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**EUROSTAT**

Directorate D: Government Finance Statistics (GFS) and quality  
**Unit D-2: Excessive deficit procedure (EDP) 1**

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# **FINAL FINDINGS**

## **EDP dialogue visit to France**

**25-26 June 2014**

# **Eurostat EDP dialogue visit to France**

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## **Final findings**

### **Executive summary**

Eurostat undertook an EDP dialogue visit to France on 25-26 June 2014 as part of its regular visits to Member States. The purpose of the visit was to review the existing institutional responsibilities for compiling EDP statistics, discuss the quality and exhaustiveness of primary data sources, review the progress in the implementation of action points, discuss the implementation of ESA 2010, examine the sector clarification of some units and the statistical treatment of specific operations undertaken by government.

First, the institutional arrangements currently in place were reviewed and it was observed that no major change had taken place since the previous dialogue visit. The quality management system and information related to audit activities were discussed and a more precise view of data flows and upstream providers was gathered together with INSEE's own assessment of risks related to the EDP process. Plans for updating the EDP Inventory and publishing it nationally were agreed.

The major revision of national accounts, with the change of base year in the April EDP notification and the publication of ESA 2010 national accounts nationally in May 2014 was discussed, and a draft version of the October 2014 EDP tables based on ESA 2010 was reviewed.

The follow-up on a number of issues on which progress has been achieved recently, such as the data for social security reported in EDP for the year N-1, the calculation of stocks and flows of other accounts payable and receivable, data for Public-Private Partnerships (PPPs) at the local government sector and the publication of statistical discrepancies, was discussed. However, it was concluded that work in other areas should also continue, such as the calculation of the breakdown of other accounts payable and receivable by asset type and the estimation of factoring without recourse.

The sector classification of a number of units was discussed and the important changes brought forward in this respect by ESA 2010 were mentioned. The importance of the questionnaire on Government controlled entities classified outside general government was highlighted and its close examination revealed units for which a more careful analysis was needed. The classification of certain units in the financial sector was also discussed, but it was considered that a more in-depth investigation was needed in a number of cases, given their complexity.

Eurostat provisionally agreed with the methodology proposed by INSEE for allocating part of the debt of Réseau Ferré de France (RFF) in government accounts. The role of government in PPPs involving RFF should however be further investigated.

Finally, it was agreed that the existence of standardised guarantees and the sector classification of public units providing them, should be investigated in view of the new provisions of ESA 2010.

## **Introduction**

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to France on 25-26 June 2014. The previous Eurostat EDP dialogue visit to France had taken place on 10-11 September 2012.

The delegation of Eurostat was headed by Ms Lena Frej Ohlsson, Head of Unit of Excessive Deficit Procedure (EDP) 1. Eurostat was also represented by Mr Luca Ascoli, Head of Unit of Excessive deficit procedure and Methodology, Mr Denis Besnard and Mr Luis Biedma. A representative of the European Central Bank (ECB) also participated in the meeting as observer. The French statistical authorities were represented by the French Statistical Institute (INSEE), the Ministry of Finance (DGFIP and DGTrésor) and the Banque de France.

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA95/ESA2010 methodology and to ensure that provisions of the ESA95/ESA2010, the Eurostat Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in the French EDP and Government Finance Statistics (GFS) data.

In detail, the main aims of the dialogue visit were 1) to obtain a more complete overview of upstream and quality issues, (2) to review the progress achieved in the area of other accounts receivables/payables, statistical discrepancies and Public-Private Partnerships at the level of the local government (3) to review the implementation of ESA 2010 in government accounts, (4) to discuss the allocation of part of the debt of Réseau Ferré de France (RFF) in government accounts and (5) to analyse the impact of ESA 2010 rules on the sector classification of certain units.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, as amended, indicating that, within days, the Main conclusions and action points would be sent to the French statistical authorities, who may provide comments. The Provisional findings would be sent to the French statistical authorities in draft form for their review or amendment if necessary. Final findings will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat. Eurostat reminded that, as announced in the June 2014 Financial Accounts Working Group, there will be no separate Upstream Dialogue Visits in the future to Member States, and that the normal dialogue visits will cover upstream issues.

Eurostat welcomed the openness and transparency demonstrated by the French statistical authorities during the meeting and the documentation provided before the EDP dialogue visit.

## 1. Statistical institutional issues

### 1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation

#### 1.1.1. Institutional cooperation and EDP processes

##### *Introduction*

INSEE is responsible for the EDP notification in France. The process is managed within the Département des Comptes Nationaux. Three other institutions are involved in the compilation of the General Government accounts:

- La Direction Générale des Finances Publiques (DGFIP), which is part of the Ministry of Finance (MoF), and provides upstream data and translates public accounting figures into national accounts.
- La Banque de France which intervenes in the compilation of the financial accounts.
- La Direction Générale du Trésor (DGTrésor), also integrated in the MoF and which is mainly responsible for the planned data and estimating missing accounting data for the Social Security sub-sector.

##### *Discussion*

Eurostat reviewed the institutional responsibilities in place for the compilation of EDP and GFS data. There have been no substantial changes since the last EDP dialogue visit which took place in September 2012.

The relationships between INSEE, DGFIP and the Court of Auditors (CoA) were discussed in detail. INSEE has a formal written co-operation agreement signed with the CoA since October 2012. They hold two or three bilateral meetings per year to discuss issues of common interest. They usually meet in December when a list of accounting issues of the current year are discussed and in April when INSEE provides a debriefing of the accounts of the year. On the other hand, DGFIP monitors in detail the various reports produced by the CoA, especially on the issues highlighted by the CoA in their annual certification exercise of the accounts of the year. It was explained that there are regional chambers of the CoA but the auditing of the Local Government is not exhaustive and that, in the near future, the CoA is planning to start certifying the accounts of the public hospitals.

It was confirmed that there is not a formal agreement between INSEE and DGTrésor for the provision of estimates in April for the accounts of the Social Security in the year N-1. It was explained that the estimates do not refer to the social security general scheme (S.131411), for which the accounts are closed on 15 March, but to some other regimes and funds depending from the social security funds (S13142, ODASS) and for which accounting information for important units (like UNEDIC and ARCO-AGGIC) only become available in spring/summer and which are later used for the October EDP reporting<sup>1</sup>.

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<sup>1</sup> See section 3.1.

Eurostat enquired on the availability of a bridge table between public accounts and national accounts and on the institutional responsibility for its maintenance. It was explained that there is not a single bridge table but various bridge tables as there are various public accounting standards used in different administrations (State, ODAC, Social Security, Hospitals). DGFIP is responsible for building and maintaining the bridge tables but INSEE is informed on changes and they are bilaterally discussed.

Finally, INSEE explained its relationship with the Haut Conseil des Finances Publiques (HCFP), which is rather limited, as the institution mainly focus on macroeconomic issues and the plausibility of the forecasts included in the government budget.

### *Findings and conclusions*

**Action Point 1 (previous AP2):** The French Statistical authorities will provide Eurostat with the bridge tables used to derive national accounts variables from public accounts for all sub-sectors of the general government. *Deadline: end August 2014<sup>2</sup>.*

#### **1.1.2. Quality management framework and Audit and internal control arrangements**

Eurostat reviewed the information available on the EDP process in France which included the reply by INSEE to the Questionnaire on national quality management systems in relation to EDP Statistics, a complete flowchart of the EDP process and the information provided in the EDP inventory. Eurostat enquired about certain aspects of the EDP process mainly related to the data flows from upstream providers.

INSEE explained that, for EDP purposes, the same general quality management framework used for other statistical process is in place. The general framework follows the recommendations of the European Statistical System Code of Practice. Regarding data flows, the process is secure and formalised with DGFIP and Banque de France. Regarding source data by upstream data providers, there is a closed control by the Court of Auditors through its annual certification procedure. Finally, regarding Local Government, the accounts are built by the staff of DGFIP which has in place a good quality management system.

Based on its own assessment, INSEE and DGFIP considered very unlikely that there exists a possibility of misreporting debt figures for government. In their view, the main risk of the EDP process is the delimitation of the general government sector, in particular at local government level. Some units might be incorrectly classified outside government. Some examples are units for which the qualitative criteria determine their sector classification, public units that might be incorrectly classifying subsidies on production as sales or units controlled by local government for which a comprehensive register does not exist<sup>3</sup>. INSEE informed Eurostat that the staff for compiling and reporting EDP had been increased from 5 to 6 persons in 2014. In DGFIP it is estimated that approximately 25 persons work on the compilation of public accounts for national accounts purposes.

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<sup>2</sup> Action point completed.

<sup>3</sup> See section 4.1.3.

## 1.2. Data sources and revision policy

### 1.2.1. EDP inventory

#### *Introduction*

Council Regulation (EC) No 479/2009, as amended, stipulates that Member States should provide Eurostat with an up-to-date detailed inventory of the methods, procedures and sources used to compile actual deficit and debt data and the underlying government accounts.

A new template for the EDP Inventory was prepared by Eurostat after consultation with Member States. The amendments were endorsed by the CMFB in July 2012, and the Member States were requested to complete the new template for the EDP Inventory by the end of December 2013.

#### *Discussion*

Eurostat thanked INSEE for providing a draft EDP Inventory in the new format in December 2013 and a final version in April 2014, which Eurostat published on its website. The EDP inventory provided is however currently a mixture of languages; headings and explanatory texts were written in English while the content by INSEE was in French. Eurostat recalled that all the compulsory (and not published) annexes to the EDP inventory should be provided. Currently the bridge tables between public accounts and national accounts<sup>4</sup> were missing. Eurostat also mentioned that Member States should furthermore publish nationally the EDP inventory and that INSEE had not done it until now. Eurostat also explained that a review of the template of the EDP inventory was necessary to introduce the changes brought forward by ESA 2010. The template and the time frame for its update had been discussed at the June 2014 FAWG meeting with the conclusion that all Member States should prepare for an update in order to have the revised version published by end December 2015.

#### *Findings and conclusions*

**Action Point 2 (previous AP3):** The French statistical authorities will update the EDP inventory in the recently agreed ESA 2010 template, provide it to Eurostat and publish nationally the new version in French and English. *Deadline: end December 2014.*

### 1.2.2. Changes in data sources linked to the change of base year and introduction of ESA 2010

#### *Introduction*

INSEE changed the National Accounts base year from 2005 to 2010 for EDP purposes in April 2014. The data resulting from this change, together with the introduction of ESA 2010 in non-financial national accounts, was published in May 2014.

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<sup>4</sup> See Action Point 1.

## *Discussion*

The main changes linked to the change of base year were:

- The change in the methodology to consolidate the debt between the State and other central government bodies (ODAC). In base 2005, the State figures were used to reconcile the debt between the State and ODAC, in the sense that, in case a discrepancy existed between the State and ODAC, the figures available from the State were used. In base 2010, INSEE decided to use instead ODAC figures for reconciling the figures. INSEE explained the rationale, being the practical difficulties found to trace the flows from the State to ODAC and identify the final counterpart. INSEE explained that this practice was followed in base 2005 to reconcile the debt between the State and the Social Security (Social Security data was used) and that it will not affect the availability of data for the April EDP notification as all ODAC that incur debt have to report their figures in March.
- The change in the perimeter of Government with the inclusion of the debt of CCI (Chambres de commerce et d'industrie), EPLE (Établissements Publics Locaux d'Enseignement), EPF (Établissements Publics Fonciers), EPA (Établissements Publics d'Aménagement) and the Island of Mayotte. Eurostat pointed out that it was surprising that the debt of CCIs had not previously been included in the national accounts, inside or outside government. INSEE explained that CCI had been included in national accounts for flows but not for stocks because previously the available information was not considered to be of sufficient quality.
- Other changes due to the change of base year were the new estimates from the Banque de France of reinvested earnings in mutual funds and better source data in local government for PPPs. There were also some errors corrected due to the time of recording for CVAE (Contribution sur la Valeur Ajoutée des Entreprises) or the non-recording as tax revenue of some revenues of FSV (Fonds de Solidarité Vieillesse).

The main changes linked to the introduction of ESA 2010 were:

- The new treatment of lump-sum payments related to pension obligations.
- The new treatment of payable tax credits.
- There were two changes not directly linked to the introduction of ESA 2010 that were implemented in May and not in April for practical reasons:
  - The reclassification inside the government sector of the central stockholding entities (CPSSP and SAGESS)
  - The allocation in government debt of a significant part of the liabilities of Réseau Ferré de France (RFF).

Eurostat pointed out that, with the exception of CPSSP and SAGESS, there have been very few reclassifications of units in connection to the introduction of ESA 2010 and its new classification criteria. In the meeting it became clear that most changes in sector classification seem to be due to the update of the market/non-market test with the change of base year. INSEE explained that the market/non-market test is performed only during the change of base years, which take place normally every fifth year, and not annually as recommended by Eurostat. The test takes into account the figures for three consecutive

years. Eurostat stressed that there has been a number of important qualitative changes introduced with ESA2010 and asked for a confirmation that those have been properly checked by INSEE in order to ensure the correct classification.

INSEE provided Eurostat, before the meeting, with a draft version of the EDP tables that will be sent in the next October notification based on their national accounts release of May. Eurostat welcomed the opportunity to check the tables and agreed on a number of minor corrections for the October 2014 notification.

### *Findings and conclusions*

**Action Point 3 (previous AP4):** The French Statistical authorities are invited to perform annually the market/non-market test for all public units. The current practice of only performing the test on the occasion of changes of base years should be abandoned. *Deadline: end March 2015.*

**Action Point 4 (previous AP5):** INSEE will take into account ESA 2010 qualitative aspects (control, one to one relationship with government, etc.) when deciding on the sector classification of units. In addition, INSEE will investigate which units could be considered as public holding companies and captive financial institutions, to be classified inside government, comprising also units included in the Monetary and Financial Institutions (MFI) list. *Deadline: end August 2014<sup>5</sup>.*

**Action Point 5 (previous AP10):** The French Statistical authorities will do some corrections in the draft October 2014 EDP notification and EDP related questionnaire tables reviewed during the EDP visit (Other Adjustments in Table 2A of the EDP notification and Table 3 of the EDP related questionnaire). *Deadline: October 2014 notification<sup>6</sup>.*

**Action Point 6 (previous AP14):** The French Statistical authorities will correct the small differences observed in Other accounts receivable linked to military expenditure in Table 7 of the provisional October 2014 EDP related questionnaire and/or the note provided on the state of play on data for receivables and payables. *Deadline: October 2014 notification<sup>7</sup>.*

## **2. Follow-up of the previous EDP dialogue visit**

Eurostat thanked INSEE for the completion of a number of action points from the previous EDP dialogue visit in September 2012. However Eurostat noticed that INSEE has not respected the deadlines agreed for implementing some action points and several action points that had as a deadline March 2013 have only been completed in 2014. The table below lists the action points from the previous visit which were implemented with a substantial delay.

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<sup>5</sup> Action point partially completed. The unit Société de Gestion du Fonds de Garantie de l'Accession Sociale à la propriété (FGAS) will be reclassified in the general government sector in the March 2015 EDP notification.

<sup>6</sup> Action completed.

<sup>7</sup> Action completed.



<i>Action Point</i>	<i>Deadline</i>	<i>Date Implemented</i>
Forecast data to be sent together with actual data	31/03/2014	Not implemented
Reporting of separate amounts of increase/reduction in net shares in EDP table 3D	31/03/2013	30/09/2014
Note on the recording of EU flows. Description of reform foreseen for 2013	31/03/2013	06/2014
Analysis of RFF including alternatives to the current recording	31/03/2013	05/2014
Breakdown of other claims in questionnaire table 8	31/03/2013	11/10/2013
Updated note on Dexia	As soon as new elements are known	06/2014
Note on Crédit Immobilier France	As soon as new elements are known	06/2014

Eurostat understands that during the last year, all available resources at INSEE have been devoted to the implementation of ESA 2010, but expects to see an improvement in the future and that the agreed deadlines for implementing action points will be fully respected. In general, Member States do indeed keep the deadlines agreed.

### **3. Analysis of EDP tables – follow-up of the April 2014 EDP reporting**

#### **3.1. Data for Social Security for year N-1**

##### *Introduction*

The compilation of social security data for the April and October notifications was discussed during the previous visit in September 2012. In the EDP reporting of October 2013, the revision of the social security sector was small compared to April 2013, contrary to what happened between October 2012 and April 2013 notifications. The Social Security is normally the only sub-sector revised between April and October notifications of a given year.

In the last October 2013 EDP notification, Table 3E was revised for the year 2012 because the financial accounts of AGIRC-ARRCO (retraite complémentaire obligatoire) had not been taken into account in April 2013, while non-financial data had been used.

## *Discussion*

During the meeting it was discussed which information is available for the April and October notifications for the social security sub-sector, for which units it is necessary to make estimates by DGTrésor and if there are measures in place to improve the data availability.

INSEE explained the scope of the estimations done by DGTrésor. For April some estimates are needed for some social security units, but they are based on provisional accounting data available. For October the missing data for which estimates are needed corresponds to data for private hospitals included in the social security sub-sector. Most of the revisions correspond to revisions of investment by hospitals, which is not recorded in the provisional accounts, but only in the final accounts, but the estimates now take this into account and the underestimation that occurred in 2012 is unlikely to be observed again. The figures for private hospitals are not directly collected by DGFIP but by a technical agency which does it during the summer. It has been requested to anticipate the data collection in order to have final data available in September to the agency.

Eurostat pointed out the difficulty to analyse Table 2D for year N-1 in the EDP notifications of April and September as only the Working Balance and B9 are provided. Eurostat understand that the remaining lines are estimates and cannot be published, but having access to the estimates would facilitate its analysis of the reported values.

## *Findings and conclusions*

**Action Point 7:** The French statistical authorities will provide to Eurostat, in future April EDP notifications, the internal estimates underlying the net lending/net borrowing of the Social Security sub-sector. *Deadline: end March 2015 onwards.*

**Action Point 8:** The French Statistical authorities will explore the feasibility to use accounting data, instead of provisional estimates, for private hospitals, in the social security subsector in the September EDP notifications. *Deadline: end September 2015.*

### **3.2. Breakdown of other accounts receivable and payable**

#### *Introduction*

Eurostat had requested in the past to INSEE improvements in the reporting of table 5 of the EDP related Questionnaire (Taxes and social contributions: other accounts receivable/payable of general government). The information on stocks of Other accounts receivable/payable and the breakdown by tax of transactions in Other accounts receivable/payable are not reported.

#### *Discussion*

INSEE briefly reported the work that has been carried out to calculate from public accounts the stocks and flows of other accounts receivable/payable in order to be able to identify the amounts that correspond to trade credits and advances. As a consequence, trade credits data have been revised considerably downwards and a symmetric revision upwards has been done in Other accounts receivable/payable excluding trade credits and advances. However, the work to be able to attribute the stocks and flows to specific taxes is not finalised.

## *Findings and conclusions*

**Action Point 9 (previous AP11):** The French Statistical authorities will start reporting data on stocks of Other Accounts Receivable/Payable for total taxes and social contributions in Table 5 of the EDP related questionnaire. Deadline: *October 2014 notification*<sup>8</sup>.

**Action Point 10 (previous AP12):** The French Statistical authorities will continue investigating the feasibility of reporting the breakdown by type of tax of Other Accounts Receivable/Payable in Table 5 of the EDP related questionnaire. *Deadline: A progress report should be provided by end March 2015.*

### **3.3. Trade credits and factoring**

#### *Introduction*

INSEE has not yet implemented the Eurostat decision of 31 July on the reclassification as government debt of some specific operations relating to factoring and restructuring.

#### *Discussion*

INSEE explained that they have been looking at possible sources to estimate the amounts of factoring without recourse.

The first source investigated has been a survey of the Banque de France (Surfi) but currently it does not allow a proper distinction between factoring with and without recourse. Additionally, INSEE has some doubts on the quality of the results obtained in this survey as it shows a higher refinancing rate of trade credits towards the non-financial corporations than to the general government.

The second source investigated has been public accounts, using figures corresponding to *cession Dailly* and *cession de droit commun*. The preliminary results have not been satisfactory as the amounts estimated seem implausibly low.

Taking the above into account, INSEE considered that further research is necessary in order to produce a reasonable estimate of the amounts involved. Eurostat reminded that Member States were given a transitory period, which has now expired, to implement this decision and that other Member States have developed new data sources to estimate these amounts.

INSEE explained the new treatment in national accounts of the CSPE (Contribution au service public de l'électricité) following the agreement between the State and Électricité de France signed in January 2013. The agreement implied the reclassification into government debt (F.42) of the liabilities previously recorded as Other accounts payable (F.89).

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<sup>8</sup> Action completed.

## *Findings and conclusions*

**Action Point 11 (previous AP13):** The French Statistical authorities will continue analysing the available information on factoring without recourse where government is the counterpart sector, with a view to include estimated data on these liabilities in the reported figures. *Deadline: April 2015 notification.*

### **3.4. Statistical discrepancies**

In the April 2014 notification INSEE changed its previous policy of reporting zero statistical discrepancy by allocating it under Other accounts receivable/payable.

Eurostat congratulated INSEE for this improvement, as statistical discrepancies is one of the main elements analysed by Eurostat when checking the quality of EDP figures and which allows detecting potential problems.

## **4. Methodological issues and recording of specific government transactions**

### **4.1. Delimitation of general government sector**

#### **4.1.1. Changes in sector classification due to ESA 2010 and new base year**

Apart from the changes discussed under section 1.2.2, INSEE had provided a comprehensive list of the units that had been reclassified inside/outside the government sector with the change to a new base year. Eurostat pointed out that many units related to education activities had been reclassified outside the government sector and asked for an explanation. INSEE replied that it was the direct consequence of the application of the market/non-market test, probably related to changes in the funding of these units (increase in student fees and a decrease in public funding). The changes were magnified by the fact that the market/non-market test was not thoroughly performed in these units with the introduction of the base year 2005.

#### **4.1.2. Sector classification and allocation of debt of Réseau Ferré de France (RFF)**

##### *Introduction*

The allocation of the debt of RFF had been discussed during the previous EDP visit. Eurostat had asked INSEE to reconsider allocating the debt in government accounts as it was considered that RFF will be unable to repay by itself a large part of its debt.

##### *Discussion*

INSEE informed Eurostat in April 2014 that with the release of national accounts in May 2014, part of the debt of RFF will be imputed as government debt in national accounts. Using the new formula in ESA 2010 for the market/non-market test, RFF will be still considered as a market producer, as sales are still above 50% of costs (including net interest charges). For allocating a part of the total debt of RFF into government, INSEE has developed a model that uses 5 parameters: market revenues, current subsidies, savings (when negative), investments and capital subsidies. At the moment of the creation of RFF three quarters of the debt is imputed in government accounts and from then, the evolution of the parameters of the model determine the amount of debt of RFF

imputed in government accounts. The results obtained are close to the ones obtained previously and independently by the Court of Auditors.

INSEE also informed Eurostat on the planned reform of the French Railway System that is closed to being finalised and which implies a reorganisation of the different actors involved in the French Railway System (RFF, SNCF). According to the analysis of INSEE, the reorganisation should not have an impact on how these units will be treated in national accounts.

Eurostat requested some information on the possible involvement of government in PPP contracts undertaken by RFF (LGV Rhin-Rhône and LGV SEA). INSEE informed that they do not currently have information on these contracts and that they will need to request the contracts in order to analyse government involvement. Eurostat recalled the guidance on PPPs and that the allocation of the risks between government and the other actors (RFF, private partners) is the main criteria to decide on whose balance sheet the assets are recorded has to be analysed.

#### *Findings and conclusions*

**Action Point 12 (previous AP24):** Eurostat takes note, and provisionally agrees, on the method developed and implemented by INSEE to allocate part of the debt of RFF to government.

**Action Point 13 (previous AP6):** The French Statistical authorities will provide a copy of all the PPP contracts of Réseau Ferré de France (RFF). The French Statistical authorities will analyse if there is any direct intervention by government in such contracts, including the issuing of guarantees, which might have an impact for EDP purposes. *Deadline: end August 2014*<sup>9</sup>.

### **4.1.3. Government controlled entities classified outside general government (public corporations)**

#### *Introduction*

INSEE had provided, before the meeting, a new version of the Questionnaire on government controlled units classified outside general government based on ESA 2010. The Questionnaire is a very useful tool for monitoring the register of public entities in Member States and the proper application of the sector classification procedure.

#### *Discussion*

Eurostat explained that, besides the result of the market/non-market tests, there are other factors to consider under ESA 2010 in order to decide on the classification of public controlled entities. The changes related to holding companies and head offices, entities having the features of captive financial institutions or one to one relationship with government were mentioned as examples that deserve special attention.

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<sup>9</sup> Action not completed. PPP contracts of RFF are not publicly available and they were not transmitted to INSEE despite its request.

Eurostat noticed that the list of units in the Questionnaire was not exhaustive, as entities controlled by local government were not included. INSEE replied that only some types of corporations controlled by local government, which have a special legal status, are available in DGFIP databases. Therefore INSEE relies on some other statistical surveys to complete the coverage of the units controlled by the local government.

The Questionnaire based on ESA 2010 provided by INSEE referred to the years 2009-2011 and Eurostat remarked that newer data should be available and that it would have been preferable to use the period 2011-2013 to perform the market/non-market test. In fact, more recent data might have had implications for the classification of units which were close to 50% in the market/non-market test.

Eurostat reviewed the list of units and asked INSEE for clarifications on specific units. A group of them were entities that had substantial amounts of debt but zero or very low number of employees, which would indicate that the entity was purely an accounting shell or a Special Purpose Vehicle. Eurostat asked for the reason that could explain that in the questionnaire a number of units were reported with negative values in the market/non-market tests or with missing values (L) for liabilities, number of employees or the market/non-market test. INSEE was not able to provide an explanation. Eurostat also enquired about the units classified in NACE code 6420 (activities of holding companies) and why they were not classified in the government sector.

Eurostat had analysed, before the meeting, the information available in the websites of the Caisse Nationale des Autoroutes (CNA) and Agence Française de Développement (AFD). From the information available on their sites, Eurostat considered that they presented features associated to captive financial institutions, and as such could be classified in the government sector according to ESA 2010.

Eurostat asked why results of the market/non-market test for RFF were much higher in the Questionnaire than the values provided in the note on RFF provided by INSEE. INSEE explained that the figures used for populating the Questionnaire were taken from business accounts and that the company might have recorded subsidies on production as sales.

### *Findings and conclusions*

**Action Point 14 (previous AP9):** The French Statistical authorities will include public units controlled by local government in the “questionnaire of government controlled entities classified outside government” and analyse their sector classification in the light of ESA 2010 (see also Action Point 4). Particular attention should be devoted to units involved in the provision of social housing services. *Deadline: End December 2014.*

**Action Point 15:** INSEE will analyse the accounts of 2012 and 2013 for units which were slightly above or below 50% in the market/non-market test in 2011. *Deadline: end August 2014<sup>10</sup>.*

**Action Point 16:** INSEE will verify whether there are financial auxiliaries in public units currently classified in the sector Financial Corporations (S.12) and perform the market/non-market test on them. *Deadline: end August 2014<sup>11</sup>.*

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<sup>10</sup> Action completed.

<sup>11</sup> Action completed.

**Action Point 17:** INSEE will investigate the cases for which the market/non-market test yields negative figures in the “questionnaire on government controlled units classified outside general government”. *Deadline: end August 2014*<sup>12</sup>.

**Action Point 18:** INSEE will investigate the reasons for showing missing values (L) for number of employees and the market/non-market test for certain units in the “questionnaire on government controlled units classified outside general government”. *Deadline: end August 2014*<sup>13</sup>.

**Action Point 19:** INSEE will analyse the cases of public holdings either defined as such (NACE category 6420) or for units where the number of employees is very low, in order to ensure its correct classification under ESA 2010. *Deadline: end August 2014*<sup>14</sup>.

**Action Point 20:** INSEE will analyse in detail the unit Caisse Nationale des Autoroutes (CNA) to determine the most adequate classification of this unit according to ESA 2010 rules. Special attention should be made to its autonomy of decision and independence from government. It should also be analysed whether it could be classified as a captive financial institution and whether its liabilities should be allocated to the government sector. *Deadline: end August 2014*<sup>15</sup>.

**Action Point 21:** INSEE will look in detail at the unit Agence Française de Développement (AFD) with special focus on subsidies and zero interest loans granted, on operations undertaken on behalf of government and on governance issues including decision making processes, independence from government and autonomy of decisions. *Deadline: end August 2014*<sup>16</sup>.

**Action Point 22:** INSEE will provide a list of all operations undertaken by public units which are at present re-routed in the government sector in national accounts and see whether further operations should be re-routed in government accounts following ESA 2010 rules. *Deadline: end August 2014*<sup>17</sup>.

**Action Point 23:** INSEE will investigate possible cases where companies have recorded subsidies on production received from government as sales, affecting the results of the market/non-market test in the “questionnaire on government controlled units classified outside general government”. *Deadline: end August 2014*<sup>18</sup>.

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<sup>12</sup> Action completed.

<sup>13</sup> Action completed.

<sup>14</sup> Action completed.

<sup>15</sup> Action completed.

<sup>16</sup> Action partially completed on 12 December 2014.

<sup>17</sup> Action completed.

<sup>18</sup> Action completed.

#### **4.1.4. Government and the financial sector: sector classification and operations**

##### *Introduction*

ESA 2010 has introduced some changes compared to ESA 95 regarding the criteria for the sector classification of some units and the role played by the list of Monetary and Financial Institutions (MFI) maintained by the European Central Bank (ECB) as the main criteria for the classification of units in sector S12.

##### *Discussion*

The current status of Dexia Crédit Local (DCL), the only major remaining part of the previous Dexia group, was reviewed. During 2013, DCL continued its orderly resolution plan and most of its subsidiaries were sold. The remaining assets are not foreseen to be sold. INSEE considered that the remaining assets should not be considered as bad assets and therefore the unit should not be considered as a defeasance structure. DCL benefits from a guarantee from the State that is remunerated. DCL still has a banking license and is still included in the MFI list but can only provide new loans under very specific circumstances and in 2014 only. In order to keep providing funding to the local public sector a new institution has been created: Société de Financement Local (SFIL), the French State, Caisse des dépôts et consignations and La Banque Postale being its shareholders. Concerning the Dexia group, the French (44,4%) and Belgian (50,02%) governments are the main shareholders and it is therefore very important to ensure a consistent recording of Dexia in national accounts in both countries. Eurostat expressed its view that the classification of Dexia should be analysed in more detail, taking into account all the above mentioned aspects.

Crédit Immobilier de France (CIF) is a mortgage lender which specialised in providing loans to low income households in France. CIF used to finance itself almost exclusively on the wholesale market by means of covered bonds. In 2011 and 2012, it faced serious problems to refinance itself on the market and the French government had to provide a remunerated guarantee. The loan books will be held to maturity until 2030 and then CIF will cease its operations. Although CIF is foreseen to incur losses during the next years, it has enough own funds to cover the losses, and the assets are not considered as problematic because they have a relative low default rate on their loans.

The Fonds de Garantie des Dépôts et de Résolution (FGDR) is classified as a financial auxiliary (S.126) in French national accounts. FGDR is both a deposit and resolution fund. The FGDR is a private body created by law 99-235 of 25 June 1999 relating to savings and financial security. It is headed by a Management Board, acting under the control of Supervisory Board comprised of representatives of French banks. The amount of resources available to the FGDR is set by the French government and is paid by the members of the FGDR. Eurostat considered that FGDR seems to have very limited autonomy of decision and operates very much as an auto-pilot, in the sense that the daily management of the unit is defined through legislation and that it does not exercise any role in the decision-making process related to the resources of the fund. Eurostat commented that due to the new rules in ESA2010, several Member States are reclassifying their national bank resolution funds in the government sector and that the new version of the MGDD will provide additional guidance.



## *Findings and conclusions*

**Action Point 24 (previous AP25):** INSEE will provide Eurostat with a note on Dexia, analysing its sector classification and all other possible accounting issues. *Deadline: end December 2014.*

**Action Point 25 (previous AP26):** INSEE will provide Eurostat with a note on Crédit Immobilier de France (CIF), analysing the sector classification and all other possible accounting issues. *Deadline: end August 2014<sup>19</sup>.*

**Action Point 26 (previous AP27):** INSEE will provide Eurostat with a note on the sector classification of Fonds de Garantie des Dépôts et de Résolution (FGDR), taking into account the forthcoming changes linked to the new EU legislation regarding resolution funds and deposit protection schemes and the methodological discussion which took place recently on this issue at the Task Force on EDP methodological issues. *Deadline: end August 2014<sup>20</sup>.*

### **4.2. Implementation of accrual principle**

#### **4.2.1. Taxes and social contributions**

No particular issues were raised.

#### **4.2.2. Interest**

INSEE had provided before the meeting a table showing the calculation of accrued interests in EDP tables 2 and 3. INSEE explained the need to make an adjustment to the amounts recorded in the working balance to accrue interests for inflation linked bonds.

#### **4.2.3. EU Flows**

The recording of EU flows in national accounts had been discussed during the previous mission. EU flows were until the first of January 2014 centralised in an Agency, which disbursed the EU flows. The regions of Corsica and Alsace were an exception in the general system and were receiving directly some EU flows. INSEE explained that, from the first of January 2014, all the regions will start receiving EU funds in relation to FEDER and ESF directly, instead of being received by the State and then transferred to the regions. INSEE explained that they will be able to trace those funds through a specific code and that they will be neutralised in government accounts, similarly to what is done with the EU funds received directly by the State. Therefore, the change will not have any impact on net lending/net borrowing.

#### **4.2.4. Military expenditure**

France has some important producers of military equipment and therefore they are involved in leasing contracts of military equipment with foreign governments. INSEE confirmed that for leasing arrangements of military equipment, the guidance of the MGDD is followed, stating that leases of military equipment should always be considered as financial leases, and therefore recorded as an acquisition of the equipment

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<sup>19</sup> Action completed.

<sup>20</sup> Action completed. The FGDR will be reclassified in the government sector in the April 2015 notification.

by the government (as lessee). The same treatment should be applied when the government is the lessor.

### **4.3. Recording of specific government transactions**

#### **4.3.1. Guarantees**

##### *Introduction*

Before the visit, INSEE provided a list of outstanding government guarantees, guarantee calls and repayments by individual companies in the period 2010-2013. According to this information, government is not making regular payments; and there was only one guarantee call in 2011.

##### *Discussion*

Eurostat asked about the existence of standardised guarantees, for which ESA 2010 requires a new recording with an effect on government net lending/net borrowing. INSEE explained that government was not directly providing standardised guarantees but some public units classified outside general government might be doing it, like Société de Gestion du Fonds de Garantie de l'Accession Sociale à la propriété (FGAS).

##### *Findings and conclusions*

**Action Point 27 (previous AP28):** INSEE will provide a note on the recording of standardised guarantees, analysing whether they exist in France and whether they are provided by financial corporations on behalf of government. *Deadline: end August 2014*<sup>21</sup>.

**Action Point 28 (previous AP29):** INSEE will provide a methodological note on the classification of the unit Société de Gestion du Fonds de Garantie de l'Accession Sociale à la propriété, which provides services to banks which distribute special property mortgages and which debt benefits from an important government guarantee. *Deadline: end August 2014*<sup>22</sup>.

#### **4.3.2. Debt assumptions, debt cancellations and debt write-offs**

No particular issues were raised.

#### **4.3.3. Capital injections in public corporations**

##### *Introduction*

Prior to the visit, INSEE provided information on capital injections in the period 2010-2013. According to INSEE, all capital injections were considered and recorded as financial transactions, with the exception of the capital injection into DEXIA in 2012.

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<sup>21</sup> Action completed.

<sup>22</sup> Action completed.

## *Discussion*

INSEE had prepared a note on the holdings of the Local Government in equities which in 2013 reached 2 bn € of which 1,1 bn€ correspond to municipalities, 411 m€ to Départements and 406 m€ to the regions. Equity injections in 2013 by the Local Government amounted to 260 m€

Eurostat asked about the successive equity injections in La Poste in the years 2011, 2012 and 2013. INSEE explained that La Poste was a profitable company that regularly paid dividends. Eurostat also noted that in France there seems to be less capital transfers to public corporations than in other EU countries. INSEE confirmed that, as a general policy, there are indeed few capital transfers to public corporations.

## *Findings and conclusions*

**Action Point 29 (previous AP30):** The French Statistical authorities will provide an exhaustive list of all capital injections undertaken by central government into public corporations in the year 2013. *Deadline: August 2014*<sup>23</sup>.

### **4.3.4. Dividends and superdividends**

No particular issues were raised.

### **4.3.5. Financial derivatives**

INSEE explained that local government can only operate with financial derivatives with the purpose of hedging a debt based on variable interest rates and that from public accounts it is not possible to isolate flows linked to derivatives. In any case, INSEE stressed that the amounts are estimated to be very small.

### **4.3.6. PPPs**

Eurostat thanked INSEE for all the work carried out in the last years to obtain information on PPPs at the local level and for providing a list of all PPPs. INSEE informed that in the future they will improve the filling of Table 11 of the EDP Related Questionnaire: Financial data and national accounts information on PPPs.

### **4.3.7. Others: emission trading permits, privatization, sale and leaseback, securitisation**

INSEE mentioned that they have some doubts on Eurostat guidance to record flows related to emission permits. Eurostat encouraged INSEE to send Eurostat specific questions. Eurostat asked about the information available at the level of local government of sale and leaseback operations. INSEE replied that there might be cases of sale and lease back at the level of Local Government but that it would imply a big effort to investigate.

No particular issues were discussed regarding privatization and securitisation.

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<sup>23</sup> Action completed.

## **5. Other issues**

### **5.1. ESA95 transmission programme (tables 2, 6, 7, 11, 25, 27 and 28)**

Eurostat pointed out that the amounts reported in property income payable (D.4pay) show an irregular quarterly profile and wondered if they correspond to accrued data. INSEE informed that they are based on monthly accrued data. Eurostat stressed the importance to ensure the consistency of tables 25 and 27.

### **5.2. Compliance with Directive 2011/85**

Eurostat recalled that France does not fully comply with this directive, regarding the publication of monthly fiscal data for central government, state government and social security and quarterly fiscal data for the local government sub-sector. INSEE replied that the responsible is the Ministry of Finance and that they have been duly informed. Monthly central state budgetary data is being published since 2007 and quarterly fiscal data for local government since November 2014.

### **5.3. Any other business**

No particular issues were raised.

## **Annex**

### **List of participants**

#### **INSEE:**

Ronan Mahieu  
Jacques Magniez  
Etienne Debauche  
Sylvain Larrieu  
Yacine Boughazi

#### **Directorate General for Public Finance (DGFIP):**

Patrick Augeraud  
Julien Valentino

#### **Directorate general of the Treasury (DGTrésor, June 25<sup>th</sup> only):**

Rémy Mathieu

#### **Banque de France :**

Franck Sedillot

#### **Eurostat:**

Lena Frej Ohlsson  
Luca Ascoli  
Denis Besnard  
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#### **European Central Bank (ECB):**

Patrick Grussenmeyer

# **Eurostat EDP standard dialogue visit to France**

**25-26 June 2014**

*Starting on 25 June 2014 at 10:30*

## **Agenda**

### **1. Statistical institutional issues**

#### **1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation**

1.1.1. Institutional cooperation and EDP processes

1.1.2. Quality management framework

1.1.3. Audit and internal control arrangements

#### **1.2. Data sources and revision policy**

1.2.1. EDP Inventory

1.2.2. Changes in data sources linked to the change of base year and introduction of ESA 2010

### **2. Follow-up of the previous EDP dialogue visit**

### **3. Analysis of EDP tables – follow up of the April 2014 EDP reporting**

#### **3.1. Data for social security for year N-1**

#### **3.2. Breakdown of other accounts receivable and payable**

#### **3.3. Trade credits and factoring**

#### **3.4. Statistical discrepancies**

### **4. Methodological issues and recording of specific government transactions**

#### **4.1. Delimitation of general government sector**

4.1.1. Changes in sector classification due to ESA 2010 and new base year

4.1.2. Sector classification and allocation of debt of RFF

4.1.3. Government controlled entities classified outside general government (public corporations)

4.1.4. Government and the financial sector: sector classification and operations

#### **4.2. Implementation of accrual principle**

4.2.1. Taxes and social contributions

4.2.2. Interest

4.2.3. EU flows

4.2.4. Military Expenditure

### **4.3. Recording of specific government transactions**

- 4.3.1. Guarantees
- 4.3.2. Debt assumptions, debt cancellations and debt write-offs
- 4.3.3. Capital injections in public corporations
- 4.3.4. Dividends, super dividends
- 4.3.5. Financial derivatives
- 4.3.6. PPPs
- 4.3.7. Others: emission trading permits, privatization, sale and leaseback, securitisation

### **5. Other issues**

- 5.1. ESA95 Transmission Programme (tables 2, 6, 7, 9, 11, 25, 27 and 28)**
- 5.2. Compliance with Directive 2011/85**
- 5.3. Any other business**