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Mr Réginald Massant  
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**Subject: Recording in national accounts / EDP of government bonds' collaterals in derivative contracts**

**Ref.: Your letter T/ICN/2009/016870 dated 3 December 2009**  
**Our letter ESTAT/C-3/MHF/LA/MW/mg D(2010) 36708 dated 26 January 2010**  
**Your letter T/ICN/2010/004335 dated 26 March 2010**  
**Our letter ESTST/C-3/MHF/LA/MW/mg D(2010) 257657 dated 4 May 2010**  
**Your letter T/ICN/2010/009833 dated 30 August 2010**

Dear Mr Massant,

Following our above-mentioned correspondence, I am in a position to reply to the question you have asked on the appropriate statistical treatment of the case you have presented.

*The case*

The issue concerns the use by the Belgian Treasury of Belgian government bonds as collateral in some derivative contracts. The question raised by you is: if the Treasury places the Belgian government bonds as collateral, should these amounts be included in the outstanding amount of government debt?

### *Documentation provided*

During our exchange of correspondence, the Belgian National Accounts Institute (ICN/INR) provided Eurostat with a description of the collateral transactions in derivative contracts, together with national accounts analyses of the Belgian Treasury and ICN/INR. Following Eurostat's questions on some aspects of the planned operations, which could influence the assessment of the economic ownership of the bonds used as collateral, and consequently their recording in national accounts, ICN/INR transmitted to Eurostat more detailed explanations from the Treasury.

### *Description of the case*

To recall, the Belgian Treasury, when entering into certain derivative contracts, might use collateral agreements. Under such arrangements, a transfer of assets from one swap counterparty to another might be required, depending on the developments of the swap value. Until now, the asset transferred in such contracts has been cash, but the Belgian government is currently considering the use of its own bonds that were previously issued and in the meantime bought-back from investors.

### *Methodological analysis by Eurostat*

After an examination of the documentation and further clarifications provided, Eurostat has reached the following provisional views.

### *Applicable accounting rules*

European system of accounts 1995 (ESA 1995) paragraphs 1.59, 7.10-11, System of National Accounts 2008 (SNA) paragraph 11.124, Eurostat ESA 95 Manual on government deficit and debt (MGDD) "Part V Addendum on government debt, V.3 Repurchase agreements, g. Securities lending" are applicable in this case.

### *Availability of national accounting analysis*

In the analysis provided together with the letter of 3 December 2009, the Belgian statistical authorities consider that using government bonds as collateral in derivative contracts does not have impacts on the government debt, unless the bonds used as collateral are sold by a party that had received them (usually, a financial institution).

Such treatment is justified by the fact that government (transferor) retains the risk connected to the bonds, except for a right of a sale by a financial institution (transferee) of the collateral.

### *Analysis*

If securities (government bonds) are used as collateral, the main relevant principle of national accounts to be considered is that of economic ownership (ESA95 paragraphs 7.10-11, SNA2008 paragraph 11.124).

When the Belgian Treasury (transferor) places as collateral government bonds (e.g. bought-back), the party receiving them (transferee) does not gain control over them. It would mean that it is still the transferor who has control over the asset and is exposed to the benefits and costs of the ownership, for example the exposure to holding gains and losses. The Belgian statistical authorities confirmed that the interest coupons on the bonds used as collateral in the

derivatives transactions in question are *"always given to the collateral provider"*, i.e. the transferor. In statistical terms, it would seem that the economic ownership of the bonds put as collateral thus does not change and remains with the transferor.

Taking into account the possibility of a sale by the transferee to a third party of bonds received as collateral, Eurostat enquired which party of the collateral agreement receives coupons in case of such a sale, as receiving benefits from an asset is an important aspect of determining its economic ownership. The Belgian statistical authorities informed Eurostat that *"If the bonds have been sold by the transferee, the buyer will of course receive the coupon payment. Despite the sale, the transferee will be obliged to transfer the sum of coupon payment to the transferor."* Therefore, even if the bonds put as collateral would be sold by the transferee and coupon paid to the new owner (a third party), the transferor would be still receiving cash amounts equivalent to coupon flows related to the bonds sold. Such arrangement is closely related to another feature of collateral agreements under which the transferee has an obligation to eventually return to the transferor a fungible type of bond, i.e. of the same characteristics as the bonds which were initially put as collateral.

Taking into account the above mentioned features of the collateral arrangement as described by the Belgian statistical authorities, application of the ESA95 paragraph 1.15 on netting could be envisaged: *"Individual units or sectors may have the same kind of transaction both as a use and as a resource (e.g. they both pay and receive interest) and the same kind of financial instrument both as an asset and as a liability."*

The Belgian statistical authorities indicate in this context that cases of sale of bonds posted as collateral are rare, even non-existent, and that more frequently the collateral is re-used by the transferee as collateral in other contracts but not sold. However, in case of the occurrence of such a transaction, the transferee does not have the obligation to inform the transferor about the sale.

### ***Conclusion***

Eurostat's view is that in the described scheme using in derivative contracts government's own bonds as collateral, and taking into account the above-described arrangement in place in case of a sale of bonds by the transferor to a third party (indicating that there is no transfer of the ownership of bonds from the transferee), there is no direct impact on the level of government debt. Application of the ESA95 concept of netting could be envisaged in such a case.

If due to other than the above-described arrangements through the sale of collateral bonds by the transferee or due to changes in market practice, the economic ownership of collateral bonds would change, Eurostat would need to have further information on the actual conditions and economic implications of the sale in order to determine how such bond collateral amounts are to be recorded in government accounts.

Eurostat takes note of the information by the Belgian statistical authorities, however, that such sale operations currently occur on rare occasions, if at all. If the use of a sale option by a transferee becomes frequent and involves significant amounts of government bonds, the application of ESA95 netting concept, and consequently impact on government debt would need to be considered on a more general level.

### ***Procedure***

In this context, 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 Council Regulation (EC) No 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 publishes all official methodological advice (ex-ante and ex-post) given to Member States, on the Eurostat website. 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 22 October 2010.

Yours sincerely,



François LEQUILLER  
Director