredo Capelot