



EUROPEAN COMMISSION



EUROSTAT

Directorate C: National and European Accounts

Luxembourg, - 4 DEC. 2006
ESTAT/C-3/LN/PB/gr D(2006) 30236

Mr Pál Pozsonyi
Director
Hungarian Central Statistical Office
Keleti K. u. 5-7
HU – 1024 Budapest

Subject: Accounting issues - Court measures in relation to Budapest Airport; carbon trading rights; factoring, collateral loans and transfer of claims to third parties

Dear Mr Pozsonyi,

Following-up on the July 2006 EDP dialogue visit, Eurostat was to provide you with a written answer or, if necessary, to request additional information on the accounting implications of the above mentioned issues. These had been requested to be discussed by the Hungarian Statistical Authorities prior to our EDP dialogue visit that took place in July (your e-mails dated 29 June and 13 July 2006).

1) Compensatory measures to be decided by the Court in relation to Budapest Airport

The issue

According to the description provided to Eurostat, government granted in 1996 an authorisation to a partially foreign project-company to develop and renovate the Budapest Airport passenger terminals. This authorisation was given in the context of a joint ownership project between a public (66%) and a private (34%) entity. However, this authorisation was cancelled following a 2002 government decree, which appointed a newborn corporation – Budapest Airport Co. – as the manager of the airport infrastructure. As a result of this cancellation, the foreign partner of the project-company sued Budapest Airport Co, which was exercising the majority of ownership rights of the airport and acting on behalf of government in this Court case.

The original joint project was to be financed by a loan guaranteed by the State, which apparently corresponded to 25 HuF bn. The 2002 government decree thus obliged Budapest Airport Co. to repay the original project loan, which was accepted by the lender bank. Nevertheless, this arrangement was rejected by the foreign partner of the project-company. Thus, it would seem that the assets and liabilities in the balance sheet of the project-company still account for the property rights and the project-loan. Moreover, in September 2006, two sets of Court decisions were

expected to determine the exact amount of compensations to be paid by government (via Budapest Airport) to the foreign partner of the project-company.

One question relates to the accounting treatment of those compensations, and notably their time of recording (your question a)).

In addition, the Hungarian Statistical Authorities have asked Eurostat whether the compensation ordered by the Court to be paid by government could enter as a correction item of the proceeds originated from the privatisation of Budapest Airport in 2005 (your question b)). Finally, Eurostat is asked about the accounting treatment of the compensation ordered by the Court, if this is decided within one year after the privatisation of Budapest Airport.

Request for information

After analysing the description provided, further clarifications are needed for understanding the features of this operation and for providing an advice on its accounting implications. In this context, Eurostat would like to know:

- i. The nature and exact amount of payments made between government and the project-company;
- ii. Whether the amount of the outstanding project-loan corresponds exactly to 25 HuF bn? Whether the loan was repaid in 2002, as suggested in par. 3: "the 25 billion HuF amount of the redemption of the debt was treated as a one-off payment"? Whether the project loans company continues paying its debt service (interest and reimbursement) on the outstanding debt?
- iii. Whether the 25 HuF bn allocated for compensation has already been paid, or not? In your description, par. 2 it is referred that "some 25 HuF bn compensation is expected to be paid by the Hungarian State to a foreign-corporation", although this reference may be confused with that in par. 3 referred to in our previous point above;
- iv. The object and nature of the two Court decisions and the date at which the second Court decision is expected. In addition, whether these Court decisions refer to the same type of claims, and the exact events for which they will be attributed;
- v. Whether it is correct that each Court decision will lead to the payment of two compensations and whether each of them will be of an amount between 20-27 HuF bn; and,
- vi. The accounting treatment which was made in national accounts in 2002.

Analysis

The above clarifications are needed for assessing the accounting implications, and notably the time of recording (your question a)).

In relation to your question b) on the recording of privatization proceeds, the argument of the Hungarian Statistical Authorities is based on the fact that the privatisation price of Budapest Airport took into account that government would assume all the obligations determined by the Court.

However, the transaction – payment of a compensation decided by the Court – is between government and the claimant, and not with the investor: it is only indirectly related with the privatisation that occurred in 2005. In addition, the Court decision was decided *a posteriori*. It

should be noted that this event (the Court decision) does not lead to a revaluation of Budapest Airport own funds.

Eurostat's view is that compensation payments ordered by Courts should be recorded in national accounts for its full amount as a capital transfer at the moment in which the decision is taken by the Court. This recording is unrelated with the time-lag between the privatisation and the Court decision (more or less than one year).

Conclusion

Eurostat's view is that more information is needed to advise on the proper accounting treatment of the Court decision, but that there will be no adjustments on the amounts of privatization proceeds recorded in national accounts as transaction in equity.

2) Recording of carbon trading rights in national accounts

The issue

In the context of the EU trading established for carbon rights, the Hungarian legislation has established that 97.5% of the quota rights would be distributed free of charge among enterprises in April 2006. The Hungarian Statistical Authorities ask whether the quota rights will be recorded as "other volume changes" in the balance sheet of government and raise issues about its valuation because, allegedly, quotas are not yet being traded in the national market.

The analysis/conclusion

Eurostat is currently analysing the issue of recording of carbon trading rights in national accounts. Nonetheless, our preliminary view is that the impact of the granting of carbon allowances for free should be neutral regarding net lending (+)/net borrowing (B.9).

In relation to the issue of valuation, we note that both the Hungarian Law (2005.évi XV. törvény; 143/2005. (VII. 27.) Korm. Rendelet) and article 12 of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 foresee that these allowances can be transferred. It would thus seem possible to apply a market rate per credit of allowances, for instance observed at the European level.

3) Factoring, collateral loans and transfer of claims to third parties

Although this issue was discussed during our EDP dialogue visit, it is our understanding that further clarifications are needed.

Please note that, according to the administrative procedures that have been established, Eurostat is required to answer to questions raised by member states explicitly related to identified operations (realized or planned) either in the context of an "ex-ante" or "ex-post" request. In addition, as you know, the question of properly accounting for rediscounting of trade credits as well as for impaired foreign loans is under discussion at the FAWP.

The issue

Three cases are described. The first case corresponds to when government sells an existing claim (loan) against a corporation either at auction, or based on a price set by an independent institution

(question a/1). It is also asked whether the difference in value with the book value should impact the deficit.

The second case relates to when an existing claim is transferred to a third party, and the debtor – government – is either not informed (question a/2) or is informed (question b)).

The last case, described as "collateral loans", is where a bank lends money directly to a unit that holds a multi-year contract of delivery of goods and services, for instance, with a budgetary unit. It is unclear whether the budgetary unit will pay directly to the bank.

The analysis/ conclusion

Eurostat's view is that in the first case it does not matter whether the price has been determined through auction or by an independent institution. We would expect that the correct price has been established and that it would correspond to market price. The difference in value generally enters the revaluation accounts (ESA *par.* 6.51) – without impact on the government deficit – except in those rare circumstances where an intention to convey a benefit is to be considered.

In the second case, a Eurostat preliminary view (pending further FAWP deliberations) is that the circumstance of the debtor being or not being informed will not change the classification of the transaction. Instead, the nature of the instrument seemed to be different upon the change in creditor, i.e. after reassigning the claim to a third party: the claim seems no longer related with the delivery of goods and services. This would seem to imply therefore the creation of a new financial instrument (a loan from the bank to government) matched by a redemption in government payable. As a consequence, it will increase government debt.

Finally, in the third case, Eurostat's view is that a loan is to be recorded between the bank and the seller, unless the banker would have government as only recourse. This case seems not related to the two others described above, because the multi-year contract as such is not a financial instrument (as no goods have been delivered) and only provides a guarantee to the bank (the contract can be seen as a contingent asset).

Yours sincerely,



Laurs Nørlund
Director