Ref. Ares(2016)6469711 - 17/11/2016

EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality

Luxembourg,
ESTAT/D-2/EBC/LFO/LA/PdR/LPU/pb/D(2016)

Ms Maria Stavropoulou
Hellenic Statistical Authority
Piraeus 46 & Eponiton street
185 10 Piraeus
Greece

**Subject: Classification of entities – guidance request**
**Consignment Deposits & Loans Fund (CDLF)**

**Ref.:** Clarification rounds of April and October 2016 EDP Notifications
Discussion in the EDP dialogue visit of 17-19 February and 22-24 March 2016
ELSTAT letter Γ1-63 of 28/01/2016
Eurostat letter Ares (2015)6034300 of 23/12/2015
ELSTAT letter Γ1-1379 of 01/12/2015

Dear Ms. Stravropoulou,

Thank you for the letter including ELSTAT's analysis on the sector classification of the Consignment Deposit & Loans Fund as well as for the additional documentation provided. In accordance with Council Regulation (EC) No 479/2009 article 10, paragraph 1, after close examination of the dossier provided by ELSTAT, 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 Consignment Deposits & Loans Fund (hereinafter, CDLF), a specialised public credit institution servicing public and social interest which tasks are the safekeeping and support of all forms of consignment, the support of the housing policy, and the strengthening of regional development.

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 sector classification of this entity was discussed in the Eurostat EDP dialogue visits to Greece of September 2015[1], February 2016[2] and March 2016[3].

Following the discussions of the EDP visits, ELSTAT reclassified the CDLF, in agreement with Eurostat, from the financial corporations sector (S.12) to the general government sector (S.13) in the April 2016 EDP Notification, from the year 2014 onwards.

In the financial accounts compiled by Bank of Greece the entity is still reported as part of S.12, giving rise to substantial discrepancies with the EDP Tables 3 and with the non-financial accounts.

Eurostat's official analysis of this entity is provided below.

### 1.1. *Documentation provided*

On 1 December 2015, ELSTAT provided a note with its analysis on this case under ESA 2010. In its note, ELSTAT put forward arguments for a classification in the sector of financial corporations (S.12) as well as for a classification in the government sector (S.13) and requested Eurostat's guidance on this case.

Following requests of Eurostat (letter of 23 December 2015 and clarification round of April 2016 EDP Notification), ELSTAT provided detailed replies to the different questions raised, as well as the financial statements of the entity, the breakdown of CDLF assets and liabilities by counterpart (split between S.13 and non-S.13) and the statutes of the entity.

### 1.2. *Description of the case*

The Consignment Deposit and Loans Fund was established in 1919 as a public law entity[4] and has been the object of a number of changes and updates since its creation.

The CDLF is fully owned by the Hellenic Republic and operates under the supervision of the Ministry of Finance (MoF). The activities of CDLF include the granting of housing loans to civil servants and loans to municipalities, the acceptance of consignments in cash or in kind and the support of regional development. The investment policy of the entity is clearly oriented to servicing public interest.

The unit has a banking licence and is in the banking list of the Bank of Greece. However, the CDLF is not considered as a conventional bank and is instead listed as a 'specialised bank', being the only remaining specialised bank in Greece.

Until 2014, the CDLF had accepted deposits from both government and non-government units and granted loans to both the private sector (mainly to civil servants) and the public sector (mainly local government). However, from 2014 onwards, new deposits and loans are

---

[1] See action point 24.

[2] See action point 12.

[3] See action point 7.

[4] The entity's Founding Law is Law 1608/1919. The Presidential Decree 95/1996 is also applicable.

only gathered/granted from/to government and other public sector units (except for the consignment business, which retains private sector clients). This is explained in more detail later, towards the end of this section.

The key objectives of the CDLF have been the following, according to its statutes:

• Supporting regional development through providing financial and technical support for local, municipal and prefectural authorities and their activities, as well as for other entities in the public sector. The CDLF grants loans to local and prefectural authorities, municipal water supply and drainage companies and other municipal organisations with respect to a number of activities including environmental, cultural, sportive, touristic and other projects.

• Supporting housing policy by granting mortgage and home-repair loans to civil servants, employees of public organisations and to pensioners (of the Greek government or public organisations) for the acquisition of first residence under specific conditions. The terms and conditions of the loans are primarily determined by law (L.4202/29, L.D. 3783/57 and L.289/76, as amended) and are specified by decisions of the Board of Directors of CDLF. The maximum mortgage amount disbursed is a function of the borrower's net monthly salary and the mortgage instalments are directly deducted from borrower's salaries or pensions. For servicing the loans, borrowers assign up to 3/10 of their regular earnings under Article 62 of L.2214/1994 as amended. Applications for new mortgages are submitted either at CDLF or through tax offices. All loans provided by CDLF are fixed-rate and the rate is determined by the Board of Directors. Due to its social policy objectives, interest rates charged by CDLF may be lower than those charged by Greek commercial banks. The law provides that CDLF may only reduce, and may not increase, interest rates applicable to existing loans.

• The exclusive safeguarding of various types of 'consignments', in cash or kind, related to expropriations, customs duties, letters of guarantee for participating in a public tendering, etc., including money, securities, certificates of deposit and valuables.

• Managing capital and cash transactions for local and prefectural authorities, other public organisations and other entities in the public sector.

• Engaging in certain banking activities, including accepting cash deposits, and leasing of safe deposits.

In addition, the CDLF has historically engaged in a number of initiatives that reflected an increased focus on European integration, including the following:

• In conjunction with the European Investment Bank, the CDLF granted loans to municipalities and local authorities that participated in the reconstruction of the city of Kalamata following the 1986 earthquakes;

• The CDLF undertook the financial management of the first and second special development programs for local self-governance (EAPTA I and EAPTA II);

• The CDLF acquired equity interests in several Greek banks, including the National Bank of Greece, Emporiki Bank, Attica Bank and other companies listed on the Athens Exchange.

The CDLF is managed by a Board of Directors of eleven members with a three-year term of service. The composition and constitution of the Board (appointment of Chairman and Vice-

Chairman) is determined by the Minister of Economy and Finance, who supervises the CDLF. Some of the members in the board (three or four) are normally civil servants (for instance from GAO, from the Ministry of Interior, etc).

The Bank of Greece (BoG), which is the competent authority for the supervision of credit institutions operating in Greece, also supervises the CDLF with respect to banking activities falling within BoG competence, albeit on a limited basis as compared to other credit institutions.

Unlike the other credit institutions in Greece, we understand that the CDLF does not participate in the Greek inter-bank market. Its available funds are automatically deposited with the BoG.

Unlike the other credit institutions in Greece, CDLF does not participate in the Deposit Cover Scheme and the Resolution Scheme and does not pay contributions to the Hellenic Deposit and Investment Guarantee Fund (TEKE).

CDLF financial statements are approved by its Board of Directors and are submitted to the Minister of Economy and Finance, to the Auditing Council of the State, which audits the CDLF expenditure, and to the BoG.

According to ELSTAT, the Board of Directors has decision making power on several relevant issues defined in the statute. However, it seems that government approval is needed for a number of important decisions. Some examples are:
- the acquisition of shares[5], which is subject to approval of the MoF;
- the creation of new activities and subsidiaries of CDLF (see below);
- the annual budget;
- the sale of property;
- the transfer of powers of the Board of Directors to other bodies.

As a result of wholly owning and controlling the CDLF, the Hellenic Republic is entitled to receive 70% of the CDLF's profits and/or part or all of the CDLF's reserves pursuant to article 28 of law 3301/2004 and decisions 2/58644/0049/2005 and 2/58645/0049/5.12.2005 of the Minister of Economy and Finance.

As concerns the stock of assets held by CDLF, it mainly consists of:
- government bonds, t-bills and repos invested through the *Common Capital*[6]. These amounts represent around 43% of total assets of CDLF (and consolidate if CDLF is part of S.13); and
- loans. These amounts represent around 56% of total assets. Out of them, 20% (representing around 12% of total assets) are provided to the local government (which consolidate if CDLF is part of S.13) and 80% (representing around 45% of total assets) are mortgage loans mainly provided to civil servants and retired civil servants as well as loans to municipal water companies, all provided as part of government policy.

---

[5] It should be noted that shares held by CDLF represent a small part of its total assets (around 0.7%)

[6] The Common Capital is a device, managed by the BoG, which is used by public entities to pool their liquidities and invest them in various instruments (mostly government bonds and bills).

Regarding the stock of liabilities of CDLF, it mainly consists of:
- deposits. These amounts represent around 69% of total liabilities. Out of them, around 56% (around 40% of total liabilities) are compulsorily deposited by government units following legislation (and consolidate if CDLF is part of S.13); and
- consignments. These amounts represent around 29% of total liabilities and are deposited with CDLF due to its status of "sole" unit safeguarding consignments. Some of these consignments are compulsory. Consignments are deposited by both public and private units. According to the information provided by ELSTAT, consignments deposited with CDLF do not earn interest.

It follows from the above that the majority of assets and liabilities held by CDLF:
- either have government units as counterparts (and would consolidate should CDLF be part of S.13);
- or are gathered exclusively by CDLF (and not by other entities) following government policy or legislation (in the sense that they are compulsory) or are granted to government employees.

Concerning possible guarantees on assets, only the loans granted by CDLF to Municipal Water Companies (representing around 3.2% of the total stock of assets) benefit from a government guarantee. There are no government guarantees on liabilities.

According to the information provided, the CDLF has been profitable for all the years in the period 2008-2015.

ELSTAT has provided the figures for the calculation of the sales to production cost ratio. It should be noted that there are non-negligible amounts of interest income, which are higher than the interest expenditure for all years.

*Recent evolutions of CDLF activities*

It is worth to underline some of the recent developments of CDLF. In 2012 there was a significant change concerning the activities of the entity. Following the Ministerial Decision 2/23510/0094 (O.G.G 1083/B/9-4-2012), a commercial activities sector was created and the activities of CDLF were grouped in two sectors as follows:

(i) the commercial sector, which includes deposits of private individuals and loans (mainly housing loans to civil servants and pensioners (retired former civil servants));

(ii) the bounded or reserved sector, which includes consignments, deposits mandatory by law, loans to the local government sector and any other activity not covered by the commercial sector.

By decision of the Board of the CLDF, approved by the MoF, the commercial activities sector was to be hived-off and moved to a new public limited company to be set up by the CDLF by May 2013. However, this has not occurred to date.

The above changes of 2012 were rapidly reversed following legislation enacted in 2014 (Law 4254/2014, O.G.G 85/A/2014). It seems that the commercial activity will continue exclusively for the existing stock of financial claims outstanding at that time, without any possibility of granting new loans or accepting new deposits from 2014. It is the understanding of Eurostat that this is however not the case for the activities in the "bounded sector", which will continue normally.

## 2. METHODOLOGICAL ANALYSIS

### 2.1. *Accounting provisions*

Institutional units and sectors are defined in ESA 2010 chapter 2. A specific section defining the general government sector is included in ESA 2010 chapter 20 (20.05-20.67). In addition, Part I of the MGDD provides more detailed guidance on the delimitation of the general government sector. The MGDD chapters for units engaged in financial activities (I.5) and specific public entities (I.6) are relevant for this case. In particular, the MGDD chapter I.6 includes provisions for entities having the features of 'captive financial institutions'.

### 2.2. *Eurostat's analysis*

*Autonomy of decision and control*

According to ELSTAT, it appears that the Board of Directors of the CDLF has decision making power on a number of relevant issues defined in its statutes. As it keeps a complete set of accounts, it is presumed, to start the analysis, that the CDLF has autonomy of decision, and that, thus, CDLF would be deemed to be an institutional unit.

Government control is clear, as CDLF is fully owned by the Hellenic Republic (which has the entirety of the voting interest) and government controls the appointment of the Board of Directors.

*Main activity of CDLF*

The issue is therefore to determine whether CDLF should be classified in the general government sector or in the sector of financial corporations (the latter would be the case if CDLF would be a market producer engaged in financial intermediation or in the provision of auxiliary financial services).

Captive financial institutions controlled by the private sector are classified in the sector of financial corporations. However, entities controlled by government and meeting the features of captive financial institutions are to be classified in the general government sector. Given that CDLF is controlled by government, if it would meet the features of a captive financial institution, it would be classified in the government sector.

Applying the quantitative criterion of the market/non-market test to public corporations which earning mainly arise from property income and holding gains (as it is the case of the CDLF) is generally not relevant (ESA 2010 para 20.34), notably because such a test is to a large extent circular for financial intermediaries: if the unit is considered to be a bank, its income is largely classified as output (FISIM), which is most often sufficient to meet the 50% criteria; if not considered a bank, its income does not meet the sale definition (ESA 20.30), and the entity most often fails the 50% test. The analysis thus has to focus on the genuine nature of the activities undertaken by the CDLF.

*Financial auxiliary*

Financial auxiliaries typically act on behalf of other units and do not take ownership of the financial assets and liabilities they handle. ESA 2010 para 2.63 states: "*Financial auxiliaries do not put themselves at risk by acquiring financial assets or incurring liabilities*", while in contrast para 2.57 indicates: "*A financial intermediary does not only act as an agent for other institutional units, but places itself at risk by acquiring financial assets and incurring liabilities on its own account*."

From the definition, it follows that an entity with a "big" balance sheet (that is big enough to materially allow using its balance sheet in its production process) cannot qualify as a financial auxiliary. CDLF has a sizeable balance sheet, as it owns considerable amounts of assets and liabilities as part of its main activity. It follows from the above that CDLF does not meet the definition of a financial auxiliary.

*Financial intermediation*

In this section we analyse whether CDLF is engaged in financial intermediation.

To start with, CDLF seems to behave significantly differently from other credit institutions in Greece. For instance, it is the only remaining specialised institution in Greece, it does not participate in the Greek inter-bank market, it does not participate in the Deposit Cover Scheme and the Resolution Scheme and it is supervised by the MoF aside from the BoG supervision (on a limited basis as compared to other credit institutions).

Financial intermediation is a process whereby an institutional unit acquires assets by incurring liabilities on the market, thereby transforming or repackaging funds, in terms of amounts, maturity, currency or risks, notably, and, in so doing, carries out a genuine economic activity. In addition, financial intermediation implies carrying transactions on the market, with the general public, or a large fraction thereof. ESA 2010 paragraphs 2.56, "*Financial intermediation is the activity in which an institutional unit acquires financial assets and incurs liabilities on its own account by engaging in financial transactions on the market. The assets and liabilities of financial intermediaries are transformed or repackaged in relation to, for example, maturity, scale, risk, etc. in the financial intermediation process*." ESA 2.61 adds "*Financial intermediation is limited to acquiring assets and incurring liabilities with the general public or specified and relatively large sub-groups thereof*."

ESA 2010 paragraph 2.56 also foresees that entities that do not operate on 'open markets' on either their asset or their liability sides are not seen as 'financial intermediaries' but instead as 'captive financial institutions' (even though ESA 2010 para 2.62 envisages some very limited exceptions to this principle).

Financial intermediation, at least when carried out by units classified in the S.12 sector, is necessarily a market activity in the market/non-market meaning of the ESA 2010, and as such must also conform to the economically significant price criteria (see ESA 20.23). However, financial activities akin to financial intermediation but, either reflecting large subsidisation components or carried out with clients stemming from relations with government (in a manner that the supply or demand cannot properly react to prices), imply not recognising financial intermediation or, alternatively, recognising financial intermediation in the S.13 sector (non-market).

As a result, an entity which business is solely to borrow from and to lend to units of general government (or other public sector entities) cannot be seen as engaging in market financial intermediation, because of the excessively restrictive character of its business. Furthermore, such an entity must also be classified inside government because, according to the so-called qualitative criteria, such a unit should be seen as an ancillary unit (ESA 2010 20.24), or as an artificial subsidiary (ESA 2010 2.24-2.25), or as carrying out non-market activities (ESA 2010 20.25).

CDLF mainly collects government deposit assets (and consignments, as the sole entity specialised for this task) and lends to municipalities (and to civil servants as part of government employment policy), in the context of government policy.

Although in the case of the CDLF, there is significant other lending (i.e. to civil servants) and borrowing (i.e. consignments), Eurostat considers that these are too specific activities to change the nature of the CDLF (see the analysis below). Moreover, also these activities are carried out exclusively in the context of specific government policy.

Having constraints on one single side of the balance sheet (assets or liabilities) would often point at a captive (rather than at a financial intermediary) according to ESA 2010, but could – in some circumstances – be compatible with undertaking financial intermediation. However, in the case of CDLF, constraints exist on both assets and liabilities (government being behind both sides of the balance sheet), which should not be the case for units engaged in financial intermediation.

In this respect, CDLF could be considered to have the features of a captive financial institution controlled by government, as constraints set by government would be evidenced simultaneously on both assets and liabilities, it carries out a limited range of activities in narrow conditions set by government and (due to its social policy objectives) it does not behave like a normal commercial entity. Entities engaged in financial activities, controlled by government and meeting such features (of a captive financial institution), are to be classified in general government (see MGDD section I.6.6, page 69).

Overall, CDLF would rather be considered as carrying the activities of a government agency, borrowing from government entities and lending to municipalities – if one would leave aside the lending to civil servants and the consignments activities (that cannot be deposited elsewhere) and are discussed separately below. This would thus point to CDLF being a kind of cash pooling device organised by government, in addition to the traditional cash pooling undertaken by the Treasury or to the cash pooling carried out in Greece through the Common Capital.

*Loans to government employees*

Employers can provide benefits to employees in the form of access to loans in different ways: (i) by granting the loans themselves, (ii) by contracting a financial institution to provide such loans, and (iii) by establishing a dedicated entity.

Cases (i) and (iii) would involve no financial intermediation. In case (iii) it would be considered that the dedicated entity is providing ancillary services to the employer or could be considered to act as a government controlled captive financial institution. In any case, this would entail classifying the entity with the employer, and classifying the CDLF transactions as government transactions. In case (ii), financial intermediation may exist, but only in case there would be other clients (apart from those contracted with government).

In the case of the CDLF, the employer providing benefits to its employees through a financial entity is only government. Cases (ii) or (iii) could thus apply. Following the above, in none of the cases there would be financial intermediation, as even in case (ii), there are no other clients apart from those stemming from relations with government.

*Consignments*

As regards the consignment activity, which is carried out across Europe in different ways (via MFIs, via the Treasury, via dedicated entities, etc.), it is unlikely that this activity would change the above analysis that the CDLF is not engaged in financial intermediation.

The consignment activity in Greece, for which the CDLF has the monopoly, is a very specific part of the CDLF's business, assigned to the entity by legislation. This does not easily fit with the market financial intermediation activities discussed above. It is even unclear whether consignments (or at least some of them) should be conceived to be on- or off-balance sheet activities.

Besides, ESA 2.33 discusses classification of institutional units according to their 'principal activity and function', so that the secondary activity of consignments should not be determinant for the classification.

*Recent changes in CDLF activities*

While the 2012 reform could have put a question mark on the analysis carried out above, with the opening to the general public on both the deposit side and the lending side, this opening was reversed in 2014, and the CDLF is back to its previous functions.

Thus, even in case the CDLF would be considered to carry out financial intermediation starting from 2012, this would not be possible from 2014 onwards, as from this moment the CDLF will not be able to grant new loans or accept new deposits, its activities being limited to consignments, deposits mandatory by law, loans to the local government sector and treasury operations (managing the cash of government units).

## 3. CONCLUSION

- It is presumed that the CDLF has autonomy of decision and is an institutional unit. If this would not be the case, it would be combined with the unit that controls it.
- The CDLF is controlled by government.
- The CDLF does not carry out financial intermediation or auxiliary financial activities.
- The CDLF can be considered as a government agency, acting on behalf of government, gathering funds mainly from government units (and consignments) and lending to municipal entities (and to government employees) under specific terms and conditions.
- The CDLF can also be seen as an ancillary unit, or as an artificial subsidiary, or as carrying out non-market activities.
- The CDLF also meets the features of a captive financial institution controlled by government.

Besides, from 2014 onwards, the CDLF has not been able to grant new loans or accept new deposits, its activities being limited to consignments, deposits mandatory by law, loans to municipalities and managing the cash of government units.

Based on the elements above, Eurostat considers that, following ESA 2010 rules, the Consignment Deposits and Loans Fund (CDLF) must be classified in the general government sector, at least from year 2014.

## 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