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**Subject: Classification of entities guidance request
EDEKT S.A.**

Reference: Your letter Γ1-1242 of 27/10/2015

Dear Ms. Stravropoulou,

Thank you for the letter requesting Eurostat opinion on the sector classification of EDEKT S.A. After examining your request, please find below Eurostat's view on the sectorization of the above-mentioned unit in national accounts.

1. THE ACCOUNTING ISSUE FOR WHICH A CLARIFICATION IS REQUESTED

The issue to be analysed is the sector classification of EDEKT S.A., a unit providing asset management and consulting services to the Greek public pension funds.

ELSTAT has provided a note with its analysis on this case as well as the figures for the quantitative market-non-market criterion (the so-called 50 % test).

In its note, ELSTAT considers that EDEKT SA is a public market institutional unit and that it should be classified as a financial auxiliary (S.126).

2. METHODOLOGICAL ANALYSIS

2.1. Accounting provisions

Institutional units and sectors are defined in ESA2010 chapter 2. Besides, the market/non-market delineation and the market/non-market test are defined in ESA2010 chapters 3 and 20 (20.19-20.31).

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2.2. Description of the case

EDEKT was created in 1999. Since its creation the unit has been the object of several changes in relation to its activities and its shareholding. The relevant laws in relation to this unit are the following: L. 2190/1920 (General Law for SAs), L. 2768/1999, L. 3586/2007, MD 3137/0025/2003, L. 3863/2010 (chapter 8, art. 45-52), L. 4261/2014 (art. 8).

EDEKT S.A. operates mainly as manager of specific portfolio investment (mainly shares) of government social security funds (SSFs). It provides also other services to social security funds, such as consulting services, investment advice, studies and analyses and advice on selection of managers. EDEKT has an official licence as a regular investment manager from the Hellenic Capital Market Commission. The revenue of EDEKT comes mainly from the fees paid by the SSFs related to the management of financial assets.

Concerning the share capital ownership, 95% of the shares are held by government (90% by the main social security funds and 5% by the Greek State). The remaining 5% is held by the OTE¹ "Union". OTE was formerly a state-owned monopoly, however, its privatization started in 1996. Since 2011, the stake of the Hellenic Republic in OTE is reduced to 10% of the share capital.

The management board has a total of nine members. According to ELSTAT's analysis it seems that, out of the nine board members, seven are appointed from the SSFs, one from the Greek State (from the Ministry of Labor or from the Ministry of Finance) and one from the OTE Union. It is not clear whether the eight board members appointed by the SSFs and the Greek State are government officials (including SSFs officials) or not.

According to the information provided by ELSTAT, the ratio of sales to production costs is well above 50% for all the years in the period 2001-2013 and the unit receives no grants from the ordinary budget.

2.3. Eurostat's analysis

a) *Institutional unit*

The fact that the unit has a set of accounts, engages in financial activities and may acquire financial assets and incur liabilities, is not enough by itself to conclude on the autonomy of decision of the unit. A thorough check of the statute, not yet available to Eurostat, is essential in order to conclude on this point.

However, if, out of the nine members of the board, eight were appointed among the staff of government units (SSFs and Central Government), this could be enough to conclude that the unit would not have autonomy of decision from government and that it would have to be classified in the government sector.

This point (being an institutional unit) is however not essential at this stage, as Eurostat analysis would in any case point out to a classification of EDEKT inside government, as it will be shown below.

¹ Hellenic Telecommunications Organization S.A.

b) Control

Government owns 95% of the shares and appoints eight out of nine members of the board. EDEKT is therefore controlled by government.

c) Market/ non-market nature

If it was assumed that EDEKT is a public institutional unit, the next step would be to assess its market or non-market nature.

In general, in order to assess the market nature of the unit, both set of criteria, quantitative and qualitative, needs to be fulfilled at the same time. The quantitative criteria for EDEKT would seem to be fulfilled, as, according to ELSTAT, the ratio of sales to production costs is above 50% for the period 2001-2013.

The qualitative criteria defined in ESA2010 20.24-20.28 need however to be also considered for the analysis of the sector classification of EDEKT in case it would be an institutional unit. The services provided by this unit seem in line with those provided by financial auxiliaries as defined in ESA 2010 2.96, because EDEKT acts merely as a manager (buying and selling shares in the name of others), and is not exposing itself to risk (by buying and selling shares on its own behalf). However, it should be noted that 95% of EDEKT is directly owned by government and the unit provides services mostly to government². Thus, based on the qualitative criteria, the classification of the entity as a financial auxiliary (S.126) is not possible.

First, assuming that the portfolio management services had the nature of ancillary services provided to SSFs, and given that the sales to non-government units appear to be negligible, the unit would have the features of an artificial subsidiary (ESA2010 2.24-25) or of an ancillary unit as defined in ESA2010 20.24. Such units are not treated as separate institutional units, but as integral part of the parent unit (which in this case is government).

Second, assuming that the services provided by EDEKT did not have the nature of ancillary services, it is the understanding of Eurostat that EDEKT is the only supplier of these services (management of portfolio investment) to SSFs³, which in addition have been attributed to EDEKT by legislation and without a tendering procedure. In this case, competition with private producers does not exist (there are no private units providing these kind of services to SSF and EDEKT has been appointed without a tendering procedure). This would also point to EDEKT as a being a non-market producer (see ESA2010 20.25-28).

Finally, even if it would be assumed that the sales to non-government units were of any significance, EDEKT being the only supplier of its services to SSF with no tendering process, in order to be considered a market producer, the sales of EDEKT to non-government units would need to be more than half of its total output (see ESA2010 20.27). The breakdown of the sales of EDEKT by government and non-government units is not available to Eurostat. However, on the basis of the information available and given that

² According to ELSTAT, financial services are provided also to some non-government units. However, government is the preponderant client.

³ The Common Capital manages deposits and bonds of SSFs, but not shares.

SSFs are the preponderant client; it seems likely that sales to non-government units would be lower than half of the total output of the unit.

3. CONCLUSION

Some relevant information necessary for a complete analysis of this case is missing at this stage. This concerns for instance the statute of EDEKT (especially as regards the appointment and the tasks of the Board of Directors) and the exact proportion of sales to government and non-government units.

It is not clear yet whether the unit would meet the criteria of an institutional unit. Besides, the unit does not seem to fulfil the qualitative criteria. Therefore, at this stage, EDEKT cannot be considered as a market institutional unit.

Based on the information available, it seems clear that the unit is publicly controlled and that most of its output is sold to government. The unit seems to be the only provider of this kind of services to SSF, which have been attributed by legislation and not by a tendering process.

Based on the above, Eurostat considers that:

- EDEKT could lack the elements for being considered an institutional unit. In such a case, it should be classified in the general government sector (S.13), given the fact that it is government controlled.
- Even if it would be confirmed that EDEK is an institutional unit; it should be classified in the general government sector anyway, as the sales to non-government units do not represent more than half of the total output of the unit.

Based on all the elements above, Eurostat considers that EDEKT should be reclassified in the general government sector with immediate effects.

4. PROCEDURE

This preliminary view of Eurostat is based on the information provided by the Greek authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information currently available and the assumptions made above, Eurostat reserves the right to reconsider its view.

In this context, we would like to remind you that Eurostat is committed to adopt a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009 and the note on ex-ante advice. Eurostat therefore publishes all official methodological advice (ex-ante and ex-post) given to Member States on its website. In case you have objections to the publication of this specific case, we would appreciate if you would let Eurostat know *before 4 December 2015*.

Yours sincerely,

(e-Signed)

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Director