

## Additional topics to be discussed with Eurostat

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### **3.3 Compensatory measure decided by the Court (Budapest Airport) – accounting issues**

The issue: Treatment of payments that is going to be paid by the State generated from court decision on compensation of former operator of Budapest Airport terminals (as the State has undertaken the responsibility of this payment from the new owner of the Budapest Airport as part of the privatisation contract)

Some 25 HUF billion compensation is expected to be paid by the Hungarian State to a foreign corporation, who is the partner in a joint (34 % private – 66 % state) ownership of a project-company established in 1996 for development and renovation of the Budapest Airport passenger terminals. The project loan was guaranteed by the State. The project-company had been authorised for operation of the terminals for a 12-year period (up to 2010) by the original contract. This authorisation has been removed later by a ministerial decree in 2002, as the newly established Budapest Airport (BA) Co. received this entitlement and was appointed as the property manager of the airport infrastructure. The foreign owner of the project-company immediately sued the State for some 90 million USD damages. At the same time the project-company sued BA what is exercising the 66 % majority ownership rights on behalf of the State. A government decree ordered BA to repay the project loan of the project-company anticipating the call of an immediate direct state guarantee. The 25 billion HUF amount of the redemption of the debt was treated as a one-off payment for the right of the management and operation of the airport infrastructure for a 10-year period by a contract with the Treasury Property Management Office. BA accounts this one-off payment in a 10-year time-delimitation pattern in its books. The lender bank accepted and confirmed the fact of redemption of the project-loan, but the project-company and its foreign owner refuse it, and the property rights as assets and the project loan as liabilities are still included in the balance sheet of the project-company.

Court decision is expected to be published in Sept 2006 in the first court case initiated by the foreign partner. The amount of compensation reaches 98 million USD plus additional payments in Hungarian Forint, total some 20-24 billion HUF (0,1 % of GDP).

In the second set of court cases (against BA), the compensation payable may result some 133 million USD (0,1 % of GDP) by amercing BA, if it is the case. The publication of the court decision cannot be identified. During the privatisation procedure of Budapest Airport in 2005, the Hungarian State took the responsibility of financing the consequences of all court decisions related to ongoing cases.

***Question a): Can the redemption of the project-loan by the BA be reclassified as depositing money at a bank retro-effectively in 2002, if the court decision annuls the fact of redemption? Or, do we have to account borrowing in 2006 to “storno” the redemption made in 2002? What kind of ESA-categories have to be identified to account the compensation, if the court decision identifies separately the amount of the capital part of the loan, the amount of interest and associated borrowing costs, the amount of loss of profit? Do we have to account all in one item under D.75 Other current transfer – Payments for compensation, or do we have to split them***

*separately in ESA, such as D.99 Other capital transfer (for imputed debt assumption), and D.75 Miscellaneous current transfer (for interest and associated borrowing cost and for loss of profit)? Anyway, does the statistical treatment depend on the nature of the separated components of the compensation?*

*Question b): The privatisation price paid for BA in 2005 was significantly influenced by the fact, that the Hungarian State took over the responsibilities for all financial consequences of ongoing court cases. Can we consider this state obligation in the same way as it is described by ESA rules as “capital injection right before the privatisation” with the aim of having returned in the privatisation proceeds? Can we treat the compensation payment that is payable by the State due to court decision as a correction item in the amount of privatisation proceed in 2005? Or, do we have to record revaluation in the government equities in BA with the amount of payable compensation due to the court decision and a transaction in equities to reflect to cash transfer?*

*Question c): What is the treatment of the compensation (and its components), if the publication of court decision is over one year after the privatisation of BA?*

### **3.4 Factoring, collateral loans and transfer of claims to third parties**

Eurostat has not circulated its new material on „Securitisation”, therefore some guidance or clarification is needed. EDP Manual on Government Debt and Deficit Part V. Securitisation chapter sets up the basic principles: only existing assets can be sold, in case of non-existing assets (such as future promises) all payments made to government have to be accounted as government borrowing.

We have identified the following basic transactions to be analysed from statistical point of view:

- a) sale of an asset (claim) that exist within the balance sheet (often called factoring);
- b) transfer of an existing claim for the benefit of a third party (often called assignment);
- c) use of a future promise (which is not an asset in the balance sheet) as a collateral when one borrows from banks

#### **a) Sale of an asset (claim) that exist within the balance sheet (often called factoring)**

a1) If the sale of a financial claim effectuate the transfer of associates risks, the payment for the claim can be treated as sale of the claim in the Hungarian business accounting, and the difference between the book value and the sale price has to be accounted as other cost, or other revenue in the profit and loss statement.

In ESA/EDP accounting the difference between the balance sheet value and the sale price have to be recorded as evaluation, not effecting ESA/EDP deficit.

***Question a/1: Is it correct to state that the difference between the book value and sale price has no effect on ESA/EDP deficit? Does it matter, if the sale is not made by auction/competition, but an independent institution has set up the sale price?***

a2) In case of factoring, generally a non-financial enterprises purchases the financial claims, irrespective of its status, whether it is over or within the payment deadline. In Hungary financial corporations are engaged in factoring as well, and deal both types of claims as well, but in contrary to assignation, in case of factoring there is no obligation to inform the original debtor. Thus, a financial claim against the government may be transferred to a bank and the government does not have information on this transaction. In the Hungarian business accounting the purchased claims are recorded separately from those that were generated from delivery of goods and services, thus factoring reclassify the financial instrument. Other financial claims (other than delivery of goods and services) include other claims against government, such as claims related to compensation of employees, tax-refund, subsidies and transfers. The statistical reporting of banks may include certain purchased claims against government, but not as other financial claims (AF.7 Other receivables), occasionally as AF.4 Short-term loans, that means that business accounting may create government debt when certain claims has been converted by business accounting from other receivables into loan. As the data source of statistical survey collected from banks is the business accounting of the banks, the data collection may create government debt, although it is not a transaction of the government and has no information on the “reclassification”.

***Question a/2: Can a transaction between two non-government units change the nature and classification of a financial obligation of the government (from other payables to debt-type liabilities), while the government has no information on it?***

**b) Transfer of an existing asset to a third party (often called assignment)**

In the Hungarian regulation in case of an assignment, the original debtor has to be informed on the transfer of the claim by the original owner to a third party, and the fact of being informed means, that the debtor obliged to pay to the new owner of the claim. This transaction reflects a real sale of the claim, when associated rights (mortgage, guarantee) are also transferred.

***Question b): Can the nature of the original claim influence the statistical treatment, whether the claim generates from delivery of goods and services or other type (such as application for subsidy, transfer, tax refund, contracted conditional or unconditional future payment promise)? Can the statistical treatment change due to the fact of reassignment if it changes the nature of the financial instrument (from AF.7 Other receivables to AF.4 Loan against government)? Can the government debt increase, without a transaction involving government? Government is only informed on a transaction between two non-government units. Is it enough to create government debt?***

**c) Use of a future promise (which is not an asset in the balance sheet) as a collateral when one borrows from banks**

In case of collateralised loans in Hungarian business accounting the „collateral” itself does not included in the balance sheet of the lender bank, it is „only” an off-balance sheet memo item. Collateral means multi-year contract on delivery of goods and services with a budgetary unit, multi-year contract on an investment project supported from EU-funds, direct EU agricultural support entitlement based on ownership of land, etc. All in these cases the bank lends money to the borrower partner (to vendors, to beneficiaries) and not to a government unit that will pay for the delivery, or will pay the investment grants or subsidy in the future.

***Question c): Do we have to follow the same rules in ESA/EDP accounts and record the lending transaction between the bank and the partner, not involving government?***

### **3. 5 Recording of carbon trading rights in national accounts**

According to EU and Hungarian regulation the Hungarian State generates property rights on carbon-dioxid quotas. Following the rules, 97,5 percent of the quotas was distributed free of charge among enterprises in April 2006 in two-year quantity, for 2005 and 2006. According to the Hungarian business accounting rules the free of charge transmission of the property rights has to be accounted by the recipient at a value that is announced by the transmitter State, but with a maximum amount that reflects the current market/fair price. As the State has not announced the value of the quotas in lack of market in Hungary (as the quotas have not been tradable yet by law), foreign quoted prices have to be used in capitalisation of the quotas in the books.

***Question a): Has the asset (quotas as property right) been created by legal creation as “other volume changes” in the balance sheet of the government? Do we have to record the creation and transmission of the quotas on a gross basis in the balance sheet of the government and at what price? Price is in question, as the State has not announced the transmission price, and has no information on the price at which recipients accounted the value by using their own valuation. If gross recording is required, how can we calculate the amount of the “imputed” capital transfer (payable) and receipts from “imputed” sale of the right?***

***Question b): If the balance sheet of the government has to be attached by the creation and transmission of the rights, in case of the free of charge transfer, what is the rule of recording the “imputed” capital transfer payable? Is it a one-off payment at the time of transmission of the quotas, or do we have to make a time-delimitation for splitting for two years, as the quotas relates to two-year quantity?***

The Hungarian State has been authorised by EU to allocate the remaining 2,5 % of quotas on the market, and the Government is organising an auction for it. The property rights in this case represent three-year quantity. The National Allocation Plan (66/2006. (III. 27.) Government decree) determines the share of allowances to be allocated through auctioning, which is in the first trading period (2005-2007) 2,5 % of total number of allowances (2 374 569 ton CO<sub>2</sub> for auction).

The *methodology of the auction* is set in the 109/2006 (V.5.) Government decree.

The Minister of Environment – in cooperation with the Minister of Economy - prepares a suggestion about the frequency and date of the auction, and the amount of allowances to sell. They submit the suggestion to the Minister of Finance, who – if he agrees – carries out the auction. If the Minister of Finance does not agree with the suggestion, the sectoral ministers should prepare a new suggestion based on the reasons of refusal by the Minister of Finance. The auction is an electronic one. All subjects at law can participate, who hold a registry account listed on the Community Transaction Log operated by the European Commission.

In the first trading period the revenues from the auction go to the central budget as centralized income, in such a manner that the amount of the revenue but no more than 2 billion HUF can be used by the Ministry of Environment and Ministry of Economy in 50%-50% portion for measures connected to reduction and regulation of greenhouse gas emission, use of renewable energy and energy efficiency.

***Question c): If the balance sheet of the government has to be attached by the creation and transmission of the rights, does the difference between the book price and the sale price received by the government have to be accounted as revaluation? Is the transaction a one-off sale of property rights (K.2 Acquisition less disposals of non-produced non-financial assets), improving the net lending/borrowing? Or, does the nature of being emission rights for a three-year period require splitting the receipt from disposal and making a time-delimitation (similarly to UMTS rules in case of no more than 5-year period) and recording a property income (D.45 Rent)?***