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EUROSTAT

Directorate C: National and European Accounts

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Subject: Methodological treatment of the liquidation of SGFGAS (Société de Gestion du Fonds de Garantie de l'Accession Sociale à la propriété) – ex-ante consultation of Eurostat

Ref.: Your letter Nr 53/G401 dated 13 December 2006

Dear Mr Charpin,

Following your letter of 13 December 2006 to Mr Carré, I am in a position to give you our view on the appropriate statistical classification for the case you have presented.

The accounting issue for which a clarification is requested

The issue for which an opinion is being sought is the determination of the correct ESA95 accounting treatment of the liquidation proceeds of SGFGAS (*Société de Gestion du Fonds de Garantie de l'Accession Sociale à la propriété*).

SGFGAS distributes financial guarantees for housing loans in the context of a specific convention between banks and government. SGFGAS was regularly (partly) funded by government. It is an entity owned by banks, classified outside general government. Government does not have any direct participation in the fund (from the legal point of view), but nominates the president of the board.

The French government has decided to liquidate in 2006 the guaranteeing scheme managed by SGFGAS, assuming the guarantees portfolio granted by SGFGAS and taking over the liquidation proceeds of 1.4 billion EUR. SGFGAS has accumulated reserves, because the level of funding has noticeably and consistently exceeded the costs of guarantee calls.

The French statistical authorities suggested that the liquidation proceeds should be accounted for as deficit-reducing revenues, i.e. "other capital transfer" (D.99).

Eurostat received a first letter on the subject on 29 March 2006 (N°05/G50), which is also appended to your letter of 13 December 2006 (Nr 53/G401). The issue was discussed during the Eurostat EDP dialogue visit in Paris on 5 April 2006, which concluded that the French Statistical authorities would provide the convention of 29 March 1993 between banks and government (see

Final findings). *The Main conclusions and Action points* of the visit was sent on 13 April 2006. Eurostat also sent to INSEE (letter to Mr Lengart on 13 April 2006) its views concerning the accounting treatment of five operations, one of them being the liquidation of SGFGAS.

Methodological analysis by Eurostat

After an examination of the information provided on 29 March 2006 and on 13 December 2006, Eurostat has reached the following views.

To the extent that the government funding of SGFGAS was recorded as a capital transfer (government expenditure), INSEE argued that the return of the excess should be booked as a capital transfer, for symmetry reasons, and also by analogy with the recording of guarantees.

However, the government fundings reflected to a large extent an expected loss under the scheme. As such, it would seem appropriate that the surpluses originating from a better performance than expected of the guaranteeing scheme (i.e. lower cost than expected) be recorded, in national accounts, in the revaluation accounts. Furthermore, in contrast to repayments on guarantees, the initiative of the liquidation decidedly lays in the hands of government. Government clearly controls those resources.

The fact that government does not legally own SGFGAS does not prevent recognizing an equity stake of government in national accounts. Government decides the liquidation of the guaranteeing scheme and acquires its net assets. In this manner, government has a *de facto* an ownership stake in SGFGAS. The position *shares and other equity* AF.5 (ESA 5.86) includes instruments issued by entities that entitle the holder to a share in the net assets of the entity - in the event of liquidation. It is also clear that banks being not owner of that part of net assets of SGFGAS covered by the convention, the only alternative to recognizing a government equity stake would be to report a large SGFGAS net worth (B.90) in the financial accounts, which would seem without plausible economic interpretation.

In this context, it is recalled that the Eurostat Press release of 27 January 1998 *Payment to the State following the sale of monetary gold by Ufficio Italiano dei Cambi (UIC) to Banca d'Italia* ruled on the recognition of *de facto* government ownership in national accounts in entities legally owned by other parties.

In addition, the SGFGAS case bears close proximity with a more recent Eurostat Press Release of 21 August 2003 *Liquidation of the EFTA Industrial Development Fund for Portugal*, when accumulated reserves in a development fund under liquidation were returned to government.

We take note that your 13 December 2006 letter stresses the "inter-temporal incoherence" that the financial recording of these proceeds would entail. Although, national accounts rulings aim at generally upholding symmetrical recordings, asymmetric recordings are nonetheless recognized as valid in some circumstances, as explicitly recognized in the general consideration to the ESA1995 *Manual on Government Deficit and Debt* Part II.1.1.3 *Consistency* page 27-28 as well as in some of the Eurostat rulings (e.g. super dividends, indirect sale of non-financial assets).

Conclusion

Eurostat thus confirms its opinion expressed in its letter of 13 April 2006 that the return of SGFGAS assets to government should not be recorded as government revenue in 2006 but instead entered in the financial accounts (withdrawal of equity).

Procedure

This view of Eurostat is based on the information provided by the French authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view.

In addition, we would like to remind you that Eurostat is committed to adopting a fully transparent framework for its decisions on debt and deficit matters in line with the amended Council Regulation 3605/93 and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat intends, therefore, to publish all future official methodological advice (ex-ante and ex-post) given to Member States, on the Eurostat web site. In case you have objections concerning this specific case, 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 12 March 2007.

Yours sincerely,



Laurs Nørlund
Director