



EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality
Unit D1: Excessive deficit procedure and methodology

FINAL FINDINGS

EDP dialogue visit to FRANCE

22 – 23 May 2017

EXECUTIVE SUMMARY

Eurostat undertook an EDP dialogue visit to France on 22-23 May 2017 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, to discuss the quality and exhaustiveness of primary data sources and the revision policy, to review the progress in the implementation of previous action points, and to examine the sector classification of some units and the statistical treatment of specific operations undertaken by government.

It was observed that no major change had taken place since the previous dialogue visit regarding the Institutional responsibilities in the framework of the reporting of data under the Excessive Deficit Procedure (EDP). The quality management system and information related to audit activities were also discussed. The revision policy was discussed in detail, notably emphasizing the legislative requirement of keeping all the four years of the EDP notifications open for revision. Plans for updating the EDP Inventory and publishing it nationally were agreed.

Progress achieved by the French statistical authorities on open action points from the EDP dialogue visit, which took place in June 2014, was discussed. Outstanding issues stemming from the April 2017 EDP notification were analysed in more detail.

Concerning the delimitation of general government, a discussion about the application of the market/non-market test took place. Eurostat reviewed the list of the government controlled entities classified outside general government and asked the French statistical authorities to check the reliability of data for public corporations. The classification of some specific units was discussed, such as *Réseau ferré de France* (RFF), Public Housing Offices (*Les offices publics de l'habitat*) and social houses (HLM - Habitations à loyer modéré), and hospitals.

The classification of specific financial entities was also discussed in detail: *Agence française de développement AFD*, *BPI-France*, *Compagnie française d'assurance pour le commerce extérieur COFACE*, and *Caisse des dépôts et consignations (CDC)*. Regarding AFD, Eurostat questioned its classification and wondered to what extent all transactions carried out on behalf of the State were rerouted. Eurostat also discussed the conversion of the Treasury loans to AFD into equity (2.4 billion), which had to be capital injection tested.

The discussion continued on the recording of taxes and social contributions, in particular the treatment of *Crédit d'impôt pour la compétitivité et l'emploi (CICE)*, of *Crédit d'impôt recherche (CIR)* and of the forthcoming *Impôt à la source (retenue à la source de l'impôt sur le revenu)*. Concerning the CICE, Eurostat explained that it objected to any double impact on the deficit that would flow from the conversion of CICE into a simple reduction of social contributions (announced by the forthcoming administration), if the treatment applied since 2013 is not revised. Accordingly, it invited INSEE to reflect on revising the 2013-2016 data. The discussions also concerned a number of questions that had not been discussed in 2013. In addition, the discussion also concerned the possible Maastricht debt impact of the CICE claim: (a) a need to apply the 2012 Eurostat Decision on factoring of trade credits (recognising a government debt at time of factoring without recourse), (b) a need to recognize a debt at time of postponement of CICE refund (up to three years).

The recording of settlement costs related to the restructuring of complex debt instruments (so called 'toxic debts') undertaken by local government was discussed in detail. Eurostat noted that these lump sums were recorded as expense in public accounts. Eurostat was not opposed to accept the financing recording followed by INSEE, if a certain number of conditions was met, taking into consideration the current consultation ongoing in Europe. In order to palliate to the absence of source information, INSEE agreed to organize a study in order to calculate

the internal rate of return (IRR) of a sufficient number of contracts, so to obtain a statistically significant average IRR which would be used by INSEE for extrapolation purposes – and on this basis conduct a revision of the recording of interest of the toxic instruments.

The recording of military expenditure and the recapitalization of AREVA were also discussed. Regarding military expenditure, Eurostat understood that INSEE continued applying a 2006 derogation – which was not applicable any more since ESA 2010 – for a potentially considerable part of military contracts – thereby underestimating expenditure during 2005-2016. It urged INSEE to fully apply the ESA and MGDD rules in this regard. Regarding AREVA, Eurostat stressed that the formalistic modalities of its restructuring should not be the primary determinant of the way its recapitalization is recorded in national accounts. Eurostat considered that the full capital injection (4.5 billion euro) should be recorded as D.9 in 2017, given that the two injections were essentially one unique event designed to rescue the AREVA group, and avoid the liquidation of AREVA. The mere restructuring of entities between a good entity and a bad one should not lead to different impact in a capitalisation event. Otherwise, this would easily allow evading the capital injection rules.

Other relevant issues discussed include the recording of interest expenditure, guarantees, debt assumptions, debt cancellations and debt write-offs, capital injections (the case of *Électricité de France*), energy taxation, dividends and super dividends, PPPs and concessions as well as mobile phone licenses. INSEE informed Eurostat that some write-offs should have been recorded as capital transfers, and that this error will be corrected in the October 2017 notification. Eurostat considered that INSEE had to propose a way to apply the capital injections and super dividends test to local governments. A number of railway PPP and concessions were discussed, and some of these may be reclassified inside government in coming notifications, with a B.9 impact.

Finally, the ESA 2010 Transmission programme and GFS data were discussed.

Eurostat highly appreciated the quality of the information provided by the French statistical authorities prior to the mission. Eurostat also thanked the French statistical authorities for the explanations given during the mission and considers that the discussions were very transparent and constructive.

As a follow up of the mission and taking into account the reservation expressed on the French data in the October 2017 notification, Eurostat fielded an ad-hoc mission on 20-21 January 2018. The Main findings and action points of this 2018 mission are attached as an annex.

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 22 – 23 May 2017.

The delegation of Eurostat was headed by Mr Eduardo Barredo Capelot, Director of Directorate D: Government finance statistics (GFS) and quality. Eurostat was also represented by Mr Philippe de Rougemont, Mr Alexander Reimers and Ms Corina Niculet. A representative of the European Central Bank (ECB) also participated in the meeting as observer.

France was represented by the National Institute of Statistics and Economic Studies (*Institut national de la statistique et des études économiques*, INSEE), the Ministry of Finance (General Directorate for Public Finances – *Direction Générale des Finances Publiques*, DGFIP) and the Bank of France (*Banque de France*, BdF).

The previous Eurostat EDP dialogue visit to France took place on 25 – 26 June 2014.

The main objectives of the EDP dialogue visit were (1) to revisit the existing institutional responsibilities for compiling GFS and EDP statistics and to discuss the quality framework, (2) to review data sources for the EDP/GFS data compilation, (3) to review the implementation of ESA 2010 methodology for sector classification of public units, (4) to review the implementation of the accrual principle, and (5) to discuss the recording of some specific government transactions and PPP arrangements in place.

In relation to procedural arrangements, the *Main conclusions and action points* were sent to France for review in the days following the visit. Then, the *Provisional findings* would be sent to France for review. After this, *Final Findings* will be sent to France and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

FINAL FINDINGS

1. Statistical institutional issues

1.1 Review of institutional responsibilities in the framework of the EDP data and government finance statistics compilation and reporting

1.1.1 Institutional cooperation and EDP processes

Introduction

Eurostat took note of the institutional arrangements in place for the compilation of EDP/GFS in France. In France, the institutions involved in the compilation of EDP/GFS tables are:

i. the National Institute of Statistics and Economic Studies - *Institut national de la statistique et des études économiques (INSEE)*. INSEE is responsible for the methodology and for validating and monitoring the processes used to produce the financial and non-financial accounts of general government.

INSEE is also preparing the EDP notification tables, based on the information transmitted by the General Directorate for Public Finances - *Direction Générale des Finances Publiques (DGFIP)*, the General Directorate of the Treasury - *Direction Générale du Trésor (DGTrésor)* and the National Central Bank - *Banque de France (BdF)*, and sends them to Eurostat via Edamis.

ii. the Ministry of Economy and Finance - *Ministère de l'Économie et des Finances (MoF)*. The MoF is responsible for the compilation of non-financial and financial accounts (the latter shared with BdF), the Maastricht debt and the EDP tables (planned data), with its subordinated units:

- DGFIP, responsible for monitoring public accounting standards, collecting accounting information and transposing individual data into the national accounts (using the method approved by INSEE), and transmitting the data to INSEE

- DGTrésor, contributing to the preparation of the April notification, especially in relation to forecasts

iii. BdF is responsible for the financial accounts of general government (together with DGFIP) and is involved in preparing data on annual and quarterly debt.

Discussion and methodological analysis

INSEE informed Eurostat that a number of agreements between INSEE and DGFIP, and between INSEE and BdF, have been signed by the respective Directors General of the three institutions, and amended, as required, by supplementary clauses. The respective responsibilities of the three institutions (INSEE, DGFIP and BdF) are clearly set out in these agreements.

The DGFIP participant noted that his (statistical) service in charge of GFS/EDP compilation was *de facto* independent from the DGFIP/MoF hierarchy. It has a status of Ministerial Statistical Service, with specific protections and obligations. The head of section was traditionally a staff from INSEE. Data sent to INSEE were not reviewed by the hierarchy. Furthermore, DGFIP explained that DGFIP staff (accountants) is disseminated across a large fraction of government units. DGFIP also centralises the accounts maintained at local level.

Finally, Eurostat reviewed the institutional responsibilities in place for the compilation of EDP and GFS data. INSEE explained that there had been no major change in the framework of the EDP data collection since the last visit. No new or modified agreements have been set up since the current version of the EDP inventory was transmitted to Eurostat.

Eurostat asked to receive the Memorandum of Understandings (MoU) signed with the MoF and with the BdF.

Main findings and conclusions

Action point 1: INSEE explained that there had been no major change in the framework of the EDP data collection since the last visit. INSEE will transmit to Eurostat the Memorandum of Understandings (MoU) signed with the MoF and with the BdF. *Deadline: July 2017¹*

1.1.2 Quality management framework

Introduction

The Quality Management System implemented in INSEE is based on the European Statistical System Code of Practice, which does not cover the EDP Statistics.

Discussion and methodological analysis

Eurostat reviewed the information on the EDP process in France, provided in the EDP inventory and in the INSEE's reply to the *Questionnaire on national quality management systems in relation to EDP Statistics*. Eurostat enquired about the main control systems included in the quality management process.

There are still EDP procedures and/or steps not yet fully documented, and additional efforts are needed to implement a quality management framework for EDP purposes.

INSEE agreed to provide a note on the Quality management framework (flowcharts, etc.) in the context of the production of EDP/GFS statistics, on the basis of a country example to be provided by Eurostat.

Main findings and conclusions

Action point 2: Eurostat asked INSEE to provide a note on the Quality management framework (flowcharts, etc.) in the context of the production of EDP/GFS statistics, on the basis of a country example to be provided by Eurostat. *Deadline: December 2017*

1.1.3 Audit and internal control arrangements

Introduction, discussion and methodological analysis

Eurostat took note that the accounts of the State, as well as those of the general scheme of social security funds, are audited and certified by the Court of Audit since the financial year 2006 (according to Article 58-5 of the Organic Law on Finance Laws - *Loi organique relative aux lois de finances LOLF*). Once the Court of Audit has produced its certification report, its potential impact on the accounts is incorporated as soon as possible. Certification of

¹ AP partially completed, INSEE sent on 13.10.2017 the document "Convention entre l'INSEE et la DGCP au titre des comptes nationaux des administrations publiques" (2008). INSEE is still to send the MoU signed with the Banque de France.

accounts with data referring to year (T-1) is carried out by the Court of Audit at the latest by 30 June of year (T).

On the other side, in France, the local authorities are not obliged to have their accounts certified. However, there is now a tendency for a growing number of authorities to have their accounts certified by an independent body.

INSEE described the active and positive relationship it maintained with Court of Audit. It was noted that a number of INSEE staff work at the Court of Audit. A regular meeting takes place between each notification discussing new measures or events. INSEE is informed of the Court of Audit questions (e.g. around 100 concerning the State, many not of direct interest to INSEE).

Main findings and conclusions

Action point 3: Eurostat takes note of the active and positive relationship between INSEE and the Court of Auditors – *Cour des comptes*. INSEE will send to Eurostat the Memorandum of Understanding signed with the Court of Auditors. *Deadline: July 2017*²

1.2 Data sources and revision policy, EDP Inventory

1.2.1 Availability and use of data sources, revision policy

Availability and use of data sources

Introduction

As presented in the EDP Inventory, the source data for the public accounts (the general budget, the special accounts, the annex budgets and the public authorities' accounts) are produced, since 2012, using the CHORUS accounting software. In budgetary accounting, the general budget and the special accounts data are available from the CHORUS database. For expenditure, these data give the object (budget programme, action, sub-action) and the nature of the expenditure (by LOLF category). For revenue, the data give the nature of this revenue. For support funds, the data contain the title of the fund and some information on the third party from whom the payment originated as well as on the receiving Ministry. These data are used to determine the operations on goods and services (when possible with the product code and the counterpart sector in the transaction) and to calculate the B.9.

The source data for **central government** accounts are the budget recording (the current and capital revenue and expenditure and selected financial transactions, and the balance sheets), the financial statements (the profit and loss accounts and the balance sheets) as well as the general ledger of the units (which includes all the 'State' sub-sub-sectors).

For **the annex budgets and the public authorities**, the *CEIA* (“*Production and Validation of Accounts*”) *Department* of the DGFIP incorporates a general ledger per entity in the CHORUS database at the beginning of the following financial year. These balances are used to code the operations on goods and services and for the B.9.

² AP completed, INSEE sent on 13.10.2017 the document "Accord de cooperation" signed by the Court of Auditors *Cour des comptes* and INSEE (2012)

The accounting data for the funds controlled by central government for year (T) are also incorporated into the CHORUS database at the beginning of year (T+1). More detailed information for each fund is also used by the DGFIP (internally or via the CDC *Caisse des dépôts et consignation*), to determine operations on goods and services (when possible with the product code and the counterpart sector in the transaction) and for the B.9.

For **local government accounts** data collection is quasi-exhaustive for the main budgets as of the April notification. All departments and regions, municipalities and groupings of municipalities with tax-levying powers are covered. The population missing in the April notification is to be found mainly in the miscellaneous local government bodies - *organismes divers d'administration locale* (APUL, ODAL) and local authority annex budgets, representing less than 1% of the total population of the APUL. Accordingly, later revisions to the semi-definitive and definitive accounts are small in scale and are linked either to the increase in population between the provisional and semi-definitive accounts or to revisions made to the source data.

The **social security funds account** is produced from centralised computerised data for the accounts of eleven funds, including the general scheme and the Agricultural Social Mutual Fund - *Mutualité Sociale Agricole* (MSA). For 6 units inside the Social Security sector, DGFIP collects information directly. Lastly, data from public hospital accounts are collected almost exhaustively.

The main source for calculating **the Maastricht debt** is public accounting for the different sub-sectors: central government, central agencies - *organismes divers d'administration centrale* (ODAC), local government units - *administrations publiques locales* (APUL) and social security units - *administrations de sécurité sociale* (ASSO). Further data are also drawn notably from:

- the Banque de France, for coin;
- the Banque de France and INSEE, for financial leasing;
- Eurostat, for EFSF operations.

To calculate the **State debt**, INSEE is using an accounting balance taken from the CHORUS data warehouse. This is supplemented by data provided by the French Treasury Agency - *Agence France Trésor* (AFT), which is in charge of managing State debt and cash position. The State debt is revised very little from one version of the accounts to another.

For local government, data used to calculate the Maastricht debt are taken from the accounting balances centralised in the DGFIP data warehouses.

Discussion and methodological analysis

INSEE declared that there are no new data sources comparing to that information the Eurostat has, but there is an evolution in accounting.

Eurostat enquired on the typical level of integration of the source data used by DGFIP, and in particular the type of source data for ODAC, local government or social security funds. DGFIP noted that, in general, these could be described as 'general ledger' of the units in question. Eurostat thought that such source data generally permitted to obtain a high level of integration between the various elements of the accounts, and suggested that the EDP inventory could be advantageously clarified and improved in this respect.

Eurostat further enquired to what extent DGFIP was also using the general ledger of the State. DGFIP answered that this source data was relatively complex to use for the State, to reconcile with other source data. Accordingly, systematic use of the general ledger of the State was not

envisaged in the near term. Eurostat strongly encouraged avoiding delaying the exploitation of such a rich source data. While it agreed that a systematic use may be a distant prospect, it urged INSEE and DGFIP to take a step by step approach. Eurostat noted that reservations had been issued on the data of another Member State because the national compilers were neglecting using newly available IPSAS-like source data.

Main findings and conclusions

Action point 4: INSEE and DGFIP will examine ways to start using the general ledger of the 'State' (central government) notably for compiling accrual adjustments, and will communicate their findings to Eurostat. *Deadline: December 2017*

Revision policy (annual GFS)

Introduction

The French national accounts are revised every year in May. In the year (T) are published the definitive accounts for year (T-3), the semi-definitive accounts for year (T-2) and the provisional accounts for year (T-1). Accounts for years earlier than (T-3) are in principle not revised.

General government data notified in March of year (T) are usually the same as those that appear in May, moment when INSEE publishes the full national accounts. However, if between March and May new information about the provisional accounts that would result in a revision of the deficit (especially in the social security funds) emerges, then these changes are included in the tables sent out in May.

For the October notification for year (T), only new information that has an impact on the deficit is taken into account.

When there is a change of base (approximately every 5 years), the revision potentially covers all years.

An 'interim' benchmark revision is planned for 2018.

Discussion and methodological analysis

Taking due note of the INSEE arguments that source data are final for year (T-3) in the April notification, Eurostat however pointed out that EU legislation refers to the last four years for the EDP notification. Accordingly, Eurostat would expect all the four years of the EDP notifications to remain open for revision, which is the case for most Member States. This is notably relevant when Eurostat recommends revisions of statistical treatment (classifications, etc.).

Eurostat also requested that INSEE reflects more generally on an appropriate EDP/GFS revision policy, and notably the possibility of letting GFS-related ESA tables (ESA table 2-9-11-25-27-28) provisionally deviate from national accounts main aggregates. Indeed, Eurostat understands that, in France – similarly to a number of other member States –, main aggregates tables should remain consistent with the supply and use tables, the regional accounts, etc., which creates specific constraints. In contrast, in some other Member States, where supply and use tables or regional accounts are not revised alongside main aggregates, the latter may be adapted to the requested change in GFS much more easily. As a result, for countries having the approach of France, the required changes to EDP/GFS may not be implementable into national accounts main tables, prior the next benchmark revision. Because of this, Eurostat

considered that the option of letting GFS tables deviate from main national accounts tables should be envisaged.

INSEE noted that when errors are identified, it is nonetheless ready to implement changes. Eurostat noted that – under current INSEE policy – this was only true to some extent, as experience showed that errors on B.9 and debt were corrected, but not those impacting the production accounts.

Eurostat stressed that EDP and GFS had to be strictly aligned and that EDP/GFS tables were inherently national accounts based: innovations implemented to EDP/GFS were to be reflected in national accounts as soon as possible, and at least at time of benchmark revision. There could not exist, under EU legislation, an EDP and GFS reporting that would be in isolation of national accounts.

Main findings and conclusions

Action point 5: INSEE will examine the opportunity to amend its revision policy for EDP/GFS so the frozen data are at (T-4) instead of (T-3). *Deadline: 2018*

Action point 6: INSEE will ensure the consistency between the EDP and the GFS tables, also preferably avoiding breaks in time series. *Deadline: December 2017*³

1.2.2 Trade credits and factoring

Introduction

The issue on trade credits and factoring was discussed during the EDP dialogue visit in June 2014. The *Final findings* mentioned that INSEE had not yet implemented the *Eurostat decision of 31 July 2012 on the reclassification as government debt of some specific operations relating to factoring and restructuring*.⁴

In April 2017, Eurostat kept the footnote published on the *Note on stock of liabilities of trade credits and advances: [for France:] "Data contain estimated amounts related to the implementation of the Eurostat decision of 31 July 2012 on the reclassification as government debt of some specific operations related to factoring and restructuring."*

Discussion and methodological analysis

Eurostat took note of the good progress of INSEE in relation with the implementation of the Eurostat decision on factoring of trade credits.

³ Action Point partially completed: in the Explanatory note sent together with the October 2017 notification, INSEE mentioned: "*Indeed, the GFS tables T200 and T900 sent are now consistent with the EDP Notification from 2009 to 2016. But, the B.9 and the debt published by INSEE on its website are not consistent with EDP. It will be the case only in March 2018 with the publication of the 2018 NA benchmark revision. From now, GFS tables may in some cases deviate from national accounts main aggregates when the implementation of new methodologies for GFS is decided.*"

⁴ Final Findings EDP dialogue visit to France, 25-26 June 2014, **Action Point 11:** 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.*

INSEE provided information on the estimation of the total amounts related to factoring without recourse against general government units: by using direct data (via the *Surfi* data) and two assumptions.

According to *Surfi* data, factoring corporations owned 24.1 billion euro of claims against French residents in 2013. However *Surfi* data do not provide a precise picture of claims owned against general government and do not distinguish factoring with or without recourse.

The direct data from 6 large factoring corporations (for 5 corporations, data are from *Surfi*, for 1 corporation, data are directly obtained by INSEE), representing 83% of total amounts, give an estimate of 441 million euro of claims owned against general government units in 2013. These direct data are then extrapolated. INSEE obtains an estimate of total amounts related to factoring without recourse against general government units of 354 million euro (0.02% of GDP) in 2013.

Eurostat enquired whether the so called *Dailly* clause – a kind of factoring – was included in the *Surfi* data. INSEE will examine whether there is a material need to extend the current work of estimation on factoring without recourse to the *Dailly* clause.

Main findings and conclusions

Action point 7: INSEE will examine the need to extend the work on the estimation of the total amounts related to factoring without recourse to *Dailly* – which is a common form of trade credit transfer⁵. *Deadline: April 2018. (former AP8 in the Main Findings and Action Points)*

1.2.3 Compliance with the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States

Introduction

In Article 3(2), Chapter II on accounting and statistics of the *Directive*, publication requirements concern:

- a) the cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) at the following frequencies:
 - *monthly* for central government and social security sub-sectors, before the end of the following month, and
 - *quarterly* for the local government sub-sector, before the end of the following quarter;
- b) a detailed *reconciliation table* showing the methodology of transition between cash-based data (or the equivalent figures from public accounting if cash-based data are not available) and data based on the ESA 95 standard.

Also, according to Article 14(3), "*for all sub-sectors of general government, Member States shall publish relevant information on contingent liabilities with potentially large impacts on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including the extent thereof. Member*

⁵ See action point 24 of the January 2018 Ad-hoc visit.

States shall also publish information on the participation of general government in the capital of private and public corporations in respect of economically significant amounts".

Discussion and methodological analysis

Eurostat enquired on the state-of-play of the implementation of the provisions of the *Directive*. INSEE informed that the requirements of the *Article 3(2)(a)* are accomplished through the followings:

- the monthly data for the State are published by the Ministry of Finance on the website <https://www.performance-publique.budget.gouv.fr/>

- for Social Security subsectors, monthly data are published only for part of the units (*Comptes mensuels des organismes de sécurité sociale*) on the Social Security Public Services website <http://www.securite-sociale.fr/Commission-des-comptes-de-la-Securite-sociale-CCSS>

- as for the quarterly fiscal data for the local government units, DGFIP mentioned that the quarterly revenue, expenditure and deficit of local government units (cash basis) were published somewhere on its website

The reconciliation table mentioned at *Article 3(2)(b)* was published by INSEE in the past, between 2014 and November 2016. INSEE informed that an updated version should be available again by Summer 2017.

Concerning the implementation of *Article 14(3)*, INSEE also informed that it will publish a table summarizing the contingent liabilities and participations, by September 2017.

Eurostat noted that INSEE still does not provide information on non-performing loans and wondered whether providing this would be feasible.

Eurostat also took note of INSEE compilation practices for quarterly GFS. INSEE has been publishing and transmitting to Eurostat the required estimates for quarterly debt and deficit since June 2014. INSEE agreed to further examine the compilation of actual quarterly GFS, in consultation with Eurostat.

Main findings and conclusions

Action point 8: INSEE will further examine the compilation of actual quarterly GFS, in consultation with Eurostat. *Deadline: February 2018. (former Action Point 9)*

Action point 9: INSEE and DGFIP will provide the link where the quarterly revenue, expenditure and deficit of local government units (cash basis) are published (for compliance with *Council Directive 2011/85 article 3(2)(a)*). *Deadline: June 2017⁶. (former Action Point 10)*

Action point 10: INSEE will provide an updated reconciliation table (for ESA2010) between cash based data and ESA standards (for compliance with *Council Directive 2011/85 article 3(2)(b)*). *Deadline: September 2017⁷. (former Action Point 11)*

⁶ AP completed on 13.10.2017. Indeed, the French national authorities have published a minimum of detail (total revenue, total expenditure and balance), which is nevertheless in line with the Council Directive and the gentlemen agreement obtained in the Task Force on the implications of Council Directive 2011/85 on the collection and dissemination of fiscal data.

⁷ AP completed, on 13.10.2017

Action point 11: INSEE will enquire on the possibility to provide information in non-performing loans and will keep Eurostat informed on the results (for compliance with *Council Directive 2011/85 article 14(3)*). *Deadline: November 2017. (former Action Point 12)*

1.2.4 EDP Inventory

Introduction

The French EDP Inventory under ESA95 is published on the dedicated page of the Eurostat website⁸. However, this inventory is not anymore applicable since October 2014.

INSEE was asked to send an updated and more detailed version of the EDP Inventory, according to ESA 2010. The last transmission of a draft document took place on December 2016. On March 2017, Eurostat asked for more information to be included and is waiting for a complete and publishable version (including the *Annex Register of General government units by Subsector and by NACE*).

Discussion and methodological analysis

Eurostat underlined the fact that France benefits from good information and timeliness for source data, which should be properly presented and described in the EDP Inventory.

Eurostat raised some questions and asked for clarifications related to different parts of the document.

Eurostat made some specific comments to the text: using the Eurostat template for the register of government units, the need to indicate which reference year is "T", and more systematic referring of the use of the 'general ledger' in the data sources tables. Further comments were made concerning the reference to coins, participations in international bodies, etc.

Main findings and conclusions

Action point 12: INSEE will finalise the EDP Inventory in order to rapidly publish it, notably adapting Annex 1, as discussed during the meeting. A more refined version that would take into account adaptations for the 'interim benchmark revision' of April 2018 would then be released in 2018. *Deadline: September 2017 for the publication of the ESA 2010 inventory. 2018 for an update. (former Action Point 13)*

2. Follow up of the previous EDP dialogue visit – evaluation of the progress in the accomplishment of the action points

Introduction

Out of 29 action points (**AP**) agreed in the EDP Dialogue Visit to France on 25-26 June 2016, 23 have been completed and one is ongoing (**AP 2** – the update of the EDP Inventory). For 5 action points, no progress has been noted and their clarification was included in the agenda for this visit (AP 8, AP 10, AP 11, AP 13 and AP 23).

Discussion and methodological analysis

⁸ <http://ec.europa.eu/Eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-inventories>

Eurostat thanked INSEE for the completion of a number of action points from the previous EDP dialogue visit from June 2014.

Concerning the action points still pending, one action point (*AP 23*) was discussed under this point of the agenda, while the remaining ones (*AP 8*, *AP 10*, *AP 11* and *AP 13*) were dealt with under the relevant issues during the meeting.

AP 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.

INSEE informed Eurostat that some investigations had been carried out for large companies (with important liabilities). INSEE presented the outcome of such routine studies on companies recording subsidies received from government as sales, namely regarding the *Régie autonome des transports parisiens* (RATP).

In the *Questionnaire on government controlled units classified outside general government* with the reference year 2014, transmitted to Eurostat, the result of the market/non-market test for RATP varies between 105% and 106% for the three years 2012-2014. INSEE presented the correct calculation of a non-biased test (after deduction of the subsidies on production from market sales) for year 2015: the result of the market/non-market test is then 58%.

Eurostat expressed some worry concerning the size of the difference for the same company, as presented in the Questionnaire and as resulting from a "real" calculation, and the possibility that this might also be the case for other companies. Eurostat considered that a structural solution had to be put in place to address the current deficiency.

The possibility to take into account the SIREN directory (*Système d'identification du répertoire des entreprises*) or the 'Liasses fiscales' (i.e. company financial statements returned to tax authorities) as data source for subsidies was enquired. INSEE explained that the issue could not be solved this way given that the subsidies on production can be reported within sales in the 'Liasses fiscales', without further information. Eurostat recommended an alternative approach consisting in using instead DGFIP data on counterpart information (i.e. beneficiaries of the subsidies on production). INSEE answered that this approach needs more time and resources. Eurostat considered it to be worth the effort, as the result could conduct to a reclassification of some units. As a first step, this should be carried out at least for the biggest amounts.

As for the RATP case, both Eurostat and INSEE agreed that the estimation for the consumption of fixed capital (CFC) should be further analysed: INSEE is using the depreciation/amortisation of business accounts as data source for CFC, and there is no perfect estimation for CFC in these accounts. Eurostat noted that the use of a multiplying coefficient has been discussed recently in the EDPSWG, to correct for the likely structural underestimation entailed by using depreciation/amortisation of business accounts for estimating CFC.

Main findings and conclusions

Action point 13: INSEE will reflect on the plausibility of the consumption of fixed capital (CFC) estimate by RATP currently used, including the possibility of using a coefficient,

which might push the ratio of market/non-market test below 50 percent. INSEE will inform Eurostat about developments on this issue. *Deadline: September 2017*⁹. (former AP14)

Action point 14: Eurostat stressed that INSEE had to improve the situation in relation of the compilation of the market/non-market test in order to appropriately exclude subsidies on production from sales. Eurostat mentioned that it recommends to countries a prudent approach, which involves excluding revenue items that may contain subsidies on production, when the latter cannot be separated. Given that the subsidies on production are reported in sales within the '*Liasses fiscales*' (i.e. company financial statements returned to tax authorities), without further information, Eurostat recommended an alternative approach consisting in using DGFIP data on counterpart information (i.e. beneficiaries of the subsidies on production) at least for the biggest amounts. *Deadline: December 2017 for the biggest amounts. December 2018 for a more systematic approach. (former AP15)*¹⁰

3. Analysis of EDP tables – follow up of the April 2017 [and October 2016] notification

Introduction

In April 2016, Eurostat expressed a reservation on the quality of the French data in relation to:

- (1) the classification of the French Deposit Guarantee and Resolution Funds (*Fonds de Garantie des Dépôts et de Résolution* - FGDR), as the entity has been reclassified by INSEE outside government, following a change in arrangements;
- (2) the recording chosen by INSEE of settlements costs related to the restructuring of complex debt instruments issued by local government. Since then, expert meetings were organized and Eurostat is closely monitoring these consultations. Therefore, the appropriate recording in national accounts of lump sums on toxic debts is still under consideration by Eurostat methodological committees. (see below)

In October 2016, Eurostat withdrew its reservation on the quality of the data reported by France, as INSEE reclassified FGDR to S.13 and Eurostat decided to open a broad dedicated discussion on toxic debts.

The French statistical authorities sent the April 2017 EDP notification within the legal deadlines, on 31st of March 2017. The EDP notification tables were reported with full internal consistency. Together with the EDP tables, INSEE sent a note explaining main revisions and main issues for this notification. Three Requests for clarification were exchanged with INSEE.

The EDP tables are not published nationally. The *General government national accounts - first results - year 2016* were published on INSEE's web page on 24th of March 2017.

Discussion and methodological analysis

⁹ Action point in progress. INSEE sent on 13.10.2017 the document "Market/non-market test for RATP", which shows that, once corrected for subsidies on production, the 50% market test falls from 105% to 58% (in 2015). According to INSEE, even if multiplying by 2 the amount of amortizations to calculate CFC, the result of the test would be of 53%. Nevertheless, the multiplier chosen is not based on any quantitative information.

¹⁰ See also Action point 48 from the January 2018 Ad-hoc visit.

A number of issues discussed during the notification period remained opened for further clarification during this dialogue visit. The subjects concerned in particular (1) the impact of the recording of *Crédit d'impôt pour la compétitivité et l'emploi* (CICE) on the Net lending (-) / net borrowing (+) (B9), (2) the appropriate treatment of the investment grants to *Société nationale des chemins de fer français* (SNCF) and (3) the reporting of the amounts of write-off/cancellation on claims of local government, in public accounting. These issues were developed under specific points of the agenda of the visit.

Eurostat also enquired on the reporting of more/complete data for *Receivables relating to financial instruments* and *Adjustments, if any* in the Questionnaire tables 4.1.1 and 4.1.2. At the moment of clarification rounds, INSEE was still waiting for more details from DGFIP. INSEE reiterates that DGFIP is still improving the bridge tables to ESA 2010 and that, for other subsectors, it is not easy to establish where to classify an operation.

Eurostat enquired on the new entry - called *Prestations* - in Table 4.1.1 of the Questionnaire, in the line *Total payables (transactions) reported in Table 3A* (item 12x, amount of 3,642 million euro), during the April 2017 EDP Notification. INSEE explained that this line contains amounts of other accounts payable linked to social benefits.

According to INSEE, the payable was increasing significantly in 2016 for the State and the CNAF (*Caisse nationale d'allocation familiale*).

From 2016, the State is responsible for the payment of some social benefits concerning housing policy. Eurostat commented that the transfer from CNAF to the State concerning housing benefits should not explain the rise of AF8 related to *Prestations* in 2016 in EDP Table 3A, as this table is consolidated. CNAF should have increased the F8 related to other benefits, not related to housing policy, in 2016.

Main findings and conclusions

Action point 15: Eurostat appreciates the delivery by INSEE of some detail on payables/receivables by sub-sector (on a voluntary basis) in Table 4 of the Questionnaire related to EDP tables, and encourages further split. *Deadline: April 2018. (former AP16)*

Action point 16: Eurostat took note that 3.6 billion euro of payable related to *Prestations* in Table 4 of the Questionnaire may be due to preliminary data and expects this to be solved for the semi-definitive accounts. *Deadline: April 2018 notification. (former AP17)*

3.1 Consistency of ESA tables with EDP tables

Introduction

Discrepancies between ESA tables and EDP tables have been noticed for every notification since (at least) October 2015.

The answer of INSEE to Eurostat requests for clarification has always been that the differences are mainly due to the fact that the ESA tables 27 and 6/7 are compiled by BdF, that the timing of transmission is not the same between ESA tables and EDP tables (for example, for the October 2016 notification), that the EDP 2015 accounts were revised with new information about social security funds accounts, and that in the EDP tables there are some methodological issues implemented that are not included in the ESA transmission (for example French public corporations producing TV or radio broadcasting are included in EDP but are not yet classified in S.11 in national accounts).

Furthermore, for every notification, INSEE has declared that the (T-3) year (2012 for October 2016, 2013 for April 2017 respectively) is finalized both for ESA and EDP data and will not be opened until the next benchmark revision (planned for 2018).

As for GDP, in April 2017, INSEE justified the difference by the fact that the GDP reported in ESA tables is the one of the 2016 publication of national accounts (May 2016), whereas the EDP tables report the GDP to be used in the future publication of May 2017. Therefore, ESA tables and EDP tables will be consistent for GDP figures in May 2017, except for year 2016 (for which the GDP, specially estimated for EDP, will be revised in May 2017).

Discussion and methodological analysis

In a document sent to Eurostat before the dialogue visit, INSEE justified the low consistency between ESA tables 6 and 7 and the EDP tables by the fact that the first ones are only updated once a year (in September T-1) by BdF, while the latter provide more recent estimates in April T.

For ESA tables 27 and 28, the consistency is high on Maastricht Debt instruments (F.2/F.3/F.4), as INSEE and BdF have achieved full consistency starting with April 2016 notification. Some discrepancies remain on other instruments, mainly because INSEE might implement corrections on EDP together with ESA Table 25, which are not taken on board in time by BdF in ESA Table 27. These small inconsistencies are usually solved the following quarter.

During the meeting, Eurostat insisted on the fact that ESA and EDP transmissions should be coordinated, so data be aligned in the corresponding tables. Eurostat stressed to be always firmly requesting consistency of GFS and EDP reporting to all Member States. In Eurostat view, deviations between ESA table 27 and EDP tables put the credibility of the EDP data at risk.

Taking as example the deviations noted between ESA table 27 and EDP table 3, Eurostat was wondering which figures were the right ones. The representative of BdF expressed the commitment for constant efforts in reducing differences.

Main findings and conclusions

Action point 17: INSEE will ensure the consistency of EDP Table 3 and ESA Table 27, notably for the year 2013, for the next benchmark revision planned in April 2018. *Deadline: April 2018. (former AP7)*

3.2 Statistical discrepancies

Introduction

The statistical discrepancies for EDP Tables 3A and 3B have decreased in time, from a transmission to another. However, there are some question marks regarding some recordings in Tables 3A and 3B which could result in Statistical discrepancies.

Discussion and methodological analysis

During the meeting, Eurostat informed INSEE to have observed no consolidation of *Difference between interest (D.41) accrued (-) and paid (+)*, despite some cross holdings in government bonds which would justify to have some entries in this category. The same applies for *Issuance above (-) below (+) nominal value*. In addition, the purchase by government units on the (secondary) market (rather than on primary market) should lead to

consolidation entries in the line *Redemptions/repurchase of debt above (+) /below (-) nominal value* in EDP Table 3. Eurostat informed that failing to have such entries will lead to other statistical discrepancies (or possible *Other volume changes*).

Eurostat also observed no entries in *Changes in sector classification*. The revisions in debt, in the April 2017 EDP Notification, was due to new information (Questionnaire Table 1.2.2), not to reclassification. Given that there are no other statistical discrepancies Eurostat wondered if the item *Other volume changes* did not also capture discrepancies. Furthermore, as INSEE is capable to monitor the discrepancies between B.9 and B.9f at the unit level, Eurostat asked why 'other statistical discrepancies' are not shown in EDP Table 3. INSEE replied that it would provide this information from the October 2017 EDP Notification onwards.

Eurostat congratulated INSEE for providing detailed data revenue and expenditure of main general government (GG) units or grouping of units for 2015, for central and local government. As the information refers now only to the big units or groupings, Eurostat recommended that, in the future, the French authorities provide data on revenue, expenditure and financing for most of the other GG units (adequately grouped/aggregated).

Eurostat enquired also if statistical discrepancies in the April Notifications are partly due to the complementary period (and in this case, asking INSEE to indicate which part). Eurostat pointed to the fact that no derivative for the 'State' was reported in the table provided prior to the mission – which seemed not plausible.

Main findings and conclusions

Action point 18: INSEE will enquire on the opportunity to introduce some consolidating elements for EDP Table 3 items (premium and discounts, difference between interest paid and accrued, repurchases) in line with the updated guidelines to fill-in the EDP tables. This should eliminate/reduce a cause of statistical discrepancies. *Deadline: September 2017. (former AP19)*

Action point 19: Eurostat welcomes the delivery of complete ESA transactions (revenue, expenditure, financing) by unit (for ODACs) or by groupings of units (for local government), which allows monitoring the discrepancy by units. INSEE will verify the figures for the State (notably the lack of derivatives), which exhibits a non-negligible discrepancy. *Deadline: September 2017. (former AP18)*

3.3 Consolidation (debt and financial accounts)

Introduction

Prior to the meeting, INSEE provided a list of government units considered to have a significant financial portfolio (BPI France Participations, CADES, FRR, CNAVPL, AGIRC, ARRCO, RAFF) and some details on the financial portfolio of these units at the end of 2016.

Discussion and methodological analysis

Eurostat argued that, for all these units, it is theoretically possible, from public accounting, to know if the counterpart unit is inside or outside general government, and that, if the counterpart is part of general government, INSEE can identify precisely the unit concerned. Therefore, in the view of Eurostat, INSEE have all the information necessary for proper consolidation directly in public accounting.

DGFIP and INSEE indicated that the consolidation work was not systematically carried out but only for the largest unit.

Eurostat acknowledged the quality of the information and the fact that the French statistical authorities are capable to precisely identify consolidating elements.

Main findings and conclusions

Action point 20: Eurostat congratulates INSEE for the very rich extra budgetary information on whom-to-whom basis for financial instruments collected for some large units. This allows a very precise consolidation of the Maastricht debt.

3.4 Historical EDP data

Introduction

For the April 2017 notification, INSEE sent historical data covering 1995-2012 for EDP Table 1 only.

Discussion and methodological analysis

Eurostat enquired on the possibility to have more EDP tables filled-in with historical data.

INSEE declared that they could have data for EDP tables 2A and 3 starting from 2009.

Main findings and conclusions

Action point 21: INSEE agreed to transmit to Eurostat historical data, starting from 2009, for EDP tables 2A and 3. *Deadline: October 2017 notification*¹¹

4. Methodological issues and recording of specific government transactions

4.1 Implementation of ESA 2010

Introduction

INSEE changed the National Accounts base year from 2005 to 2010 in April 2014. The data resulting from this change, together with the introduction of ESA 2010, was published in May 2014.

The forthcoming main changes linked to the change of base year and linked to the introduction of ESA 2010 were discussed during the previous EDP dialogue visit in June 2014, where four action points were agreed related to this subject (AP 3 to AP 6), which have been completed.

Discussion and methodological analysis

During the meeting, the information provided previously by INSEE on the *Note recalling the implementation of ESA 2010 impacting B9/debt* was discussed. According to this file, there was no impact due to changes in sector classification, neither on B.9 nor on the government debt.

¹¹ AP completed

Eurostat asked why there is no change in sector classification for the period 2010-2013. INSEE explained that it already applied some qualitative criteria for sector classification under ESA 1995. Eurostat enquired on cases (other than hospitals) for which the classification was done taking into account some qualitative criteria.

As an example, INSEE indicated that *Société Anonyme de Gestion de Stocks de Sécurité* (SAGESS, a unit managing oil reserves) had been reclassified into S.13, although this was not due to the implementation of ESA2010, but due to the delayed implementation of the Eurostat guidance note under ESA 1995 (see INSEE revision policy).

Eurostat enquired also if there are cases of units reclassified into S.13 because they are the sole supplier of the government. INSEE committed to provide some examples of units classified in government on the basis of qualitative criteria.

Eurostat underlined that INSEE has to be sure that there is no case of sole supplier of government classified outside S.13.

Main findings and conclusions

Action point 22: Eurostat took note that INSEE already applied some qualitative criteria for sector classification under ESA 1995. This explains that the transition to ESA 2010 did not lead to any change of sector classification. INSEE will provide some examples of units classified in government on the basis of qualitative criteria. *Deadline: August 2017*

4.2 Delimitation of general government, application of the 50% rule in national accounts

4.2.1 ESA 2010 sector classification - qualitative and quantitative aspects

4.2.1.i Interpretation of rules on government control and qualitative rules for market/non-market criteria

Introduction

INSEE reviews the unit sector classification on several occasions, but not every year: in the context of the creation of a new unit, when there is a major change in the governance of a unit, and during benchmark revisions.

When analysing the sector classification of a unit, INSEE analyses both the qualitative and the quantitative criteria.

Regarding the qualitative criteria, INSEE analyses the ownership of the majority voting interest, the composition of the board (whether public servants are present), the right to appoint or remove board's members, as well as the possibility for Government, being the only client of the unit, to exert a significant control on it.

Discussion and methodological analysis

Starting from the INSEE presentation of the steps in the sector classification of a unit, Eurostat enquired on the frequency of the re-examination of the market/non-market test. INSEE informed that this re-examination is done on a regular basis, however not annually – although DGFIP does this test annually on its side.

Eurostat considered that this basic test should be done annually, on the whole population of public corporations, as this is the case in most, if not all, countries. This is without prejudice

of the ensuing reclassification, as national institutes should avoid changing the classification of a given unit every year: the market test should thus be assessed over the medium term.

Main findings and conclusions

Action point 23: INSEE will implement its automatized routine for the market/non-market test, annually, on the whole population of public corporations, as DGFIP does on its side.
Deadline: From December 2017. (former AP28)

4.2.1.ii Formula used for the quantitative criterion

Introduction

Before the visit, INSEE provided Eurostat with information on the use of the quantitative criterion for the sector classification of units. There are 2 cases to be considered (depending if the unit to be classified is within the field of competence of the Ministry of Finance or not) and consequently there are 2 ways of carrying the test – using a formula or using fiscal data:

1. When the unit to be classified is within the field of competence of the MoF, the public accounting is carried out by a public accountant, and thus the accounts of the units are available, which makes possible the use of the following formula:

$$\text{Ratio} = \text{Resources} / (\text{COST1} + \text{COST2} + \text{COST3} + \text{COST4})$$

where:

Resources = P.11 + P.13_PP (PP stands for partial payments)

COST1 = P.2 + D.1

COST2 = D.29

COST3 = C_6811 or C_6812 (amortisations, representative of consumption of fixed capital)

COST4 = D.41 (net paid)

2. When the unit is not under the field of competence of the MoF, tax data (*Liasses fiscales*) is used for carrying the test. In some cases other available public information is used such as public financial statements.

Discussion and methodological analysis

Following the request by Eurostat, INSEE agreed to provide the formula using the chart of accounts codes.

Eurostat enquired on how losses on inventories and losses on receivables are treated in national accounts and incorporated in the market-test. INSEE will enquire on the treatment of losses on inventories and on receivables both for national accounts compilation and for the market/non-market test (by reference to specific codes of the 'Liasses fiscales').

Eurostat also recommended that the 'changes in inventories' (of finished goods and work in progress) be taken into account for the market/non-market test (costs are likely to be on the basis of cost of production rather than of cost of sales).

Main findings and conclusions

Action point 24: INSEE will enquire on the treatment of losses on inventories and on receivables both for national accounts compilation and for the market/non-market test (by reference to specific codes of the '*Liasses fiscales*'). *Deadline: December 2017*¹²

Action point 25: INSEE and DGFIP will provide the exact formula in the market/non-market test based on the codes of '*Liasses fiscales*', or/and on the public accounting codes. *Deadline: December 2017*

Action point 26: INSEE will include the 'changes in inventories' (of finished goods and work in progress) within sales for the market/non-market test (given that costs are likely to be on the basis of cost of production rather than of cost of sales). *Deadline: December 2017. (former AP23)*

4.2.2 Review of the (changes in the) list of general government units

Introduction

According to the information provided by INSEE prior to the meeting, since the last EDP dialogue visit, some units were introduced in the budgetary central government subsector (S13111): the funds managed by *Caisse des dépôts et des consignations* (CDC) in the framework of the PIA, and the public holdings *TSA* and *Société de Gestion de Participations Aéronautiques* (SOGEPA). No units have been removed. In the other central government bodies subsector (S13112), 155 units have been added (among them, the *Fonds de garantie des dépôts et de résolution* FGDR) and 73 units have been removed. No changes occurred in the Local government sub-sector (S1313) and Social Security Fund sub-sector (S1314).

Discussion and methodological analysis

Eurostat stated that the funds managed by CDC presumably did not enter the CDC's own balance sheet. INSEE confirmed this, as these are entries in the extra-budgetary accounts.

4.2.3 Sector classification of specific units

4.2.3.i Réseau Ferré de France (RFF), including rerouting of debt

Introduction

Société nationale des chemins de fer français (SNCF) and *Réseau Ferré de France* (RFF) are classified as non-financial corporations (S.11).

In a document sent to Eurostat before the visit, INSEE described the situation pre- and post-railway' organisational reform. Before the 2015 reform, there were two separate corporations: SNCF - the railway company that operated trains on the French railway network, and RFF - that developed, maintained and operated the railway network.

The 2015 reform created a unified group, *Société nationale des chemins de fer français* (SNCF), which fully owns and controls two subsidiaries: *SNCF Mobilité* (that roughly corresponds to the former SNCF *minus* people formerly employed by SNCF for maintenance

¹² Action point completed. During the January 2018 Ad-hoc visit, INSEE informed that losses on inventories and on receivables are both included within costs for the 50% test (and also deducted from value added in national accounts).

of the network) and *SNCF Réseau* (that roughly corresponds to the former RFF *plus* people formerly employed by SNCF for maintenance of the network).

According to INSEE, this modification has limited accounting impact and no impact on the market test performed on the unit operating the network. The impact is also negligible on the computation of debt allocated to the State.

The allocation of the debt of RFF to the State has been discussed during the upstream visit in 2012 and also during the 2014 EDP visit. At that time, Eurostat had asked INSEE to consider 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.

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. INSEE also informed Eurostat then that, by using the new formula in ESA 2010 for the market/non-market test, RFF was still considered as a market producer, as sales were still above 50% of costs (including net interest charges). The results then obtained were close to the ones obtained previously and independently by the Court of Auditors.

Discussion and methodological analysis

Eurostat asked INSEE to detail the components of RFF revenue, by different type: sales, subsidies on production, amortization of investment grants, etc. Eurostat also enquired if INSEE could distinguish, within the *RFF* turnover, the part representing the contribution of the *SNCF Mobilité*.

Eurostat wondered what would be the result of the market/non-market test, the market test if *SNCF Mobilité* and *SNCF Réseau* were considered as one entity.

Eurostat took note of the method used by RFF to compile the stock of fixed assets and related amortization, wondering whether these latter amounts could be thought as a reasonable estimate of consumption of fixed capital in national accounts. INSEE committed to reflect on whether there may be a need for adjustment (e.g. use of a coefficient).

Then, the discussion went on the RFF's rerouted debt issue. During the April 2017 notification, Eurostat noticed, in Table 13 of the Questionnaire, an increased *SNCF Réseau* debt rerouted in 2015, which was explained by INSEE as due to a sharper decrease in investment grants than in investment. During the clarification rounds, INSEE provided a note, *Treatment of RFF debt in National Accounts from May 15th 2014*, containing the formula used and some details on the amounts reported in the note for the calculation of *SNCF Réseau* rerouted debt.

Eurostat therefore enquired on the method used to calculate the rerouted debt and the components of the elements used in the formula. Eurostat thought that the amortisation of investment grants should be included in the (S/S+P) formula that is used for estimating the debt to be rerouted.

Main findings and conclusions

Action point 27: INSEE agreed to provide detailed information by different types of revenues (sales, subsidies on production, amortization of investment grants). INSEE will

realise the market/non-market test for *Société nationale des chemins de fer français* (SNCF) as a group. *Deadline: September 2017*¹³. (former AP29)

Action point 28: Eurostat took note of the method used by RFF to compile the stock of fixed assets and related amortization, wondering whether these amounts could be thought as a reasonable estimate of consumption of fixed capital in national accounts. INSEE and Eurostat will reflect on whether there may be a need for adjustment (e.g. use of a coefficient). *Deadline: September 2017. (former AP30)*¹⁴

Action point 29: INSEE will examine the need to include amortisation of investment grants in the (S/S+P) formula used for estimating the debt to be rerouted, and will inform Eurostat on progress on this issue. *Deadline: August 2017. (former AP31)*¹⁵

4.2.3.ii Public Housing Offices (*Les Offices publics de l'habitat*) and the social houses (*HLM - Habitations à Loyer Modéré*)

Introduction

HLM are either public-owned (mostly by municipalities or groups of municipalities) corporations, or private-owned non-profit corporations.

HLM that are public industrial and commercial establishments (EPIC) (together with public housing offices (OPAC), syndicates responsible for supplying water and sanitation) are classified as non-financial enterprise (S.11).

Discussion and methodological analysis

INSEE presented the reasons for classification of HLM - either public or private-owned - in the non-financial corporations sector (S.11):

- the public-owned HLM enjoy a substantial autonomy of decision in the management of their real-estate properties. In particular, when a flat is empty in a HLM owned by a municipality, the HLM may veto the tenants proposed by the municipality (for example if the HLM thinks that the proposed tenant will not be able to regularly pay the rental).

- in practice, HLM revenue is overwhelmingly composed of rentals which are considered as market sales by INSEE. The level of rentals proposed by HLMs has a clear effect both on the amounts that the producers are willing to supply (excessively low rentals in HLMs would induce losses and prevent HLMs to launch investments in new buildings, thereby reducing their long-term supply) and on the quantity that the purchasers (tenants) are willing to acquire (due to competition between HLMs and private lessors on the housing market).

- part of the rental may be in practice financed by social transfers paid by General government (housing subsidies). INSEE considers these social transfers as market sales since all low income tenants are entitled to these housing benefits (even if they are not HLM tenants).

¹³ Action point completed: INSEE sent on 13.10.2017 the file "Test marchand Groupe SNCF – Comptes 2016". The issue is nevertheless still under evaluation and was discussed during the January 2018 Ad-hoc visit.

¹⁴ Action point in progress. The issue was re-discussed during the January 2018 Ad-hoc visit (see action points 39 to 42).

¹⁵ Action point in progress. The issue was re-discussed during the January 2018 Ad-hoc visit (see action point 44).

- HLM often benefit from investment subsidies by local government units that help them finance the construction of new buildings or the renovation of existing buildings. They also enjoy low-interest loans granted by *Caisse des Dépôts et Consignations* (but the effective advantage taken from these loans has become weaker with the sharp decrease in market interest rates in the last few years).

- the result of the market test for HLMs is usually high.

During the meeting, INSEE answered to Eurostat's questions regarding (a) the selection of the tenants (based on commissions formed by representatives of HLM and municipalities), (b) investment subsidies notably paid by local government units and other transfers benefiting tenants (possible estimate of 5 billion euro/year globally) (tenants pay the net amount; not all tenants in HLM benefit from these subsidies), (c) and the final beneficiary of the housing subsidies (the tenant with reduced income, which is paying only the difference to the established rent).

Eurostat asked also the number of people living in HLM. INSEE replied that this information must be extracted from the social housing survey and will then be presented to Eurostat.

Eurostat furthermore enquired on who is deciding the appointment of the HLM managers and if there are municipalities which are acting as managers of HLMs. INSEE mentioned several cases, depending if the Public Housing Offices are working only for one local government unit (e.g. Paris) and in this case the HLM are controlled by the respective LG unit, or for many local government units.

Several other questions were raised by Eurostat, notably whether the HLM offices can seek tenants outside local government lists (before the list is empty), whether the rents (net of housing benefits) asked by HLM are income dependent or not, who appoints HLM management, who decides on the liquidation of HLM, and who decides on investment grants. INSEE demanded some time to gather information for answering.

Main findings and conclusions

Action point 30: INSEE will enquire on a certain number of questions raised by Eurostat on the functioning of the HLM (*Habitations à Loyers Modérés*, social housing), notably (1) whether the HLM offices can seek tenants outside local government lists (before the list is empty), (2) whether the rents (net of housing benefits) asked by HLM are income dependent or not, (3) who appoints HLM management, (4) who decides on the liquidation of HLM, and (5) who decides on investment grants. INSEE will inform Eurostat on progress on these issues. *Deadline: December 2017. (former AP32)*¹⁶

4.2.3.iii Hospitals (including subsector classification in ESA2010)

Introduction

In the Social Security Funds subsector, the *Organisme dépendant des assurances sociales* (ODASS, S.13142) are institutional units that participate in public social welfare and are closely linked, including financially, with social security funds: these units participate in the public health systems and are mainly non-market producers.

¹⁶ Action point completed. The issue is nevertheless still being discussed (see action points 52 to 54 of the January 2018 Ad-hoc visit).

For the most part, these are public hospitals, although there are also non-profit private hospitals which participate in the public hospital service (called PSPH), and where the service and funding are mostly not driven by commercial considerations.

Prior to the visit, INSEE presented in a document the two criteria for the sector classification of the hospitals: (1) the *public control* and (2) the *economically significant price of the hospital's receipts from Social Security Funds*.

In France, there are 3 categories of hospitals:

1. public hospitals under public control;

2. non-profit hospitals (*Établissements de Santé Privés d'Intérêt Collectif* - ESPIC): they are owned by (private) non-profit entities (associations, foundations or health insurance companies based on a non-profit economic model) but are deemed to have a very limited autonomy of decision regarding their field of activity (e.g. surgery vs maternity care) or the size of their activity (number of beds). In practice all important decisions are made by ARS (*Agences régionales de santé*) which are general government bodies that decide, for instance, which public hospitals or ESPICs should be specialized in which type of medical activity. As a result, ESPICs are deemed to be under public control;

3. private for-profit hospitals: are private-owned and freely determine their field of activity and the size of their activity (in particular the number of beds).

All hospitals (public, non-profit private or for-profit private) are overwhelmingly financed by payments made by Social Security Funds, though a minority part of their receipts stem from direct payments made by households (these payments rather correspond to non-medical services such as accommodation and catering). These payments by Social Security funds used to be lump sum payments for public hospitals and ESPICs. The situation has changed over the last years: now all types of hospitals receive payments adjusted to the level of their activity with the T2A (*Tarifification à l'activité*) financing mechanism. These T2A payments are proportionate to the activity of the hospitals.

The public hospitals and ESPICs are not free to adjust their activity to the level of T2A payments (which, for a given activity, are different from T2A payments made to private for-profit hospitals) since all important decisions regarding their activity are made by ARS. Hence, INSEE considers that T2A payments should not be regarded as economically significant prices for these hospitals. T2A payments are rather a useful tool for ARS to put pressure on the management of less efficient hospitals and oblige them to reorganise themselves.

For private for-profit hospitals, the T2A may be considered as sale of services since they freely determine the field and the size of their activity: the level of T2A payments has an impact on the supply of medical services by these hospitals.

For all the reasons described above:

- both public and all non-profit hospitals are classified in General Government (S.13), more precisely as other Social Security bodies;

- private for-profit hospitals are classified among non-financial corporations (S.11).

Accounts of public hospitals are drawn up according to a standard chart of accounts (accounting classification M21). This M21 standard, which is applicable to hospitals, is maintained using accrual accounting in a standard framework based on the general chart of accounts.

Hospitals issue short-term and long-term securities.

Hospitals are not included in the “working-balance” line in the EDP Table 2D.

Discussion and methodological analysis

During the EDP dialogue visit from June 2014, the nature of the information available for the April and October notifications concerning units of the social security sub-sector, for which DG Trésor makes estimates, was discussed, as well as the measures in place to improve data availability. It was established a dedicated action point – *AP 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.* This Action Point was not closed prior to this dialogue visit.

In a document provided prior to the meeting, INSEE declared that "*No accounting data are available on private hospitals (ESPIC) for the October EDP notification*". INSEE agreed to provide more information on these non-profit private hospitals, mainly on their number, their revenue and expenditure.

Eurostat took note on the sector classification of hospitals and thanked INSEE for the analysis provided prior to the mission.

4.2.4 Government controlled entities classified outside general government (public corporations)

4.2.4.i of which, NACE 84/85 activities

Introduction

In the *Questionnaire on government controlled entities classified outside general government*, with 2014 as reference year, sent by INSEE to Eurostat on 23 December 2016, 7937 public corporations are listed, of which 38 classified in S.12 and 7899 classified in S.11.

783 units are classified in *NACE 84 and 85 activities*: 732 units in *NACE 84: Public administration and defence; compulsory social security* and 51 units in *NACE 85: Education*.

In a document sent to Eurostat before the dialogue visit, INSEE provided information on public units controlled by local government. In that file, it is stated that it is easy to obtain information on total participations for a given local government unit, as the local government accounts yield, in a synthetic and harmonized way, information on participations in firms classified outside general government. Meanwhile the document also mentions difficulties in going further in details: the information on detailed participations is not available in centralised information systems. It is thus necessary to consult individual accounts and especially comments made by public accountants that help identify which firms are controlled. This raises two issues:

- a comparability issue: the details of comments vary between different local government units;
- a feasibility issue: this can be done only for specific individual cases but not for all government units simultaneously since there are 36,000 municipalities in France.

Discussion and methodological analysis

Eurostat stated that the *Questionnaire on government controlled units classified outside general government* with the last reference year 2014 was out-dated and consequently the French statistical authorities should send an updated version, with data for 2016.

A first question of Eurostat concerned the accounting concept (business or national accounts) used for calculating the 'liabilities' and 'operating profit/loss'. INSEE noted the data are extracted from the 'Liasses fiscales', and will provide Eurostat with the codes used for the liabilities as well as for the operating profit.

The French authorities were also invited to comment on zero figures reported in the column 'operating profit/loss' for 5523 units and on the zero liabilities reported for two banks in the Questionnaire. INSEE admitted that some data are not totally reliable, which notably was the case regarding the units with zero employees.

INSEE also noted that the NACE column of the table was not fully correct, at least for some units. Eurostat recalled that according to ESA 3.84, NACE O was nonmarket. As a result, Eurostat requested INSEE to either reclassify the 732 units coded NACE O inside general government, or change the NACE to a more appropriate code.

Main findings and conclusions

Action point 31: INSEE will provide the *Questionnaire on government controlled units classified outside general government* including the market/non-market test adapted for the various aspects discussed during the meeting, including for subsidies on production mentioned above, for the reference year 2016. *Deadline: December 2017. (former AP26)*

Action point 32: Eurostat reminded that, according to ESA 2010, the NACE category "O" is non-market. Eurostat, thus, asked why 732 units classified as public corporations were reported in that NACE O category in the *Questionnaire on government controlled units classified outside general government*. INSEE will reflect on possible changes of either the NACE code or the sector classification, and will communicate its findings to Eurostat. *Deadline: September 2017¹⁷. (former AP27)*

Action point 33: INSEE will provide Eurostat with the 'Liasses fiscales' codes for the liability, as well as for the operating profit, reported in the public corporations questionnaire. *Deadline: December 2017*

Action point 34: INSEE will verify that the number of employees reported to be zero for many entities are genuine zero in the public corporations questionnaire (in this case the entity is presumably not an institutional unit but a part of other unit) or not. INSEE will also enquire the two S.12 entities reported with no liabilities. *Deadline: December 2017*

4.2.5 Government and the financial sector: sector classification and operations

4.2.5.i Fonds de Garantie et de Résolution (FGDR), including repayable contributions

Introduction

¹⁷ Action point completed. In the January 2018 Ad-hoc visit, INSEE explained that the NACE O coding reflected errors in the business register, which were being corrected, and that 732 units had been reclassified to NACE I ("syndicats des eaux"). During the Ad-hoc visit, Eurostat raised questions related to the sector classification of those units (see action point 50).

The sector classification of FGDR was discussed during the Eurostat EDP dialogue visit of June 2014 (at that time FGDR was classified as financial auxiliary in S.126). As a follow up, in April 2015, the FGDR was reclassified to the general government sector.

Meanwhile, the sector classification of ‘statutory protection funds’ and potential addition or revision to the MGDD were discussed in the EDP Statistics Working Group (EDPS WG) and in various meetings of the TF on Methodological Issues.

Following some modifications in legal arrangement related to the functioning of the FGDR, in the April 2016 notification, INSEE reclassified the FGDR outside S.13 from 2015 onwards, against the opinion of Eurostat who accordingly issued a reservation to this effect.

In October 2016, an Advice letter regarding the *Classification of the Fonds de garantie des dépôts et de résolution (FGDR) in national accounts* was sent to France (published on Eurostat's website). At the same time, discussions in the EDPSWG were progressing at a good pace, with majority support in favour of the option of having all statutory guarantee funds foreseen by EU legislation classified inside government on the basis that these entities do not carry out market activities – a development also mentioned in the Eurostat advice. This position was also supported by the ECB and the IMF.

In the context of the clarification rounds of the October 2016 notification, INSEE decided to reclassify FGDR to the S.13 sector from 2015 onwards.

At the same time, INSEE reclassified FGDR liabilities related to repayable contributions outside the Maastricht debt, recorded as AF.66 instead of AF.2 (from 1995 onwards).

Discussion and methodological analysis

In a file sent to Eurostat before the meeting, INSEE presented the 3 types of banks' contributions to FGDR (*contributions, deposits and associate certificates*) together with information related to their classification and recorded amounts. The treatment of repayable contributions was also being discussed in Eurostat working groups (December 2016 EDPS WG).

In its note, INSEE explained also how the Eurostat *Clarification* from 26.09.2016 on the *statistical recording of the 2015 contributions to National Resolution Funds* was implemented: the 900 million euro received in December 2015 by FGDR from the banks to be transferred early 2016 to the *Single Resolution Fund* were neutralised from the B.9 point of view.

Eurostat mentioned that the possible change of recording of repayable contributions, from AF.6 to AF.8, will be on the agenda of the next EDPSWG of July 2017. Eurostat hoped that conclusions on the appropriate recording of repayable contributions will be reached in a sufficiently timely manner to allow INSEE to implement this in its interim benchmark revision.

Main findings and conclusions

Action point 35: Eurostat will aim at finalizing the discussion in the EDPS WG on the appropriate recording of repayable contributions (possibly to be recorded as AF.8), which would help INSEE with the benchmark revision compilation concerning contributions collected by the Deposit Guarantee and Resolution Funds (*Fonds de garantie des dépôts et de résolution* - FGDR), currently coded AF.6. *Deadline: November 2017*

4.2.5.ii Agence Française de Développement (AFD)¹⁸

Introduction

In 2016, AFD was one of the main beneficiaries of State guarantees¹⁹.

In the April 2017 notification, figures related to a capital injection in AFD for 2016 were reported in EDP Table 2A and in Tables 2.1 and 10.2 of the Questionnaire related to EDP tables.

The discussions concerned the appropriate recording of the 2016 capital injection of AFD, the rerouting of AFD operations through government accounts, and the classification of AFD.

Discussion and methodological analysis

INSEE provided information on the role and structure of AFD, the consolidated balance sheet of AFD Group for 2014 and 2015, including elements guaranteed by the State or carried out on behalf of the State (2.4 billion euro in both 2014 and 2015 - around 7% of AFD's total assets). The reasons for classifying AFD as a financial intermediary, and not as a captive financial entity, were also enumerated.

Eurostat enquired on why there was no rerouting of loans granted by AFD reported in Table 13 of the Questionnaire related to EDP tables. INSEE admitted that it was an error, which will be corrected for the October 2017 notification (as 2.4 billion should be reported).

Eurostat furthermore asked who is deciding the granting of loans, and notably sovereign loans. This could justify further rerouting of operations through government accounts. INSEE committed to enquire on the AFD decision-making process regarding large loans or equity transactions, notably, whether the decision is taken by the strategy council, by the board, or below. On this basis, Eurostat invited INSEE to reflect on the need to reroute the corresponding transactions and to inform Eurostat on progress.

The subject was further expanded with an analysis of the sector classification of AFD. Eurostat wondered why, given the clear public policy objectives of AFD, its activity of distribution of government subsidies and its large portfolio of sovereign loans, AFD was not classified inside government.

Finally, Eurostat noted that AFD benefited from a debt cancellation, of 2.4 billion euro in 2016. The event was currently not recorded as expenditure but as a financial operation, given that government loans to AFD had been converted into equity. The operation was orchestrated so to meet regulatory requirements: AFD is on the MFI list, and is supervised by ECB. Eurostat indicated that the capital injection test should be applied. In this respect, the future profitability of AFD should be assessed taking AFD profits excluding subsidies received from government (according the MGDD).

Main findings and conclusions

¹⁸ In the October 2017 EDP notification, Eurostat expressed a reservation on the quality of the data reported by France in relation to the recording of some operations of the Agence Française de Développement (AFD).

¹⁹ Together with the EFSF (European Financial Stability Facility), the SFEF (Corporation for Financing the French Economy), DEXIA, FGAS (Social Guarantee Fund) and UNEDIC (National Inter-Professional Union for Employment in Industry and Commerce)

Action point 36: INSEE will report in Table 13 of the Questionnaire related to EDP tables, the 3 billion euro of loans granted by *Agence française de développement* (AFD) and currently rerouted through government accounts in national accounts. *Deadline: October 2017 notification*²⁰

Action point 37: INSEE will enquire on the AFD decision-making process regarding large loans or equity transactions, notably, whether the decision is taken by the strategy council, by the board, or below. On this basis, Eurostat invites INSEE to reflect on the need to reroute the corresponding transactions and to inform Eurostat on progress.²¹ *Deadline: October 2017 notification*

Action point 38: More generally, Eurostat invites INSEE to reflect on the statistical classification of AFD. Eurostat will provide a note on the subject with further questions. INSEE will notably consider whether AFD is profitable without the received subsidies. In this context, the conversion of loans into equity (2 billion euro) should be capital injection tested in line with MGDD rules. *Deadline: Eurostat note by June 2017. Analysis of AFD injection by September 2017.*²² *Analysis of AFD sectorisation by November 2017*

4.2.5.iii Banque Publique d'Investissement (BPI) group – structure, activities and classification

Introduction

Prior to the meeting, INSEE sent to Eurostat the presentation of the structure, the classification and the activities of the *BPI Groupe*.

The limited holding company *BPI Groupe SA* (S.13112) is held at 50%-50% by *Caisse des Dépôts et Consignations* (CDC) and by the State through the EPIC (*Établissement public industriel et commercial*) named *BPI Groupe* (classified also in S.13112).

BPI Groupe is composed of two different clusters:

- the first one consists of *Bpifrance Financement*, which provides loans, guarantees and support to innovation (subsidies, repayable advances, zero-interest loans); it is a financial institution, classified in S.12;

²⁰ AP completed

²¹ Action point in progress. The discussion on this point continued during the January 2018 Ad-hoc visit (see action point 5). Furthermore, in a letter dated 19 January 2018, INSEE stated the following: "(...) *there remains an issue regarding AFD's classification. We agree that the composition of the board raises questions regarding this issue since the board has the final word on the decision to grant loans (although in most cases it follows the advice of AFD's staff). However we cannot exclude the possibility that the governance of AFD changes in coming months: we will of course keep you informed of the possible developments on this issue of governance.*"

²² Action point in progress, partially completed. Regarding the sector classification, see previous footnote. Regarding the conversion of loans into equity, INSEE informed, in a letter dated 19 January 2018, that it will revise this treatment so to "(...) *record SCR loans granted as capital transfers from the State to AFD increasing S.13 deficit and, symmetrically, the reimbursement of SCR loans as capital transfers from AFD to the State diminishing S.13 deficit. The 2016 conversion of SCR loans into equity will thus have no impact on deficit.*"

- the second one consists of both *Bpifrance Participations* (S.13112), which detain 100% the *Bpifrance Investissement* (S.12), and is focused on investment.

Discussion and methodological analysis

Eurostat enquired on the distribution of subsidies and zero interest loans: whether *Bpifrance Financement* is, or not, the only distributor; to whom are these zero interest loans granted; and more generally what is the governance applicable. The French statistical authorities stated that they will search for more information. Eurostat enquired whether some rerouting of transactions may be required.

Eurostat also took note that *BPI Financement* had been very active in the prefinancing of the CICE (3.5 billion euro as of end 2015) (see section 4.3.1.i).

In relation to *Bpifrance Investissement*, Eurostat enquired on who is the genuine client: in case it is *Bpifrance Participations*, this may imply a reclassification inside government based on the qualitative criteria (ESA 20.24-20.26).

Main findings and conclusions

Action point 39: INSEE will examine whether some of *BPI Financement* financing transactions might be in need to be rerouted (zero interest rate/subsidised loans). Eurostat takes note that *BPI Financement* is significantly active in pre-funding the CICE subsidising schemes (for a stock of 3.5 billion euro end 2015).²³ *Deadline: October 2017 notification*

Action point 40: INSEE will clarify who is the genuine client of *BPIfinance Investissement*: is it *BPI Participation* (leading to a reclassification into government) or not?²⁴ *Deadline: December 2017*

4.2.5.iv Caisse des dépôts et consignations (CDC)

Introduction

Caisse des dépôts et consignations (CDC) is a French public financial institution created in 1816 which, under the direct supervision of a supervisory committee reporting to Parliament, carries out activities of general interest on behalf of the State and of local authorities as well as commercial/competitive activities.

The issues to discuss concerned the need for rerouting some CDC activities and the treatment of the *Fonds d'épargne* section of CDC.

Discussion and methodological analysis

²³ Action point completed, for the January 2018 Ad-hoc visit. According to INSEE, the tasks performed by BPI Financement on behalf of the State are in fact financed by State subventions recorded both in the budget as well as expenditure in national accounts. Furthermore, INSEE informed that capital injections to BPI Financement are closely followed and that in 2015 a 0.3 billion euro capital injection was recorded as a capital transfer.

²⁴ Action point completed. Prior to the January 2018 Ad-hoc visit, INSEE informed that, "As *Bpifrance Investissement* works only for its parent we decided to reclassify the unit for the 2018 April notification. This reclassification should have an extremely small impact on both B.9 and debt."

INSEE made a broad presentation of CDC structure, activities and operations carried out on behalf of government:

- CDC has a dual status: it is both a special agency (*établissement special*) entrusted with mandates to act in various areas of national interest, and a financial institution classified in S.122 in national accounts;

- CDC is a public group made up of a Public Institution and subsidiaries. Missions of general interest are the responsibility of the Public Institution. Subsidiaries are in charge of commercial activities;

- CDC is an autonomous public agency and makes its investment decisions autonomously. It independently manages its assets and its personnel are not, for the most part, made of civil servants.

The public institution CDC is considered a financial intermediary by INSEE. However, in some cases, CDC clearly carries out operations on behalf of government, which hence should be rerouted in S.13 accounts.

Cases currently rerouted comprise funds managed by CDC on behalf of government: PIA funds. Other operations might happen to be rerouted in S.13 accounts: for example, in 2010, repayable advances were paid by CDC to Airbus ('A400M program') rather than directly by the State. INSEE considered at that time that this specific transaction had been carried out on behalf of the State and accordingly rerouted it in State accounts.

Eurostat enquired on the amounts managed by CDC that were rerouted and not recorded in Table 13 of the Questionnaire, other than PIA funds and the repayable advances to Airbus. INSEE confirmed that, for the time being, no other CDC operations are currently rerouted through government accounts over the 2013-2016.

Eurostat thought such an absence of rerouting somewhat surprising given the active public policy role of CDC. Eurostat recalled the detailed criteria on rerouting that were examined by the methodological Task force of May 2017. In this context, it enquired on the existence of important transactions (and their amount) validated by the supervisory board. The French statistical authorities agreed to search for this information.

Regarding the *Fonds d'épargne CDC*, Eurostat noted that these are not consolidated with the CDC central section in CDC publications. Furthermore, in the *Questionnaire on government controlled units classified outside general government*, the *Fonds d'épargne CDC* is registered separately. This perhaps suggests that CDC itself considered that the group was not exposed to the risks and rewards on these funds. Accordingly, a question arose whether these should not be hosted in government accounts (principal party recognition).

In addition, such *Fonds d'épargne CDC* seemed to benefit from active State support. On the one hand, *Fonds d'épargne CDC* collects traditional savings using popular 'saving book' instruments, which remuneration is decided by the State. On the other hand, *Fonds d'épargne CDC* are directly assigned to social housing lending. Owing to the State support, the arrangement historically permitted collecting large and stable amounts of funds and providing resources at a reasonably cheap rate.

Finally, Eurostat took note that the accounts of CDC are monitored by *Autorité de contrôle prudentiel et de résolution* (ACPR).

Main findings and conclusions

Action point 41: Eurostat took note that no *Caisse des dépôts et consignations* (CDC) operations are currently rerouted (aside from PIA funds) through government accounts, while one operation was last rerouted in 2010. Eurostat invited INSEE to carefully examine CDC operations of the central section for potential rerouting, notably based on the criteria provided in the Task force of May 2017 on rerouting. In particular, INSEE will enquire on who decides on large operations (the supervisory board?) and will reroute the transactions as appropriate. *Deadline: October 2017 notification*

Action point 42: With respect to the savings fund section of CDC, which is not consolidated with the central section in CDC publications, Eurostat listed the reasons that may point to rerouting the section through government accounts, and invited INSEE to reflect on this. INSEE will keep Eurostat informed on progress on CDC. *Deadline: September 2017*

4.3 Implementation of the accrual principle

4.3.1 Taxes and social contributions

Table 5 of the Questionnaire related to EDP tables. Taxes and social contributions: other accounts receivable/payable of general government

Introduction

Eurostat had repeatedly requested in the past that INSEE improves the reporting of the Table 5 of the Questionnaire related to EDP tables.

During the previous EDP dialogue visit in June 2014, it was established the **AP 10** - *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.*

Prior to this meeting, INSEE reported that some progress was made since the last EDP dialogue visit but that the accounting data do not allow an extremely precise breakdown of fiscal claims (F.89) by type of tax.

Discussion and methodological analysis

For the April 2017 notification, it was noted that, in the Table 5 of the Questionnaire, there were no revisions for receivable/payable related to D2 and D5 in 2015 (i.e. fiscal claims), and some revisions in D91, while there were revisions of D2 and D5 in ESA Table 2. This seemed somewhat contradictory, or at least counterintuitive, to Eurostat.

INSEE explained that the sources used for financial and non-financial account may differ for the State. Therefore, the revisions in both accounts may not match.

INSEE justified the differences by the fact that the ESA Table 2 is related to the non-financial accounts (expenditure/revenue of GG) and Questionnaire Table 5 is related to the financial accounts. Revisions of one of the tables do not involve revisions in the other. For central government, two different sources are used: one for the financial accounts and another for the non-financial accounts. Corrections of the accounts which stem from one of the sources may not lead to a revision in the accounts stemming from the other source.

In addition, for central government and for the others subsectors, the F8 related to taxes and social contributions are difficult to isolate in the financial statement. DGFIP informed that it is working to improve the split in F8.

Eurostat did not agree with this explanation and reiterated that Questionnaire Table 5 should report the accrual to cash settlement adjustments that presumably stem from the time-adjusted cash methods (which is coming from non-financial side) or from the assessed amounts (reduced by a coefficient). Eurostat thus asked why the ESA Table 2 is revised differently from the Questionnaire Table 5.

Eurostat underlined that the Questionnaire Table 5 is meant to monitor the cash to accrual reconciliation, for control purposes. This is thus also the amount that should be reported in the financial accounts. In the view of Eurostat, the fact that the financial accounts show inconsistent data compared to the non-financial accounts should not pollute the Table 5.

Main findings and conclusions

Action point 43: Eurostat pointed out that Table 5 of the Questionnaire related to EDP tables should reflect the differences between the accrual and the cash, in order to allow Eurostat to perform the required monitoring, even if this may lead to deviations to the F8 currently recorded in the financial accounts. INSEE will adapt the Table 5 accordingly.²⁵ *Deadline: October 2017 notification*

4.3.1.i Crédit d'impôt pour la compétitivité et l'emploi (CICE)

Introduction

Eurostat aimed at discussing, in the light of new developments, the current recording of the Competitiveness and Employment Tax Credit (*Crédit d'impôt pour la compétitivité et l'emploi* – CICE), a scheme set up in 2013 which provides for a reduction in social contributions through a reimbursable tax credit on corporate/personal income tax.

The CICE scheme is designed to enhance business competitiveness by achieving significant rebates to social contributions: equivalent to 4% of the 2013 wage bill (under 2.5 times the minimum wage) and 6% thereafter (increasing to 7% from 2017).²⁶ However, instead of taking the form of an outright reduction of social contributions paid, those rebates were designed to take the form of a reimbursable tax credit on corporate/personal income tax.

In France, the corporate income tax involves paying a number of instalments in year (T) in relation to the tax base of year (T), with a final settlement in April of (T+1). As a result, tax credits for year (T) are usually compiled and settled in year (T+1). Hence, CICE impacts the cash only in year (T+1) (or later, see below).

In May 2013, INSEE enquired with Eurostat on the appropriate recording of this scheme, notably in the light of new rules under ESA 2010. It was indeed recalled that, while the April 2014 notification (the first notification to show year 2013) was to be the last delivered under ESA 95, the October 2014 notification was to be the first under ESA 2010. In addition, ESA 2010, following SNA 2008, explicitly changed the recording of reimbursable tax credit: ESA

²⁵ Action Point in progress. INSEE sent a modified Questionnaire Table 5 for the October 2017 notification, which nevertheless still did not meet the necessary quality requirements. The issue was also discussed during the January 2018 Ad-hoc visit (see action point 59).

²⁶ The PLF 2018 reduced the CICE to 6% for 2018.

20.168 prescribes that, unlike tax reliefs in the form of tax allowances, exemptions, deductions and non-repayable tax credit – which are recorded as deductions to the tax concerned –, payable tax credit are to be recorded as ESA expenditure for their full amount.

Given that the CICE was a repayable tax credit, INSEE thus considered (at that time, in 2013) that it should be recorded as a subsidy on production (D.39), being a kind of subsidy on payrolls. Accordingly, INSEE asked Eurostat, at that time, an advice on the appropriate time of recording of this expenditure. INSEE envisaged, in 2013, two options for recording the CICE claims originated in (T) (and deducted in (T+1)) under ESA 2010, with the following argument:

- either (1) in (T+1), at the time the tax credit is definitely assessed, which is simpler to implement (and tends to avoid the risk of sizeable revisions) but conceptually more debatable;
- or (2) in (T), which would seem conceptually more in line with the accrual principle for recording expenditure, but raised two important difficulties according to INSEE: (a) in terms of availability of estimate for the 1st notification, (b) putting a question mark on the current recording of corporate income tax in French national accounts (to favour moving the recording of the final settlement related to year (T) and paid in (T+1), currently recording in (T+1), to year (T)). In addition, this recording may require a similar treatment for similar payable tax credits (CIR, etc...).

In addition, in its 2013 letter, INSEE enquired on whether ESA 20.168 was not contradictory when stating that the payable tax credit recording was B.9 neutral, in the cases where taxes were recorded on a cash basis.

In an August 2013 advice letter, Eurostat agreed with INSEE that the CICE, recorded as a subsidy on production, could be recorded in the following year (in (T+1)), as this was the time of assessment or verification. Eurostat noted that, although conceptually such subsidies are to be recorded at the time of production (that is: in (T)), "*based on the mentioned arguments, the deviation from the accrual principle seems applicable and would not constitute a contradiction to ESA10*". Eurostat understood then that no claim was recognized by government until the tax declaration was assessed.

Additionally, the part of the CICE that is repayable (i.e. the tax credit part that exceeds the tax liability of the year) is not immediately settled by the Treasury (contrary to common practice in payable tax credit), and is instead postponed to the following year, and possibly even more up to three years (unless the employer belongs to specific categories that benefit from immediate settlements).

Finally, as explained during the April 2017 request for clarification, it seems that employers do record in their own accounts the claim against the State immediately (i.e. continuously throughout year (T)) and notify it monthly to a public accountant, also indicating the claims that have been transferred. Indeed, and as explained in 2013 by INSEE, employers have the possibility to sell off those claims to banks. The bank first verifies with the MoF whether the claim has not been already sold, the latter notifying the result to the bank through the form 2577-SD.²⁷

²⁷ It seems that the sale of claims concerns not only the accrued to date amount, but also the expected revenue for the rest of the year ("créance en germe").

At time of tax declaration (in April of year (T+1)), the employer notifies the government with its CICE claim on form 2009-CICE-SD as well as the amounts sold and to whom. The public accountant issues a certificate to the bank via form 2574-SD, which – according to INSEE – acknowledges the liability.

Current recording by INSEE				
<i>million euro</i>	2013	2014	2015	2016
'Fiscal expenses' / cash	0	6,593	11,587	12,898
'New CICE claims' / in B.9	0	10,205	17,556	18,376
Stock of CICE AF.89 liabilities (end of year)	0	3,612	9,581	15,059

The table above shows key CICE statistics: as an example, 18.4 billion euro of payable tax credit related to the 2015 wage bills were recorded as 2016 government expenditure (D.39), while 12.9 billion euro was effectively paid out by the Treasury in 2016 (through deductions to income taxes). Thus, in 2016, the flow of tax credit postponed to later years was 5.5 billion euro. The stock of amounts postponed (cumulated over 3 years) reached 15.1 billion euro as of end 2016.

Discussion and methodological analysis

Eurostat remarked that the current treatment could pose a number of problems that had not been either foreseen or addressed in the 2013 letter of Eurostat. Eurostat noted that the issue had been actively discussed during the various rounds of requests for clarifications in April 2017, where the issue was flagged to INSEE, but it had been decided to postpone more in-depth discussions to the EDP visit planned for May 2017.

A first issue discussed concerned plans by the incoming new administration to simplify the complex administrative arrangements around the CICE, through its conversion into a simple reduction of social contributions. This would lead to a double impact on the deficit in the year of transition (expectedly year 2019) – for about 1% of GDP. This double impact could be difficult to justify, also in the view of similar decisions taken by Eurostat with other Member States, where a double impact was avoided. At the same time, it would not be correct either to neutralise one of the expenditure flows, which would then end up never to be recorded in the government accounts. To Eurostat this new development raised an important issue which needed careful reflection and possibly the need to re-examine the opinion of 2013.

A second issue discussed concerned the materiality of the "assessment, control and certification" carried in April (T+1). This assessment was at the forefront of Eurostat opinion to recommend the time of recording at T+1 in its 2013 letter. Eurostat considered that, for such an assessment to trigger a statistical classification, it should not be a simple administrative procedure, but a meaningful administrative verification that would plausibly imply that the claim does not exist before this assessment. Eurostat thus enquired on whether significant claims had been rejected, other than factual errors or fraud. This question had already been raised by Eurostat to INSEE in April 2017.²⁸

²⁸ In the document prepared by INSEE for the May 2017 SDV, it was indicated that, "(...) *the amount of CICE estimated in firms declarations does not represent a "definitive" claim against fiscal services: fiscal services may launch controls on selected firms and correct CICE assessments, if necessary. These controls are not exclusively targeted on CICE but encompass the whole corporate income tax; however much attention is given to CICE during this corporate income tax control process since CICE amounts are quite*

INSEE acknowledged that government was regularly informed of the liability incurred through monthly statements collected during the year – which made the CICE materially different from other payable tax credits (such as *Credit d'impôt recherche*), that are known only at year (T+1). INSEE confirmed the fact that companies booked a claim during the year (T), a point which was not mentioned during the 2013 exchange of letters.

In addition, to Eurostat, the fact that employers could sell their claims before the certification could support the presumption that the "assessment, control and certification" done in April (T+1) was, in fact, immaterial. In this respect, Eurostat enquired during the meeting on whether the sale of claims was recorded as a true sale in employers' financial statements, and whether the banks were recording a claim on government (or on the employer). Eurostat also asked if banks had recourse against the employer (aside from recourse arising from false claims) – and, in particular, if the bank had first recourse to the employer or to the State. Eurostat reasoned that second recourse to the employer was probably not material, given that the Treasury is not supposed to fail on its commitments.

A third issue discussed in the meeting related to the recording of debt. Eurostat questioned why, at the moment, there was no Maastricht debt entry related to CICE claims at all. Eurostat considered that the 2012 Eurostat decision on factoring without recourse could apply for the sale of CICE claims, which would imply an entry in Maastricht debt at that time. Given that the sale may take place in year (T), recording a Maastricht debt may also occur in year (T). Second, the fact that the Treasury does not settle the payable tax credit immediately in year (T+1), but postpones it up to 3 years, suggests to Eurostat that the Treasury is *de facto* engaging in 'forced borrowing', which – to Eurostat – could have the nature of debt.

As a result, Eurostat considered that the Maastricht debt may be currently underestimated by non-negligible amounts for part of the 19 billion euro related to the claims related to 2016 to be assessed in 2017 that was sold to banks in 2016. Eurostat noted that this issue had not been addressed in the Eurostat 2013 letter.

In this context, Eurostat enquired on the amount of CICE sold to banks, differentiating whether the sale is during the year of origination ("Year (T)") or later.

Overall, considering the arguments above and the difficulties raised by the current recording, Eurostat wondered whether it would not be preferable to adopt the option of pure accrual originally favoured by some, especially at the moment in which CICE will be replaced by a simple reduction of social contributions: recording an impact on the deficit in year (T).

It is worth noting that the recording would change the future deficits by significant amounts: aggravating it by 0.2% of GDP in 2017 (given that the CICE is increased from 6% to 7% of the wage bill) but reducing it by 1% of GDP in 2018 (assuming the planned switch to a deduction in social contribution would be enforced that year).

The aggravation of the 2017 deficit by 0.2% of GDP merely reflects the stimulating impact of the increased of CICE from 6% to 7%.

Fourth, during the meeting, Eurostat also wondered whether it was correct to consider the CICE as government expenditure (D.39) in the first place. Eurostat reasoned that it was appropriate to record a payable tax credit as expenditure when the flow that transits through the settlement of taxes has indeed the nature of expenditure. While focused exemptions,

important. Unfortunately there is no available evaluation of CICE claims that were rejected following the assessment, control and certification process."

benefiting some industries or some regions, or some workers are likely to have such a character of expenditure (subsidy on payroll), it was debatable if such a widespread reduction in social contribution like the CICE had an expenditure character. In the reasoning of Eurostat, the writer of ESA 2010 had not foreseen this case, and otherwise would have referred to this: the specific case of a payable tax credit that in fact is a reduction of another tax.

INSEE agreed that rebates of such general character may be not of an expenditure nature. This is also INSEE recording practice so far. INSEE also noted that it was publishing statistics where CICE is shown as a reduction in social contributions (unit labour costs, fiscal burden, expenditure ratio, etc.). Both INSEE and Eurostat agreed that the 2013 exchange had taken place at an early stage, when the new rule of payable tax credit in ESA 2010 started to be implemented.

Eurostat proposed INSEE to address this last issue at the next EDPSWG, under a potential fast track procedure, possibly involving consulting the CMFB, in case INSEE would envisage reviewing its time of recording for its interim benchmark revision planned in 2018.

INSEE reiterated that in 2013 it followed the advice of Eurostat and also expressed a worry that the revision in the data may be misinterpreted by users. Eurostat agreed that good communication would be decisive to avoid any misinterpretation and that a double impact might be difficult to explain.

Overall, Eurostat considered that in the 2013 letter, a number of issues might have been overlooked²⁹, while Eurostat accumulated new experience on payable tax credit. As a result, Eurostat could change its opinion, and asked INSEE whether it would be willing to do the same, especially in order to avoid the double impact.

In relation to debt, however, Eurostat emphasized the need to review the current recording.

Main findings and conclusions

Action point 44: Eurostat and INSEE exchanged views on the current recording of CICE, which had been advised by Eurostat in 2013, following a request from INSEE. The discussion was carried out in the light of plans by the new government to convert CICE into a direct rebate on social contributions, as mentioned by INSEE in document Q.59 preparing the point 5.2 of the agenda "*major upcoming government operations*", which – given the current recording followed – would cause a double counting in the deficit in the year of transition, which may be 2018 (unduly increasing the deficit by up to 1% of GDP in that year). Eurostat enquired on the materiality of the verification carried out in year (T+1), also noting that the "*créance en germe*" is sellable by the employer before the end of year T. INSEE will investigate whether the claim, which is an asset in private accounting, is deemed sold or not when transferred to a bank, and how the bank records this. *Deadline: July 2017*³⁰

²⁹ Following this mission, and as a comment to the provisional findings, INSEE did not share the analysis of Eurostat and considered that the information was available to Eurostat. Moreover, INSEE asked Eurostat, in case of any future advice on CICE, to "*write explicitly in a formal letter that it had changed its opinion on the CICE issue, despite the absence of new substantial elements since 2013*".

³⁰ Action point partially completed. Following the research of Eurostat, prior to the January 2018 Ad-hoc visit, regarding the recording in the taxpayers' accounts, in case of sale of CICE claims, in one modality ('cession à titre d'escompte'), the claim is derecognized in the balance sheet for the amount that is accrued to date. In the other modality ('cession à titre de garantie'), the claim remains but is changed into a claim against the

Action point 45: Eurostat invited INSEE to reflect on the way forward regarding the CICE, in the context of the interim benchmark revision planned in Spring 2018, also based on the experience accumulated on the ESA 2010 implementation since 2013, and to inform Eurostat about developments.³¹ *Deadline: December 2017*

Action point 46: Eurostat will aim at putting payable tax credit as an item for discussion at the EDPSWG in July 2017, so notably to determine whether CICE - type of payable tax credit should be expenditure or negative social contributions.³² *Deadline: June 2017*

Action point 47: Concerning the CICE impact on the Maastricht debt, INSEE will reflect on the need to apply the 2012 Eurostat Decision on factoring of trade credits (recognizing a government debt at time of factoring), as well as on the need to recognize a debt at time of postponement of CICE refund (up to three years). INSEE will provide an estimate of the amounts subject to factoring (or other prefinancing), including, separately, for claims originated within the calendar year.³³ *Deadline: September 2017*

4.3.1.ii Crédit d'impôt recherche (CIR)

Introduction

The Research Tax Credit (*Crédit d'impôt recherche – CIR*) is a payable tax credit calculated on the basis of R&D expenditure incurred by companies. It is deductible from income or corporate income tax payable by corporations for the year in which the expenses were incurred.

Discussion and methodological analysis

During the meeting, Eurostat asked if there were material differences between CIR and CICE. INSEE replied affirmatively: CIR and CICE could be treated differently in national accounts, given that, from the point of view of fiscal authorities, the CICE amounts are presumed known during year T, but not the CIR amounts. The amounts related to CIR will be known only in year (T+1) and no reliable estimation can be done for CIR in the year (T).

INSEE nonetheless acknowledged that CICE and CIR did not differ from the point of view of the creditor (company), given that the taxpayer can recognize the amount of both CICE and CIR claims it expects to post in relation to year (T), as the related expenditure are known and the refund is not conditional to an income tax (the tax credit being repayable).

Eurostat enquired on whether the CIR was similarly recorded as an asset in the own account of the firm during year (T) – as the CICE. INSEE will investigate the issue further.

4.3.1.iii Change in income tax collection – *Prélèvement à la source de l'impôt sur le revenu*

Introduction

bank. Regarding the recording in the bank's business accounts, see action point 18 of the January 2018 Ad-hoc visit.

³¹ The discussion continued during the January 2018 Ad-hoc visit (see action point 22).

³² Action point completed. The issue was introduced in the EDPS WG of December 2017.

³³ The discussion continued during the January 2018 Ad-hoc visit (see action point 19 and 27).

The personal income tax (D.51) is listed in the category of taxes based on taxpayer, that are amended via F.8 receivables in EDP Table 2, for its B.9 impact.

To record the personal income tax (D.51), the taxpayer receivable or payable is calculated so to take into account recoveries received in year (T) for activities in year (T-1) and from recoveries for activities in (T) received in (T+1) moved back by one year. Recoveries for (T) that will be received in (T+1) are estimated for the provisional and for semi-definitive accounts, by applying the recovery rate observed for recoveries in (T) for (T-1). For definitive accounts, the amounts to be recovered in (T+1) for activity in (T) are known.

In this context, Eurostat was interested in the assessment of INSEE in relation to the impact of the foreseen change in personal income tax collection.

Separately, in the April 2017 notification, a question arose (regarding in Table 4.2.1 of the Questionnaire related to EDP tables) a recording named *Service de traitement des déclarations rectificatives* (STDR) within *Total receivables (transactions) reported in EDP table 2A, Other*, for the years 2014, 2015 and 2016. During the clarification rounds, INSEE declared that the amounts from STDR are recorded in the operations corresponding to the taxes collected: for personal income tax and social charges, it is recorded in D51; for inheritance taxes (*droits de mutation à titre gratuit*), it is recorded in D91; and for wealth taxes (*ISF Impot de solidarité sur la fortune*), it is recorded in D59. The time of recording corresponds to the date of the assessment of taxes due.

Discussion and methodological analysis

INSEE presented the change of the personal income tax collection process, which is planned for 2018, together with the implementation of the “*prélèvement à la source*”.

Comparing to the current system, which ensures that the totality of the personal income tax due on (T-1) earnings is paid in year (T), in the new system there will be monthly payments in year (T) corresponding to advances on personal income tax on year (T) earnings.

The new system will be implemented from January 1st 2018. This implies that 2017 earnings will not be taxed in practice: in 2017, households paid taxes on 2016 earnings, in 2018 they will pay advances on taxes on 2018 earnings. However the declaration of 2017 earnings will be filled as usual but will be in general ignored for tax purposes. In practice, the main part of the income tax corresponding to 2017 income will then be virtually paid by households, and refunded (virtually too) via a specific tax credit named « *modernisation du recouvrement* ». However, exceptional 2017 income will be taxed and, similarly, tax credits on 2017 expenses will be paid.

Eurostat asked INSEE what it plans to do in 2018 regarding the recording related to the change of the income tax collection.

INSEE replied that, following ESA 2010 (§4.82), the income tax deducted at source will be recorded on a cash basis. Eurostat noted that the new system for personal income tax was very similar to the current system for corporate income tax, and corporate income tax is currently recorded on a cash basis, from the deficit point of view.

Eurostat took note of the incertitude related to the actual implementation of this project, as until then the starting date had not yet been communicated and it was even uncertain if it would be put in practice.

Main findings and conclusions

Action point 48: INSEE will monitor the developments in relation to the change in collection arrangement for personal income tax (PIC), with the aim of avoiding over-counting or under-counting income tax during the transition years (2017/2018). *Deadline: continuous*

4.3.2 Interest (including the recording of coupons sold)

Introduction

For the *State*, data for interest expenditure in the non-financial account are calculated using cash-based accounting. An adjustment is then made to obtain the amount of interest on an accrual basis (located within the so-called *Real Treasury Transactions* sub-sub-sector – S.131114). For *Other sub-sectors*, public accounting data are recorded using the accrual method.

As regard the interest revenue, for the *State*, the source data are the budget accounting (cash-based) and the general ledger (accrual-based). For *Other sub-sectors*, information obtained on local government comes from public accounting, and is accrual based. The same is true for the ODAC and the social security funds.

Prior to the visit, INSEE provided to Eurostat the filled-in *Questionnaire on the recording of interest for the period 2012 - 2016*, together with an explanatory note.

Discussion and methodological analysis

Eurostat enquired on the discrepancies between data transmitted in the *Questionnaire* and data from EDP Table 3B reported for October 2016 and April 2017 notifications. For 2016, Eurostat noted a large difference between the table and EDP table 3. INSEE indicated that EDP table 3 contained an error (merely impacting the split between adjustments lines), which would be corrected in the October 2017 notification.

INSEE commented that the template for the *Questionnaire* seemingly contained an error, as the premium on repurchases reflected in the table was not the same as that in EDP table 3. Eurostat acknowledged this, and concluded that a new version of the template would be circulated.

Main findings and conclusions

Action point 49: Eurostat thanked INSEE for the information provided ahead of the visit on interest expenditure and will revise the template according to INSEE's comments. INSEE will correct the difference observed for year 2016 between this table on interest provided for the visit and the EDP Table 3B. *Deadline: October 2017 notification*

4.3.3 EU flows (including Agence de service de paiement)

Introduction

Payments received from the EU, related to the Structural funds (the European Regional Development Fund - ERDF and the European Social Fund - ESF), used to be recorded in the State (S.13111) accounts. Starting with 2014, regions are responsible for the management of ERDF and part of ESF, instead of the State.

The payments received from the EU related to the European Agricultural Guarantee Fund - EAGF, the European Agricultural Fund for Rural Development - EAFRD and the European Fisheries fund - EFF are recorded in the accounts of the Services and Payment Agency *Agence de services de paiements* – ASP (classified as an ODAC – S.13112).

INSEE is able to collect data on EU flows both for central and local government sectors.

During the clarification rounds in the April 2017 notification, the recording of EU flows, notably the amounts related to *Amending Budget 5/2016 (AB5) adopted on 1 December 2016* (1.6 billion euro) and France's contribution to the ‘Turkey Refugee Facility’ (set up in November 2015) were discussed.

Discussion and methodological analysis

INSEE provided information regarding the recording of EU funds, distinguishing funds paid by France to the EU and funds received by France from the EU. INSEE described also the recording of EU flows by classification of beneficiaries (if the beneficiary is a unit of general government or not).

INSEE provided also some information on the *Agence de service de paiement (ASP)*, which is a public body (in practice controlled by the State) specialized in paying subsidies on behalf of various public authorities: these authorities pay ASP a global amount of subsidies and ASP ensures that these subsidies are correctly distributed to all individual beneficiaries. ASP is also verifying that beneficiaries meet eligibility criteria, and respect the commitments taken in exchange of these subsidies. Acting purely on behalf of public authorities, ASP is classified in central government (namely other central government bodies, ODAC) since it is controlled by the State.

Eurostat appreciated the clarity and the coverage of the information transmitted by INSEE prior to the visit.

The discussion focused on the recording of EU flows when the operational control belongs to the regions and the funds are registered in government accounts. Eurostat enquired whether the flows continue to transit via the State. INSEE thought that, in this case, State's accounts show these flows as third parties' accounts and a neutralisation was done. Eurostat agreed with this solution.

Eurostat enquired whether (and how) the accounting rules applied by public accountants, for recording the EU revenue, followed the principle of neutralisation between the time of recording revenue and expenditure. INSEE will examine the subject.

Main findings and conclusions

Action point 50: Concerning EU funds, INSEE will investigate whether the flows continue to transit via the central government accounts (taking into consideration the new arrangements since 2014, giving operational control to the regions). INSEE will also investigate the accounting rules applied by public accountants for recording the EU revenue, so to make sure that the principle of neutralisation between the time of recording revenue and expenditure is followed (there should be only short delays). *Deadline: December 2017*

4.3.4 Military expenditure

Introduction

For the compilation of military equipment expenditure, data concerning payments (in cash) are taken from public accounting and are transmitted by DGFIP, while data concerning deliveries and payments for heavy equipment are provided by the Ministry of Defence.

For compiling B.9, the State's working balance is adjusted for the difference between deliveries and cash payments for selected heavy equipment.

In a document sent to Eurostat before the meeting, INSEE detailed the cash payments and deliveries by equipment program, from 2013 to 2016 for selected programs. It is mentioned also that the deliveries value were smaller than the cash payments since 2011, except for 2016 (when an important delivery of military equipment took place).

Discussion and methodological analysis

Eurostat enquired why the *Rafale* was not appearing in the table provided prior to the meeting. INSEE indicated that the *Rafale* had benefited from very large prepayments and that, accordingly, no entry was booked, arguing that the derogation (transition period) foreseen in the 2006 Decision on military expenditure allowed this recording. This transition period had been allowed for countries that had recorded military expenditure on a cash basis and started to implement from 2005 onwards the delivery basis, to avoid a double count in the B.9 (over the time series: once at time of payment, again at time of delivery), until the next benchmark revision. Eurostat answered that this 2004 Decision was applicable under ESA 95, and that Eurostat had expected this transition period not to be applicable any more under ESA 2010: for the reported data, B.9 should be impacted on a pure delivery basis since 2005 (from when the data were supposed to be available, without ambiguity), with appropriate adjustments for years before (to avoid any double count).

In summary, Eurostat asked that the deliveries of *Rafale* be recorded in line with the MGDD rules for military expenditure, given the change to ESA 2010. INSEE will enquire on whether there are other deliveries of military equipment to be considered, and will make the necessary corrections in the accounts as soon as possible.

INSEE will verify which programmes of military equipment were/are concerned by the use of the 2006 derogation (in the most recently reported 1995-2016 data), and will make the necessary corrections in the accounts.

Main findings and conclusions

Action point 51: Eurostat took note that INSEE continues applying the derogation - allowed in the Eurostat decision on military expenditure of 2006 under ESA 1995 - for selected military contracts. Eurostat asked that the deliveries of *Rafale* be recorded as expenditure, given the change to ESA 2010. INSEE will enquire on whether there are other deliveries of military equipment to be considered, and will make the necessary corrections in the accounts.³⁴ *Deadline: October 2017 notification*

4.3.5 Gross Fixed Capital Formation (GFCF)

Introduction

The bridge tables between public accounting and national accounting take into account, as far as possible, the ESA recommendations in terms of the time of recording. For example for GFCF, it is possible to differentiate in the accounting between:

- advance expenditure before delivery, which is dealt with under financial operations F.81;
- fixed assets associated with delivery, which are dealt with as a non-financial operation P.51.

³⁴ The issue is currently still under discussion – see action points 28 to 34 of the January 2018 Ad-hoc visit. INSEE clarified some misunderstanding during the January 2018 Ad-hoc visit.

ESA 2010 specifies that GFCF should be recorded “*when the ownership of the fixed assets is transferred to the institutional unit that intends to use them in production*”. When accrual-based sources are available (ODAC, APUL, ASSO, which cover the great majority of GFCF for general government), the ESA principle is indeed applied.

Specific rules concern:

- financial leasing (for which there is an imputed change of ownership) and leasing with purchase option: the user becomes the owner the moment he takes possession of the goods;
- fixed assets under construction are recorded gradually, as the assets concerned are produced, and which constitute the GFCF for own use;
- down payments on acquired fixed assets, paid when proof of partial execution or delivery of a tranche is provided.

To compile GFCF (P.51g), the basic data source is complemented by a statistical survey on lease.

Discussion and methodological analysis

Eurostat asked if the amount of GFCF is including the statistical corrections for military assets. The French statistical authorities declared that they will verify this and analyse the topic.

4.4 Recording of specific government transactions

4.4.1 Government interventions to support financial institutions

Introduction

Concerning the *Supplementary table for reporting government interventions to support financial institutions*, during the clarification rounds, INSEE agreed to provide details in *Part 3: transactions in financial assets, actual liabilities of general government*, for the October 2017 notification.

Discussion and methodological analysis

INSEE presented the status of the government interventions related to the financial crisis in France:

- Most government interventions linked to the 2008-2009 crisis have now come to an end and INSEE does not expect new operations either.
- There are still two cases which generate general government off-balance sheet liabilities: guarantees given to *Crédit Immobilier de France* (CIF) and to DEXIA on their liabilities.

After the financial crisis, the central government had to guarantee CIF and DEXIA's liabilities, lowering their borrowing costs, which allowed them to avoid permanent losses. These central government guarantees are still active and amounted, at the end of 2016, to 11.6 billion euro for CIF and 32.6 billion euro for DEXIA.

During the meeting, Eurostat raised questions regarding the consistency of data presented in the table dedicated to the government interventions to support financial institutions (EDP Annex 5). INSEE was unable to reply and agreed to check the stock-flow consistency.

INSEE suggested that the templates for EDP tables and related questionnaires could very usefully be sent earlier, so to allow countries to work under less time pressure. Eurostat took note of this view.

Main findings and conclusions

Action point 52: INSEE will revise the stock-flow figures concerning the government interventions to support financial institutions on the basis of the comments provided by Eurostat.³⁵ *Deadline: October 2017 notification*

Action point 53: INSEE suggested that the templates for EDP tables and the related questionnaires be sent earlier, so to allow countries to work under less time pressure. Eurostat will aim at doing so.³⁶ *Deadline: From October 2017 notification.*

4.4.1.i Classification of *Société de Financement de l'Economie Française* (SFEF) in ESA2010

Introduction

SFEF (Corporation for Financing the French Economy), created at the end of 2008 to resolve the liquidity crisis in the interbank market, is classified as a financial intermediary. In 2016, SFEF remained one main beneficiary of the State guarantee (see above).

Discussion and methodological analysis

INSEE recalled its initial reasoning for SFEF classification in S.13 (done for April 2009 notification) and the reclassification in S.12 following the Eurostat's Decision from July 2009 on *The statistical recording of public interventions to support financial institutions and financial markets during the financial crisis*. SFEF's classification was not modified with the implementation of ESA 2010.

Eurostat wondered whether ESA 2010 would not promote the "inside S.13" alternative favoured by INSEE in 2009. Eurostat noted ongoing discussions to renovate the 2009 Decision and associated Guidance note.

Main findings and conclusions

Action point 54: Eurostat recalled INSEE of the current reflection on adapting the Eurostat decision of July 2009 *The statistical recording of public interventions to support financial institutions and financial markets during the financial crisis* to ESA 2010 for a possible inclusion in the MGDD. INSEE will examine the possible implementation of the new adapted

³⁵ Action point in progress. During the October 2017 EDP Notification, INSEE informed Eurostat that it is working on the issue but then unable to promptly and properly fill in the table.

³⁶ AP completed - the message *The October 2017 reporting of government deficit and debt levels for excessive deficit procedure*, containing the template of the tables to be filled-in, was sent to MSs on 25/07/2017 (approx. 10 weeks before the deadline to answer, one week earlier comparing to the April 2017 notification and four weeks earlier comparing to the October 2016 notification)

version, for the next interim benchmark revision. INSEE will discuss internally and will contact Eurostat on this.³⁷ *Deadline: November 2017*

4.4.2 Guarantees

Introduction

For the moment no data are available on off-balance sheet liabilities of local government units, in particular guarantees. The information on guarantees is in principle required from public accountants of local government units but:

- this information is of a low-quality and even lacking for numerous local government units;
- this information (when it exists) is only available on paper. An electronic transmission to DGFIP is compulsory from January 1st 2017 for the largest units (in particular municipalities with the status of “métropoles”), and no later than 2020 for all municipalities above 50,000 inhabitants. This electronic transmission should allow for a first (partial) estimate by 2018, and should progressively enhance the quality of the data on local government guarantees.

Main findings and conclusions

Action point 55: Eurostat takes note that guarantees provided by local government units are not yet in Table 9 of the Questionnaire related to EDP tables. A new source data will be available probably for 2018, which may allow improving the coverage of this table. *Deadline: 2018*

4.4.2.i *Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)*

Introduction

COFACE is an insurance company classified in S.12. Aside from commercial activities (short term 'credit insurance'), it is responsible for supporting and financing French exports, for risks that are not covered by markets - like political risks, the risk of non-repayment of export credit, etc...

Historically, COFACE activities that are carried out on behalf of government are not, strictly speaking, rerouted to S.13. However, everything is made by INSEE to avoid any under- or over-estimation of S.13 B.9, compared to a situation where these operations are rerouted:

- An expenditure or revenue is recorded in government accounts corresponding to the deficit or surplus of the COFACE operations in the year.
- Payments by COFACE on activities carried out on behalf of government are treated as D.759 but not as D.421.
- INSEE nonetheless applies the super-dividend test to this amount, so the deficit cannot be improved by a greater amount than COFACE's distributable income (for example, in

³⁷ Action point in progress. The discussion regarding the revamping of the Eurostat Decision was still not finalised in the dedicated meetings, hence preventing INSEE from any further move.

2016 COFACE paid 2.4 billion euro to the State: 2 billion euro was treated as revenue, the rest as a financial operation F.5).

Discussion and methodological analysis

COFACE tends to generate a surplus in recent years, in contrast to long periods of deficit in the distant past.

In this context, Eurostat enquired on the accounting impact on the government accounts, if any, of the military ships ordered by Russia, then cancelled, but ultimately purchased by Egypt. INSEE answered that what COFACE paid out to the shipyard concerned an indemnity, corresponding to the reimbursement of the prepayment made by Russia, and ancillary costs (Russia having waived compensatory payments), which caused COFACE net result to fall in 2015 (by close to 1 billion euro); accordingly, the transfer to government accounts also decreased in 2015. The purchase by Egypt implied a recovery by COFACE of close to that amount, which boosted the transfer to government in 2016.

Eurostat suggested INSEE to reflect on whether COFACE transactions should continue to be recorded on a pure cash basis, or should incorporate some entries in the financial accounts (at least for expected recoveries) in line with ESA 2010 (paragraph 20.223). Alternatively, the treatment of standardised guarantees may also be applicable.

Finally, INSEE informed that, in 2017, the activities carried out by COFACE on behalf of the State are transferred to a specific unit that will be part of BPI Group, *Bpifrance*. *Bpifrance* will perform the management of government guarantees via *Bpifrance Assurance Export*, a new subsidiary set up for this purpose. INSEE will classify this new unit in S.13. The transfer aims at making of *Bpifrance* the 'export bank'.

Main findings and conclusions

Action point 56: Eurostat takes note that the activities carried out by COFACE on behalf of government will be transferred from 2017 to a specific unit that will be part of BPI group, and that INSEE will classify this new unit in S.13 (without retropolation). Eurostat suggested INSEE to reflect on whether COFACE transactions should continue to be recorded on a pure cash basis, or could incorporate some entries in the financial accounts for expected recoveries in line with ESA 2010.³⁸ *Deadline: December 2017*

4.4.3 Debt assumptions, debt cancellation and debt write-offs

Introduction

Loans and advances granted by central government are recorded in dedicated special Treasury accounts (i.e. outside the general budget). The interest rate of loans that have been granted cannot be lower than the rate for Treasury bills with the same maturity date or, failing that, the closest maturity date. No exceptions can be made except by a Council of State decree.

Debt cancellations and remissions are classified in the central government sub-sub-sector "Real Treasury transactions" as D.991 expenditure in the non-financial accounts. This leads to a counterpart in financial transactions (F.4). Information on debt cancellations is communicated by the "Financial fixed assets" department of the CBCM (Budgetary Control

³⁸ Action point in progress. The issue was discussed further during the January 2018 Ad-hoc visit (see action point 63).

and Ministerial Accounting department), which is part of the DGFIP, and is then incorporated into the public accounts.

Write-offs are recorded in other changes in volume. Write-offs are usually available from public accounts within the framework of accounting data collection. They are associated to selected account numbers and given titles such as “non-recoverable claims”. The information is available for all sub-sectors.

Eurostat had noticed some discrepancies in the figures for debt cancellation and "*pertes sur créances irrécouvrables*" during the April 2017 reporting.

Prior to the visit, INSEE provided the list of significant government claims by subsectors, together with related information and explanations of recording.

In a separate document, INSEE provided the list of the *Reprises de dette par l'Etat, intra S.13*, for the period 2006 – 2016 and the list of the *Remises de dettes à des pays étrangers* for 2008-2016, with their amounts respectively.

Discussion and methodological analysis

During the meeting, INSEE declared that it noticed data problems after the April 2017 reporting and that it will correct the figures for the next notification. INSEE indicated that, contrary to erroneous information previously provided to Eurostat, the figures concerning debt cancellation had mistakenly not been reported in D9 (approximately 0.5 billion euro per year).

Aside from that, INSEE considered that the treatment of the account 654 "*pertes sur créances irrécouvrables*" (in the 'other changes in volumes') was appropriate (0.3 billion euro per year). INSEE considered that these were write-offs of claims and accordingly were not an expenditure. Eurostat was not convinced by this, saying that wherever the claims subject to a write-off participated to a government program designed with the intention to convey a benefit, a write-off had to be recorded as a capital transfer. The old notion that write-offs are 'other changes in volumes' is inherited from ESA 95, but ESA 2010 is fairly clear on this (see – paragraphs 20.233-20.235).

Eurostat enquired on the remaining 1 billion euro per year not yet specified in Table 2.2 of the Questionnaire related to EDP tables.

Main findings and conclusions

Action point 57: INSEE will correct the figures for debt cancellation mistakenly not reported in D.9, as had been erroneously indicated to Eurostat before (0.5 billion euro per year). INSEE will, in addition, reflect on the appropriate treatment of the account 654 "*pertes sur créances irrécouvrables*" which, according to INSEE, are of a different nature (0.3 billion euro per year). INSEE will also enquire on the remaining 1 billion euro per year not yet specified in Table 2.2 of the Questionnaire related to EDP tables.³⁹ *Deadline: October 2017 notification*

³⁹ Action point partially completed. INSEE implemented the required revisions for the approximately 0.5 billion euro a year, for the October 2017 EDP Notification. The issue was again discussed during the January 2018 Ad-hoc visit and further action is needed regarding the appropriate transaction used (see action points 55 and 56). Regarding account 654, the issue was also discussed during the January 2018 Ad-hoc visit (see action point 56).

4.4.4 Capital injections in public corporations

Introduction

Information on capital injections in cash comes from public accounts, more specifically the special account “Financial portfolio of the State” provided by DGFIP.

The capital injection test is carried out for the State every year when the provisional account is prepared (March T+1). If the profit and loss of the company benefiting from the injection for year T is not yet known, the test is applied to the profit and loss of the previous years. The case is then re-examined when the semi-definitive accounts are presented (March T+2), by incorporating the company’s profit and loss for year (T).

Company profits and losses are available in the report regarding the shareholder position of the central government, which is provided by the State Participation Agency (Agence de Participations de L’État, APE; S.1311) or in their own financial reports.

For each company receiving a sizeable capital injection (over 50 million euro), checks are made to see if the company usually (i.e. most years) makes a profit or a loss. Any unusual results are carefully examined.

If the company is judged to be unprofitable (i.e. frequently runs a deficit), the capital injection is recorded in D9. If the opposite is the case, this injection is recorded in F5.

The capital injections into quasi-corporations are not relevant for France.

Discussion and methodological analysis

The discussions started with the issue raised during the April 2017 clarification rounds, regarding whether the Capital injection test is applied to local government. INSEE does not monitor capital injections at local level in any specific way, as these operations are not common and represent only small amounts.

Eurostat considered that this situation was abnormal and imprudent, and that either the capital injections should be treated fully as capital transfer, or a modelisation should be used to partition the capital injections. Eurostat noted that some countries classify the capital injection in the financial or nonfinancial accounts according to the NACE of the beneficiary. Another method is to consider the dividends earned by local government and, based on an appropriate capitalisation ratio, to infer the stock of profitable equity. The observation of this stock over time allows calculating the likely flow of equity acquisition, as a ratio of overall injections.

INSEE agreed to examine the issue and to explain, in a note to be sent to Eurostat, how they plan to proceed.

Main findings and conclusions

Action point 58: In relation to capital injections of local government (0.5 billion euro per year) currently all recorded in the financial accounts (F.5), INSEE will send a note on possible statistical models to calculate appropriately D9, and adapt the EDP notification accordingly.⁴⁰ *Deadline: Note by August 2017. Implementation in October 2017 notification*

4.4.4.i Electricité de France (EDF) recapitalization

⁴⁰ Action point in progress – see action point 64 of the January 2018 Ad-hoc visit.

Introduction

Électricité de France S.A. (EDF) is an electric utility company, largely owned by the French State. EDF operates a diverse portfolio of more than 120 gigawatts of generation capacity in Europe, South America, North America, Asia, the Middle East and Africa.

Discussion and methodological analysis

INSEE provided information on the recapitalization, and its underlying reasons, and the recording of French State's contribution to the EDF recapitalization:

- the recapitalization is motivated by an expected increase in EDF investments, whereas low wholesale electricity prices hamper EDF's benefits. EDF has to finance an important renovation programme of 58 French nuclear power stations in 2017-2018, as well as the construction from 2019 of two EPR nuclear reactors in the UK (*Hinkley Point* project) and the acquisition, for 2.5 billion euro, of AREVA NP.

- the expected recapitalization amounts to 4 billion euro. The French State (which owns 85% of EDF) announced that it would take part to the recapitalization for an amount close to 3 billion euro. The remaining part is expected to be subscribed by private investors.

- EDF has continuously made profits for years now: on average 3 billion euro each year since 2010 (except a lower profit of 1.2 billion euro, in 2015, due to high depreciations of assets).

In this context the part taken by the French State to EDF recapitalization will be recorded as F.5.

Eurostat noted that the company was quoted on the market and thought that, at first sight, the profitability of EDF seemed established. Eurostat encouraged INSEE to closely monitor the matter.

Eurostat confirmed, for the time being, the proposed treatment of the EDF recapitalization suggested by INSEE.⁴¹

Main findings and conclusions

Action point 59: Eurostat confirmed the proposed treatment of the EDF recapitalization suggested by INSEE.

4.4.4.ii AREVA recapitalization

Introduction

AREVA is a French multinational group specialized in nuclear power and renewable energy, and majority owned by the French State, through French Alternative Energy and Atomic Energy Commission - *Commissariat à l'énergie atomique et aux énergies alternatives* CEA (54.4%), *Banque publique d'investissement* (3.3%), and *Agence des participations de l'État* APE (28.8%). Moreover, *Électricité de France* (85 % held by French State) owned 2.2%. *Kuwait Investment Authority* owned 4.8%, as the second largest shareholders after the French State.

⁴¹ This issue was again discussed during the Ad-hoc visit of 9-10 January 2018 (see paragraph 41). Furthermore, the issue was also covered in a letter sent from Eurostat to INSEE dated 5 March 2018.

In 2017, the majority of its reactor business (AREVA NP) will be sold to *Électricité de France (EDF)*, while AREVA will sell the new company ("New NP") by 2020. *Japan Nuclear Fuel Limited* and *Mitsubishi Heavy Industries* will take a 5% stake each in another new company which will run the nuclear fuel business of AREVA ("NewCo").

Thus, AREVA is restructured by creating a holding, AREVA SA, and two main subsidiaries New NP and Newco.

The State will recapitalize AREVA for 4.5 billion euro in 2017: 2 billion euro in AREVA SA and 2.5 billion euro in NewCo (aside from the 0.5 billion euro by private investors).

DG COMP expressed already its opinion in a Press release from 10.01.2017⁴² on the recapitalization plan. It is expected that, during summer 2017, DG COMP will express an opinion on the accomplishment of the 2 conditions for recapitalisation. The recapitalisation will take place only after these conditions will be met.

Discussion and methodological analysis

INSEE provided Eurostat with information and details regarding the future accounting recording, under the assumption that the recapitalisation will take place, once agreed by DG COMP.

In order to ensure AREVA's liquidity until the recapitalisation is effective, the State granted two shareholder's advances in February 2017: 2 billion euro to AREVA SA and 1.3 billion euro to AREVA Newco. Shareholder's advances granted in February 2017 are currently recorded as loans, to be converted in equity when they are recapitalised.

The AREVA group has incurred recurrent losses for several years and bears important risks associated to the *Olkiluoto* project (the delivery of the reactor has been postponed by several years). No other investor than the State takes part to AREVA SA recapitalisation. It is clear to INSEE that the 2 billion euro recapitalisation should be recorded as D.99 expenditure by the State, with a corresponding B.9 impact in 2017.

On the other hand, INSEE flagged that AREVA NewCo is engaged in profitable activities and does not bear identified risks inherited from past activities of AREVA. Private investors will take part in the recapitalization for a significant part (17%). In terms of voting rights, all investors taking part in the recapitalisation of AREVA NewCo (the State and private investors) will be treated in the same way. In such a case, according to INSEE, current MGDD provisions entail a recording as a F.51 capital injection, with no B.9 impact in 2017.

Eurostat expressed its opinion that the recapitalisation of AREVA NP and AREVA NewCo should be considered as a single event and consequently the 4.5 billion euro should represent a unique capital injection event, and should accordingly be capital injection tested. Eurostat explained that the mere restructuring of entities between a good entity and a bad one should not lead to different impact in a capitalisation event. Otherwise, this would easily allow evading the capital injection rules.

Eurostat separately noted that under the new rules currently being discussed in the various Eurostat working groups, a capital transfer for the full amount of 4.5 billion euro would also need to be recorded, even if the injection were not to be considered as a single event. These

⁴² [COMMISSION DECISION \(EU\) 2017/1021 of 10 January 2017 on State aid SA.44727 2016/C \(ex 2016/N\) which France is planning to implement in favour of the Areva group](#)

new rules had been presented in the EDPSWG of June 2016, discussed again in the TF on methodological issues in September 2016, and agreed in the EDPSWG of December 2016. A written consultation was to be launched and the guidance note modifying the MGDD was to be finalised as soon as possible. However, the view of Eurostat was not at all depending on the new forthcoming rules.

Main findings and conclusions

Action point 60: Concerning the recapitalization of AREVA, INSEE will reflect on the accounting treatment of this operation on the basis of the arguments raised during the meeting and will communicate the results to Eurostat. At this stage, Eurostat considers that the full capital injection (4.5 billion euro) should be recorded as D.9 in 2017, given the cumulated losses of AREVA.⁴³ *Deadline: December 2017*

4.4.4.iii AIRBUS treatment of subsidies

The Airbus group benefits each year from *avances remboursables* (repayable advances) paid by the State. Repayable advances subsidise new aircrafts projects with a rather uncertain return: if the project proves profitable, the repayable advances are effectively paid back; in the opposite case, Airbus does not repay anything.

INSEE records these repayable advances as investment grants (D.92) when they are effectively paid by the central government to Airbus. The reimbursements, if any, are recorded as other current transfers (D.759) when they are paid from Airbus to the central government. The difference between advances given and paid back is impacting general government B.9.

Eurostat took note and thanked INSEE for the information provided.

4.4.5 Accounting for nuclear decommissioning

4.4.5.i Fessenheim nuclear plant

Introduction

The decree on the closure of the Fessenheim power station was signed by the French Environment Minister, Segolene Royal, and published in the *Journal Officiel de la Republique Française* on 9th of April 2017. According to the decree, the Fessenheim plant will close once the new reactor being built at Flamanville on the Normandy coast enters into service. It announced that the country's oldest nuclear power plant will close by 2020.

According to the media, the government's decision came days after the French nuclear plant operator EDF had said it would only shut the Fessenheim plant after receiving compensation for its closure alongside the successful commissioning of the Flamanville plant.

Discussion and methodological analysis

⁴³ Action point completed. The issue was further discussed through the exchange of correspondence and during the January 2018 Ad-hoc visit. On March 5, 2018, Eurostat sent a letter to INSEE with its final opinion. This letter was ultimately published on 27 March 2018.

<http://ec.europa.eu/eurostat/documents/1015035/8683865/Advice-2018-FR-Nat-accounts-treatment-of-capital-injections-in-AREVA.pdf/8e668574-6bfc-467a-81aa-680a536be121>

Eurostat wondered whether there will be a capital transfer from the State to EDF in relation to the compensation payable by the State and when. INSEE expressed the opinion that the amount of compensation is not yet to be taken into consideration, because the closing of the Fessenheim power station is still depending on the two conditions to be reached.

Eurostat understood that no State decision had been taken so far, and accordingly no indemnity appeared in need to be recorded in the accounts.

Main findings and conclusions

Action point 61: INSEE will keep Eurostat informed about developments on the Fessenheim power plant. Eurostat understands that no State decision has been taken so far, and accordingly no indemnity is to be recorded in the accounts. INSEE will inform Eurostat when the decision is eventually taken, including regarding the indemnity of the State to EDF. The total compensation amount should be recorded when this decision is taken. *Deadline: continuous*

4.4.5.ii Other nuclear decommissioning issues (government reactors, EDF reactors)

Eurostat was informed that there are few recordings and/or small amounts of decommissioning costs related to EDF reactors, recorded in public administration' accounts.

4.4.6 Energy taxation

4.4.6.i Emission trading permits recording

Introduction

In France, emission permits (ETS) were sold for the first time in 2013 and again in 2014 (0.2 billion euro each time).

The payments related to emission allowances are recorded as *other taxes on production* (D.29) only in the year of surrender of the allowances, and the difference between the cash received by government and the time of recording of the tax revenue is recorded as a financial liability of government (account payable F.89). More precisely, in French national accounts, the revenue of emission permits sold in 2013 is recorded in 2014, and the revenue of permits sold in 2014 is recorded in 2015.

Those proceeds are collected by ANAH (National Agency for the Improvement of Housing *Agence nationale de l'habitat*), which is an 'other central government body'. In practice, these amounts are recorded as revenue of the State, while, in ANAH accounts, the tax revenue is replaced by a transfer (D.73) from the State to ANAH the year when emission permits are sold. Therefore, it is the State which bears the difference between the sale of permits and the record of the tax in national account.

Prior to the visit, INSEE provided the document *Recording of emission permits – one-off table*, together with an explanatory note. In the table, only figures for *Cash received to date net* were available (for 2013-2016).

Discussion and methodological analysis

Eurostat pointed that the recorded amounts are not stable and the table should be filled-in with reliable data. Eurostat noted that the recording was *de facto* cash delayed by a year, which was conceptually far from ideal. When information is available to compiler, a better proxy of tax revenue from ETS should be used to ensure an appropriate recording.

Eurostat took note that INSEE has recently succeeded to have access to actual data and will therefore be able to provide Eurostat with updated estimates for the October 2017 notification.

Main findings and conclusions

Action point 62: INSEE will complete the template on Emission permits provided for the mission and will resend it to Eurostat. *Deadline: September 2017*

4.4.6.ii L' Ecotaxe: repayment to Ecomouv' and partners

Introduction

The *Ecotaxe*, adopted by the French Parliament in 2009, consisted in a tax to be applied to heavyweight transporters (trucks), carried out via tolls built on national roads (motorways are already tolled).

The implementation of the *Ecotaxe* was allocated to an Italian consortium, Ecomouv', under a PPP contract, in October 2011. The *Ecotaxe* should have been collected starting with July 2013. Following public opposition, in October 2013, the *Ecotaxe* was suspended. In October 2014, the PPP contract with Ecomouv' was cancelled.

In its *Public Annual Report* published on 08.02.2017, the Court of Auditors estimated the cost of this abandonment to be more than 1 billion euro, including 958 million euro to compensate Ecomouv' contractually due to the State, and 70 million euro incurred by the administrations for setting up, then abandoning the project. This amount could still be increased because of contentious claims, for up to 270 million euro.

Discussion and methodological analysis

In a note sent before the meeting, INSEE mentioned that the costs of the contract termination are supported by AFITF (*Agence de financement des infrastructures de transports en France*), a central government unit (ODAC). The total indemnity to be paid to Ecomouv' by AFITF was 845 million euro. AFITF reimbursed in cash Ecomouv' in 2014, for 455 million euro, and the rest (390 million euro) is spread on the following 10 years.

INSEE described the treatment in national accounts of this indemnity: in 2014, in the non-financial accounts, a 845 million euro D.999 expenditure is recorded from AFITF to Ecomouv' (the agreement was signed in 2014). In the financial accounts, a 455 million euro F.89 liability flow (other account payable) is recorded, because AFITF paid in cash in 2015 (and not in 2014). A F.42 liability flow is recorded for the rest (390 million euro), given the long term nature of the claim.

Eurostat asked if AFITF collects taxes or if it is distributing funds. INSEE replied that AFITF is not a tax collector, but receives funds, makes payments, and centralises State's payments to *SNCF Réseau*, so it is a government unit.

Main findings and conclusions

Action point 63: Eurostat confirmed the statistical treatment of *Ecotaxe* for the penalty payment to Ecomouv' as suggested by INSEE (845 million euro recorded in 2014).

4.4.6.iii Rerouting of Contribution au Service public de l'électricité (CSPE)

Introduction

The *Contribution au service public de l'électricité* (CSPE) was created in 2003 in order to fund the compensation to electricity suppliers for their additional costs induced by public policy decisions: mainly the introduction of lower prices (electricity being considered as a basic necessity product) in favour of precarious consumers, and the obligation to buy electricity produced from renewable energies above market price.

Firstly, whereas in practice this contribution levied on consumers is collected by the operators, INSEE duly reroutes the amounts in question through government accounts: recording both a tax revenue and a subsidy expenditure. Secondly, in the past, the contribution collected has tended to be lower than the amounts owed to operators. Given that INSEE recorded the full subsidy due, the rerouting of CSPE had a B.9 impact, matched by a liability against government.

The nature of the liability is a loan (AF.4), owing to the long term nature of the claim. *De facto*, producers extend a loan to the Treasury who, by fixing the CSPE lower than the subsidy due, forces operators to fund themselves the subsidy pending an increase in CSPE.

Discussion and methodological analysis

In a document provided before the visit, INSEE presented the details related to non-financial and financial accounts of CSPE, for the 2013-2016 period, and the reclassification of CSPE's liabilities in AF.42 (rather than in AF.8).

Eurostat first welcomed the practice of INSEE to reroute the CSPE with an impact on B.9 and on debt. Then, Eurostat enquired on the change in liability classification. In 2013, INSEE recorded an "other change of volume" of about 4.3 billion euro linked to the reclassification of CSPE's liabilities from AF.8 to AF.42: the Maastricht debt impact was 4.5 billion euro in 2013 (4.9 billion euro in 2014 and 4.8 billion euro in 2015).

This information is reported in table 13 of the questionnaire related to EDP tables. In 2016, CSPE disappears from table 13 because all flows are now directly recorded in the State budget.

Eurostat asked if the French statistical authorities have some information on the *Other change in volume* reported for 2012 (722 million euro in the table provided for the mission). INSEE had no information on the content of this amount. INSEE noted that this *Other change in volume* will disappear in the next benchmark revision. INSEE will also reflect on the opportunity of removing the *Other change in volume* in 2013 seen above currently recorded in the same line.

Main findings and conclusions

Action point 64: INSEE will clarify the origin of the entry of 722 million euro in *Other change in volume* in 2012 in the table provided for the meeting, in the line CSPE, and will ensure that it is recorded correctly for the next interim benchmark revision where necessary. INSEE will also reflect on the opportunity of removing the *Other change in volume* in 2013 currently recorded in the same line (change in classification of the government liability from AF.8 to AF.4, in 2013). *Deadline: April 2018*

4.4.7 Dividends, super dividends (dividends in kind)

Introduction

Cash dividends received by central government are recorded in budgetary accounting as General Budget receipts. The Budgetary Control and Ministerial Accounting Department of

the Ministry for Finance sends details of cash dividends received by the State to the DGFIP, by individual entity.

Concerning dividends in kind (in the form of additional stocks), the information is to be found in the general accounts. These dividends are then recorded under the sub-sub-sector Real Treasury Transactions (S.131114).

The superdividend test is carried out by INSEE in March, when the provisional accounts are prepared: if the dividend paid to the state exceeds the profit and loss for the entity, the difference is treated as a financial operation. For central government, INSEE has all the individual payments. The profit and loss used is the net total from the previous year (not the “share of the group”).

Some companies pay interim dividends (for example, in December every year, the EDF pays a first instalment for the current year) which are considered as revenue as their distribution is decided by the company.

The Banque de France (BdF) regularly pays a dividend to its sole shareholder, the State. This dividend can only be paid from the current result of BdF, excluding holding gains on reserve assets (gold, currency) and excluding proceeds from the sale of these assets. Any payment from BdF to the State resulting either from holding gains on reserve assets, or the sale of assets (e.g. from sale of gold) would be treated as a superdividend (F.5, withdrawal of capital).

The test for dividends is not carried out for local public administration.

Discussion and methodological analysis

INSEE provided the table on dividends paid by public companies in the period 2013-2016 (indicating the treatment in national accounts) and their profits.

During the meeting, INSEE recognised that no superdividend test was applied to local government. INSEE noted that the amounts were limited (0.1 billion euro a year).

While noting that the amounts were not very large, Eurostat thought that a procedure should be in place to ensure the application of the rules at the local government level. Accordingly, Eurostat suggested that INSEE should analyse and apply a statistical approach for dividends received by local public administrations. This could take the form of a time series analysis, eliminating outliers, or of an analysis of the dividend to (stock of) equity ratio.

Main findings and conclusions

Action point 65: INSEE will implement a statistical approach in order to undertake the superdividend test for dividends earned by local public authorities (0.1 billion euro a year) following the lines discussed during the meeting (based on volatility), at the latest for the next interim benchmark revision⁴⁴. *Deadline: April 2018*

4.4.8 PPPs and concessions

Introduction

⁴⁴ The issue was also discussed during the January 2018 Ad-hoc visit (see action point 64).

In France, there have been PPPs in the form of long-term administrative leases since 1988 and partnership contracts since 2004. Their number is steadily increasing.

The distinction between PPP, concessions and operating lease is straightforward because they correspond to different legal objects in France.

PPPs, in the sense of community law, correspond in France to partnership contracts and equivalents (CPE). They include partnership contracts, long-term administrative leases (BEA), long-term hospital leases (BEH), temporary occupation permits (AOT). This last modality may or may not be accompanied by a rental agreement with a purchase option.

Accounting data on PPPs are available for all sub-sectors of general government.

Analysis of the contracts and assessment of the risks are not carried out systematically by INSEE. In fact, the decision as to whether or not to include the assets in the balance sheet of general government is not based solely on a risk criterion, but also depends on the nature of the financial commitment made by the administrative body.

PPP

Discussion and methodological analysis

During the April 2017 notification, INSEE declared that there have been no changes in the contracts or conditions of the existing PPP projects in the last years. Before this dialogue visit, INSEE provided the list of 250 PPPs with the delivering/reception year between 2007 and 2016, but without including the information on on/off-balance sheet recording.

Eurostat asked INSEE to confirm that all PPPs are on government balance sheet, as Eurostat had understood it in the past. INSEE confirmed that all PPPs in France are recorded on government balance sheet. This is notably due to the use of the *Daily* procedure. INSEE will provide a note on the legal, business accounting, and economic aspect of the *Daily*, and on the statistical implications for PPP, as well as factoring (see also above section 1.2.2).

Main findings and conclusions

Action point 66: INSEE confirmed that all PPPs in France are recorded on government balance sheet. This is notably due to the use of the *Daily* procedure. INSEE will provide a note on the legal, business accounting, and economic aspect of the *Daily*, and on the statistical implications for PPP, as well as factoring.⁴⁵ *Deadline: December 2017*

Concessions

Discussion and methodological analysis

INSEE provided information related to the known existing and planned concessions and underlined the difficulty to find information on them as there is no registry of this type of contracts.

⁴⁵ Action point completed. INSEE provided a note to Eurostat on 14 December 2017. The issue is nevertheless still open.

The main concessions are the following: the Euralpin Lyon-Turin (TELT), Mont-Blanc and Frejus tunnels, the Charles de Gaulle Express (*CDG Express*), the French highways and the LGV Tours-Bordeaux.

The tunnel for Lyon-Turin is recorded on government balance sheet. Eurostat will check the consistency of treatment of the TELT project, between France and Italy, consulting with ISTAT.

Main findings and conclusions

Action point 67: Eurostat will check the consistency of treatment the TELT project, between France and Italy, consulting with ISTAT. *Deadline: April 2018*

Energy performance contracts

Discussion and methodological analysis

Eurostat published on 7 August 2015 a guidance note on energy performance contracts.

INSEE indicated that the accounting framework of local government units leads to record most operations related to energy performance contracts into S.1313 accounts on a cash basis.

It is not possible for INSEE to identify the Energy Performance Contracts (EPC) in the public accounting framework. In France, these contracts can take two different legal forms that are treated differently in public accounts, but for none of them it is possible to isolate the EPC-linked expenditure. A 50 percent rule exists whereby only those EPCs with expenditure in excess of 50 percent of the total fixed asset value are to be treated as PPP in France (accordingly, on balance sheet, as seen above). As a result, most EPCs in France are off government balance sheet.

Eurostat asked INSEE if it could confirm the partitioning of assets and the current recording this entails, and if it considers that this is an appropriate solution. INSEE will analyse and reflect on this issue.

Main findings and conclusions

Action point 68: Eurostat takes note that, *de facto*, most EPCs are in France off government balance sheet, because of the application of the 50 percent rule: only those EPC with expenditure in excess of 50 percent of the total fixed asset value are PPP and, accordingly, on balance sheet; the other EPC are recorded as intermediate consumption. Off government balance sheet implies partitioning the assets. INSEE will reflect on this issue and communicate its thoughts to Eurostat.⁴⁶ *Deadline: November 2017*

4.4.8.i PPPs related to *Reseau Ferré de France (RFF)* and government interventions (*TP Ferro, LGV Tours-Bordeaux*)

Introduction

During the Dialogue Visit from June 2014, Eurostat requested some information on the possible involvement of government in PPP contracts undertaken by RFF (LGV Rhin-Rhône

⁴⁶ Action point in progress. Prior to the January 2018 Ad-hoc visit, INSEE informed Eurostat not to be able to implement Eurostat's latest guidance on EPCs. Discussion to be continued.

and LGV SEA).⁴⁷ INSEE informed to have no information on these contracts and the need to request them in order to analyse government involvement.

In September 2015 and March 2017, INSEE communicated to Eurostat not having access to PPPs contracts, since RFF (now *SNCF Réseau*, following the 2014 reform of the French railway system) refused to provide INSEE with a copy of those. However, INSEE stated that there was no intervention of government through the issuing of guarantees in those PPPs, since an exhaustive register of State guarantees is available and is used by INSEE for the elaboration of EDP statistics.

TP Ferro

Introduction

TP Ferro is a bi-national company owned 50/50 by the Spanish business group ACS and the French civil works group Eiffage.

TP Ferro is the concessionaire for the new high-speed railway line *ligne grande-vitesse* (LGV) between Spain and France.

The concession contract was awarded to TP Ferro on 17th February 2004 by the Kingdom of Spain and the French Republic. The project, which consists in 45 km of high-speed railway, including a tunnel across the Pyrenees, cost 1.1 billion euro. The LGV became operational in 2009.

On 16 December 2016, TP Ferro's concession contract was forfeited by France and Spain, resulting (on 21 December 2016) in the transfer of the operation and maintenance of the international section between Perpignan and Figueras to the new company *Línea Figueras Perpignan*. The new concessionaire owns the concession asset but TP Ferro's debt should be assumed by the French and Spanish States. TP Ferro's shareholders should also receive an indemnity for their losses in own funds.

Discussion and methodological analysis

The project's cost (1.1 billion euro) was financed for over 50% by public subsidies, for 10% by TP Ferro's own funds and for the remaining part (almost 40%) by raising debt. This debt was guaranteed by the French and Spanish States.

Before the visit, INSEE provided a presentation of the statistical impact of the takeover by the State of TP Ferro: up to then, nothing had been recorded in French general government accounts. TP Ferro's bankruptcy occurred late in 2016 and its consequences had not been assessed by public accountants by the time of the finalisation of the State's *comptabilité générale* (regarding in particular the exact amounts to be assumed). Hence the French State's *comptabilité générale* for 2016 recorded neither a debt assumption nor any provisions regarding a possible debt assumption.

First, Eurostat asked for clarification regarding the classification as PPP or as concession of TP Ferro, taking into consideration that the "client" is both *SNCF Réseau* and the Spanish

⁴⁷ Final Findings EDP dialogue visit to France, 25-26 June 2014, **AP 13**: 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*

company, which could result in the classification as PPP, having in mind that a concession is usually dedicated to public usage.

INSEE reiterated not having enough information on PPPs, as they cannot access the contracts. Resulting from this, Eurostat raised the question on who is doing the analysis of such contracts. INSEE answered that the Ministry of Finance (who has a dedicated unit) and DGTrésor are performing the PPPs' checking.

INSEE will investigate who will pay the TP Ferro debt in the case of compensation asked by the concessionaire. Eurostat wondered if the concession asset should not be classified on balance sheet on a risk and reward analysis basis and on the basis of majority financing.

Main findings and conclusions

Action point 69: As for TP Ferro, INSEE will verify who is currently paying the debt, after restructuring (and during the dispute), and the concrete terms of the contract. INSEE and Eurostat will continue the discussion on this issue on the basis of this information.⁴⁸
Deadline: October 2017 notification

LISEA

Introduction

LISEA, a consortium comprising *VINCI Concessions* (33.4%), *Caisse des dépôts* (25.4%), *Meridiam* (22%) and *Ardian* (19.2%), was tasked with designing, building and financing the *South Europe Atlantic Tours–Bordeaux high-speed line* (SEA HSL) and will operate and maintain it until 2061. The 50-year concession contract was concluded between *SNCF Réseau* (the concession grantor) and LISEA (the concession company).

For this project of 304 km high-speed railway and a budget of 7.8 billion euro, LISEA is contributing with 3.8 billion euro, 4 billion euro being constituted by subsidies from the central government and *SNCF Réseau*. Moreover, the State and *SNCF Réseau* are guaranteeing more than 2.1 billion euro out of 3 billion euro of debt/loans incurred by LISEA. *SNCF Réseau* will oversee LISEA to ensure compliance with service quality objectives and principles, to monitor the high-speed line's performance indicators, and to manage traffic on LISEA's behalf.

Although it is sometimes misrepresented as a PPP, the LGV Tours-Bordeaux was in fact built under a concession contract: LISEA will collect the fees paid by railway companies on the Tours-Bordeaux railway (in practice *SNCF Mobilité* since there is, for the moment, no other operator on the LGV network). The concession is legally granted by *SNCF Réseau* (which signed the concession contract).

Contrary to other projects initiated by the State (e.g. *Contournement Nimes-Montpellier*, *Bretagne – Pays de Loire*), this one stipulate that the concessionaire (LISEA) is assuming the traffic risk.

Discussion and methodological analysis

⁴⁸ Action point completed. The issue is still pending however, and was re-discussed during the January 2018 Ad-hoc visit (see action point 46).

The repartition – between the State and the private sector – of the risks and rewards associated to this concession contract was discussed.

Before the visit, INSEE provided a detailed analysis of the project (and especially the way it is financed), showing that *SNCF Réseau* bears risks up to 47% of the total cost of the project and the general government (the State and the local governments) bears risks up to 41% of the total cost of the project, while the private sector bears 12% of the risks through exposure of equity shareholders and net exposure of lenders. Following this, it could result that the general government does not bear the majority of risks associated with the project (although by a slight margin) and might not be considered as the economic owner of the asset.

Eurostat noticed that the only client of LISEA is *SNCF Mobilité* and the concessionaire is not the State. The question was on the classification of the contract - as a PPP or as a concession. Eurostat asked for an analysis to be done and communicated by INSEE.

Eurostat noted also that, in principle, the contract would have the characteristics of a PPP that has to be classified on government balance sheet (3.8 billion euro impact over 2011-2017) given the extent of the State guarantee and the interference of the State in the negotiations between SNCF and the contractor.

Main findings and conclusions

Action point 70: As for the project LGV Tours - Bordeaux, Eurostat noted that, in principle, the contract would have the characteristics of a concession that has to be classified on government balance sheet (3.8 billion euro impact over 2011-2017) given the extent of the State guarantee and the interference of the State in the negotiations between SNCF and the contractor. INSEE will reflect on this issue and will communicate its thoughts to Eurostat. INSEE would also reflect on whether the investment should be shown gross (or net of capital grants) in GFS. *Deadline: October 2017 notification*⁴⁹

4.4.9 Privatisation

4.4.9.i BPI France: purchase of Peugeot shares

The French State is the owner of approx. 12.7% of the PSA (*Peugeot Société Anonyme, Peugeot- Citroën-Opel*, a multinational manufacturer of automobiles and motorcycles) capital, via its holding *Société de Gestion de Participations Aéronautiques* (SOGEPA).

In March 2017, the APE (part of the State – S.13111) sold PSA shares to BPI France for 1.92 billion euro. The shares became the property of *Bpifrance Participations*, which is an 'other central government body' (S.13112). Therefore, there is no case of rerouting: PSA shares remain on the balance sheet of central government (S.1311).

BPI France is owned by *Caisse des dépôts* (CDC) and by *Agence de participations de l'Etat* (APE).

⁴⁹ Action point completed. In the October 2017 EDP notification, INSEE decided to reclassify the concession granted by SNCF-Réseau to LISEA inside government owing to the risk exposure of government. This translated in a degradation of the B.9 (3.5 billion euro over 2011-2016) in the October 2017 Notification, reflecting LISEA investments net of grants received. INSEE remarked that 1 billion euro of investment had been missed out, which will be corrected in the April 2018 EDP Notification (including covering earlier years). See also Action point 45 of the Ad-hoc visit of 9-10 January 2018.

4.4.10 Financial derivatives

The derivatives used by the State are swaps. Since 2000, no swap renegotiations and no occurrences of off-market swaps (IRS, currency, or other) have taken place in France.

The payments resulting from swaps are neutralized in *other financial transactions / net settlements under swap contracts* in EDP Table 2A. Amounts are cash based as in the budget.

4.4.10.i Instruments used by *France Trésor* and other entities

Agence France Trésor (AFT) carried out a program of interest swaps issuances from October 2001 to July 2002. It consisted in receiving a fixed medium term interest rate in exchange of paying a fixed long term interest rate. In practice this was based on two simultaneous transactions:

- a first swap contract, where AFT received a fixed **long term** interest rate in exchange for paying a 6-months Euribor variable interest rate; the last issuance of swaps receiving a fixed long term interest rate occurred in July 2002;
- a second swap contract (with the same notional amount), where AFT paid a fixed **medium term** interest rate in exchange of receiving a 6-month Euribor variable interest rate.

At the end of 2016, the cumulated cash flows generated by this program amounted to 3.9 billion euro. These proceeds are now recorded in the financial accounts (i.e. not recorded as revenue) in both GFS and EDP (they were recorded as impacting EDP B.9 under the ESA 1995 reporting).

INSEE will provide to Eurostat the notional value, the maturity and the annual proceeds of those interest rate swaps transactions.

AFT also negotiates commodity and foreign exchange derivatives on behalf of budgetary programs that finance the purchase of oil products to be used by public administrations. These contracts allow decreasing general government exposure to the volatility of oil prices as well as of the EUR/USD exchange rate, by setting in advance the price to be paid in EUR.

Main findings and conclusions

Action point 71: INSEE will provide to Eurostat the notional value, the maturity and the annual proceeds of those interest rate swaps transactions issued by *Agence France Trésor* (AFT) since October 2001 that were discussed during the meeting. *Deadline: September 2017*

4.4.10.ii Recording of settlement costs related to the restructuring of complex debt instruments undertaken by local government

Introduction

During the 2000's, many local government units borrowed in the form of complex loans, i.e. loans with apparently low fixed interest rates, but that entailed possible huge increases in interest rates in case a given variable (EUR/CHF exchange rate, difference between long-term and short-term variable interest rates, etc....) exceeds certain thresholds defined in the contract.

These thresholds were reached in a number of cases, especially when linked to the EUR/CHF exchange rate, after the significant appreciation of the Swiss Franc. This resulted in very high

apparent interest rates (annual payment divided by the face value of the loan, which could exceed 25%) for a number of local government units. Most of them entered in negotiations with their creditors (spontaneously or under the pressure of central government) and transformed their liabilities into normal fixed interest rate loans, and pay a cancellation lump sum. This usually resulted in very large indemnities due to banks, sometimes exceeding 200% of the principal.

In the April 2016 EDP notification, INSEE decided to record these indemnities as financial operations (900 million euro in 2015), with no impact on the B.9 of local government units. The reasoning of INSEE for this recording was the fact that these indemnities are not classical indemnities due in case of anticipated reimbursements: they rather reflect the gap between the market value of the initial loans (that contained embedded options) and of the renegotiated loans. The level of indemnities is not a fixed amount written in the contracts but the result of a calculation that depends on the market conditions of the day a loan is renegotiated.

Eurostat expressed a reservation on this recording noting that the lump sum was recorded as an expense in the working balance (public accounting) and wondering what reasons could be justified to doubt the assessment of the public accountant. Given the complexity of the case, Eurostat launched a technical meeting on this issue (dedicated expert meeting – DEM). The reservation was lifted at the October 2016 EDP notification, pending the conclusions of the DEM. A reference was inserted in the Eurostat Press release alerting the public of this ongoing work.

INSEE maintained its recording at the April 2017 EDP notification, thereby recording as financial operations another 1.6 billion euro of indemnities paid in 2016. In principle, the renegotiation process has come to an end and no further expenses on such indemnities are expected in 2017.

Discussion and methodological analysis

Eurostat recalled that the indemnity had been recorded as an expense in public accounts and wondered why INSEE afforded itself to recognize a derivative component. Eurostat mentioned that ESA 2010 envisaged separating derivatives for debt securities but not for loans. If such a possibility of separation was extended to loans, Eurostat would need the strongest reassurance, and notably (1) that the derivative component meets the definition of a derivative, (2) that the derivative is recorded consistently, (3) that the interest will record the initial internal rate of return (IRR), (4) that the time series will be revised consistently, and (5) that all similar contracts will be treated consistently.

Assuming that the ongoing reflection process currently undertaken within Eurostat working groups (DEM, TF on Methodological Issues, EDPSWG) would favour the interpretation of INSEE, Eurostat noted that source data difficulties may prevent implementing the conceptual recording. Eurostat did not necessarily ask that a complete retreatment be carried out on each contract, and accepted a more cost effective alternative – given that estimates are commonly carried out in national accounts – taking the form of a sample, if sufficiently representative for estimating the average IRR. To this effect Eurostat asked INSEE to commit to organise a study, taking a sufficient number of contracts (for instance, some 20), to calculate the IRR of each of these contracts in a precise manner and according to the methodology being developed by the Dedicated Expert Meeting (DEM). Eurostat suggested that such a calculation be carried out by a third party, such as by a trainee knowledgeable with financial mathematics, to ensure independence of estimate. INSEE thought that the bank could as well do it.

INSEE actively participated in the DEM and agreed with the methodology examined by the third meeting of the DEM. This internal rate of return would be used by INSEE, for extrapolation purpose, to conduct the revision of the recording of interest of the toxic instruments.

INSEE also explained the reason for two different estimates provided to Eurostat regarding the lump sums for the year 2016:

- 1.6 billion euro recorded as an indemnity, in cash;
- 0.6 billion euro for debt renegotiation mentioned in the meeting.

Main findings and conclusions

Action point 72: Concerning the recording of settlement costs related to the restructuring of complex debt instruments undertaken by local government, Eurostat recalled the current consultation process ongoing in Europe. Assuming this process favours the interpretation of INSEE, Eurostat asked INSEE to commit to organise a study, taking a sufficient number of contracts (some 20), to calculate the internal rate of return of each of these contracts in a precise manner and according to the methodology being developed by the Dedicated Expert Meeting (DEM). INSEE agrees with the methodology examined by the third meeting of the DEM. This internal rate of return would be used by INSEE, for extrapolation purpose, to conduct the revision of the recording of interest of the toxic instruments, in case the EDPSWG/DMES would accept the draft guidance note currently developed by the DEM. INSEE also explained the reason for two different estimates provided to Eurostat regarding the lump sums for the year 2016. *Deadline: 2 months after the DMES decision. (former AP73)*⁵⁰

4.4.11 Mobile phone licenses

Introduction

Eurostat published on 27 March 2017 a Guidance note on the recording of 'mobile phone licences, exploration rights and other licences' fully adapting the MGDD to ESA 2010 chapter 15.⁵¹

Discussion and methodological analysis

In April 2017, INSEE confirmed that the guideline on the recording of mobile phone licences will be implemented for the EDP April 2018 notification, starting from year 1995 (as this guideline will be implemented with the National Accounts benchmark revision in Spring 2018): recording the proceeds of each auction in D.45 flows, being spread over the total period of availability of frequencies for mobile phone operators.

Main findings and conclusions

During the visit, the French statistical authorities confirmed that, in April 2018, INSEE will provide data regarding the mobile phone licenses, appropriately recorded, for GFS/EDP starting from 1995.

⁵⁰ INSEE sent on 02.08.2017 the Note "Analysis of a 20 structured instruments sample". The issue is still under discussion – see action points 35 to 37 of the January 2018 Ad-hoc visit.

⁵¹ <http://ec.europa.eu/eurostat/documents/1015035/7959867/Mobile-phone-licences-exploration-rights-and-other-licences.pdf>

4.4.12 Programme d'Investissement d'Avenir (PIA)

Introduction

Initiated in 2010, the 'Investing for the Future' Programs - *Programme d'Investissement d'Avenir* (PIA) aims at increasing French competitiveness by encouraging innovation. With an overall envelope of 57 billion euro, it is managed by the General Investment Commission - *Commissariat général à l'investissement* (CGI).

There are three programs: PIA 1 (35 billion euro) which began in 2010, PIA 2 (12 billion euro) which began in 2014, and PIA 3 (10 billion euro) which started in 2016.

In the April 2017 notification, there are recordings related to PIA 2 in EDP Table 2A and further detailed in Table 4.2.1 of the Questionnaire related to EDP tables.

Discussion and methodological analysis

INSEE presented the *Investing for the Future Programs (PIA 1, 2 and 3)* and the recording in the EDP notification tables. Each program entails two types of endowments:

- non-consumable endowments ("*dotations non consommables*"): the endowment is transferred to a Special Treasury account, but the beneficiary cannot use this amount; it only receives interests paid on this endowment. These endowments are not recorded in national accounts since the beneficiary is neither the owner of these endowments (therefore a recording as D.9 is not possible), nor can he use them freely (which prevents a recording as F.4). They are merely internal entries within the State. Interests paid by the State on these endowments are recorded as expenditure of the State and revenue of the beneficiaries.

- consumable endowments ("*dotations consommables*"): the beneficiary can use the corresponding amounts to finance R&D projects.

The PIA impact on other central government bodies B.9 is clearly positive when capital transfers occur (in 2014 for PIA 2), and negative the other years when expenditure financed by the initial endowments occur. These disbursements are recorded as D.39, D.92 or P.51g depending on the way the concerned units use these endowments to boost R&D expenditure.

PIA 3 disbursements should not occur before 2018.

During the meeting, it was discussed the possibility to record the figures *Dotations non-consommables du 2ème PIA* and *Dotations fond CDC du 2ème PIA* in the part 'other adjustments' in the EDP Table 2A. It was agreed that this could be done starting with October 2017 notification.

Main findings and conclusions

Action point 73: INSEE will move two lines of EDP Table 2A related to PIA, currently under 'financial transactions included in the working balance' as well as 'other accounts receivable', to 'other adjustments'. *Deadline: October 2017 notification. (former AP74)*⁵²

⁵² AP completed

4.4.13 Transactions in non-financial assets

4.4.13.i Sales of real estates by the State

Introduction

In September 2016, the Department of State Property (*Direction de l'immobilier de l'État – DIE*) was created as a department of the Ministry of Finance (MoF), attached to the Directorate General of Public Finance (DGFIP), mainly responsible for overseeing the management of the State's real estate assets. Before 19 September 2016, the DIE was a service, called *France Domaine*.

Discussion and methodological analysis

INSEE provided the total amount of sales of real estate assets by the State over the 2014-2016 period (total amount: 449.3 million euro) and the main contributors are: the Ministry of Defense (187.9 million euro), the Home Ministry (125.2 million euro), the services of the Prime Minister (61.6 million euro) and the Foreign Ministry (21.0 million euro).

Eurostat enquired if a distinction, between the amounts resulting from the sale of buildings and the sale of underlying land, is made in public accounting. The French statistical authorities replied that there are no separate recordings.

Eurostat reminded INSEE that the sales of building abroad not covered by diplomatic immunity should be recorded as disposal of equity.

Main findings and conclusions

Action point 74: Eurostat reminded INSEE that the sales of building abroad not covered by diplomatic immunity should be recorded as disposal of equity. (*former AP72*)

4.4.13.ii Sales and leaseback transactions

Eurostat took note that there are no sale and leaseback operations by government units in recent years.

4.4.13.iii Recording of changes in inventories

In central government as well as in local government accounts, the change in inventories mainly corresponds to growing forests (which are estimated by the statistical service of the Ministry of Agriculture).

Eurostat noticed that in the central government accounts significant changes in inventories are recorded. INSEE agreed to check the recording in the local government accounts.

4.4.13.iv Alstom – purchase of trains by government

Alstom is a multinational company operating worldwide in rail transport markets, active in the fields of passenger transportation, signalling and locomotives, with products including the AGV, TGV, Eurostar, and Pendolino high-speed trains, in addition to suburban, regional and metro trains, and Citadis trams.

According to information distributed via media channels in autumn last year, the French State had the intention to finance (*commande publique*) 15 high-speed trains Euroduplex, 20

locomotives and 30 intercity trains (with a total estimated value of approximately 650 million euro) to be built by Alstom. Together, the orders were sufficient to prevent the plant closing in the short to medium term.

INSEE informed Eurostat before the meeting that, in February 2017, the French government confirmed the order of these 15 new high-speed trains but with an important modification, probably after negotiations with *SNCF-Mobilité*. These new high-speed trains will operate on the Paris-Bordeaux railway (LGV built by LISEA), replacing old high-speed trains (operating since the beginning of the 1980's).

SNCF-Mobilité announced that this would be a profitable operation: the acquisition cost (between 470 million euro and 480 million euro) will be offset by the ability to transport more people on the LGV, and the fact that it would avoid a 150 million euro expense on renovating the old high-speed trains. As a result *SNCF-Mobilité* will order and finance the 15 new high-speed trains, and not the State, as announced in October 2016.

The modified rescue plan, announced in February 2017, should thus have no impact on General Government accounts.

4.4.14 Others: securitisation, etc.

INSEE declared that no securitisation operations occurred since the last dialogue visit.

5. Any other business

5.1 ESA 2010 Transmission programme – GFS data

5.1.1 Implementation of radio and TV licence fees as taxes in GFS data

Up to now the *Contribution au service public de l'audiovisuel* (CSPA) is recorded as a purchase of services by households and not as a tax.

However, from the April 2016 EDP notification, INSEE includes in EDP data the impact that a reclassification of public broadcasting corporations in General Government should have on EDP aggregates, however without doing any other adjustment to GFS/NA ESA 2010 data. This is because it would require a complete revision of NA estimates.

The next NA benchmark revision will be published in May 2018, and the April 2018 EDP notification will be consistent with the NA data to be published in May 2018.

Therefore radio and TV license fees will be recorded as taxes in GFS data by Spring 2018. However, INSEE did not plan at this stage to actually include the public broadcasting corporations expenditure inside government. Eurostat objected to this, indicating that a benchmark revision was meant to review the sectorisation.

5.1.2 Recording of D.62 by COFOG

INSEE declared that this transmission is not compulsory and is not planned in the short run.

5.1.3 Mobile phone licences

INSEE confirmed that the recording of mobile phone licenses will change in 2018 (see section 4.4.11).

5.1.4. Netting of compensation rebates for local taxes

In the context of GFS transmissions, INSEE had previously informed that the item "compensation rebates for local taxes" is recorded as a D.73 transfer between the central and local government subsectors. The direction of the flows (while usually from central to local government) has occasionally changed direction. However, it appears recorded on the resource side of local government/ uses side of central government irrespective of actual direction. Eurostat requested that INSEE look into whether this was a case of inappropriate netting.

5.2 Major upcoming government operations

Prior to the visit, INSEE listed 2 possible upcoming government operations (according to several announcements made by the new French President during his elections campaign):

- a possible replacement of CICE by social contribution cuts, which would result in a double count in the deficit (of close to 1% of GDP) in the year of transition – whichever it may be. For example, if such a replacement occurred in January 2018, there would be a twofold impact on 2018 accounts: D.39 expenses linked to CICE due on wages paid in 2017, and lower D.61 receipts due to social contribution cuts on wages paid in 2018. Eurostat strongly objected to the double impact and considered that another option should be pursued (see above, section 4.3.1.i);
- the change in income tax collection could be postponed to 2019 until the results of a limited experimentation/analysis by the French Government are available (see above, section 4.3.1.iii).

Agenda

1. Statistical capacity issues

1.1 Review of institutional responsibilities in the framework of the EDP data and government finance statistics compilation and reporting

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, EDP Inventory

1.2.1 Availability and use of data sources, revision policy

1.2.2 Trade credits and factoring

1.2.3 Compliance with the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States

1.2.4 EDP Inventory

2. Follow up of the previous EDP Dialogue Visit - evaluation of the progress in the accomplishment of the action points

3. Analysis of EDP tables – follow up of the October 2016 [and April 2017] notification

3.1 Consistency of ESA tables with EDP tables

3.2 Statistical discrepancies

3.3 Consolidation (debt and financial accounts)

3.4 Historical EDP data

4. Methodological issues and recording of specific government transactions

4.1 Implementation of ESA 2010

4.2 Delimitation of general government, application of the 50% rule in national accounts

4.2.1 ESA 2010 sector classification - qualitative and quantitative aspects:

i. Interpretation of rules on government control and qualitative rules for market/non-market criteria

ii. Formula used for quantitative criteria

4.2.2 Review of the (changes in the) list of general government units

4.2.3 Sector classification of specific units

i. *Réseau Ferré de France* (RFF), including rerouting of debt

ii. Public Housing Offices (*Les Offices Public de Habitat*) and the social houses (*HLM - Habitations à Loyer Modéré*)

iii. Hospitals (including subsector classification in ESA2010)

4.2.4 Government controlled entities classified outside general government (public corporations)

- of which, NACE 84/85 activities

4.2.5 Government and the financial sector: sector classification and operations

- i. Fonds de Garantie et de Résolution (FGDR), including repayable contributions*
- ii. Agence Française de Développement*
- iii. Banque Publique d'Investissement (BPI) group – structure, activities and classification*
- iv. Caisse de dépôts et consignations*

4.3 Implementation of the accrual principle

4.3.1 Taxes and social contributions

- i. Crédit d'impôt pour la compétitivité et l'emploi (CICE)*
- ii. Crédit d'impôt recherche (CIR)*
- iii. Change in income tax collection – Impôt à la source*

4.3.2 Interest (including the recording of coupons sold)

4.3.3 EU flows (including Agence de service de paiement)

4.3.4 Military expenditure

4.3.5 Gross Fixed Capital Formation (GFGF)

4.4 Recording of specific government transactions

4.4.1 Government interventions to support financial institutions

- i. Classification of Société de Financement de l'Economie Française (SFEF) in ESA 2010*

4.4.2 Guarantees

- i. Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)*
- ii. Banque Publique d'Investissement (BPI)*

4.4.3 Debt assumptions, debt cancellation and debt write-offs

4.4.4 Capital injections in public corporations

- i. Electricité de France (EDF) recapitalization*
- ii. AREVA recapitalization*
- iii. AIRBUS treatment of subsidies*

4.4.5 Accounting for nuclear decommissioning

- i. Fessenheim nuclear plant*
- ii. other nuclear decommissioning issues (government reactors, EDF reactors)*

4.4.6 Energy taxation

- i. Emission trading permits recording*
- ii. L' Ecotaxe: repayment to Ecomouv and partners*
- iii. Rerouting of Contribution au Service public de l'électricité (CSPE)*

4.4.7 Dividends, super dividends (dividends in kind)

4.4.8 PPPs and concessions

- i. PPPs related to *Reseau Ferré de France* (RFF) and government interventions (*TP Ferro, LGV Tours-Bordeaux*)

4.4.9 Privatisation

- *BPI France*: purchase of *Peugeot* shares

4.4.10 Financial derivatives

- i. Instruments used by *France Trésor* and other entities
- ii. Recording of settlement costs related to the restructuring of complex debt instruments undertaken by local government

4.4.11 Mobile phone licenses

4.4.12 *Programme d'Investissement d'Avenir* (PIA)

4.4.13 Transactions in non-financial assets

- i. Sales of real estates by the State
- ii. Sales and leaseback transactions
- iii. Recording of changes in inventories
- iv. *Alstom* – purchase of trains by government

4.4.14 Others: securitisation, etc.

5. Any other business

5.1 ESA 2010 Transmission programme – GFS data

5.1.1 Implementation of radio and TV licence fees as taxes in GFS data

5.1.2 Recording of D.62 by COFOG

5.1.3 Mobile phone licences

5.1.4 Netting of compensation rebates for local taxes

5.1.5 QFAGG counterpart data

5.2 Major upcoming government operations

5.3 Other

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ANNEX



EUROPEAN COMMISSION
EUROSTAT

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

Luxembourg, 20 March 2018

MAIN CONCLUSIONS AND ACTION POINTS

Ad-hoc visit to France

9-10 January 2018

Executive summary

Eurostat undertook an Ad-hoc visit to France on 9-10 January 2018 (complemented by a videoconference on 19 January). The main aim of this ad-hoc visit was to discuss (1) the recording of certain operations and the classification of AFD, (2) the statistical implications of the restructuring of AREVA, (3) the statistical implications of the refund (owing to its non-constitutionality) of the 3% tax of dividends, (4) the treatment of the CICE, in light of the new information gathered, as well as to discuss the implication of the forthcoming conversion of CICE from a payable tax credit into a reduction of social contributions, and (5) the recording of military equipment expenditure. In addition, selected other relevant issues raised in the context of the 22-23 May 2017 Standard Dialogue Visit and of the October 2017 EDP notification were further discussed.

First, the discussion centred on the need to reroute certain AFD operations, notably the sovereign loans, on a potential captive classification of AFD, and on the governance of AFD. AFD sovereign loans are guaranteed by the government of the receiving country and seemed to benefit from some support from the French government through the "compte de reserve". Eurostat enquired on whether the compte de reserve was not a mechanism to de facto provide a government guarantee on these sovereign loans. INSEE was requested to clarify some specifics regarding sovereign loans: the AFD participation in Paris Club meetings, the cash flows regarding these loans, and the compensation for Paris Club write-offs. Furthermore, the activities of AFD on distributing subsidies on behalf of the State were discussed. Eurostat emphasized that, to its knowledge, no entities classified outside government in the EU distributed subsidies to developing countries, or (except for Austria) distributed sovereign loans that were not rerouted in government accounts, as their main activity. Finally, regarding the 2016 conversion of the 2.4 billion euro loans in equity, following discussions with Eurostat, INSEE agreed to record the loans granted as capital transfers at time of provision of the 'loans'.

Secondly, concerning AREVA, the discussion focused on the treatment of the 2.5 billion euro injection in NewCo consistently with the 2.0 billion euro injection in AREVA SA (already recorded as D.9), taking into account the unicity of both operations as recognized by AREVA, by Eurostat, by DG COMP but also by INSEE itself. To Eurostat, allowing recording differently injections in different entities split from a 'mother' entity could be seen as a way to circumvent the capital injections rules. In this context, Eurostat pointed to a number of reasons that would suggest seeing the injection in NewCo as an injection from the State to AREVA SA followed by an injection from AREVA SA to NewCo (notably the transfer of AREVA SA bonds to NewCo). Furthermore, Eurostat and INSEE discussed on whether the participation by the Japanese investors could be really seen as similar to the participation of the French State, notably concerning size, timing conditions and motivation issues. Finally, Eurostat discussed different arguments regarding the time of recording of this capital injection, either in 2016 or in 2017.

Thirdly, Eurostat and INSEE discussed the time of recording of the amounts to be reimbursed in the context of the 2017 Constitutional Council decision on the non-constitutionality of the 3% tax on dividends (potentially amounting to a maximum of 10 billion euro plus 1 billion euro of interest penalties). This could either be at time of Constitutional Council decision (meaning recording 100% of the amounts in 2017), or at time of submission of claim (for claims made after that decision), or at time of validation of the claim by the tax administration (approximately 50% in 2017 and 50% in 2018). A choice between one of the three options would critically depend on when, in line with ESA 20.198, an incontrovertible right is "individually determined" or the value of the obligation is "reliably determined". Based on the elements provided by the Statistical Authorities during the meeting, Eurostat thought that the time of assessment could be used in this case. Nonetheless, INSEE will provide further

information so to assess whether the validation process is materially relevant or rather just a mere formality.

Regarding CICE, Eurostat again raised the issue of any double impact on the deficit, as defended by INSEE, in case of conversion of CICE (currently planned for 2019). In the view of Eurostat, this could be achieved by reviewing the accounting choice made in 2013. In this context, Eurostat considered that significant amount of additional information was now available compared to when Eurostat provided its 2013 advice: a) most importantly, it seems that no proper certification procedure exists (aside from the general ex-post fiscal verification procedures of taxpayers), b) the business accounts recording of CICE (as suggested by ANC, CNCC and the Liasses fiscales framework), c) the current plan for converting CICE into social contribution reductions, d) the recording of targeted social contribution reductions compared to general reductions and e) the interpretation of ESA 20.168 on two aspects (misrepresentation of government expenditure and tax revenue levels, and B.9 neutrality). In light of this new information, Eurostat considered that the revision in CICE recording could be envisaged by INSEE, both for the time of recording as well as for the reclassification from D.39 to D.61. Finally, Eurostat and INSEE discussed on whether some of the CICE claims need not be recorded in the Maastricht Debt.

Another important issue concerned the appropriateness of the current recording of military expenditure in France. Eurostat understood that the 'specific programmes' (other than the Rafale) are generally recorded on a full delivery basis (except one), while the Rafale and all the remaining military equipment expenditure in national accounts are recorded on a cash basis. Eurostat will reflect on the recording of the R&D spending for the Rafale. Eurostat enquired on why the stock of receivable 'specific programmes' had increased by 14 billion euro over 2005-2016. The origin of a large part of the problems is the insufficiently detailed data sources available at INSEE. INSEE and Eurostat will cooperatively work to ensure better exhaustiveness of information, and hence the correctness of B.9.

INSEE and Eurostat also discussed the recording of lump sums paid to terminate local government toxic debts and the sector classification of railway entities. Regarding the former, Eurostat proposed a simplified approach, having zero holding gains/losses over time, in the absence of sufficiently detailed data source or of a sufficiently representative sample. Concerning railways, the debate mostly focused on the valuation of the stocks of SNCF-Réseau fixed assets and their amortisations, and the national accounts CFC to be used for the 50% market-test. Eurostat thought that the risk that the sale to costs ratio would turn up well below 50% could be material.

Finally, other items discussed concerned sectorisation issues, the recording (and pattern) of the investment of hospitals, the sector classification of social housing entities (HLMs), the recording of certain write-offs and of taxes, the arrangement between COFACE and the Treasury, the appropriate enforcement of the (super-)dividend and capital injection tests for local government, and the revision policy of INSEE.

The following are the main conclusions and action points resulting from the meeting:

- AFD

2. At the end of October 2017 EDP notification, Eurostat expressed a reservation on the quality of the data reported by France in relation to the recording of some operations of the Agence Française de Développement (AFD). The issues of the sector classification of AFD and of the capital injection carried out by the State in 2016 had been discussed in the May 2017 SDV. During the ad-hoc visit, Eurostat tried to reconstruct all the transfers from government to AFD, and to gather an overview about all the operations that AFD is performing on behalf of government (some already rerouted). In case the analysis would conclude in favour of a reclassification of AFD within government, then there would be no point in discussing if the 2016 conversion of 2.4 billion euro loans into equity should be treated as a capital transfer or as a financial transaction, as INSEE is currently doing.
3. Regarding the potential rerouting of AFD's sovereign loans (13.7 billion euro), in addition to the amounts of AFD claims already rerouted (1.5 billion euro of loans to IMF and 1.0 billion euro of other loans), Eurostat enquired to what extent these sovereign loans are *de facto* guaranteed by the State, by reference to page 109 of the 2016 Annual Report (RA2016, '*compte de reserve*'). Eurostat also enquired on the specific governance in AFD itself and in relation to those loans (and in particular the AFD participation to Paris Club meetings). The statistical authorities explained that AFD sovereign loans are largely project-related (typically subject to calls for tenders for the financing) and always benefitting from a *de facto* guarantee from the government of the receiving country.
4. **Action Point 1:** INSEE will clarify the practice of the cash flows in relation to the sovereign loans (e.g. transit via the Treasury or not) and the typical arrangement in place to deliver the Treasury guarantee of the debtor country. INSEE will furthermore indicate the exact role of the AFD staff and/or representatives during Paris Club meetings, and whether other national development banks are also represented there, similarly to AFD: i.e., interpretation of "(...) *AFD takes part in these meetings under the guise of the French Minister of Finance.*" on page 109 of RA2016.

Deadline: end-March 2018.

5. In relation to the '*compte de reserve*', the discussion focused on the specific mechanism in place and the link with the compensation paid in the context of Paris Club write-offs/debt cancellation. Following INSEE explanations, Eurostat noted that AFD benefits from four to six separate flows arising from the budget (account 110): a) a part of '*bonifications*' for sovereign loans that is directly recorded as AFD revenue, b) the other part of '*bonifications*' for sovereign loans that is recorded in '*compte de reserve*', c) any other replenishment of '*compte de reserve*', d) compensation flows for Paris Club decisions (write-offs) concerning sovereign loans, e) other flows for compensation decisions concerning other loans (if any), and f) the transfers related to soft loans granted by the Treasury (if recorded as transfers – see below). As a result, the overall size of the State's subsidies/grants benefitting AFD operations is significantly bigger than the '*bonifications*' recorded.
6. In this respect, INSEE clarified that Paris Club write-off decisions involving AFD leads to D.9 against F.4 liability (with an impact on the Maastricht debt), the latter being subsequently redeemed with cash payments arising from account 110.
7. **Action Point 2:** INSEE will provide, for the past five years, all the flows from S.1311 to AFD (as described above). INSEE will clarify the functioning of the '*compte de reserve*' and the exact articulation between this '*compte de reserve*' and the compensations for Paris

Club write-offs. INSEE will furthermore clarify how/where these flows appear in both EDP Table 2A and Questionnaire Tables 2.1 and 4.2.

Deadline: end-March 2018.

8. Eurostat discussed the classification of AFD following three lines of reasoning: the autonomy of decision of AFD, given its governance; the application of the qualitative criteria (with government as a primary client); and the potential classification as captive. Eurostat noted that, during the 2014 SDV, it had suggested to follow-up on, a) the captive characterisation, b) the governance and c) the need for rerouting. Eurostat observed that, in subsequent years, only point c) had been addressed, with INSEE concluding that the extent of the (proposed) rerouting was insufficient to venture a reclassification of AFD in general government.
9. Eurostat stressed the rather unusual (in the EU) case of AFD, which distributes subsidies on behalf of government, for a fee, and which carries out lending on behalf of government (potentially for significant amounts in case sovereign loans would be rerouted). Fees on subsidies may reach one tenth of AFD's banking production ('*produit net bancaire*' of 539 million euro, p. 139 of RA2016), while FISIM on loans to local government of DOM TOM and rerouted loans, as well as any fees collected on guarantees provided (132 million euro of flow of guarantees provided in 2016), would also contribute to sales to government.
10. Eurostat noted (in response to an INSEE request) that, in the EU, to its knowledge, no entities classified outside government distributed subsidies to developing countries, or (except for Austria) distributed sovereign loans that are not rerouted, as their main activity. Eurostat enquired specifically the practice of 12 countries and will complete its investigations in the following months.
11. **Action Point 3:** Eurostat will finalise enquiring on whether there are cases in the EU similar to AFD.

Deadline: end-March 2018.

12. **Action Point 4:** INSEE will clarify the amount of the fees earned by AFD on subsidy processing (46 million euro, note 22 of p. 134 of RA2016; or 46 million euro + 13 million euro, same reference) and the governance relating to the distributed subsidies (Who decides? Who is the '*ordonnateur*'? Is AFD merely a postal box?). INSEE will clarify the extent to which the guarantees are provided against a fee paid by government (and the amounts).

Deadline: end-March 2018.

13. Concerning AFD's governance, Eurostat noted that the 'Board of Directors' is dominated by officials representing State's services (six) as well as Parliament (four), whereas the 'strategic board' comprises the same representatives of the State at the BoD plus the Minister for Development. In addition, AFD operates in the context of the guidance of 'CICID', an inter-ministerial committee. The BoD can delegate tasks to 'specialised committees'. The one in charge with foreign operations is comprising 5 representatives of the State. Finally, AFD has an 'executive committee', appointed by the Director General, who himself is appointed by a State decree.
14. To the extent that the Government representatives at the BoD, as well as in various other AFD bodies, are government officials or MPs and not merely appointed by government, and are the majority, the autonomy of decision of AFD could be questioned. Eurostat referred to similar cases where such an issue arose in other Member States. In this context,

a crucial element is the composition of the executive committee, and its exact role in AFD regular decision-making process.

15. **Action Point 5:** INSEE will document the exact composition of the executive committee and its role, notably in relation to the BoD – such as, for example, decisions by types and size of operations. INSEE will make references to any legal, published or signed source. INSEE will moreover examine to what extent AFD would meet the captive definition.

Deadline: 29 March 2018.

16. Eurostat reiterated that the conversion of the 2.4 billion euro loans in equity should be capital injection tested and that in its opinion this implied a capital transfer. In line with the MGDD, Eurostat considered that a significant part of the AFD business consists in providing sovereign loans, which are inherently loss-making for the State (given the continued subsidy required to support those loans – see above). As a result, even though AFD is profitable (138 million euro in 2016, in own-accounts; p. 139 of RA2016), it is not profitable when excluding the '*bonifications*' and other applicable indemnities. INSEE acknowledged that AFD is not a source of overall profit for government, but of overall losses – also taking into account the losses on the Paris Club write-offs.
17. Eurostat took note of the view of INSEE that the '*bonifications*' should be considered as benefitting foreign governments (D.74) and returning to AFD in the form of FISIM, by extension of ESA 4.37, and accordingly should be part of sales and also of the evaluation of the profitability, for the capital injection test. While not necessarily opposed to the possibility of extending the scope of ESA 4.37, Eurostat had nonetheless doubts on whether ESA 4.37 can apply in this case, given that the '*bonifications*' may not meet the subsidy on production basic criteria: the subsidized producer should be able to choose the product and the supplier of the product that it wants to use, so to carry more efficiently the production in question. When the producer must use a product from a specified supplier, the subsidy should be conceived as a subsidy to the supplier (rather than to the buyer). In the case in question, the 'producer', i.e. the foreign government, is obliged to borrow from AFD (the supplier of banking services). INSEE acknowledged that both views could be held.
18. Although INSEE recognized the validity of the points above, it nonetheless did not believe pertinent to recognize a capital transfer for this conversion of loans in 2016, in particular given that government net assets did not change. Eurostat indicated that ESA 20.200 specifically addresses the issue that net worth considerations are not relevant for deciding whether to record an expenditure in the case of capital injections (as a consequence of the absence of application of reinvested earnings). Nonetheless, Eurostat wondered to what extent the Treasury loans provided by the State may not be more appropriately seen as expenditure, rather than as financing. This would imply a revision of the time series. INSEE recognised the merit of this solution. Eurostat and INSEE saw a parallel with the case of soft loans to certain AIRBUS projects, where the recording can be a D.9, either at time of loan or at time of write-off, depending on circumstances.
19. Eurostat also argued that the MGDD foresaw that injections in Multilateral Development Banks had to be recorded as capital transfers when they cover concessionary loans (MGDD Chapter IV.6 § 9). INSEE argued that MGDD Chapter IV.6 §10 uses, as a rationale for this recording, the fact that the capital of those banks tend to deplete over time, which is not the case for AFD. Eurostat nonetheless noted that the concessionary loans were loss making, and that if the capital of AFD was not depleting, this was only because an equilibrium subsidy was being provided by the State.
20. **Action Point 6:** Taking into account that Eurostat considers that the loan conversion cannot enter the financial accounts in 2016, INSEE agreed to record the loans granted as

capital transfers (in 2016 and in previous years) at time of the provision of the 'loans'. Net recoveries would be recorded as revenue, but super-dividend tested. This change will be implemented for the April 2018 notification.

Deadline: April 2018 EDP Notification.

21. **Action Point 7:** INSEE will clarify the current recording, in EDP Tables and in the Questionnaire Tables, of the subscription of a subordinated bond in 2016 for 280 million euro (as well as other subscriptions in previous years, if any), and adapt it accordingly, taking into account the follow up of the previous action point.

Deadline: April 2018 EDP Notification.

- AREVA

22. The legal and financial restructuring of the group begun in 2015 and continued in 2016 and 2017. The AREVA group managed to raise 7.5 billion euro of new cash in 2017, overwhelmingly from the French public sector (a figure very close to the 8 billion of losses incurred in 2013-2016):

- 4.5 billion euro from the French State (to AREVA SA + NewCo)
- 0.5 billion euro from two Japanese investors (to NewCo)
- 2.5 billion euro from EDF (for New NP)

23. INSEE has so far recorded as a capital transfer D.99 the €2bn capital injection in AREVA SA (July 2017), and as a financial transaction F5 the €2.5bn capital injection into NewCo (July 2017). Eurostat analysed the AREVA capital injection case during the EDP Dialogue visit of 22-23 May 2017, in a letter to INSEE dated 6 October 2017, and again during the ad-hoc visit of 9-10 January 2018.

24. Eurostat restated the point made during the May 2017 SDV and developed in its letter dated 6 October 2017, according to which both injections of the State are one unique operation, which is also the view of DG COMP⁵³ and of the AREVA group itself, and that, accordingly, the 2.5 billion euro injection in NewCo should be treated consistently with the 2 billion euro injection in AREVA SA.

25. More in general, Eurostat explained that allowing recording differently various injections in different entities split from the 'mother' entity could be seen as a way to avoid applying properly the substance of capital injection test rules.

26. Eurostat also noted that the net assets of AREVA group were negative by 3.4 billion euro end-2016 (2.3 billion euro end-2015), with AREVA SA having negative assets of 1.5 billion euro and NewCo negative assets of 1.0 billion euro, but could not find the net assets of NewNP.

27. **Action Point 8:** INSEE will report and analyse the negative net assets of NewNP and of all other components of AREVA group, and will reflect to what extent these negative net assets positions of the various entities of AREVA group should have specific statistical implications.

Deadline: end-March 2018.

28. Eurostat emphasised again that its view on the recording of the AREVA injections was not based on the ongoing modifications of the MGDD guidance on this issue that is currently examined within the ESS (which would then even more clearly imply a capital transfer to NewCo). Eurostat noted that, although the new rules have been applied in a

⁵³ See COMMISSION DECISION (EU) 2017/1021 of 10 January 2017

number of cases (as shown in Eurostat advice or in minutes of SDV visits), it did not insist on their application at this stage given that these new rules have not been formally approved by the ESS and published. In the AREVA case, the old rules were sufficient.

29. In addition to that, Eurostat pointed to a number of facts concerning the injections in NewCo that suggest a need to route the capital injection in NewCo through AREVA SA, most notably: a) that AREVA liabilities are split and allocated to the various entities, including NewCo, b) that AREVA group cash assets will be split in the future, and c) that AREVA SA retains a 40% ownership NewCo despite having negative assets before the 2.5 billion euro injection by the State and 0.5 billion euro injection by MHI and JNFL.
30. INSEE indicated that the transfer of AREVA bonds to NewCo had for counterpart fixed assets for a similar amount and that the bond holders had given their authorisation. Eurostat noted that NewCo had negative assets, nonetheless, such that it was unclear whether the assets transferred were indeed for a similar amount. Eurostat also noted that the bond transferred initially benefit from the guarantee of AREVA SA and that the bond holders gave authorisation for such transfer of bonds without guarantee only after the cash injection is carried out, in addition to the fixed assets, which seemed to imply that the allocation of the bonds would need to coincide with that of the cash.
31. **Action Point 9:** INSEE will reflect on how to justify that AREVA SA retains 40% of ownership after the injection in NewCo, and whether this would not point to the injection being in fact partly made by the State to AREVA SA, which then further injects to NewCo.

Deadline: end-March 2018.

32. **Action Point 10:** INSEE will enquire on how to interpret the fact that the AREVA SA guarantee on the bonds transferred to NewCo (5.6 billion euro) is redeemed upon injections to NewCo. Eurostat considers that one interpretation could be that the injection is partly provided to AREVA SA, which then pays a sort of a fee to NewCo to be relieved from its guarantee.

Deadline: end-March 2018.

33. **Action Point 11:** INSEE will enquire on the actual meaning and on the statistical implications of the allocation of the cash of AREVA group in between various entities, expected to occur in 2017-2018.

Deadline: end-March 2018.

34. INSEE recognized that AREVA restructuring was indeed a single operation, and not two separate operations, but considered that this did not imply a unicity of recording. INSEE also stressed that the view of DG COMP need not bind the statistical treatment. Eurostat agreed on this last point, although mentioning that DG COMP view was one of the elements useful to analyse, which is also referred to, in some instances, within the MGDD. In particular, the MGDD indicates explicitly that when DG COMP declares an operation to be containing State Aid, a capital transfer is to be recorded – which is also the case here.

35. Eurostat enquired to what extent the State was injecting on a similar basis as the Japanese investors. Aside from the remarks made above, that seem to prove the injection provides a direct or indirect benefit to AREVA SA, Eurostat wondered whether the time of injection by the Japanese investors was identical to the one of the State, given that the Japanese contributions were held in an escrow account pending completion of a number of conditions. INSEE held the view that the escrow account was to be considered as a mere formality (which may open the possibility to record those flows in F.5, even in July 2017).

36. However, INSEE also added that if, by the end of February 2018, the injection of the Japanese investors was not completed, a capital transfer should be recorded, instead of a transaction in equity.⁵⁴
37. Eurostat also referred to the motivation of the Japanese investors, which may be to a significant extent driven by industrial considerations, as much as by pure financial return considerations. In this context, Eurostat recalled that ESA 20.198 b) foresees that injections with private investors in similar conditions are "likely" to be acquisition of equity, but not necessarily. Overall, Eurostat was unconvinced that the Japanese investment provided sufficient evidence of the existence of a market rate of return on the State's investments in NewCo.
38. INSEE considered this point irrelevant, given that, to INSEE, a private corporation decides to invest in an industrial process only if it thinks that this will allow it to make money. Eurostat argued that, in theory, the Japanese investors aim to obtain a certain return on investment that should match the market return, but that this return can take the form of costs savings for its own business (through cooperation deals, access to technology, etc), including savings on future costs, and that would be on top of any financial return earned (sequence of dividends). In other words, to the limit, the return on their investment may be satisfactory or even high, even if no dividend was ever earned, or even if the capital was eventually lost.
39. **Action point 12:** INSEE will reflect on whether the Japanese investors can be deemed to be investing on a similar basis, taking into account the time of injection by the Japanese investors compared to the injection undertaken by government, the fact that such contribution is held in an escrow account, strictly awaiting for some conditions to be fulfilled, and the fact that such participation may be, to a significant extent, driven by industrial considerations, as much as by pure financial return considerations.

Deadline: end-March 2018.

40. Eurostat also noted that the time of recording of the injection could be discussed, given that the formal equity injection in July 2017 largely consisted in converting two shareholder advances made in February 2017, which (as AREVA itself recognized in page 14 of its reference document of 2016) cannot be repaid unless through conversion. ESA 20.121 indicates that loans that are not expected to be repaid are not loans. In addition, Eurostat noted that, in the reference document 2016, the NewCo and NewNP are presented as unconsolidated on the rationale that IFRS 5 was applicable, which may suggest in fact that the AREVA group considered the transactions to be effective already in 2016. This could justify a recording of the injection in 2016. Eurostat also noted that the rescue of AREVA could not be avoided given the specific importance of AREVA with respect to its main activity.
41. **Action Point 13:** INSEE will reflect on the appropriate time of recording, given (a) that the formal equity injection in July 2017 largely consisted in converting two shareholder advances made in February 2017, which cannot be repaid unless through conversion, (b) that the AREVA group itself considered the transactions to be effective already in 2016 (which is shown by the fact that in the reference document 2016 NewCo and NewNP are presented as unconsolidated), and (c) that the rescue of AREVA could not be avoided, given the specific importance of AREVA with respect to its main activity.

⁵⁴ On an email dated 9 March 2018, INSEE informed Eurostat that this operation has been undertaken by end-February.

Deadline: April 2018 EDP Notification.

42. Finally, Eurostat also questioned the acquisition of NewNP by EDF, which was financed by the capital raise of EDF (4 billion euro) to which the State itself contributed in large part (3 billion euro). The event could be conceived as an indirect capital injection of AREVA: a capital injection carried out by a public corporation on behalf of the State. In case EDF had been 100% owned by the State, the operation would certainly have been considered as part of the AREVA rescue.

- 3% tax on dividends

43. As a consequence of a European Court of Justice's and Constitutional Council's decisions (of May and October 2017), the French State has to refund the 3% additional tax on dividends collected in the period 2012-2017, that was declared in breach of the principle of equal treatment of all taxpayers. Companies have the right to ask for the reimbursement of the amounts unduly paid, for the three years prior to the submission of the claim. The tax administration is expected to treat all the claims received in the last quarter of 2017 and in 2018.

44. The issue is in what period to record the claims. The main possible alternative times of recording of the amounts to refund (close to 10 billion euro) including penalties (of 1 billion euro), could either be at time of Constitutional Council decision, or at time of submission of claim (after that decision), or at time of validation of the claim by the tax administration.

45. DGFIP indicated that by 27 December 2017, 5.3 billion euro of claims had been paid out by the State, inclusive of interest, mostly concentrated on the biggest claims. DGFIP could not provide an update as of end-December 2017 of the stock of claims filled by taxpayers. The last information concerns the submitted claims by 31 October 2017 (7.9 billion euro of claims submitted, relating to 6388 claims). DGFIP indicated that claims submitted and approved were paid immediately without delay, but that some claims could be contested by the tax authorities, raising as an example the case of one contested claim of 436 million euro. The Ministry of Finance was creating a special claim processing unit to process the small claims as fast as possible (owing to the high interest; 4.8% annual rate) and before the end of 2018.

46. Eurostat wondered to what extent a specific deadline for the submission of claims existed following the Constitutional Court decision of October 2017, and whether the substantial high interests receivable may create an incentive for taxpayers to postpone submissions of claims, aside from the statutory cut-off three-year rule for refunds (following a claim).

47. **Action Point 14:** The statistical authorities will provide the amount of claims submitted and of claims paid out as of 31 December 2017. INSEE will clarify whether a specific deadline is applicable for the submission of claims following the decision of the court, and whether only one single submission by taxpayer can be filled at this stage, in order to ascertain if taxpayers have an incentive to postpone claims.

Deadline: end-March 2018.

48. Eurostat noted that, according to the IGF report of November 2017, the illegality of the 3% surtax could not be foreseen, but that the public accounts had provisioned the risks at close to 100% of the amount of claims for refund that had been submitted gradually since 2013. Eurostat thought that the revision backwards was probably not appropriate, given the uncertainty, noting that ESA 20.198 foresees that the D.9 recording occurs as soon as either an incontrovertible right is "*individually determined*" (and "*it is unlikely that claimants will fail requesting their due*") or the value of the obligation is "*reliably determined*". According to this, and the further elaborations of the MGDD, the possible

time of recording of the amounts of refunds (close to 10 billion euro) including penalties (of 1 billion euro), could either be at time of Constitutional Council decision, or at time of submission of claim (after that decision), or at time of validation of the claim by the tax administration.

49. In the view of Eurostat, considering the circumstance, it was possible to record the refund at time of validation, given that Eurostat understood from INSEE that there may be significant uncertainties on the amounts really due (compared to claimed) and that the validation process is not merely a formality. However, if there would be some evidence that administrative processing of claims were delayed without reason, the time of recording at the moment of validation by the tax administration would not be considered as sound.
50. **Action Point 15:** INSEE will report to Eurostat the amounts of claims that have been contested by the Tax administration, and the reasons for this refusal (by categories of claim). INSEE will describe the administrative process in place when only part of the claim is contested by the tax authorities (e.g. immediate settlement of the part not contested, or delayed payment on the whole claim, including on the part not contested) and the related amounts involved. Eurostat will provide a template for this reporting.⁵⁵

Deadline: end-March 2018.

51. **Action Point 16:** INSEE will record the expenditure based on assessments, unless information advising against this would come to the attention of the Statistical Authorities.

Deadline: April 2018 EDP Notification⁵⁶.

- CICE and CIR

52. In the view of Eurostat, new information, compared to when the Eurostat advice was provided (in 2013), was now available to both INSEE and Eurostat. The new information consists in additional information a) on the certification procedure, b) on the business accounts recording of CICE, c) on the plan for converting CICE into social contribution reductions, d) on the recording of targeted social contribution reductions compared to general reductions and e) on the interpretation of ESA 20.168 (on two main aspects).
53. The 2013 advice of Eurostat, while recognizing that other subsidies on production (related to work done in T) should in principle be recorded in the year of work (year T, even when the tax declaration is to be assessed in April T+1), also indicated that "*in practice there may be some deviation from this principle when the right to the subsidy must be assessed, controlled, certified, etc...*". Accordingly, the 2013 advice recommended the "*recording of the CICE when the tax liability is assessed by the tax authority*" (in T+1), which would "*not represent a contradiction of ESA2010*", as "*the deviation from the accrual principle seems applicable*".
54. Following Eurostat questions raised during the April 2017 Request for Clarification, INSEE implied, in a preparatory note to the May 2017 SDV, that no specific assessment

⁵⁵ Eurostat provided this template to INSEE on 5 February 2018.

⁵⁶ On 9 March 2018, and following information provided by INSEE on 25 January 2018, via e-mail, Eurostat sent a letter to INSEE on the national accounts recording of the court decisions regarding the refund of the 3% tax on dividends. The conclusion of this letter reads that: "*Based on the information provided by INSEE, Eurostat can accept the proposed treatment by INSEE, i.e. to record as government expenditure in 2017 the cases treated and accepted for reimbursement in 2017, and to treat as government expenditure in 2018 those which will be treated and validated by the fiscal administration in 2018.*"

was in fact carried out by the tax authorities (aside from the customary random verification of taxpayers declarations in general). As a result, Eurostat considered that the 2013 letter could be seen as not applicable anymore. INSEE remarked that this issue had been discussed orally with Eurostat staff in 2013, but recognized that this issue had indeed not been indicated in the request for advice, in the advice letter, or in other written correspondence.

55. Eurostat stated, once again, that it was opposed in principle to any double impact on the deficit in case of conversion of CICE into a regular general social contributions rebate, which is currently planned to take effect on 1 January 2019, as Eurostat tries to avoid double counts leading to 11 or 13 months of tax or expenditure to be recorded in a given accounting period. INSEE agreed with Eurostat that cases of 11 or 13 months of cash expenditure/revenue needed to be neutralized, but thought that the CICE case was entirely different. To INSEE, the double count was a natural consequence of the accounting choice taken.
56. INSEE stressed again the communication difficulties with the notion of restating the years 2013-2016 as suggested by Eurostat. This could pose a credibility of statistics issue to both institutions, and may even be misinterpreted as a political move in favour of the present Government. INSEE also noted that some expenditure would *de facto* escape the EDP reporting "*for the first EDP year*". Eurostat noted that no expenditure would escape the time series reported with a new convention of year T. It also noted that it was very common that revenue or expenditure be "never reported" for the first year of EDP notification or be reported twice (or more), when an accounting treatment is changed or when an error is identified.
57. Eurostat also argued that the 2013 letters did not contain important information related to the business accounting that are relevant for the statistical classification. Eurostat noted that the '*Autorité des Normes Comptables*' (ANC) recommended on 28 February 2013 to record CICE as a 'credit' to wages (account 64, '*charges de personnel*', i.e. a reduction in wage expense of businesses), and not as a tax credit, "*given the objective followed by the legislator*"⁵⁷. In addition, the '*Compagnie Nationale de Commissaires aux Comptes*' (CNCC) noted on 23 May 2013 the ANC view though remarking that other accounting solutions were envisageable for companies under French GAAP reporting, and that under IFRS a reporting of a reduction in wages is prescribed under IAS19 or envisageable under IAS20, and a reporting of a revenue is envisageable under IAS20.
58. INSEE argued that the ANC position was only a recommendation and was not compulsory, quoting in this respect the *Lefebvre* article 886, and noted that there was a diversity of practices of companies in this respect. INSEE had been closely following this question, in order to reliably compile compensation of employees in national accounts. In this respect, INSEE reported in the meeting the share of companies following the wage reduction (70%), the revenue (0%) and reduction in tax payable (30%).
59. At the same time, Eurostat noted that it seemed that the business accounts reported to the tax authorities ('*Liasses fiscales*') were supposed⁵⁸ to record CICE as a reduction in wages. Eurostat did not see any strong reason for national accounts to deviate from the business accounting practice in this instance.

⁵⁷ "*En raison de l'objectif poursuivi par le législateur de permettre de diminutions de charges de personnel par le CICE*", in the original version.

⁵⁸ *Bulletin Officiel des Finances Publiques-Impôts (identifiant juridique BOI-BIC-RICI-10-150-30-10-20160601)*

60. **Action Point 17:** INSEE will confirm to what extent the CICE reported in '*Liasses fiscales*' are consistently reported as reductions in wages, or alternatively follows the 70%-30% distribution mentioned by INSEE, or otherwise will report the share of accounting options followed by companies in the '*Liasses fiscales*'.⁵⁹

Deadline: 29 March 2018.

61. Also on the accounting side, Eurostat remarked that in case of sale of CICE claims, in one modality ('*cession à titre d'escompte*'), the claim is derecognized in the balance sheet for the amount that is accrued to date. In the other modality ('*cession à titre de garantie*'), the claim remains but is changed into a claim against the bank, following the note dated April 2014 from the '*Commission commune de doctrine comptable du CSOEC⁶⁰ et de la CNCC*'. Eurostat also noted that when the sale occurs in year T, it can concern the forecasted claim, although reduced by a fraction. Accordingly, the claim sold under '*cession à titre d'escompte*' consists only in the claim accrued to date, the remainder being recorded as borrowing. From the point of view of Eurostat, those recording prescriptions (which were not discussed in 2013) seem to imply the existence of a government liability in year T. Otherwise, a sale would be recorded without the existence of a claim, an anomaly which could be difficult to justify. In addition, Eurostat wondered whether the 2012 Eurostat Decision on factoring of trade credits without recourse should not be applied.

62. **Action Point 18:** INSEE will verify if the acquired CICE claim in the banks' financial statements is shown as a claim against the State, in both modalities, for the amounts accrued to date, consistently with business accounting (see also Action Point 44 of the May 2017 SDV).

Deadline: 29 March 2018.

63. **Action Point 19:** INSEE will reflect on whether the accounting prescriptions in the case of sale of CICE claim imply or support a recording in the Maastricht Debt at time of sale, which could be in T+1 or later, or even in T (see also Action Point 47 of the May 2017 SDV).

Deadline: 29 March 2018.

64. In addition, Eurostat noted that the principle that 'targeted reductions' in social contributions should be recorded in D.39, whereas 'general reductions' are reductions in D.61, was agreed only end-2013, that is: after the Eurostat advice on CICE. This constitutes new information not existing at the moment of the advice. INSEE recalled having always strongly supported this principle, also indicating that, after the conversion of the CICE, the general reduction in social contributions will be recorded within D.61. Eurostat remarked that the conversion of CICE would thus reduce artificially government expenditure and revenue if the current recording is retained. An alternative solution, to avoid a break in time series, would be to account CICE as a reduction in social contributions in the first place.

65. In this context, during the May 2017 SDV, Eurostat and INSEE discussed the interpretation of ESA 20.168, with Eurostat arguing that a reduction in tax A (or of another revenue) delivered through a Payable Tax Credit (PTC) on another tax B should

⁵⁹ In an email dated 21 February 2018, INSEE confirmed that in fact "*roughly 70% of firms record the CICE as a reduction in total compensation of employees*" in the liasses fiscales, none or a negligible amount as 'other revenue' and hence roughly 30% as a reduction in tax payable.

⁶⁰ CSOEC: Conseil Supérieur de l'Ordre des Experts Comptables

not be recorded as an expenditure but as a reduction in tax A. According to Eurostat, the true meaning of ESA 20.168 was that, in this specific case, the said PTC was not a reduction in tax B. INSEE objected to this interpretation of ESA 20.168, stating that the paragraph was clear and could not be interpreted. Eurostat answered that this interpretation was necessary; otherwise, the intention of ESA 20.168 of avoiding a misrepresentation of tax revenue and of government expenditure levels, artificially reduced by the use of PTC, would be circumvented. This is because recording an expenditure rather than a reduction in tax A would artificially inflate tax revenue and government expenditure in this case. This issue is being discussed in the EDPS WG, in line with Action Point 46 of the May 2017 SDV.

66. In addition, also discussed in the EDPS WG (and reflecting a question raised by INSEE in 2013, left unanswered), Eurostat considered that there was no internal contradiction in the ESA 20.168 that states that the new ESA2010 rule on PTC, compared to the rule applicable for Non-PTC, is B.9 neutral. An apparent contradiction would occur when compilers use the exception foreseen in ESA2010 on PAYE taxes that can be recorded in T+1 on a cash basis. In this case, a PTC could be recorded in T following the accrual principle of expenditure, whereas the impact on B.9 will be in T+1 in the case of Non-PTC. In the view of Eurostat, the statement of ESA 20.168 was designed to explain to the readers the GFS impact of PTC in its generality, with B.9 neutrality, and was not aiming at providing a general exemption to the accrual principle on expenditure delivered through PTC for those compilers that afford themselves to the ESA exemption for PAYE taxes recording.

67. In addition, Eurostat noted that the exemption for PAYE taxes should not be conceived to be applicable in the case of structural refunding for the final settlements. Given the size of the CICE (20bn euro a year) and the size of the Corporate Income Tax in France (CIT; 50bn euro a year), the final settlement would typically be strongly negative if CICE had been structured as a Non-PTC nature.

68. **Action Point 20:** INSEE will provide the prepayments and final settlements for CIT, since 2012, both including and excluding CICE (as requested for the preparation of the mission).

Deadline: 29 March 2018.

69. **Action Point 21:** INSEE will reflect on whether it can support the Eurostat position on the need to interpret ESA 20.168 in relation to B.9 neutrality, also in consideration to the argument related to the negative final settlements in PAYE taxes.

70. In the light of all of the arguments above, Eurostat considered that a revision in CICE recording could be envisaged by INSEE, in spite of the advice provided in 2013 by Eurostat.

71. **Action Point 22:** INSEE will reflect on the possibility to review the CICE recording, both for the time of recording and for the classification, in time for the interim benchmark revision (see also Action Point 45 of the May 2017 SDV).

Deadline: 29 March 2018.

72. Eurostat noted that the implied stock of liabilities existing end-2016, in relation to the CICE, amounts to 34 billion euro, based on a year T recording. Only part is currently recorded in AF.8 liabilities (13 billion euro), reflecting the reportable nature of this Non-PTC (up to three years), and no amount is currently recorded in the Maastricht debt. Eurostat thought debatable that the conversion of CICE would lead (based on the current recording choices in both time of recording and classification of liabilities) to an artificial increase in the Maastricht Debt of 34 billion euro. Eurostat thus considered that INSEE

should examine the opportunity, in addition to recording the B.9 impact in year T, to record the CICE liabilities in part or in totality within the Maastricht Debt.

73. In the view of Eurostat, it should be assessed whether the part of the CICE claims whose reimbursement is postponed up to three years (13 billion euro) could have the nature of Maastricht Debt, given that PTC are supposed to be reimbursed on the spot (in T+1) and that the mechanism in delaying payments for up to three years might be seen as a borrowing scheme, with features of forced borrowing. Eurostat also noted an INSEE practice (which it fully supported) of recording in Maastricht Debt certain long-term payables (e.g. the compensation for 'Ecomouv').
74. In addition, in the view of Eurostat, the part of the CICE claim held by the banking system should be in the Maastricht Debt (when irrevocably recognised by the State), in application of the 2012 Eurostat Decision on factoring operations. INSEE was unsure whether this was applicable to this case, as the CICE claim is not a trade credit and may be with recourse. Eurostat thought that the rationale for trade credits could be applicable here and that the government recognition of the liability could be seen as more relevant here.
75. **Action Point 23:** INSEE will provide the amounts of (1) CICE claim held by the beneficiary company that have been effectively rejected by the tax administration, (2) the amounts cashed by the company from the Treasury that were subject to refund (to the Treasury), (3) the amounts of claims held by bankers that had to be returned and (4) the amounts that bankers purchased and were redeemed by the Treasury but that had to be subsequently refunded. Eurostat will provide a template for this reporting.⁶¹

Deadline: 29 March 2018.

76. **Action Point 24:** INSEE will clarify whether factoring of CICE claims occurs through 'Cession Dailly' only, as implied in the document sent for the Ad-hoc visit, or only as one of the modalities. INSEE will explain the mechanism of 'Cession Dailly' (see also Action Point 7 of the May 2017 SDV).

Deadline: 29 March 2018.

77. **Action Point 25:** INSEE will explain the sentence, "*note that ensuring the recovery of the claim held on Government remains the responsibility of the firm*", and to what extent this implies an obligation contracted by the taxpayer that goes beyond the general obligation of sellers to ensure the existence of the object of sale.
78. INSEE provided to Eurostat a table showing DGFIP data on the flows of CICE claims that had been factored, by year of claim origination, including information on the amount factored by June of the year of origination. Eurostat asked to have this flow also by December of the year of origination, if possible, as well as the stock existing at the end of each year (stocks that would potentially be in the Maastricht Debt).
79. **Action Point 26:** INSEE will provide the stock of claims subject to factoring over 2013-2017 and, if available, additional information relating to the flows of factoring.

Deadline: 29 March 2018.

80. **Action Point 27:** In conclusion, INSEE a) will reflect on the appropriate recording of the CICE claims that constitute forced borrowing, which could be in the Maastricht Debt, b) will examine the opportunity to apply the 2012 Decision on trade credits to that part of

⁶¹ Eurostat provided this template to INSEE on 5 February 2018.

CICE claims that is factored, and c) more generally will reflect on the opportunity to have the full CICE claim reported in the Maastricht Debt, similarly to CSPE (see also Action Point 47 of the May 2017 SDV).

Deadline: 29 March 2018.

- Military Expenditure

81. INSEE clarified the misunderstanding, concerning the Rafale, that occurred during the May 2017 SDV and subsequent months, indicating that the Rafale are currently recorded on a cash basis, which may not deviate too much from the delivery basis if the R&D paid by the State in the 20 years prior the start of Rafale deliveries (2004) was neglected. In the view of INSEE, the MGDD left open some room of interpretation in relation to the time of recording of government expenditure for this R&D, also in view of the fact that the number of planes deliverable under the contract changed over time. In addition, INSEE reported that it did not have information to precisely measure neither the cash payments of the Rafale delivered each year, nor the payments made for R&D (that may reach or exceed 10/20 billion euro over 1980-2009).
82. Taking note of the severe source data problem, Eurostat noted that, nonetheless, the R&D of the Rafale constituted a significant part of the overall costs (1/4 to 1/2), which according to the MGDD (para. 20 of chapter II.5) should be recorded at time of each delivery, appropriately apportioned, "*unless the R&D is realised independently of the final product (...) and, de facto, not exclusively related to specific military equipment to be delivered*", that is: "*where the R&D expenditure does not imply any manufacturing of a given number of pieces of equipment*". Eurostat was unsure whether this exemption was applicable, as the number of planes was (approximately) fixed from the beginning, and why, in this specific case, the output of the military provider should be measured excluding R&D costs at time of deliveries. On the contrary, when there are deliveries, the normal rule is for R&D to be financed by prepayments, which leads to own-capital formation (P.12) in R&D in the accounts of the producer, which is in turn amortised from the first deliveries, contributing to production costs. Recording the output net of R&D costs would lead to distorting the net operating surplus (B.2.n) of the producer, aside from distorting the B.9 of the purchaser.
83. INSEE suggested that, in line of MGDD para. 19 of chapter II.5, an investment grant may be recorded for research and development. Eurostat wondered what could justify a gift made by the State to Dassault⁶².
84. In addition, the hypothesis of government purchasing R&D itself would imply a specific contract to this effect and the ability of government to sell off the technology to purchasers of its choosing or, alternatively, to potentially receive beneficial interest on export sales.
85. Separately, Eurostat noted that the MGDD specifically foresaw the case of renegotiation (changing the number of items to deliver), with a rule of apportioning the remaining amounts (paragraph 7 of chapter II.5), such that this issue would not create specific interpretation problems.
86. Given the regular deliveries of around 10 Rafale a year since 2004 and the unit price observed in various professional publications, Eurostat estimated that the expenditure for Rafale acquisitions is too low for approximately 0.5 billion euro a year since 2004.

⁶² This could also interfere with the potential market-test and/or control of Dassault itself, including the application of the qualitative criteria.

Eurostat nonetheless noted that, owing to recently signed export contracts, deliveries to the French army reduced to 5 Rafale in 2015, 6 in 2016 and 1 in 2017 (in order to make room to early deliveries on those export contracts: Egypt, etc.). As a result, the under-estimation of expenditure would seem proportionately reduced for those years.

87. **Action Point 28:** Eurostat and INSEE will reflect on the proper accounting treatment of the Rafale in national accounts, and on what could justify deviating from the basic 2006 Eurostat Decision and associated MGDD chapter (see also Action Point 51 of the May 2017 SDV).

Deadline: 29 March 2018.

88. **Action Point 29:** INSEE will request the relevant information to the Ministry of Defense or the Ministry of Finance and will examine the possibility to make an estimate in order to come closer to a proper valuation of delivered goods.

Deadline: 29 March 2018.

89. INSEE also clarified the misunderstanding concerning the other 'specific programmes' (i.e., excluding the Rafale) that had occurred during the May 2017 SDV and subsequent months. The table on these 'specific programme' provided by INSEE, showing payments and deliveries, follow (except for the M51) the concept requested by Eurostat and do not show deliveries apportioned for prepayments before 2005, an exceptional apportionment procedure that was allowed by derogation in the 2006 Eurostat Decision⁶³.

90. Eurostat took note of this, but noted that this implied a change in prepayment patterns of military equipment in France, given that large prepayments were reported over 2005-2016 for military equipment to be delivered mostly in future, whereas (presumably) few equipment delivered, over 2005-2016, benefitted from prepayments (except the M51). As a result, the difference between cash (+) and deliveries (-) over these 12 years amounts to (+) 13.6 billion euro.

91. Eurostat also noted that the significant fall in deliveries in 2005-2007, observed in COFOG, and the quasi-inexistent deliveries in those years of 'specific programmes', as observed in the information provided by INSEE, would thus not be explained by the application of the derogation above. Accordingly, Eurostat asked INSEE to enquire on the reason of these patterns.

92. In relation to the M51, INSEE mentioned that, on the one hand, information was incomplete and, on the other hand, the derogation mentioned above was applied, with deliveries impacting B.9 by 3 billion lower than it should.

93. **Action Point 30:** INSEE will provide a table of 'livraison par programme' over 2005-2017 (with no apportionment).

Deadline: 29 March 2018.

94. **Action Point 31:** INSEE will confirm that the payment patterns of military equipment have significantly changed in the past 10/15 years, which would justify the significant increase in the stock of receivables. INSEE will also enquire on the fall of deliveries over 2005-2007 observed in the data and confirm that no apportionment explains this pattern.

Deadline: 29 March 2018.

⁶³ Apportionment that Eurostat believed, during the October 2017 Request for Clarification, to be carried out by INSEE for all 'specific programmes'.

95. **Action Point 32:** INSEE will explain the recording for M51, and notably the basis of information of deliveries, and confirm the proportion of apportioning that is currently undertaken in the accounts (including in EDP years).

Deadline: 29 March 2018.

96. Eurostat took note that the cash information on military equipment reported in Questionnaire Table 7 is in fact an estimate based on the key used for the compilation of statistics on products in the National Accounts, which is applied to a broader expenditure item on a cash basis observed in the budget. This explains the apparent contradiction that the 'specific programmes' seemed to constitute only a minority of military equipment expenditure. As a result, the difference between the cash information in Table 7, the cash payments of specific programme and the implied Rafale cash expenditure is just an estimate, and probably contains more than pure military equipment expenditure. Eurostat thus concludes that no cash value for military equipment is currently available to INSEE and Eurostat, preventing at this stage adequate monitoring the application in France of the recording rules of military equipment in national accounts.

97. **Action Point 33:** INSEE will aim at identifying in the French Budget the precise cash flows related to military equipment expenditure, with the support of the Ministry of Finance and/or the Ministry of Defense (see also Action Point 51 of the May 2017 SDV).

Deadline: 29 March 2018.

98. **Action Point 34:** Eurostat will write a letter to INSEE listing the data deficiencies and minimum requirements necessary to ensure minimum adherence to ESA2010 rules, so to eventually align with current practice applied in other Member States.

Deadline: 28 February 2018.⁶⁴

- Settlement costs relating to the debt of certain complex debt instruments

99. In relation to the recording of the 3 billion euro of lump-sum on toxic debts paid by local government (over 2015-2016), which had led to a reservation in April 2016, Eurostat noted that amendments to the MGDD to address in concept the issue are proceeding but have not yet been approved. The draft change in MGDD would allow recording the 3 billion euro in the financial accounts on condition that the separation of the derivative is deemed possible and, in particular, that the implicit options are valued at inception.

100. Eurostat considered that the analysis of the sample of 20 structured instruments made by INSEE in summer 2017, as agreed between Eurostat and INSEE at the May 2017 SDV, did not meet a certain number of data requirements (see Action Points below). In addition, Eurostat was unsure to what extent the sample was representative, given that the large contracts seen in the press (e.g. Lyon, Nice) were not reported among this sample, and given the distribution by type of instruments that was chosen by INSEE. Eurostat was interested to have the data for the Nice contract, which INSEE had presented at the EDPS WG. INSEE responded that the database was anonymous, and INSEE was not supposed to know who signed which contract.

101. INSEE argued that the information provided by the bank currently holding the portfolio of toxic assets inherited from the issuing bank, was clearly exhibiting a fairly small 'margin over Libor', consistent with the typical margin for a given debtor category (i.e., limited "*deviation from graduated table*"). In the view of INSEE, this proved that the true rate of return of those structured instruments at issuance was similar to plain vanilla

⁶⁴ Action Point completed on 2 March 2018.

contracts, justifying applying an internal rate of return of 5.5% on the whole population of toxic debts.

102. In addition, INSEE seemed unsure on whether the sample could be thought as representative. Eurostat reasoned that it was crucial that the sample contains sufficient contracts that had been loss-making, possibly (in case of need) over-representing contracts based on the exchange rate (which had been loss-making).
103. While Eurostat agreed that the method for revising D.41 proposed by INSEE (i.e. using a number of hypotheses concerning the volume of toxic debts) broadly followed the approach presented by INSEE to a technical working group, the use of the 5.5% internal rate of return had not been agreed and remained to be motivated. Furthermore, Eurostat was awaiting for a full impact description of the revisions regarding both the non-financial and the financial accounts, so to evaluate the overall cumulated holding loss that INSEE was planning to record over the past 20 years with respect to those toxic debts.
104. It is recalled that, whereas some contracts generated heavy losses, in principle many contracts were slight gainers as options were expiring without being called. INSEE noted that the exchange rate contracts, often based on CHF, had generated large losses because of the strong appreciation of the CHF. Eurostat answered that a significant part of this appreciation was expected by the market at inception, as indicated by the interest rate differential CHF/EUR at inception.⁶⁵ Eurostat considered that, given the thousands of contracts signed, holding gains and losses should largely cancel out. To Eurostat, systematic holding losses should draw the attention of statistical compilers.
105. In the view of Eurostat, in the absence of any comprehensive information proving otherwise, it was prudent to assume that cumulating holding gains and losses cancel out over the full period. As a result, if the sample was deemed not representative, another method should be followed than that of INSEE. Eurostat thus recalled the proposal made during the October 2017 Request for Clarification, whereby, by construction, cumulated holding gains would be set to zero by imputing enough D.41 across the years.
106. **Action Point 35:** INSEE will examine the opportunity to adopt a simplified approach to the toxic debts recording, along the lines proposed by Eurostat, having zero holding gains/losses, taking into account the absence of detailed source data or of a sufficiently representative sample.

Deadline: April 2018 EDP Notification.

107. **Action Point 36:** In case INSEE will not adopt the simplified approach described in the previous action point, INSEE will provide, in relation to the sample of toxic debts, supplementary information concerning: 1) the valuation of the derivative at inception, 2) the internal rate of return of the product, 3) the termination lump sum, if any, 4) the cumulated interest paid, and evaluate on this basis the representativeness of the sample for extrapolation purposes (see also Action Point 72 of the May 2017 SDV).

Deadline: 29 March 2018.

108. **Action point 37:** INSEE will provide the same information pertaining to the Nice contract, unless the data provider would oppose this for confidentiality reasons.

⁶⁵ If the CHF appreciated significantly more than expected (possibly leading to overall losses by local government), the global short term interest rates proved also to be significantly lower over time than initially expected (which could have led to the opportunity of gains by local government, depending on the contract specifics).

Deadline: 29 March 2018.

109. **Action Point 38:** INSEE will provide to Eurostat the complete set of proposed revision in both the non-financial and financial accounts (including balance sheets and other economic flows).

Deadline: 29 March 2018.

- Railway Companies

110. The discussion on SNCF entities concerned the classification of units, most notably of SNCF-Réseau. Eurostat noted that both the railway infrastructure company and the railway transport company are classified outside S.13 in France, a feature observed in only six other Member States. INSEE noted that the 50% test of SNCF-Réseau tended to reduce gradually over time, and was close to 50%, with a risk of reclassification also identified by the *Cour des Comptes*. A main topic concerned the measurement of amortisation costs. In this context, a key issue, currently being discussed at the EDPS WG, is to what extent the amortisation in business accounting should not be grossed up by a coefficient, to reflect past inflation, in order to get to a more realistic estimate of the CFC for the 50% test, at least for infrastructure companies.

111. Eurostat also took note that the rerouted debt does not impact the 50% test. INSEE confirmed that the amortisation (0.7 billion euro) of investment grants (24 billion euro end-2016) is neither included in the revenue nor deducted from costs for the 50% test. Eurostat noted that non-consolidated accounts showed amortisation of investment grants as revenue, while consolidated accounts showed them as a deduction of costs (deducted from amortisation). INSEE indicated that the 50% test is using non-consolidated accounts.

112. Regarding amortisation, important source data issues were also discussed. During the May 2017 SDV, INSEE had explained that, following a downwards revision in fixed assets in SNCF-Réseau accounts in 2015, INSEE had neutralized the related fall in amortisation for the purpose of compiling the 50% test.

113. In preparation of the January 2018 Ad-hoc mission, INSEE had explained that, in its understanding, this 2015 downward revision was broadly reversing an upward revision carried out in RFF accounts in 2005. Based on this fact, a plausible interpretation was that the valuation of RFF fixed assets in SNCF-Réseau followed: 1) historical costs before 2005, 2) then some kind of fair value between 2005 and 2015, and 3) then another valuation (possibly again historical costs) since 2016 onwards. As a result, the valuation used over 2005-2015 may possibly reflect the market value to be used in ESA2010 (consistently with the PIM method).

114. First, it was unclear to Eurostat on what basis the business accountant would value, when using a fair valuation approach, the assets of RFF that fundamentally depend on government subsidies. Second, Eurostat noted that the fixed assets (*'immobilisations en service'*) had fallen in 2005 (by 7 billion euro, from 20.1 to 13.1 billion euro on a net basis, end-2004) and not increased, a point which INSEE will enquire on.

115. **Action Point 39:** INSEE will explain why the revision in RFF accounts in 2005 (to be consistent with IFRS) resulted in a large fall in tangible assets by 7 billion euro (1/3), rather than an increase.

Deadline: end-March 2018.

116. **Action Point 40:** On this basis, INSEE will explain the basis of the valuation method currently applied in SNCF-Réseau own accounts, and in particular if the valuation is likely to be higher or lower than historical cost.

Deadline: end-March 2018.

117. In addition, Eurostat noted that significant '*immobilisations en cours*' were reported by SNCF-Réseau (13 billion euro end 2016), in addition to '*immobilisations en service*' (37 billion euro), the former not being subject to amortisation in SNCF-Réseau own accounts. Eurostat felt that, under ESA2010, '*immobilisations en cours*' were presumably to be classified within fixed assets and therefore subject to CFC.

118. **Action Point 41:** INSEE will recalculate the 50% test for SNCF-Réseau taking into account the amortisation of '*immobilisations en cours*'.

Deadline: end-March 2018.

119. **Action Point 42:** INSEE will examine the opportunity of using a coefficient (of 1.5 and 2.0), for calculating variants of the 50% test of SNCF-Réseau, and will report to Eurostat the result (see also Action Point 28 of the May 2017 SDV).

Deadline: end-March 2018.

120. INSEE noted that this coefficient approach, even if supported by the EDPS WG for specific infrastructure assets, is not official yet and no guidance on the manner how to choose a coefficient exists. Eurostat agreed with this, but considered that such a calculation would nonetheless help in formulating a view on the sectorisation.

121. Overall, Eurostat felt that (a) the amortisation of '*immobilisations corporelles*', (b) the valuation approach used by SNCF-Réseau (potentially below historical cost) and (c) the opportunity to apply a coefficient in infrastructure asset led to significant risk that SNCF-Réseau be well below the 50% threshold.

122. Eurostat noted that railway infrastructure companies are classified rather heterogeneously in the EU, but mostly in government. Eurostat noted also that the new EU regulations on railways foresee a standard separation of railway entities between infrastructure and transport, underscoring the specific character of railway infrastructure, that are inherently monopolistic, and possibly non-market. This may require a homogenised classification inside government, irrespective of the 50% test, a position INSEE did not necessarily object to. However, INSEE declared awaiting a decision at the EU level, for a homogenised recording. Eurostat noted that ESA 3.26 implied that units predominately supplying non-market products were non-market producers.

123. **Action Point 43:** Based on the numerous elements listed above, INSEE will examine the need of reclassifying SNCF-Réseau.

Deadline: end-March 2018.

124. Eurostat took note that the B.9 impact of such a reclassification may be significant (2-4 billion euro a year), reflecting the significant increase in investments compared to a decade ago, while investment grants have been less dynamic, leaving a significant borrowing need for SNCF-Réseau, with a debt increasing year by year. The reclassification would also have a significant effect on debt, although mitigated by the fact that a significant part of the debt is already rerouted through government accounts.

125. **Action Point 44:** INSEE will clarify whether the amortisation of investment grants need not enter the $S/(S+P)$ formula used for determining the part of debt that is rerouted (see also Action Point 29 of the May 2017 SDV).

Deadline: end-March 2018.

126. Regarding LISEA, Eurostat took note that INSEE decided to reclassify the concession granted by SNCF-Réseau to LISEA inside government owing to the risk exposure of government (see Action Point 70 of the May 2017 SDV). This translated in a degradation of the B.9 (3.5 billion euro over 2011-2016) in the October 2017 Notification, reflecting LISEA investments net of grants received. INSEE remarked that 1 billion euro of

investment had been missed out, which will be corrected in the April 2018 EDP Notification (including covering earlier years).

127. **Action Point 45:** INSEE will verify and revise the government investment upwards for LISEA where necessary.

Deadline: April 2018 EDP Notification.

128. **Action Point 46:** Regarding TP Ferro, INSEE asked the relevant authorities for more information and, in the absence of any follow-up, would record an expenditure of 200 million euro in 2016 (see also Action Point 69 of the May 2017 SDV).

Deadline: April/October 2018 EDP Notification.

129. **Action Point 47:** INSEE will provide a note with an analysis of the characteristics of the flows between the Central/Local Governments and SNCF entities, as well as the flows between the different entities of the SNCF group, together with their appropriate classification in national accounts as well as their use in the 50% test.

Deadline: end-March 2018.

- Sectorisation

130. INSEE noted that the 50% test is calculated using the "*liasse fiscale*" and that, whereas the item "*FO - subvention d'exploitation*" is correctly excluded from the numerator ("sales"), it had experienced situations where subsidies had been included in position "*FL-chiffres d'affaires nets*" (i.e. turnover) by the accountants of the units. During the May 2017 mission, INSEE gave the example of RATP, whose 50% test ratio (for 2015) fell from 105% to 58%, once correctly accounting for subsidies. Eurostat recalled the May 2017 SDV conclusions that individualised information on subsidies from the MoF would need to be exploited for the biggest units. Discussions took place with respect to the definition of "biggest".

131. Losses on inventories and on receivables are both included within costs for the 50% test (and also deducted from value added in national accounts).

132. **Action Point 48:** INSEE will examine ways to systematically exploit MoF individualised subsidies in order to correct the 50% test in the longer term, starting with the biggest units in the shorter term (see also Action Point 31 of the May 2017 SDV).

Deadline: 31 August 2018.

133. With respect to the qualitative criteria, INSEE noted that it had no possibility to currently make a systematic assessment. A classification inside government was decided, on a case by case basis, whenever government was identified as the unique client, INSEE citing the case of hospitals, of SAGESS and of *Académie Française*. Eurostat thought that the sale to government could perhaps be systematically collected through the annual survey (SBS). INSEE had doubts that this could be achieved, as this may require dropping other information from the annual survey – which will naturally be resisted by the business statistics department.

134. **Action Point 49:** In order to carry effectively the qualitative criteria, Eurostat recommends INSEE to examine ways to collect turnover made with government, through the annual survey (or the *liasse fiscale*), either routinely, or at least as ad-hoc exercises.

Deadline: 31 August 2018.

135. During the May 2017 SDV, Eurostat had remarked that a number of public corporations were flagged to be NACE O or to have no employment. Eurostat recalled that NACE O is always nonmarket under ESA 2010, and that autonomy of decision required employment.

136. Before the ad-hoc mission, INSEE explained that the NACE O coding reflected errors in the business register, which were being corrected. 732 units had been reclassified to NACE I ("*syndicats des eaux*"). Eurostat enquired on the autonomy of decision of the water boards. The absence of employment data (or 0 employment) resulted principally from "matching failures" arising when comparing different databases to fill the questionnaire on public corporations.

137. **Action Point 50:** INSEE will provide a detailed note on the analysis of the sector classification of the 732 "*syndicats des eaux*", concerning both their qualitative and the quantitative criteria. Regarding the latter, INSEE will provide an analysis on what constitutes the sales of these entities.

Deadline: 31 August 2018.

- Hospitals

138. In the October 2017 notification, INSEE had revised hospitals investments downwards, by 1 billion a year over 2014-2016, owing to errors arising from the accounting implications of mergers of hospitals. For 2014, the revision had been imputed on D.9 rather than on P.51 and imputed on P.51 for years 2015 and 2016. Eurostat had enquired on why the revision occurred only for those 3 years, leaving hospitals investment falling strongly over 2012-2016 (-30%).

139. INSEE explained that, upon a merger, it was quite common that investment be reported distorted. A correction is routinely carried out to neutralise this. Owing to staff turnover at DGFIP, this correction for errors arising from mergers had been forgotten, explaining that only the last 3 years had been subject to a revision. INSEE also noted that a large investment programme had been decided in 2010, explaining the pronounced fall observed in recent years.

140. Eurostat repeated the request formulated during the October 2017 notification rounds (question 17 of the Closing Remarks) to be provided with hospitals' own accounts.

141. **Action Point 51:** DGFIP will provide Eurostat with the fixed assets, amortisation, purchases and sales of fixed assets, as reported in the own accounts of hospitals, over 2008-2016, after and before the correction for mergers.

Deadline: end-March 2018.

142. Eurostat noted that the correction related to hospital investments had been entered into D.9 in 2014, owing to the fact that the production accounts of the year 2014 was frozen. This was not ideal for Eurostat and may lead to a distortion of P.51c and, accordingly, of P.3. INSEE however remarked that P.51c might overall be not too much distorted, because another correction (for LISEA, see above) had missed 1 billion euro of investment.

- Social housing

143. INSEE saw strictly no reason to reclassify social housing. Investments are covered by grants and by loans, notably from the CDC. In recent years, banking loans started to be competitive compared to those of CDC according to INSEE. Although rents are lower than the market, they are supposed to cover costs. The reference rate is the same for all tenants, although it may be nonetheless modulated upward for the small fraction of tenants whose income is above a threshold. In addition, if housing benefits cover a part of the rentals (and may be directly paid to HLM), the housing benefits were provided to any eligible tenant in France, whether renting to HLM or to private landlords. As a result, INSEE considered these amounts as social transfers (D.632) and legitimate sales for the 50% test.

144. **Action Point 52:** INSEE will report to Eurostat the fraction of rentals in delay, the amounts written off, how these are accounted in the HLM own accounts, and whether the amounts are recorded within sales and/or costs in the 50% test. INSEE will also report the amounts of investment grants recorded in the HLM own accounts (stock of grants on the liability side, amounts recorded as revenue), and will indicate their accounting treatment (and possible inclusion in sales or deduction from costs, in the 50% test).

Deadline: 31 August 2018.

145. **Action Point 53:** INSEE will report the fraction of HLM debt towards CDC compared to other lenders.

Deadline: 31 August 2018.

146. HLM bankruptcies are not frequent, according to INSEE. When they occur, a reclassification inside government is conducted. HLM decide on the tenants they select, although local governments can impose tenants for up to 25% of HLM capacity.

147. **Action Point 54:** INSEE will examine the case of an HLM that was flagged by Eurostat with a market test ratio of 51%.

Deadline: 31 August 2018.

- Write-offs

148. During the May 2017 SDV, INSEE had indicated that, contrarily to what had been indicated to Eurostat, some write-offs/debt cancellations were not reported as D.9, which would be corrected in the October 2017 notification with a B.9 impact (approx. 0.5 billion a year). At the same time, INSEE had taken the view that the write-offs reported in account 654 were legitimate other change in volume, a view that Eurostat might not particularly agree upon.

149. On the first issue, Eurostat noted that INSEE had indeed corrected the deficit during the October 2017 notification, as promised. However, Eurostat had been surprised that the correction had been entered as D.995, given that it had not understood that the write-off in question concerned taxes. This new information was in turn leading to new sets of questions (see also next item).

150. In preparation to the ad-hoc mission, INSEE reported a few concrete examples on the types of write-offs concerned (account 673). Eurostat concluded that these had generally nothing to do with taxes. As a result, INSEE agreed to reconsider the recording.

151. **Action Point 55:** INSEE will recode the D.995 (reported as negative revenue) corrections that were included in the revision to B.9 for the October 2017 notification, as D.999 (expenditure) (see also Action Point 57 of the May 2017 SDV).

Deadline: April 2018 EDP Notification.

152. In relation to account 654, the statistical authorities considered that this code had all the features of entries in OCV, being an entry to discharge the accountant from any personal liabilities. INSEE thought that this notably covered cases where the unit disappeared.

153. Eurostat recalled that ESA 2010 had clarified the terminology, compared to ESA 1995. Write-offs were internal actions taken by the accountant often recognising that a claim was not collectable or with expected proceeds below expected costs (ESA 20.233-20.235). Separately, a capital transfer was required when an intention to convey a benefit existed in the first place. A typical example would be student loans. The borderline case, enquired by INSEE, concerned a situation where the student loan is written-off following the death of the student. Eurostat thought that this case was not even so clear-cut, and various answers were possible.

154. Eurostat thought that in the absence of any information on the typical claims concerned, a capital transfer should be presumed.
155. **Action Point 56:** INSEE will document the type of claims being written-off within account 654 and will propose a way to partition the write-offs between those that have a capital transfer nature from those that can be OCV. Alternatively, all such flows may be reported in the deficit (see also Action Point 57 of the May 2017 SDV).

Deadline: April 2018 EDP Notification.

- Taxes

156. Eurostat enquired on a number of issues related to taxes: a) the use of D.995, b) the basis for recording of taxes, c) the entries of fiscal receivables in the financial accounts and d) the filling of table 5 of the questionnaire related to EDP tables.
157. DGFIP explained that the F.8 in relation to taxes was derived from the general ledger. In the view of Eurostat, this could be improper in so far as the general ledger booked as debit the assessment and as credit the repayments as well as the write-offs. Write downs are entered in another account. Under ESA 2010, compilers have two methods for impacting B.9: either time adjust cash or use assessments reduced by a coefficient for the amount expected not to be collectable. Accordingly, using assessment reduced by write-offs was not in line with ESA2010. This applied for both B.9 and B.9f. The F.8 recorded for fiscal claims were thus creating a discrepancy.
158. **Action Point 57:** INSEE will review the F.8/AF.8 recording for fiscal claims, to ensure consistency with the non-financial side and remove the discrepancy currently created. This implies adapting ESA table 27, EDP table 3 and questionnaire table 4.1.

Deadline: April 2018 EDP Notification.

159. Eurostat enquired on the newly revised questionnaire table 5 that INSEE completely revamped during the October 2017 notification, following comments by Eurostat on the previous table 5. The previous table 5, being an extraction of the financial accounts, did not truthfully reflect the difference between the amounts of taxes recorded in national accounts and the cash collected, which is the specific purpose of this table. Accordingly, the previous table could not permit Eurostat to cross-check the adherence to ESA 2010 rules regarding tax recording with respect to the French notification. Thus, Eurostat judged that the new table 5 was an improvement, although a number of anomalies were identified.
160. INSEE noted that it did not have the social contributions on a cash basis, but DGFIP was likely to have this. Eurostat wondered what the basis of recording of D.611 and D.613 was.
161. **Action Point 58:** INSEE will explain the basis of recording of D.611 and D.613, and the related B.9 impact and will collect the cash data underpinning the national accounts recording of social contributions. April/October
- Deadline: April 2018 EDP Notification.*
162. **Action Point 59:** INSEE will review the table 5 of the questionnaire related to EDP tables, on F.8/AF.8 for fiscal claims: (a) report claims for social contributions, (b) enquire why stocks of liabilities are negative, (c) report data prior 2013 (see also Action Point 43 of the May 2017 SDV).
- Deadline: April 2018 EDP Notification.*
163. INSEE clarified that taxes of local government were collected by the Treasury on their behalf, whereas local government had some autonomy for fixing rates. Eurostat enquired

on the recording flows between the State and local governments, and the F.8/AF.8 that may be reported in relation to this in S.1311 and/or S.1313. Eurostat asked why no D.995 existed in S.1313, given that some S.1313 taxes were reported as having 'AD' recording coupled with D.995.

164. **Action Point 60:** INSEE will describe the F.8/AF.8 as well as D.995 entries that are reported in relation to taxes of local government in the accounts of S.1311 and/or S.1313.

Deadline: April 2018 EDP Notification.

165. **Action Point 61:** INSEE will describe the timing of transfers of taxes recorded in local government collected by central government, the application of ESA2010 1.78 for taxes recorded as local government taxes, and the means by which accrual of taxes is realised in local government.

Deadline: April/October 2018 EDP Notification.

166. INSEE confirmed that it did not apply the assessment method reduced by a coefficient, for obtaining the B.9 impact of taxes or social contributions: it used the cash or the cash time-adjusted. However, in GFS, some taxes are reported on an assessment basis and the difference with the B.9 is an entry in D.995. Eurostat enquired why D.995 had been 'negative' for 2 billion in two years (2005 and 2008). INSEE explained that the cash collected would typically relate to many years and could therefore occasionally exceed the assessments of a given year. Eurostat noted that this current practice appeared to move back assessments and declarations data to a cash basis and wondered if it was in line with ESA2010 rules. Eurostat wondered if INSEE would not be better off abandoning the D.995 recording, given the anomaly created and the fact that the coefficient method is not in effect used. INSEE remarked that this method had been in existence for many years.

167. **Action Point 62:** INSEE will examine alternatives compliant with ESA2010 rules, i.e. either using a time-adjusted cash method or an assessment and declarations method with coefficient (for the latter it is necessary to be able to assign cash to assessments). This may involve abandoning the D.995 recording, also given the anomaly that this creates.

Deadline: April/October 2018 EDP Notification.

- COFACE: export insurance

168. INSEE recalled that COFACE has long been managing long term export insurance on behalf of the State, and that the net result of COFACE (indemnities minus recoveries) was recorded as a D.7 revenue or expenditure of the State.

169. Following Eurostat enquiry, INSEE indicated that the counterpart entry in D.7 was presumably F.5 and that cash settlements by the Treasury were also F.5. No debts to COFACE were recorded in the way that a debt was recorded in the case of AFD (see above). Eurostat wondered about the funding arrangement between COFACE and the Treasury.

170. From 2017 onwards, BPI France takes over this activity through a subsidiary, which will be classified in S.13.

171. **Action Point 63:** INSEE will report to Eurostat the funding arrangement between COFACE and the Treasury. INSEE will notably report the net claim held by COFACE against the Treasury, if any, and the transitional arrangements with BPI France, which may be of relevance for statistical purposes (see also Action Point 56 of the May 2017 SDV).

Deadline: 30 September 2018.

- Superdividend and capital injections of local government

172. As a follow up of the May 2017 SDV, INSEE had provided a note showing dividend earned by groupings of units that were sufficiently smooth to support, according to INSEE, the notion that no superdividend occurred. Eurostat commented that, in the absence of any other source data or mechanism, the examination of time series could be envisaged, but should be carried out at the unit level. INSEE remarked that dividends are often zero and, accordingly, thought that the exclusion of outliers in the manner envisaged by Eurostat may result in excluding many legitimate dividends. First, Eurostat noted that its approach may be applied effectively to the largest units, whose dividends will generally not be zero. Second, Eurostat stressed that an approach leaning towards prudence was necessary, in the absence of any other information.

173. Eurostat acknowledged that the amounts were rather small. It nonetheless enquired on the content of the property income other than interest (D42-D.45) that showed significant amounts for local government (2 billion euro a year).

174. **Action Point 64:** In order to approximate the superdividend test, INSEE will carry a time series analysis, excluding outliers, for the biggest units that constitute a large fraction of dividend earned. INSEE will implement for the biggest companies of Paris, Bordeaux, Lyon, and Nice the superdividend test (see also Action Point 65 of the May 2017 SDV).

Deadline: 30 June 2018.

175. **Action point 65:** INSEE will clarify the content of the 'other property income' (D.42_to_D.45REC) of S.1313 of over 2 billion euro a year.

Deadline: 30 March 2018.

176. As a follow up of the May 2017 SDV, INSEE had provided a note on capital injections, using data of DGFIP on the stocks and flows, as reported in the own accounts of local government.

177. Eurostat remarked that the change in stocks had been only a fraction of the cumulated flows, which may indicate patterns of losses. Eurostat suggested that based on the observation of the time series, a fraction of the transaction in equity may be booked as capital transfer.

178. **Action Point 66:** Based on the pattern comparing stocks and flows in equity in the own accounts of units collected by DGFIP, INSEE will propose a capital transfers/equity ratio as a proxy of the capital injections test.

Deadline: 30 March 2018.

- Revision policy

179. Eurostat recalled that, under EDP legislation, the 4 years of EDP must be opened for changes, in relation to both routine revisions but also revisions stemming from methodological reclassifications.

180. Eurostat enquired on the forthcoming interim benchmark revision (April/May 2018) and expressed some worry in relation to what extent this revision may incorporate the mission findings. Eurostat wondered if INSEE did not need a more structural solution, to allow a temporary decoupling of GFS reported to Eurostat from national accounts, when the latter cannot be revised, either because the accounts are closed (for historical years), or because the break in time series that this would entail is not palatable (for EDP years).

181. INSEE mentioned that accounts were broadly closed for year 2015, but that some room of manoeuvre existed for some transactions (e.g. D.9, D.41).

182. In relation to the structural issue, INSEE noted that it was continuing its reflection on the issue. However, any decoupling could not be envisaged in the short run, due to technical issues this would create – such as the problem of quarterly accounts.

183. **Action Point 67:** INSEE will continue reflecting on the usefulness to organise itself in a more flexible way than is currently the case, so to allow temporarily delinking GFS from national accounts – where necessary (see also Action Points 5 and 6 of the May 2017 SDV).

Deadline: Continuous.

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