Subject: Classification of entities guidance request
Hellenic Deposit and Investment Guarantee Fund (HDIGF/TEKE)

Reference: Your letter Γ1-1443 of 22/12/2015

Dear Ms. Stavropoulou,

Thank you for your letter requesting Eurostat’s opinion on the sector classification of the Hellenic Deposit and Investment Guarantee Fund, hereinafter the "HDIGF". In accordance with Council Regulation (EC) No 479/2009 article 10, paragraph 1, after examining your request, please find below Eurostat's view on the sectorisation of the above-mentioned unit in the light of ESA 2010.

1. THE ACCOUNTING ISSUE FOR WHICH A CLARIFICATION IS REQUESTED

The issue to be analysed is the sector classification of the HDIGF, also referred to as TEKE, which is the operator of the deposit guarantee and investment compensation schemes as well as of the resolution scheme in Greece.

Together with the request for advice, ELSTAT provided a note with its analysis of this case concluding that the HDIGF should be classified in the general government sector in the framework of ESA 2010.

The sector classification of this entity was discussed in the Eurostat EDP dialogue visits to Greece of September 2015¹, February 2016² and March 2016³.

¹ See action point 25.
² See action point 19.

Commission européenne, 2920 Luxembourg, LUXEMBOURG - Tel. +352 4301-1
Office: BECH E4/831 - Tel. direct line +352 4301-35402 - Fax +352 4301-35199

http://ec.europa.eu/eurostat
eduardo.barredo-capelot@ec.europa.eu
The HDIGF was established by Law 3746/2009. Several amendments in Greek legislation\(^4\) took place in the past year, notably in order to implement the EU Directives on deposit guarantee schemes and on banking resolution. The amendments undertaken have implications in the legal framework governing the HDIGF. The HDIGF is currently governed by Law 4370/2016.

Eurostat had access to an unofficial English translation of Law 3746/2009 including the amendments up to July 2015. No English translation has been provided for the Laws approved since then, which are available to Eurostat only in Greek.

**Description of the case**

The HDIGF is a legal entity of private law, established\(^5\) in 2009 by Law 3746/2009, enacted by the President of the Hellenic Republic and passed by the Greek Parliament. It is supervised by the Ministry of Finance of the Hellenic Republic (hereinafter, the MoF). The purpose of the HDIGF is the following:

- to pay compensation to depositors in the event that their bank is unable to repay the deposits;
- to pay compensation to investors in the event that their investment firm is unable to fulfil its obligations;
- to finance resolution measures of credit institutions.\(^6\)

It operates three separate Schemes:

- a Deposit Cover Scheme (hereinafter “DCS”) for the protection of depositors;
- an Investment Cover Scheme (hereinafter “ICS”), for the protection of investors;
- a Resolution Scheme (hereinafter “RS”), for the financing of resolution measures.

The assets of the DCS, the ICS and the RS are distinct from each other and constitute independent groups of assets, or ‘segregated’ compartments, each of them used exclusively for the fulfilment of the purposes it serves.

The HDIGF is governed by a seven-member Board appointed and dismissed by the Minister of Finance. The Chairperson is selected from among the Deputy Governors of the Bank of Greece (hereinafter, BoG). The other six members are selected from the Ministry of Finance (1 member), the BoG (3 members) and the Hellenic Bank Association (2 members). The same Board governs the three separate schemes of the HDIGF.

---

\(^3\) See action points 7 and 10.


\(^5\) The HDIGF is the successor to the Hellenic Deposit Guarantee Fund, which was established by Laws 2324/1995 and 2832/2000.

\(^6\) This task was granted to the HDIGF in 2011. Between 2012 and the beginning of 2015 the financing of resolution measures was performed by the Hellenic Financial Stability Fund (HFSF) on behalf of the HDIGF (see section below on the RS).
The operational structure of the HDIGF shall be determined by decision of the Minister of Finance. Given that the ceasing of activities of the HDIGF is not among the competences of the Board of the entity, it is assumed that the ceasing of activity will follow a government decision and the enforcement of subsequent legislation.

The law does not explicitly authorise the BoG to provide financing to the HDIGF.

The specific features of the three schemes comprising the HDIGF are described below.

Deposit Cover Scheme (DCS)

The resources of the DCS of the HDIGF are comprised of:

- Compulsory contributions levied from the participating credit institutions. These include initial contributions, regular annual contributions, and supplementary (extraordinary) contributions;
- Revenue deriving from managing the assets of the scheme;
- Proceeds from the liquidation of claims held by the scheme, as a result of prior interventions.

The basis for the calculation and the payment of contributions is defined in the legislation. The Regulations foresee caps for certain contributions¹ and some situations under which the contributions may be suspended². The detailed methodology for calculating and allocating the annual contribution are determined by decision of the Ministry of Finance in agreement with the BoG. The legislation provides also some restrictions for the placement of the available funds.

Should the funds available to the DCS not suffice to cover deposit compensation claims, the Board of the HDIGF may decide to borrow the necessary funds from the credit institutions participating in the scheme or from other sources. From the legislation, it seems that these loans could be guaranteed by the Greek State.

Investment Cover Scheme (ICS)

As in the previous case, the resources of the ICS of the HDIGF are comprised of compulsory contributions (initial, regular annual, and supplementary), revenue from managing the assets of the scheme and proceeds from liquidation of claims held by the scheme.

The initial contribution is fixed in the law, as well as some caps for the supplementary contributions. The criteria for calculating and allocating the annual contribution are specified by decision of the Ministry of Finance, following a recommendation by the BoG and the Capital Market Commission.

Should the funds available to the ICS not suffice to cover compensation claims, the Board of the HDIGF may decide to borrow the necessary funds from the institutions participating in the scheme or from other sources.

¹ Extraordinary contributions shall not exceed 0.5% of the covered deposits of a credit institution.
² For instance, if extraordinary contributions would put at risk the solvency or liquidity of a credit institution.
Resolution scheme (RS)

The tasks of the HDIGF were extended in 2011, with the inclusion of the Resolution Scheme (RS) for financing resolution measures of credit institutions.

Law 4335/2015 implementing the BRRD\(^9\) designated the BoG as the national resolution authority for credit institutions and the Hellenic Capital Markets Commission as the national resolution authority for investment firms. According to this law, however, the prior consent of the MoF is needed before taking resolution actions in a broad range of circumstances. This gives the MoF an effective veto powers on resolution actions.

The RS is funded by compulsory contributions paid by the participating institutions. The amount of contributions and the method of payment are determined by a decision of the MoF, following a recommendation of the BoG. The level of contributions is calculated on the basis of a percentage of the equity and liabilities of each institution, which is set in the law. The percentage can be modified by a decision of the MoF, following a recommendation of the BoG.

In case of activation of the RS, the claims per beneficiary are be subject to a limit, defined by a decision of the MoF.

In the event that the funds of the RS would be insufficient, supplementary contributions are levied or the RS borrows the necessary funds from credit institutions (or a combination of both). The loans can be guaranteed by the Greek State.

The law foresees that the initial funds required for the RS can alternatively be provided in the form of a loan by the Greek State or by other governmental entities of public or private law, with the guarantee of the Greek State. The legislation also provides temporary loans from the DCS to the RS of the HDIGF. The terms for the provision of such loans and guarantees shall be determined by a decision of the MoF.

The possibility foreseen in the law to use the funds accumulated by the DCS for financing the Resolution Scheme (RS) has materialised in practice. In 2011, following a Decision of the Minister of Finance (and not of the Board of the HDIGF, according to Eurostat understanding), the RS received a loan from the DCS in an amount of EUR 1,312 mn. The Decision stipulated that the RS should repay the loan using its available resources arising from contributions and liquidation proceeds.

The law further states that, in some cases\(^10\) where the available amounts to the RS would not be sufficient, the HFSF should grant a direct loan to the RS of the HDIGF by decision of the MoF upon recommendation of the BoG.

In addition, the law foresees that, for a limited period after the creation of the RS, the Hellenic Financial Stability Fund (HFSF, an entity classified in the government sector) should contribute the amount that the RS would have contributed for the application of resolution measures as defined in articles 63D and E of Law 3601/2007. As counterpart, the HFSF would acquire the corresponding claim. The obligation of the HFSF to finance

---

\(^9\) Bank Recovery and Resolution Directive

\(^10\) If contributions of Article 13\(^a\) of Law 3746/2009 are not sufficient to cover the difference described in Articles 141 and 142 of Law 4261/2014.
resolution measures on behalf of the Resolution Scheme of the HDIGF was extended from early 2012 until 31 December 2014.

2. METHODOLOGICAL ANALYSIS

2.1. Accounting provisions

Institutional units and groupings of units are defined in ESA 2010 chapter 2. The general government sector is further defined in ESA 2010 chapter 20. Moreover, chapter I.5 of the MGDD deals with the sector classification of units engaged in financial activities and has a specific section for so-called ‘protection funds’.

2.2. Eurostat’s analysis

The HDIGF provides coverage for depositors and investors and supports institutions in distress by financing different kinds of measures. As such, it is to be considered a protection fund, as defined in the MGDD chapter I.5.

The entity was set up by government by enacting legislation in the context of the conduct public policies. It is a statutory protection fund in the sense that it is established and regulated by law and not by contractual agreement. As such, it would likely readily meet the criteria of being a ‘government unit’ as per ESA 2010 20.06 to 20.12.

Analysing the sectorisation of the HDIGF by using the traditional decision tree\textsuperscript{11} for producers that operate under the influence of government (other units of general government) would be rather complex and not necessarily appropriate. It is useful instead, in this case, to take stock of some of the general provisions defining ‘government units’ (how such units are established, what their main function is and the nature of their activities).

The analysis below is scheduled in three parts:

(a) a section recalling the specificity of ‘protection funds’ in general, the nature of their activities and the rules pertaining to them;

(b) the general analysis of the Greek scheme resulting from transposing the EU Directives;

(c) the specific analysis of the different steps of the decision tree for the HDIGF.

\textbf{2.2.a) General analysis of statutory protection funds}

Public policy purpose of protection funds and nature of their activity

ESA 2010 20.06-20.07 state that:

- "government units are legal entities established by political process which have legislative, judicial or executive authority over other institutional units within a given area. Their principal function is to provide goods and services to the community and to households on a non-market basis and to redistribute income and wealth" and that

\textsuperscript{11} Is the HDIGF and institutional unit?
- Who controls it?
- Does it carry out a market or non-market activity?
"a government unit usually has the authority to raise fund through compulsory transfers from other institutional units".

Compliance with the EU Directives on deposit guarantee\textsuperscript{12} and banking resolution\textsuperscript{13} is an obligation for EU Member States and the transposition into national legislation is normally the responsibility of the respective governments. As a result, most EU governments have established protection funds by enacting specific legislation. Such protection funds created by government by enacting specific legislation are referred to as "statutory" or "government sponsored".

Given that such statutory protection funds are set up by governments for financial stability purpose and that it is the obligation of MS to have in place such arrangements to which participation is compulsory, it could be concluded that their function is to pursue public policies. They are akin to semi-autonomous government agencies that conduct what are essentially government policies. Moreover, the legislations enacted foresee the funding of these entities by raising funds through compulsory transfers from financial corporations.

Regarding resolution, it is worth mentioning that resolution authorities can, in the name of financial stability, decide to cancel part or whole of the claims held by creditors, outside normal liquidation procedures. Such extraordinary prerogatives are quintessentially government in nature. The resolution authority can be conceived as a liquidation judge and as such within the remit of government, or alternatively be considered a redistributor of wealth, and again an activity quintessentially governmental. In fact, in countries where government is not the resolution authority itself, government will normally have to approve the decisions taken by the resolution authority. The related resolution fund would provide the financial resources needed to undertake the measures as decided by the resolution authority. In this respect, it could be considered that such entities have as a main feature the task to redistribute income and wealth. The fact – often alleged – that EU resolution mechanisms were designed to ensure financial stability without any more putting at risk taxpayers' resources does not preclude classifying resolution entities inside government together with the assets they maintain. Indeed, liabilities of general government are not necessarily indirect obligations of taxpayers, as long as the government entity does not benefit from statutory or contractual guarantees.

Concerning government-sponsored deposit guarantee schemes, there is often a legitimate doubt regarding their genuine activity or production, and who is the effective purchaser of the service deemed to be provided. In general, when no purchaser or beneficiary can be identified, this may point at a collective consumption (by government). Although sometimes perceived as an insurance activity, one may wonder if the risk covered by deposit guarantee schemes does not, in fact, belong to the ‘uninsurable risk’ category, or, alternatively, to non-market insurance, in the absence of competition. Indeed, the fact that fees are considered as taxes (MGDD chapter I.5 paragraph 14) may suggest that guarantee funds are not selling services, at least, to insured banks.

Taking into account that units should be classified inside government according to the economic nature of their activity, it could be concluded that protection funds sponsored by government should be classified in the government sector by default.

\textsuperscript{12} Directive 2014/49/EU

\textsuperscript{13} Directive 2014/59/EU
The arguments above are mostly relevant for entities created or sponsored by government. In contrast to this, guarantee funds that would be voluntarily organised by banks or by private investors, or foreign insurers or other foreign specialised parties, outside the sponsorship of government, would be treated differently, and their fees could be considered as payments for a market service.

Notwithstanding the above, the usual criteria for assessing the sector classification of entities can be analysed as well, for cross checking purposes. For these entities, the difficulty would mainly be to determine whether they can be considered institutional units and, in particular, whether they have autonomy of decision.

**Autonomy of decision**

As pointed out in the MGDD chapter I.5, protection funds (at least those sponsored by government and regulated by law) often act much like "auto-pilots", in particular with respect to the ‘activation decision’, in a manner that could challenge the autonomy of decision required to recognise these entities as institutional units under ESA 2010.

According to the MGDD, one crucial point is to assess whether the governing body of such entities is entitled to take relevant decisions, or whether relevant decisions would have to be confirmed by another authority (such as the MoF or the Central Bank).

The MGDD indicates that while the ‘activation decision’ is mainly automatic – as concerns guarantee funds – important criteria to judge the autonomy of decision are the funding decisions: first, the fixing of regular contributions; second, and crucially, the decision on exceptional funding: exceptional contributions, grants and/or loans.

The EU Directives for deposit guarantee and for banking resolution already narrowly define the framework, the funding and the main activities for the related protection funds, seeking harmonisation across MS. This general framework is then transposed into national legislation, normally narrowing further the conditions under which these entities operate.

### 2.2.b) Government sponsored protection fund in Greece (HDIGF)

The Greek legislation concerning the HDIGF has been amended a number of times. The most recent amendments aim at complying with the requirements of the EU Directives on deposit guarantee and banking resolution.

The following issues relevant for the HDIGF are determined by the EU Directives and the Greek legislations transposing such Directives:

- The resources of the fund, including the basis for calculating the regular contributions, the thresholds to be reached, the cap for supplementary contributions and the circumstances in which contributions may be reduced or suspended;
- The placement of available funds;
- The activation modalities of the fund;
- The coverage of depositors and the mechanism and deadlines for payment.

Although the Board of the HDIGF seems to intervene in some decisions (for instance, arranging for borrowing in the case of insufficient resources), its room of manoeuvre appears *de facto* very limited, either because the general framework is defined through the legislation (as described above) or because, in practice, the most relevant decisions need to
be made or confirmed by the MoF. Indeed, the following are established by decision of the MoF:

- the operational structure of the HDIGF;
- the detailed calculation and individual allocation of the annual contribution for the DCS, the ICS and the RS of the HDIGF;
- the limit for the claims per beneficiary in case of activation of the RS;
- the provision of initial funds to the RS in the form of a loan granted by the Greek State, by the Deposit Cover Scheme of the HDIGF, or by governmental entities of public or private law, with the guarantee of the Greek State. The terms for the provision of such loan and guarantees also appear determined by decision of the MoF, as it was the case in 2011, when a loan was provided by the DCS to the RS of the HDIGF.

From the above, it can be concluded that the Board of the HDIGF has de facto little right to make decisions with substantial impact and that such decisions will normally be either automatic or determined by the MoF, which would be deemed to be the entity directly controlling the HDIGF.

In addition, it should be noted that the law does not explicitly authorise the BoG to provide financing to the HDIGF. Eurostat takes also note that according to the Opinion of the ECB concerning the draft for transposing the resolution directive into Greek law, the provision of such financing would constitute a government task and such financing by the BoG would breach the prohibition of monetary financing under article 123 of the Treaty. Such restriction posed to financing by the BoG in case of emergency financing needs makes it implausible for it to be considered as the ‘parent’ entity of the HDIGF.

Concerning the extraordinary resources in case of insufficient funds, it is possible that such resources would be provided with the guarantee of the Greek State or by the Greek State.

Concerning the DCS, Article 10.9 of the EU Directive for deposit guarantee schemes forces MS to have in place adequate alternative funding arrangements to enable them to obtain short-term funding to meet claims against those deposit guarantee schemes. Such alternative funding is also not to be provided by the BoG. In case that funding would not be available from credit institutions, the last resort financer is likely to be the Greek government.

In the case of the RS, additional alternatives for funding are foreseen in the Greek law: the provision of loans by the DCS of the HDIGF, by the Greek State or by other public entities. It is for example the Hellenic Financial Stability Fund (part of the government sector), which has been acting on behalf of the RS of the HDIGF (and providing the resources needed) from 2012 until December 2014. In 2015 the HDIGF has financed the resolution of two credit institutions.

14 Article 123
1. Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as ‘national central banks’) in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments.
15 The funding gap in the resolution of Panellinia Bank and the Cooperative Bank of Peloponese was covered by the HDIGF.
Taking into account these points, a summary of the criteria needed for assessing the sector classification of the HDIGF is provided below.

2.2.c) Summary: Decision tree for the HDIGF

- Economic nature of its principal activity

The HDIGF hosts the statutory deposit guarantee scheme (and the resolution fund) set up by the Greek government in order to comply with EU legislation. Its main role is to pursue public policy objectives (financial stability) and it is mainly financed by raising funds through compulsory transfers from financial corporations.

- Institutional unit

The HDIGF acts much as an auto-pilot. The Board of the HDIGF does not make decisions with substantial impact, given the limited scope for decisions to be taken in the day-to-day management. The normal activity of the HDIGF is clearly set by the EU Directive and, more in detail, in the Greek transpositions to national legislation, which establishes the automatic activation of the Fund, the intervention, the funding, the coverage, etc.

The MoF has direct influence on the functioning of the HDIGF on many different issues. In particular, a number of relevant economic decisions and activities of the Fund are established by decision of the MoF. These concern the operational structure of the Fund, the methodology for contributions, the limit for the claims of the RS, the financing of the RS and the use of the funds accumulated by the DCS to finance the RS.

Following ESA 2010 2.12, it is likely that the HDIGF lacks autonomy of decision in the exercise of its principal function. In such a case, it should be considered as part of the unit which controls it.

Eurostat considers that there is little ground for considering each of the main compartments (DCS, ICS, RS) separately, in order to test the autonomy of decision or the nature of the parent of each of them. Firstly, although the three compartments are separated, with assets earmarked to the risks they cover, it should be noted that the same Board manages them, in a manner that would give ground to recognise one unique entity.

Secondly, as explained above, legislation foresees that the RS compartment may borrow from the other departments, and this has already happened. As such, the DCS may be considered as ancillary to resolution. In the same vein, based on recent experience in Greece but also in a number of other member states, there are reasons to believe that, in practice, the resolution activity will take the lead in case of banking failure, in place of outright liquidation (that would immediately trigger activation of the guarantee scheme, here the DCS). Therefore, the resolution de facto tends to act first. In this context, the guarantee compartment would be seen as ancillary to resolution.

- Control

---

16 The fact that the HDIGF has financial and administrative autonomy according to the legislation does not necessarily mean that it has, in practice, autonomy of decision in ESA 2010 terms.
The HDIGF is a public sector unit, i.e. a unit ultimately controlled by government. The issue at stake is whether government controls the entity directly or merely indirectly.

In the case of statutory protection funds set by government, there will always be an element of government ‘control via excessive regulation’ as defined in ESA 2010 20.309 (h), as the day-to-day management of such entities is strictly defined in legislation and a number of relevant issues are normally established by decision of the MoF.

In addition, such entities are created, change their constitution, or dissolve, only through legislation approved by government, which is another indicator of control according to ESA 2010 20.309 (i).

The Board of Directors of the HDIGF is appointed and dismissed by the Ministry of Finance, who has also the right through legislation to decide on a number of relevant issues which must be established by decision of the MoF (see above). These include borrowing from government units (at least explicitly for the RS) and state guarantees.

Following ESA 2010 2.38 and 20.309, it can be concluded that the HDIGF is directly controlled by the Greek government17.

It should be noted that, if the HDIGIF is not considered an institutional unit, the analysis of control boils down to the question of who is the ‘parent’ – which could only be either government or the BoG. However, among others, the restrictions posed to financing by BoG in case of emergency financing needs makes it implausible that BoG be considered as the ‘parent’.

- Market/ non-market nature

The assessment of the market/non-market character of the HDIGF is not necessary when the latter would not be considered an institutional unit. In this case, the HDIGF would be consolidated with its parent entity, which is deemed to be the Greek government. Thus, if the HDIGF is not considered an institutional unit, it would be classified in the government sector regardless of its market/non-market nature18.

If the HDIGF would be considered an institutional unit, it is also arguable whether the quantitative market test could or should be applied to this entity. Since its main revenue is recorded as taxes, it will likely fail the quantitative market test and be classified as a non-market producer.

It is also arguable whether the HDIGF would fulfil the qualitative criteria, as the entity is providing a service which, in addition of being compulsory for EU MS, is not likely to be provided by other providers in the quantities or at the prices required to meet government policy. More generally, the fees collected seem not to meet the economically significant price criteria. Given that the contributions are considered as taxes, its sole client is de facto

17 The fact that the HDIGF shall not be an entity of public law according to the legislation does not necessarily mean that it cannot be, in practice, controlled by government in ESA 2010 terms.

18 Local KAUs of government may carry out market activities. On the contrary, if the HDIGF had been considered a local KAU of the BoG, its production would by convention be considered market.
government. Following ESA 2010 20.25, the entity would be presumed to be a non-market producer.

3. CONCLUSION

- The HDIGF is a statutory protection fund, set up by the Greek government for financial stability purpose, following the transposition of EU Directives into national legislation. It can be considered that it carries out public policy purposes and it is mainly financed by compulsory transfers from financial corporations. Following ESA 2010 20.06-20.07, it would therefore be classified as a government unit considering the economic nature of its activity.

- Notwithstanding the above, the detailed analysis of the criteria for assessing the sector classification of an entity would lead to the same conclusion:

  - For statistical purposes, the HDIGF is considered to be directly controlled by the Greek government, given the fact that the MoF has direct influence on the functioning of the entity and can act as a last resource financer/guarantor.

  - The HDIGF acts much as an auto-pilot. It is questionable whether it has autonomy of decision and whether it meets the institutional unit criteria.

  - In case of no autonomy of decision, following ESA 2010 rules, it should be classified in the same sector of the unit that directly controls it (i.e. the Greek government).

  - Even if the entity were to be considered an institutional unit, it would be classified in the government sector, as it is controlled by the Greek government and operates under non-market conditions.

Based on the elements above, Eurostat considers that, following ESA 2010 rules, the Hellenic Deposit and Investment Guarantee Fund (HDIGF) must be classified in the general government sector. This view of Eurostat is thus in agreement with the conclusion reached by ELSTAT. It is also in line with recent advice provided by Eurostat concerning the classification of similar entities in other EU Member States.

4. PROCEDURE

This view of Eurostat is based on the information provided by the Greek authorities and on the understanding of Eurostat of certain legal documents available to Eurostat only in Greek. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, or there may be inaccuracies in the assessment due to the translation risk, 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.
Yours sincerely,

(e-Signed)
Eduardo Barredo Capelot
Director