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Directorate D: Government Finance Statistics (GFS) and quality
Unit D-3: Excessive deficit procedure (EDP) 2

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FINAL FINDINGS

Eurostat EDP dialogue visit to Finland

25-26 January 2018

EXECUTIVE SUMMARY

Eurostat carried out an EDP dialogue visit to Finland on 25-26 January 2018 accompanied by observers from the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB). The list of participants is provided in annex.

The aim of the visit was to review several technical and methodological issues related to the EDP reporting. The discussions between Eurostat and Statistics Finland (SF) focused on source data, classification of units and the recording of transactions mainly related to swaps contracts.

In the context of the discussion on Institutional and organisational issues, Statistics Finland (SF) informed Eurostat about the plans of the Institution for some organisational changes like the centralisation of the production of statistical data into Statistics Finland as well as a new statistical development project (LEAP) which aims at improving the coherence of the produced statistical information. It was agreed that SF will continuously update Eurostat on the statistical implications of these changes.

As a follow-up of the previous EDP dialogue visit, the participants revisited the case of Finnvera, a specialised financing company which provides loans, guarantees, and export credits mainly to SMEs. It was agreed that, in the context of the discussions on MGDD methodological changes, SF will investigate the characteristics of the company and the nature of its activities and it will report to Eurostat the results of this investigation. In particular, SF will re-examine the sector classification of the venture capital activities of the subsidiaries of Finnvera.

Subsequently, the participants discussed various issues related to the EDP reporting of the October 2017 EDP notification. The discussions covered the following topics:

- Recording of interest: SF will improve the reporting of information on interest in the relevant tables as well as the reporting on local government swaps. SF will make efforts to estimate a before swaps interest for local government.
- Derivatives: SF in cooperation with the State Treasury will make an effort to complete the reporting of derivatives in the relevant table. It was also agreed that SF will reconsider the reporting of swaps cancellations in EDP table 2A. SF will send a report to Eurostat on the statistical implications of the temporary refinancing arrangement for the Finnish Export Credit Ltd taking into account the conclusions of the discussion.
- In the same context, it was agreed that Eurostat will examine the appropriate recording of the collateral flows related to the centralised counterparties clearing.
- Municipal quasi-corporations: SF will examine some main features of quasi-corporations (like their legal personality, their ability to borrow without approval of the controlling entity). SF will carry out the 50% test for quasi-corporations on an annual basis and it will investigate the accounting of the transfers from municipalities to their quasi-corporations as well as describe the means by which quasi-corporations are identified in the data sources.
- Regarding the contributions of credit institutions to the Single Resolution Fund (SRF), it was agreed that SF will confirm the tax refund nature of the part of

contributions paid by government to SRF on behalf of credit institutions. SF will explain the details of the recording in the financial accounts of the reclassification of the old deposit guarantee fund in government.

- For the issue of statistical discrepancies, SF will continue monitoring the B.9/B.9f differences and report to Eurostat the relevant results.

Under the section on Methodological issues and the recording of specific government transactions the following issues were tackled:

- The case of Finnfund was discussed in relation to a loan provided by government to the company as well as its sector classification. SF will check whether the loan has the character of a capital transfer rather than that of a typical loan. Likewise, taking into account the constraints on the liability side of Finnfund SF will assess whether the unit should be reclassified from S.125 to S.127 and at a later stage to S.1311 if the non-market nature of its operations is verified.
- In the case of Municipality Finance (MuniFin), a local government controlled financial institution, it was agreed that the SF will re-examine and further analyse the classification of the company in the context of the ongoing discussion on the classification of similar entities in other Member States.
- SF will monitor the developments regarding the upcoming regional administrative reform and will decide about the appropriate classification of the entities which will operate under the new counties.
- SF will investigate the existing arrangements regarding the obligations of the operators of nuclear reactors for decommissioning costs as well as the nuclear waste management. In the same context, SF will investigate the role of the Nuclear Waste Management Fund.
- It was agreed that SF will clarify and report to Eurostat several issues like the details of the formula used for the calculation of the market/non-market ratio and some elements of the reported data on public corporations aiming to improve the information content of the Questionnaire on government controlled units classified outside government.
- On taxes and social contributions, SF will examine the basis of recording of social contributions by social security funds and will provide Eurostat with a report on the practices of tax authorities regarding tax refunds.
- For the statistical treatment of guarantees on student loans by government, SF will document the recoveries related to guarantees called on student loans and inform Eurostat about the outstanding relevant amount of such loans.
- SF will examine the appropriate recording of Emission Trading Permits in view of the developments on this issue in the Task Force for methodological issues, before the next benchmark revision.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Finnish statistical authorities during the meeting and the documents provided beforehand.

Final findings

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 Finland on 25-26 January 2018.

Eurostat was represented by Mr Eduardo Barredo Capelot (Director of Directorate D "Government Finance Statistics (GFS) and quality", Head of the delegation), Mr Jukka Jalava, Ms Laura Wahrig, Mr Philippe De Rougemont, Mr Michael Oismüller, and Mr Stylianos Pantazidis. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meetings as observers.

Statistics Finland (SF), the Ministry of Finance of Finland (MoF) and the Bank of Finland (the Central Bank) represented Finland. Representatives from Finnvera and the State Treasury also participated for the relevant agenda items.

The aim of the visit was to review several technical and methodological issues related to the EDP reporting. The discussions between Eurostat and Statistics Finland (SF) focused on source data, classification of units and the recording of transactions mainly related to swaps contracts.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Finnish statistical authorities during the meeting and the quality of documents provided before the visit.

Regarding the procedural arrangements, the main conclusions and action points were sent to SF for review after the visit. The provisional findings were sent to SF for review. Final findings will be sent to SF and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

1. Statistical institutional issues

Introduction

Statistics Finland presented the planned reorganisation of administrative authorities in Finland, involving the establishment of 'counties', and the development plans for National Accounts compilation (the LEAP development project). Statistics Finland also informed Eurostat that it is preparing a national accounts benchmark revision for the year 2019.

The main institutions responsible for the compilation of general government deficit and debt data involved in the EDP notification procedures are the Statistics of Finland (SF) and the Ministry of Finance (MoF).

SF is responsible for the actual data relating to EDP notification, namely the annual and quarterly non-financial and financial accounts and the quarterly data on Maastricht debt.

The MoF is responsible for the planned government data (deficit/surplus and debt figures reported in EDP table 1).

Regarding the institutional arrangements, the EDP data are a subset of data produced in the national accounts system (both financial and non-financial). A Steering group for national accounts and government finance and sector accounts (as well as balance of payments) operates in the Directorate of Economic and Environmental Statistics.

Discussion

In a document provided to Eurostat by SF prior to the visit, SF declared no changes in institutional arrangements and responsibilities in the period since the previous EDP dialogue visit.

During the discussion, SF updated Eurostat on the main issues related to changes in source data as well as the new framework currently developed concerning the provision of health services at the level of municipalities.

More specifically, SF informed Eurostat about the aim of some organisational changes like the centralisation of the production of statistical data into Statistics Finland (as a continuation of the transfer for example of the production of BoP data from the central bank to SF and the integration of the relevant processes to National Accounts compilation system).

A new statistical data development project (LEAP) aims to improve the coherence of the information produced including SBS (structural business statistics), GFS data and national accounts, which will ensure a more integrated production of the relevant information.

Regarding the project of the creation of counties (an administration layer between municipalities and central government), SF presented the main elements of the next steps of this reform. According to the planned timetable, the legislation package related to the reform will be adopted by the Parliament in June 2018. The reform which is called “Regional, government, health and social services reform” will enter into force on 1 January 2020. The reform provides for the creation of 18 counties. Counties will have councils, and first county council elections will be held in October 2018.¹

In the context of this administrative reform the organization of social and health care services will be transferred from municipalities to the counties. Also many other tasks from municipalities and also central government will be transferred to the counties: Employment and Economic Development Offices, fire and rescue services, some tasks related to transportation, some tasks related to EU Structural Funds, etc.

The counties will get most of their financing from the state. They will not have a right to levy taxes - at least in the beginning. It is possible, that the taxation option will be investigated in coming years.

¹ This process has been delayed in the Parliament which means that the adaptation of legal acts, the entry into force and the elections have all been postponed.

The discussion continued on issues related with the institutional cooperation of SF with other administrative entities providing information for EDP reporting. SF informed Eurostat that no new memoranda of understanding have been signed. However, SF is considering agreeing on such a memorandum with the Ministry of Education in order to ensure the timely provision of statistical information from this ministry.

On the same subject, SF added that memoranda of cooperation are not published on the SF website. Eurostat encouraged SF to do so.

Regarding the existing quality management system, SF stated that there is no systematic auditing of EDP data but there are contacts with data providers when SF identifies problems with the provided statistical information.

The organisation of the work related to the classification of entities was also discussed. In addition, SF informed Eurostat that there is an EDP working group meeting two times each year with the participation of the Ministry of Finance and the Bank of Finland. The National Audit Office of Finland does not participate in this group. Eurostat encouraged SF to invite the NAO to participate in the group. Eurostat also advised the Finnish Statistical Authorities to examine the opportunity to expand the scope of the activities of the Finnish EDP co-operation group, to cover more systematically government accounts (annual GFS, quarterly data, aside from EDP). The list of government units is published and is used only for statistical purposes with no administrative fallouts.

On the ongoing project of collection of supplementary information on local government transactions, SF briefly presented the progress on the new project of supplementary collection of data for municipalities and joint-municipal authorities, which is to be launched beginning of March 2018. SF recalled that the main aim of the project is to address the problem of data gaps observed in several transactions of local government.

Eurostat recalled its suggestions made in the previous EDP visit and encouraged again SF to gradually extend the collection of supplementary data on local government transactions to produce information needed for a more complete assessment of EDP reporting.

Findings and conclusions

Action point 1. SF will keep Eurostat continuously informed on the statistical implications of the announced administrative change.

Action point 2. SF will send to Eurostat the MoU with the Ministry of Education and Culture (concerning universities and universities of applied sciences), which will possibly be prepared. Eurostat recommended that MoUs be published on the SF website.

Deadline: when the MoU is finalised.

Action point 3. Eurostat encouraged the Finnish Statistical Authorities to examine the opportunity to expand the scope of the activities of the Finnish EDP co-operation group, to cover more systematically government accounts (annual GFS, quarterly data, aside from EDP), and to consider inviting the National Audit Office of Finland (VTV -

Valtiontalouden tarkastusvirasto) to participate in its works. SF will provide progress report to Eurostat on this.

Deadline: the April 2019 EDP notification.

Action point 4. Eurostat encouraged achieving the planned extension (gradually in stages) of the collection of supplementary data for local government, in order to appropriately cover the key aspects that are crucial for the EDP assessment.

2. Follow-up of the previous EDP dialogue visit

Introduction

The case of Finnvera, was first discussed in the previous EDP dialogue visit and analysed afterwards by SF and Eurostat.

Finnvera is a specialised financing company which provides export credit guarantees and export credits (via its subsidiary Finnish Export Credit Ltd), as well as loans and guarantees mainly to SMEs. Previously Finnvera has also acted on the field of venture capital investments via its subsidiaries. Finnvera, which is the official Export Credit Agency of Finland is fully owned by the central government. The analysis of the company by SF (action point of 2015 dialogue visit) concluded that Finnvera should remain classified in S.12. In September 2016, Eurostat provided its view on the sector classification, and SF and Eurostat agreed to classify Finnvera (incl. FEC) in S.12.

There had been, however, a discussion on the possibility of rerouting to government accounts some of the domestic lending activity of the company in which government was involved. The issue was first raised in the context of Eurostat's opinion on the sector classification of Finnvera.

SF was requested to examine the possible rerouting of the domestic activities of Finnvera to government accounts.

According to the conclusion of the analysis of SF, no domestic lending activities of Finnvera should be rerouted to government accounts.

A representative of Finnvera was invited to participate in the meeting to present the structure of the company and the nature of its activities.

Discussion

The representative of Finnvera provided details on the domestic loans and guarantees provided by the entity. At the end of 2015, total domestic loans amounted to 1.2 billion euro, and domestic guarantees to 1.0 billion euro.²

For the functioning of the loss compensation scheme (a scheme providing partial compensation by government for the credit and guarantee losses), it was confirmed that the share of the compensation by government is calculated on the loss. After recording

² On 31 December 2017, Finnvera had 27 300 customers, 2.5 billion euro of outstanding commitments to SME financing and 22,2 billion euro of outstanding commitments to export financing.

credit losses in its financial statement, the company can apply to the Ministry of Economic Affairs and Employment of Finland for partial compensation of the recorded losses. Depending on the loan/guarantee in question, the Ministry compensates 35-80% of the credit loss. On average, the losses represent no more than 2% to 4% of the total of the outstanding commitments of the company (2.2 billion euro).

For compensation of losses, Finnvera has a compensation agreement with government which apply for various activity segments.

Finnvera does not pay fees to government for the provision of guarantees.

Regarding the structure of the company, the representative of the company explained that Finnvera plc is the parent company providing domestic loans to SMEs. Export credits are provided by Finnish Export Credit Ltd which is Finnvera plc's subsidiary. Two other subsidiaries of Finnvera plc are specialising on venture capital investment activities.³

Eurostat was informed that the nature of the activities of these units has changed and that the responsibility for the development of early-stage venture capital investments has been transferred to the company Business Finland Venture Capital Ltd (previously called TEKES Venture Capital Ltd), classified in general government sector. Eurostat questioned to what extent this transfer of activities could suggest taking another look at the classification of the Finnvera subsidiaries. In the same context, Eurostat asked SF to clarify whether the assets and liabilities of the two above subsidiaries of Finnvera have been transferred to Business Finland Venture Capital Ltd and to examine the appropriate recording thereof.

Eurostat was informed by the representative of Finnvera, that the company has a buffer of 688 million euro (assets in the balance sheet of Finnvera plc, 30.6.2017) for export credit guarantee and special guarantee losses which are included in the P/L account. Losses on the average do not exceed the 0.1% of the total guaranteed amount. Furthermore, according the representative of Finnvera, there is a second buffer of 669 million euro (assets in the balance sheet of the State Guarantee Fund of the Ministry of Economic Affairs and Employment). Therefore, an amount of 1.4 billion euro is available to cover losses from the activities of Finnvera. In the hypothetical case these funds listed above would not be enough, the Finnish State would assume any financial burden that would arise.⁴

³ On the Finnvera's website we read the following: *"In accordance with the policy decision made by the Ministry of Employment and the Economy, responsibility for the development of early-stage venture capital investments, which used to be vested in Finnvera, has been transferred to Tekes Venture Capital Ltd. Finnvera's Board of Directors has outlined that Finnvera gives up its venture capital investments gradually and in controlled manner"*.

⁴ In the website of the Ministry of Economic Affairs and Employment, we read: *"If according to Finnvera's annual accounts, the company's separate result arising from its commitments shows a deficit, which cannot be covered by the assets in Finnvera's export credit and special guarantee activities fund, the deficit will be covered out of the State Guarantee Fund's assets. If the State Guarantee Fund does not have sufficient assets to cover the deficit, the deficit will be covered from the state budget. The State Guarantee Fund monitors Finnvera's stock of liabilities and its sensitivity to risks and the ratio between them and the Fund's assets."*

The maximum amount in export guarantees that can be provided is limited to 27 billion by law. The Finnish Export Credit Ltd, had a total of 5 billion euro of outstanding loans end of June 2017, all financed by Finnvera plc.

Finnvera has a 11 billion euro EMTN programme guaranteed by the state of Finland. The renewal of this programme is subject to the approval of government.

Finally, Eurostat was informed that Finnvera represents the Ministry of Economic Affairs and Employment of Finland in the Paris Club for (old) claims related to state guaranteed funds against developing countries. In this context, Finnvera participates in discussions about write offs/ cancellations. Eurostat wondered whether this official task carried out by Finnvera, where a public corporation was representing the Finnish government in an international intergovernmental set-up, was not pointing to Finnvera acting as a government agency (to be classified in general government).

Findings and conclusions

Action point 5. On the backdrop of the ongoing discussions on MGDD (Methodological Task Force), SF will further investigate and report to Eurostat on the structure and features of *Finnvera* and its subsidiaries, notably with respect to the liability side (e.g. functioning of the loss compensation scheme), and outline the statistical implications of this investigation. Eurostat and SF will assess the consequences of the analysis.

Action point 6. Eurostat will submit to SF a list of questions regarding the arrangements benefiting the guarantee scheme on SME as well as the export guarantee scheme.⁵

Deadline: end-June 2018

Action point 7. In consideration of the changed nature of the venture capital investment activities of the two venture capital subsidiaries of Finnvera, whose activities or legacy activities Eurostat understands are altered since the responsibility for the development of early-stage venture capital investments has been transferred to *Business Finland Venture Capital Ltd*, a government sector unit, SF will re-examine the appropriateness of their sector classification. SF will also clarify the recording of transfers in assets and liabilities of these two subsidiaries to *Business Finland Venture Capital Ltd* (in the case such transfers have taken place).⁶

Deadline: end of May 2018.

3. Analysis of EDP Tables and related Questionnaires - follow-up of the October 2017 EDP notification

3.1 Recording of interest

Introduction

Information on interest for budgetary central government and the extra-budgetary funds of central government is received from the State Treasury (the state bookkeeping data). The same source data is used for information on premiums and discounts (both on cash and accrual basis). For interest payments resulting from swaps and FRA contracts, the

⁵ This action point will be further discussed during the October 2018 EDP notification.

⁶ Action point completed. Document received on 12/07/2018.

information is included in interest expenditure. The State Treasury provide data for the adjustment needed in EDP tables.

For the social security subsector, the Financial Supervisory Authority (FIN-FSA) data on interest payments include the swaps and FRA impact, which however is appropriately eliminated, as separate data on interest without payments linked to swaps contracts are collected with a questionnaire.

Concerning the consolidation of interest, it is recalled that the issue was discussed in the previous EDP Dialogue visit. Eurostat had then expressed the view that the method used by SF for calculating interest on intra government debt may not lead to sufficiently accurate data.

In the April 2016 EDP notification SF reported figures for years 2014-2015 in EDP table 3D. The same figures were reported in subsequent EDP notifications (October 2016-October 2017).

SF started reporting consolidated interest data from 2015 after the renewal of the securities holdings statistics (SHS) by the Bank of Finland. In fact, SHS provides annual aggregate data on accrued interest for all general government units. From 2016, SHS quarterly data includes instrument specific accrued interest with counterpart sector data. In this context, possible uncertainties with regard to the recording of quasi-corporations in source data were also discussed.

Furthermore, with the introduction of the new comprehensive "Employment Pension Scheme Quarterly Survey (EPSQ)", data on accrued interest of the subsector S.13141 holdings are available starting in 2016.

Discussion

Eurostat thanked SF for completing and correcting the data on interest accrued reported in the table on the recording of interest following the suggestions of Eurostat during the October 2017 EDP notification.

Eurostat noted that no information on coupon (accrued to date) sold was included in the table provided on 19 January 2018. Finnish statistical authorities pointed out that coupon accrued sold is subtracted when the coupon is sold from the coupon paid.

Eurostat suggested that the budget line PL367 (coupon sold) should be reported in line 5 of the table on recording of interest. In addition, Eurostat enquired about the lack of information on amortisation (line 12 of the table on interest). SF informed Eurostat that this information is produced by the State Treasury. Eurostat suggested that data on amortisation be reported in the table.

SF confirmed that for local government interest expenditure includes interest payments linked to swaps and FRA contracts. Eurostat pointed out that in EDP reporting, interest should be reported before swaps. Eurostat asked about the stock of swaps signed by local government. SF informed Eurostat that the stock of swaps by local government stands at 500 million euro, implying a flow of interest of around 20 million euro.

SF informed Eurostat that the relevant information is derived from MFI statistics (for the reporting needs of ESATP table 27) and that no information from BoP statistics was available (or used) for the contracts signed with non-residents. Eurostat recommended SF to improve the reporting of local government swaps by collecting information on stocks of derivatives with non-residents from the largest municipalities.

In the same context, the discussion focused on the reporting of swaps of local government in EDP tables. SF confirmed that swaps cancellations are included in the working balance of table 2C. It was also confirmed that the item "other financing expenses/income" of the profit and loss accounts of local government is included in the working balance. SF pointed out that the information reported under detail 1 of other adjustments of EDP table 2C, mostly reflects derivative transactions (interest payments). Eurostat recommended SF to further analyse the content of the above P/L item and use the results for the compilation of financial accounts.

SF invited Eurostat to produce a complete set of clear instructions on the terminology/definitions of the items of the table on the recording of interest.

Findings and conclusions

Action point 8. SF will revise the table on interest according to the improvements suggested by Eurostat (treatment of coupon sold, amortisation of interest, interest before swaps – i.e., exclusion of swaps from this table).⁷

Deadline: the April 2018 EDP notification.

Action point 9. Eurostat took note that interest expenditure of local government is reported after swap in national accounts, which is not in line with ESA 2010. To address this issue, SF will improve the reporting on local government swaps, as a first step by seeking information from the largest local governments, notably on stock of derivatives with non-residents. On this basis, SF will examine the possibility of estimating a before swap interest for local government.

Deadline (for the results of analysis): the October 2018 EDP notification.

Action point 10. SF will report to Eurostat the amounts included in the profit and loss accounts item 'other financing expenses/income', for local government, and provide an analysis (in co-operation with counterparts in the largest municipalities) of its predominant content. In the case the item predominantly includes results on derivatives; SF will envisage exploiting this item for the compilation of the financial accounts. Following this, SF will then analyse whether further adjustments to the accounts would be needed (e.g., in EDP table 3D).

Deadline: the October 2018 EDP notification.

3.2 Derivatives

⁷ Action point completed. April 2018 EDP notification.

Introduction

According to SF, *"in 2016 State Treasury used interest rate swaps, cross-currency swaps and foreign exchange swaps in debt hedging and portfolio risk management operations. Besides these derivative types, the State Treasury occasionally uses also bond futures, but they did not have an open position at the end of 2016"*.

Employment pension institutions use a variety of derivatives (option-, swap- and other forward rate agreement -type) for hedging and other purposes in their investment portfolios. Occasionally, derivatives are also used by the biggest municipalities.

The relevant reports on derivative operations of the State Treasury are the main source data used for the EDP reporting. Data on swaps are on an accrual basis, while the government debt is valued after swaps.

According to EDP Inventory "The data situation for local government derivatives is non-satisfactory".

As for the recording, as mentioned above the available information is on an accrual basis. No off-market swaps transactions have been identified / reported so far. Flows linked to derivatives are recorded in national accounts on a net basis under liabilities.

An issue concerned the appropriate recording of swaps engaged in the context of a large dollar and euro credit line provided to the Finnish Export Credit Ltd initiated in 2009 – for significant amounts (up to 2 billion euro). The minutes of the 2013 SDV gave the impression (notably the chart inserted page 14) that the swaps incurred with the market (to fund the dollar loans) were recorded as both borrowing and lending. During the 2015 SDV, the issue was discussed only briefly owing to lack of time. SF nonetheless indicated that no double counting in debt was to be feared, and agreed to provide some T-accounts to show how the swap was recorded in EDP table 2A and table 3B (action Point 21 of the 2015 SDV).

The recording of cash collateral, initial and variation margins linked to derivatives and the issue of reporting the hedging of foreign currency debt instruments according to the new EDP guidelines were extensively discussed with Finnish statistical authorities.

Discussion

Eurostat congratulated the Finnish Statistical Authorities for having provided the table on derivatives (a draft voluntary table recently developed by Eurostat).

SF discussed the reporting of swaps cancellations in EDP tables. Cancellations are recorded as interest in the budget and are included in the working balance of EDP table 2. There have been no big cancellations in years 2015-2016. In 2015, there has been only a swap cancellation of 2 million euro related to the export refinancing programme. SF agreed to re-examine the reporting of swaps cancellations in EDP table 2A after clarifying the present practices regarding swaps reassignment and renegotiations.

The discussion continued with the review of the case of the 2010-2012 refinancing programme related to export credits provided by the Finnish Export Credit Ltd. Eurostat

recalled the conclusion of the discussion during the last EDP dialogue visit according to which SF would (a) complete financial T-accounts including impact on net lending / net borrowing of government by instrument, (b) provide Eurostat with the impact of this programme on EDP tables 2A and 3B and, and (c) provide Eurostat with the impact of this programme on the Maastricht debt. SF had confirmed that *"positions related to swaps are not included in the Maastricht Debt"*.

During the mission, Eurostat pointed to the fact that the impact on table 2A described in the SF document seemed to show a loan position relating to the euro leg of the swap, in addition to the dollar loan, thus with a double entry. SF explained that this recording had been discontinued in table 2A since then. Eurostat also mentioned that the presentation in EDP table 3B of the transactions also showed two loan components (thus also with a double entry), and enquired about their counterparts. SF could not answer this question, though insisting that no double counting was occurring in the Maastricht debt. SF nonetheless agreed with the need to provide Eurostat with a clear explanation.

Eurostat indicated that the recording of the relevant transactions and the presentation of these transactions in the provided T-accounts should be clarified. SF should explain the recording in the T-accounts related to this swap and consequently the reporting in EDP tables 1, 2A and 3B. A note on this issue was agreed to be sent to Eurostat by SF. To the mind of Eurostat, the issue was simply to clarify whether the chart page 14 of the 2013 SDV minutes was in fact misleading, or whether a double counting indeed existed in the Maastricht debt.

In this context, Eurostat pointed out the need for SF to examine the source data for transactions in loan assets and to separate transactions from revaluations (in foreign currency) for the loan asset related to export credits refinancing programme. It was also agreed that SF will check the relevant applicable interest rate on this loan.

The representative of the State Treasury enquired about the possibility of netting the positions on the stocks of collateral (received and paid) exchanged with a so-called CCP (central clearing counterparty) – which the representative believed is used extensively by another Member State. Eurostat will reflect on the appropriate recording of 'collateral flows' conducted with these CCPs. The questions concern, in particular, to which extent such arrangements can be assimilated to organised future markets (with no impact on the Maastricht debt), or to what extent the 'collateral posted' can be reported netted within the Maastricht debt.

The representative of the State Treasury commented on the derivative template. Eurostat made several suggestions on the reporting of derivatives (like the separation of the stocks of assets and liabilities, hedging restricted to foreign currency dominated debt). Additional information might be necessary to collect in order to conclude on the appropriate posting of repayable collaterals in the table.

Findings and conclusions

Action point 11. SF, in co-operation with the State Treasury, will make an attempt to complete the reporting on derivatives on a voluntary basis along the lines discussed - stock of assets separated from liabilities, hedging of debt restricted to foreign debt, etc.

Eurostat will further develop the template according to the feedback received from the Finnish State Treasury.

Deadline: the April 2018 EDP notification.

Action point 12. SF will re-examine the reporting of any swap cancellation events in table 2A (small amount in 2015). SF will enquire on the existing practice of swap reassignment and renegotiations and assess the statistical implications, if any.⁸

Deadline: the April 2018 EDP notification.

Action point 13. SF will send to Eurostat an explanatory note (as well as amended T-accounts) with respect to the statistical implication of the temporary refinancing arrangement benefiting the Finnish Export Credit Ltd, in order to confirm the correct recording in EDP tables 1, 2A and 3B.

Deadline: the October 2018 EDP notification.

Action point 14. SF will clarify the source data used for transactions in loan assets of the Treasury particularly with a view to appropriately separate transactions from revaluations of foreign currency, notably with respect to the asset(s) held in relation to the refinancing arrangement benefiting the Finnish Export Credit Ltd. SF will check the applicable interest recording on the latter.

Deadline: the October 2018 EDP notification.

Action point 15. Following a question by the Finnish State Treasury, Eurostat will reflect on the appropriate recording of certain flows (so-called 'collateral flows') conducted in the context of CCPs (central clearing counterparties). The questions concern, in particular, to which extent such arrangements can be assimilated to organised future markets (with no impact on the Maastricht debt), or to what extent the 'collateral posted' can be reported netted within the Maastricht debt.

Deadline: the October 2018 EDP notification.

3.3 Municipal quasi-corporations

Introduction

In the EDP table 2C, the working balance covers municipalities, joint municipal authorities as well as the quasi-corporations, which are not part of local government (classified outside S.1313). The balance of the municipal quasi-corporations, which are classified outside the local government subsector, is reported (with a minus sign) in the line 'Working balance of entities not part of local government' of EDP table 2C. According to the EDP inventory, for this group of entities, the existing source data cannot support a unit by unit application of the market/non-market test. *"Therefore, quasi-corporations acting on certain industries (water supply, energy supply, public*

⁸ Action points 11 and 12 completed. April 2018 EDP notification.

*transport, port authorities and waste management) are always, by convention, considered as market producers and classified to non-financial corporations sector."*⁹

Discussion

In the context of the information provided by the EDP inventory on municipal quasi-corporations, the discussion covered their main characteristics like whether they hold a separate bank account, their legal personality, their ability to borrow without the approval of the controlling entity.

SF confirmed that some quasi-corporations (like the water supply companies) have separate accounts. SF also clarified that the working balance of the quasi-corporation classified outside local government mentioned in the EDP inventory is in fact the gross saving of the entities reported in line 37 of the EDP table 2C (Working balance of entities not part of local government).

SF indicated that until 2015, the calculation of the 50% ratio unit by unit was not possible but that now the test can be carried out unit by unit for actual quasi-corporations. It was clarified that the actual quasi-corporations are those which publish separate financial statements (from their controlling entity) whereas there is another category of (perceived) quasi-corporations which are classified as such on the basis of their main function and have no separate/own financial statement (contrary to the former).

Eurostat indicated that it would be useful and necessary to have the figures on profits (reported in the P/L accounts), the working balance, and the B.9 of both the actual and the "perceived" quasi-corporations for the period 2013-2016.

Eurostat urged SF to carry out the 50% test for the 'perceived' quasi-corporations by function and to explain the method used for the calculation of the ratio in a note. SF will accordingly adapt the EDP inventory section on quasi-corporations. Eurostat required that SF conducts the 50% test annually on quasi-corporations either for each quasi-corporation unit (use of financial statements), and/or for each municipality unit (by function).

The discussion then focused on the transfers from municipalities to municipal quasi-corporations. Eurostat pointed out that SF would need to clarify the existing accounting rules for such transfers and ensure the appropriate EDP recording according to the ESA 2010 rules in the non-financial and financial accounts (including gross debt). It was agreed that SF will report to Eurostat the findings of its investigation.

Findings and conclusions

Action point 16. SF will clarify several features relating to municipal quasi-corporations: notably existence of separate bank accounts, legal personality, ability to borrow on its own accord and criteria for recognising borrowing on the balance sheets of quasi-corporations.

Deadline: end-June 2018.

⁹ EDP Inventory of sources and methods, p.49.

Action point 17. SF will report to Eurostat the profit (as exhibited in the profit and loss accounts), gross saving (reported as WB) and the B.9, for the years 2013-2016, and by relevant COFOG/ NACE, for both actual quasi-corporations (i.e. those reporting separate financial statements) and the other perceived quasi-corporations (i.e. those identified and sectorised on the basis of their main function).¹⁰

Deadline: end-June 2018.

Action point 18. SF will conduct the 50% test annually on quasi-corporations either for each quasi-corporation unit (use of financial statements), and/or for each municipality unit (by function). SF will accordingly adapt the EDP inventory section on quasi-corporations.

Deadline (for EDP inventory): the October 2018 EDP notification.

Action point 19. SF will write a note explaining how the 50% test is carried out by function for perceived quasi-corporations distinguished at function level.

Deadline: end-June 2018.

Action point 20. SF will enquire on the accounting and/or source statistics rules in place for any transfers between the municipalities and quasi-corporations and ensure the correct recording according to ESA 2010 (e.g. non-consolidation, rules for capital injections into quasi-corporations, super-dividend test). SF will report to Eurostat on its findings.¹¹

Deadline: end-June 2018.

3.4 Contributions of credit institutions to SRF

Introduction

During the October 2017 EDP notification, SF informed Eurostat about some changes in the recording of contributions to the Single Resolution Fund (SRF) in the EDP table 2A that would leave B.9 unaffected. The issue mainly concerned the statistical treatment of the part of contributions to SRF for year 2016 that was paid by central government on behalf of credit institutions and financed out of funds collected in previous years as levies on banking institutions. Eurostat's view was that these "transfers" by central government maybe should be statistically treated as tax refunds in government accounts.

Discussion

The recording of the amounts paid by central government was revisited and SF informed Eurostat that they will re-examine the nature of the part of bank contributions paid by government following the proposal of Eurostat (as tax refunds) and if this is confirmed, they will adapt accordingly the reporting in ESATP and EDP tables.

SF confirmed that the old deposit guarantee fund (now called VTS Fund) was classified in general government from 2015. The discussion that followed dealt with the

¹⁰ Action points 16 and 17 completed. Documents received on 6/07/2018.

¹¹ Action points 19 and 20 completed. Documents received on 6/07/2018.

composition of the assets of the old scheme. In the end of 2016, the size of the fund's balance sheet was 956 million euro. It was agreed that SF will investigate the details and inform Eurostat on this.

Eurostat suggested that after the reclassification of the scheme, SF should examine whether there should be any statistical effect on the recording of government debt in case the old scheme had invested in government bonds.

In addition, Eurostat enquired about the details of the reclassification of the old scheme and the statistical consequences of this reclassification for the financial accounts. In particular, Eurostat asked SF to explain the absence of other economic flows in F.2 in the last quarter of 2014 and the first quarter of 2015.

Eurostat encouraged SF to investigate the possibility to reclassify the unit from inception, rather than only from 2015.

Findings and conclusions

Action point 21. SF will confirm the tax refunds nature of the compensation by government to banks' contributions to the Single Resolution Fund (SRF) and adapt the recording accordingly in ESATP and EDP tables, in line with ESA 20.167.¹²

Deadline: the April 2018 EDP notification.

Action point 22. SF will enquire on the composition of the old deposit guarantee fund's assets.

Deadline: the April 2018 EDP notification.

Action point 23. SF will explain how the reclassification of the old deposit guarantee fund was carried out in the financial accounts. In particular, SF will explain the absence of other economic flows in F.2A and other instruments in 2014Q4/ 2015Q1 that would be expected to occur. SF will investigate the opportunity to reclassify the unit since inception or justify the reclassification in 2015 only.¹³

Deadline: the April 2018 EDP notification.

3.5 Statistical discrepancies

Introduction

In the October 2017 EDP notification, Eurostat asked SF whether significant statistical discrepancies between B.9 and B.9f were observed at the level of individual units or groups of units in the period 2013-2016.

SF clarified that in many cases the source data used (especially in the financial accounts) concern the total subsectors of S.13, instead of individual units or groups of units. Due to this source data constraint, the whole compilation process is based more on the subsector and not on the individual units.

¹² This was confirmed and implemented in the April 2018 notification.

¹³ Action points 21, 22, and 23 completed. April 2018 EDP notification.

Discussion

SF confirmed that the compilation of EDP data is based on source data at a subsector level rather than on individual units. It was pointed out that although for the central government individual units non-financial data on B.9 are available, this is not the case for all units of the other subsectors.

It was understood that SF monitors the big units, but they do not produce information on the B.9 of these units.

SF informed Eurostat about the internal discussions regarding the calculation of B.9/B.9f for large units or groups of units. Eurostat encouraged SF to continue their efforts on this and provide Eurostat with a progress report.

Findings and conclusions

Action point 24. Taking into account constraints concerning for example source data, SF will continue the monitoring of B.9/B.9f discrepancies at unit/ grouping of units level, and provide a progress report at least once a year.

4. Methodological issues and recording of specific government transactions

4.1 *Finnfund*

Introduction

According to information provided by the SF, Finnfund (Finnish Fund for Industrial Cooperation Ltd.) is a development finance company, classified in sector S.125. The state owns directly 93.8% of the shares of the company, and in addition there is a 6.1% ownership via Finnvera Plc. (100% state-owned financial corporation, classified in S.125) and 0.1% ownership of Confederation of Finnish Industries (a private sector unit).

Finnfund provides long-term risk capital for private projects in developing countries in the form of equity capital and investment loans as well as investments in private equity funds. Finnfund has a minority stake in each project.

According to the law on Finnfund (“Finnfund Act”), the purpose of the company is not to make profits for the shareholders. Finnfund does not distribute its profits to its shareholders as dividends, or distribute its equity, or acquire or redeem its own shares. According to a memo of the Ministry for Foreign Affairs, laying down the performance objectives of Finnfund, the company should cover all its costs (including risks) with its own income. This means that in the long run, Finnfund should be able to finance all its activity from the income of its own investments, without any capital increases. Any capital increases are done only with the purpose of extending the activities of the unit.

There has been a long discussion of the case between SF and Eurostat in the previous EDP dialogue visit in 2015, which continued after the visit, covering a wide range of issues including the nature of the operations of the company, the market/non-market behaviour, as well as the governance of the company.

The discussion on the classification of the company had been inconclusive¹⁴. In addition to the classification of Finnfund, Eurostat was informed that an amount of 130 million Euro was allocated to the 2016 budget to finance a capital increase for the company. Eurostat pointed out that should the Finnfund remain outside general government sector¹⁵, this capital injection should be considered as deficit increasing capital transfer.

Discussion

SF briefly presented the case and informed Eurostat about the nature of the amount (130 million euro) that, in the budget of 2016, was foreseen to finance a capital increase in the company. According to SF, the nature of the capital injection has been changed from a capital increase to a loan by the state to Finnfund to extend its activities.

Eurostat expressed its concerns about the nature of this loan and enquired about its terms. SF was requested to check the maturity of the loan as well as whether the transaction resembles a capital transfer (a loan not likely to be repaid) rather than a typical loan.

The discussion then focused on the constraints on the liabilities of the company, an issue which was already discussed in the previous dialogue visit. The participants agreed that there is strong evidence of such constraints, and Eurostat pointed out that, on this basis, Finnfund seemed not a financial intermediary. SF should thus consider reclassifying the entity from S.125 to S.127 (if not S.13, see below), unless the constraints on the asset side of the company's balance sheet are not verified.

The absence of clear market behaviour was the next issue discussed. Eurostat inquired about the complete lack of the motive of profits in the operations of the unit as well as the lack of distributions of realised profits to shareholders.

In addition, on the backdrop of (a) the SF's confirmation regarding the state compensation for investment losses from projects of very high risk (Special Risk Finance projects), (b) the evidence on the state influence on the asset side of the company (general instructions of government as to investment decisions of the company), and (c) the complete financing of the Finnpartnership¹⁶ programme by the Ministry for Foreign Affairs, Eurostat indicated that SF should revisit the case and examine whether there are significant factors pointing to the classification of the unit in S.13.

¹⁴ The Final Findings of the 2015 visit (p.4) reads: "As for Finnfund, the participants agreed that the unit had only constraints in the liability side. The participants also discussed the governance of the company, whereas they concluded that its sector classification required further analysis. The planned capital injection should be recorded as deficit increasing capital transfer should the unit stay outside government."

¹⁵ According to the mission follow up records: "Several e-mails exchanged in October, November and December. On 10.03.2016 Eurostat concluded on the basis of the available information, as it is a borderline case, Finnfund can provisionally remain in S.125 Other financial intermediaries, except insurance corporations and pension funds (ESA 2010 § 2.93 (a)). On 27.06.2016 Eurostat agreed with SF that there is no need to reroute the Special risk finance and the Finnpartnership to government. Ares(2016)2961221".

¹⁶ Finnpartnership offers funding, contacts and advisory services, which can be used to assess business opportunities in developing countries

In general, Eurostat recommended that SF determines who the genuine client of Finnfund was: what was its production, who was the purchaser of this production, and through which transaction? An absence of plausible answer is often symptomatic of a case of collective consumption.

A final comment was made on the governance of the company: the Supervisory Board which is providing instructions “on matters of broad importance or significant principle” to the Board of Directors with government being represented in both bodies.

Findings and conclusions

Action point 25. SF will check the maturity of the loan which was extended to *Finnfund* in the state budget of 2016 and test the loan / capital transfer character of the transaction, according to ESA 20.121.¹⁷

Deadline: the April 2018 notification.

Action point 26. In order to ensure the adherence to ESA 2010, SF as a first step will assess whether Finnfund should be reclassified from S.125 to S.127 given the identified constraints on the liability side of the fund, unless (following further examinations) the captive character on the liability side would not be established.

Deadline: the April 2019 EDP notification.

Action point 27. At a second stage, SF will reconsider whether *Finnfund* should not be classified inside S.1311 given the possible non-market nature of its operations, the absence of distribution of profits, and the presence of some elements of control on the assets side (*Finnpartnership*, *Special Risk Finance*, and the broad guidelines on the rest of assets). In particular, SF will identify the predominant client of *Finnfund*.

Deadline: the April 2019 EDP notification.

4.2 Regional administrative reform - New Counties

Introduction

A regional administrative reform is planned in Finland with the aim to reorganize the provision of services (mainly health and social services) currently provided by the municipalities.

According to the planned timetable, the relevant legislation will be adopted by the Parliament in June 2018.¹⁸

The reform is called “Regional government, health and social services reform”, and it will enter into force on 1 January 2020. The new regions will be called counties (“maakunta” in Finnish), and there will be 18 of them. Counties will have councils, and first county council elections will be held in October 2018.

¹⁷ Action point completed. April 2018 EDP notification

¹⁸ This process has been delayed in the Parliament which means that the adaptation of legal acts, the entry into force and the elections have all been postponed.

The reform provides for the transferring of the organization of social and health care services from municipalities to the new counties. In addition, many other tasks from municipalities and the central government will be transferred to the counties: Employment and Economic Development Offices, fire and rescue services, some tasks related to transportation, and some others related to EU Structural Funds.

The counties will get most of their financing from central government. They will not have a right to levy taxes - at least in the beginning. It is possible, that the taxation option will be investigated in coming years.

Discussion

This issue was also reviewed in the previous EDP dialogue visit. Eurostat insisted that the hypothesis of recognizing a state government level (S.1312) required sufficient strong criteria. Aside from this, in the view of Eurostat, the criteria for classifying the counties in central or local government depended primarily on whether counties were merely acting by delegation of central government, as evidenced for example by homogeneity of services across Finland and the lack of discretion for variations across counties, and not predominantly based on financing.

Responding to SF enquiries, Eurostat indicated that the absence of powers to raise debt, and the control of central government concerning large investment projects (above 30 million EUR) would not prevent recognising counties as local government units.

Findings and conclusions

Action point 28. SF will continue examining the planned 'counties' structure and will conclude on the appropriate subsector classification of the 'counties', based on a number of criteria.

4.3 Revision policy

Introduction

The general revision policy for non-financial national accounts also applies to the non-financial EDP data.

The April EDP (t+1) notification is based on the first preliminary data (estimations) of year t which are published in March. Preliminary data which are published in July t+1 are used for the October notification (for year t). The non-financial accounts of year t are then revised in January t+2. The April t+2 EDP notification is based on these data.

The non-financial data are finalised in December t+2 and all the accounts in January t+3. The EDP data of year t are final in the EDP reporting of April t+3. Retaining or not the revisions at end-January was still under discussion.

Occasionally, SF carries out major revisions linked to methodological and/or classification changes.

A similar pattern of revisions is observed for the financial data of EDP (EDP table 3 flows as well as debt data) which are part of the financial accounts compilation processes.

Discussion

SF briefly reviewed the present revision policy (confirming the information included in the EDP inventory). SF informed Eurostat that changes in revision policy are still under consideration. The aim is to bring the present practices in line with the European revision policy model. According to SF, the focus would shift from annual onto quarterly data.

SF confirmed that, for SSF (social security funds), the final annual data (final financial statements of SSF units) are available in June t+1 and used in the October EDP notification.

In relation to revision policy, Eurostat understands that SF has the capacity and willingness to reopen historical data when deemed necessary, although it prefers not to reopen historical years in general, but recognises a need to be able to reopen years t-3 and t-4 when requested by Eurostat (possibly implying a break in time series at t-5). Small adjustments related to t-3 and t-4 may not be implemented, however, if agreed with Eurostat, until the next benchmark revision.

Findings and conclusions

Action point 29. (a) In relation to the planned changes in revision policy, SF will ensure a capacity to routinely reopen GFS/ EDP for years t-3 and t-4 in case of need. (b) SF will inform Eurostat if it will execute the currently planned changes to the routine revision policy, which implies more complete and updated quarterly GFS in June, but a publication of annual national accounts postponed from July to September.

Deadline: After the decision is made whether or not changes to currently planned publication dates will be adopted by SF, but at the latest by the end of 2018.

4.4 Municipality Finance

Introduction

MuniFin (Kuntarahoitus) is a public sector credit institution¹⁹. The aim of the entity is to ensure market based funding for the local government and corporations controlled by the municipalities.

According to SF, MuniFin is currently supervised by the Single Supervisory Mechanism (SSM) instead of the Finnish Financial Supervisory Authority.

The funding of the entity is guaranteed by the Municipal Guarantee Board, a public law body. Members of the Municipal Guarantee Board are all Mainland Finland municipalities. All of the member municipalities are jointly responsible in proportion of their population for guarantees granted by the Municipal Guarantee Board.

¹⁹ The entity is owned by the public sector pension fund Keva (30.7 % of shares), the Government of Finland (16%) and Finnish municipalities (53.3%).

The entity is borrowing in the international and domestic capital markets as said before with the guarantee of the municipalities participating in the Municipal Guarantee Board.

The entity and its sector classification was analysed already after the 2010 EDP dialogue visit. The analysis then concluded that the classification of MuniFin in S. 122 (ESA95 classification) was correct. Afterwards, and in the light of recent methodological analysis as well as the transition to ESA 2010 and new editions of MGDD, SF was requested to revisit the case (EDP Dialogue visit of 2015, Action point 11).

SF, in its new analysis (provided to Eurostat on 29 April 2016), reached the same conclusion, namely that MuniFin should remain classified in the institutional sector S.122.

Discussion

SF briefly reviewed the case of MuniFin explaining the reasons behind the conclusion of its analysis. It was mentioned that the entity, although it is owned by government units, is an autonomous entity receiving repayable funds and providing financing to its clients on market based terms. Furthermore, the entity, according to SF should not be considered as a captive institution, since it behaves as a normal commercial entity and its assets and liabilities are transacted in the markets.

Eurostat stated that the classification of entities like the MuniFin is to be revisited in the context of the ongoing discussion in particular in the Task Force on methodological issues.

Eurostat expressed concerns regarding the autonomy of the entity and pointed out that SF should reconsider the sector classification of the entity further examining the conditions of borrowing (guaranteed by the Municipal Guarantee Board) and lending (loans to municipalities and to municipality controlled corporations guaranteed by municipalities) operations of the entity.

Findings and conclusions

Action point 30. Eurostat and SF will continue examining the classification of *MuniFin* (*Municipality Finance, Kuntarahoitus*) based on further analysis, in particular in the light of ongoing discussions related to the classification of similar entities in Europe (forthcoming TF on methodological issues).

Deadline: After the issue is clarified in TF on methodological issues, and after the publication of possible amended guidance in MGDD/guidance note.

4.5 Nuclear Decommissioning

Introduction

The decommissioning of a nuclear facility and the management of radioactive waste and the statistical treatment in national accounts of the associated costs were discussed in the EDPS WG. A particular part of the discussion has focused on issues relating to the arrangements needed for the activities that will follow after the facility stops its operation

- in particular the construction of an intermediate storage facility or the construction of a final repository.

In Finland POSIVA is the expert organisation which is responsible for the final disposal of nuclear fuel spent by the two operators (owners of POSIVA)²⁰ of the four reactors currently operating in Finland. POSIVA is also managing the final disposal facility (underground repository).

Discussion

Eurostat inquired about the existing arrangements concerning the decommissioning costs as well as the management of nuclear waste.

SF explained that POSIVA is the unit which is responsible for the management of nuclear waste. The company is owned by the two private operators of the four nuclear power plants.

An operator having a license to run a nuclear reactor is also responsible for the costs associated with the management of nuclear waste. To ensure that all the activities required for the management of nuclear waste are properly financed, the holders of the licenses make annual contributions to the Nuclear Waste Management Fund²¹. These contributions are recorded in national accounts as prepayments (liabilities) that can be lent to the operators under certain well specified conditions.

Eurostat indicated that SF should analyse the statistical implications of the existing arrangements regarding the decommissioning costs as well as the responsibilities of the guarantee fund.

Findings and conclusions

Action point 31. SF will enquire on specific arrangements in relation to the obligations of various parties for decommissioning costs of nuclear waste and in particular, whether the guarantee fund (Nuclear Waste Management Fund) acts solely as a back-up in case of defaulting operator(s) or acts as 'first in line' for the decommissioning costs. SF will also clarify the role of this fund in relation to the repository activities.²²

Deadline: end-May 2018.

4.6 Calculation of the 50% ratio

Introduction

According to the EDP Inventory, the 50% test is carried out by SF every year for public corporations while this is not generally the case for units already classified in general government because of the (non-market) nature of their activity.

²⁰ Teollisuuden Voima Oyj (60%) and Fortum Power & Heat Oy (40%). The two companies are sharing the costs of the nuclear waste management.

²¹ The Ministry of Economic Affairs and Employment determines the annual fee to be paid by the licensees with waste management obligations. The Fund is not included in the budget but it operates under the Ministry and it is classified inside government sector.

²² Action point completed. Document received on 6/07/2018.

The sector classification of entities is the task of a working group organised by SF. The members of the group are from different departments of SF, including National Accounts and the Business Register. Classification of units is based on the guidance of ESA 2010 and MGDD, so for example on the qualitative criterion and the quantitative market/non-market test (50% test)²³.

In addition to the sector classification working group, there's a broader sector classification network. The network's members come from SF, Bank of Finland and State Treasury. The network is informed on the sector classification issues.

Discussion

SF discussed the details regarding the elements of the formula used for the calculation of the 50% test. Eurostat enquired about the treatment of losses on inventory as well as on receivables. SF was requested to check the issue. Likewise, it was mentioned that it is necessary for SF to clarify whether the changes in inventories are included in the figure used for the turnover.

SF was also asked to check whether the elements included in the numerator (other operating income) comply with the definitions of sales in ESA 2010.

Findings and conclusions

Action point 32. SF will clarify details on the formula used for the 50% test, in particular the content of the accounting item "other operating income" and its compliance with the ESA 2010 definition of sales, and will ensure that changes in inventories are included in the numerator and denominator (as appropriate).²⁴

Deadline: end-June 2018.

4.7 Questionnaire on public corporations

Discussion

Eurostat extensively discussed the reported information in the Questionnaire on government controlled units classified outside general government. In particular, Eurostat drew the attention of SF to the reporting of units with a NACE code O in the S.15 institutional sector which is rather contradictory. In this context, SF was requested to check whether such units should be classified in general government.

Specific mention was made of the classification of the University of Helsinki Funds²⁵ as well as of the Hansel Oy, a company providing services related to the organisation of

²³ The formula used for the test is the following:

Sales: turnover + other operating income (excl. subsidies)

Production costs: purchases of materials and services + other operating expenses + personnel costs + depreciation of fixed assets + net interest cost

²⁴ Action point completed. Document received on 12/07/2018.

²⁵ The University of Helsinki Funds owns real estate, securities, and shares in a number of limited companies, including subsidiaries and associated companies. It also governs three dependent foundations, and 298 cause specific funds, whose financing is based on donations.

procurement agreements and of competitive tenders for central government entities (predominant client). It was agreed that SF will review the classification of these entities.

Eurostat inquired about the classification of 45 units which are controlled by government but classified in S.15. According to SF, these entities are to be considered as associations rather than public units. Eurostat expressed the view that the nature of the activity of these associations needs to be rechecked.

It was mentioned by SF that regional theatres are in general classified outside general government. Eurostat observed that there are several entities which are classified under NACE 85 (like the Pori adult education centre – in line 403 of the Questionnaire) providing educational services (training tailored to the needs of the local commercial and industrial activities) whose sectoral classification might be worth rechecking.

Eurostat also commented on several entities with less than 1 employee reported in the Questionnaire on public corporations. According to SF, some of these could possibly be artificial subsidiaries of other companies. Eurostat suggested that these "units" be identified and grouped next to their parent companies.

The discussion then focused on the activities of companies controlled by municipalities, which are engaged in housing services in the context of the land use and housing supply policies of the municipalities.

SF explained the details of the operation of these entities, which can be seen as ancillary units, namely the apartment buildings where the owners appear to be holding housing shares corresponding to the value of their residence. SF also explained the basic principles of housing companies (subsector S.1121), namely the limited liability companies, whose each share confers the right, either alone or together with other shares, to the possession of an apartment or other part of the company's building or real estate in its possession. Eurostat indicated that a note on the sector classification of the *Helsingin Asumisoikeus Oy, a right-of-occupancy company owned by the City of Helsinki*, would contribute to the understanding of the nature of its activities. Likewise, Eurostat pointed out that all buildings owned by government should be classified in S.13 and excluded from the Questionnaire.

Finally, on the case of Terrafame Oy²⁶, a company 77.3 % (at the end of 2017) owned by central government but classified in S.11, Eurostat commented on the low average 50% ratio observed in recent years, which, combined with the low profitability of the company, renders the monitoring of the evolution of market/non-market ratio by SF necessary.

²⁶ A multi-metal production company which with the Terrafame Group Ltd. was set up by the Finnish government in the context of the Talvivaara Mining Company's ownership arrangements. The Group Ltd was classified in central government while the Terrafame Oy was classified in the corporations sector (S.11). Of a total amount of 209 million transferred by government to Terrafame Group Ltd in 2015, 100 million euro was transferred from the Terrafame Group Ltd to Terrafame Oy and recorded as capital transfer in the 2015 government accounts.

Findings and conclusions

Action point 33. SF will review the entities in the questionnaire on government controlled entities classified outside government (public corporations) that are currently recorded as NACE O and/or S.15 for their possible reclassification inside general government, and will report to Eurostat on the analysis of such entities. SF will provide an analysis of *Hansel Oy* and of *Helsingin Yliopiston Rahastot*.

Deadline: end-December 2018.

Action point 34. SF will identify entities reported in the public corporations questionnaire that are de facto artificial subsidiaries, and will try to locate them next to their parent company.

Deadline: end-December 2018.

Action point 35. SF will write a note on the sector classification of *Helsingin Asumisoikeus Oy*.²⁷

Deadline: end-June 2018.

Action point 36. SF will ensure that all buildings owned by government sector units are included in S.13 whether justified by sector classification rules and taking into account practical constraints, and are accordingly excluded from the questionnaire on public corporations.

Deadline: the benchmark revision of year 2019.

Action point 37. SF will monitor the 50% test for *Terrafame Oy*, on the basis of the adapted formula, and reclassify if relevant.

4.8 Taxes and social contributions

Introduction

SF obtains information on taxes from the State Treasury (state bookkeeping data) and Tax Administration (reports on received taxes). All information is on a cash basis.

The data reported in the first EDP notification are preliminary. The data for year t are finalised in t+7 months.

Time adjusted cash is the method used for VAT (and other indirect taxes) and income tax. The time adjustment is two months for VAT, and one month for other taxes. The time adjusted cash method is not used for certain categories of taxes (like real estate taxes) where cash flows are small and/or evenly distributed.

The EDP Inventory (p. 74), reads: "*Reimbursements and **refunds of taxes** cannot, in practice, be allocated on accrual basis and are recorded on a cash basis. Final settlements are recorded when the cash is paid. Fines and penalties for non-payment are*

²⁷ Action point completed. Document received on 30/06/2018.

recorded with associated tax on a cash basis. Interest on late payment is recorded as D.41 on accrual basis. Regarding tax amnesties and payable tax credits, we are not aware of any cases."

SF obtains preliminary information on social contributions from the Employment Pension Schemes (S.13141), the Social Insurance Institution (Kela), and the Unemployment Insurance Fund (Työttömyysvakuutusrahasto). This preliminary information is available in February (t+1) and is used for the first notification. For the second notification, the required information is obtained from the final financial statements of the pension funds (the relevant information is available in t+6 and t+5 months respectively).

The data for S.13141 is on an accrual basis, net of the amounts not collected. The data for S.13149, are on a cash basis and SF receives the time adjusted data already in February t+1 (EDP Inventory, p. 75).

Discussion

Eurostat inquired about the recording basis of social contributions as well as about the method of estimation of the amounts unlikely to be collected. As there appeared to have been an uncertainty regarding the basis of recording social contributions in public accounts, SF was requested to clarify the issue. In addition, Eurostat mentioned the lack of information on stocks and flows of social contributions receivables in tables 5 and 4.1.1 of the Questionnaire relating to EDP tables and asked SF to improve the information content of these tables, if considered relevant.

Eurostat asked the reasons for the recording of tax refunds on a time adjusted cash basis instead of an accrual basis. Eurostat pointed out that a clarification of the practices of tax authorities in refunding taxes, and in particular the time period requested for the refunding, would be useful to assess the appropriateness of the current method of recording tax refunds by SF.

Findings and conclusions

Action point 38. SF will enquire on the recording basis applied by social security funds in relation to social contributions, in order to verify the strict compliance with the relevant ESA accounting rules. If considered relevant, SF will make steps towards getting information on the stocks and flows of receivables in relation to these social contributions, and report them in table 5 and table 4.1.1, as required.²⁸

Deadline (for the enquiry): end-June 2018.

Action point 39. Concerning the most significant taxes, SF will provide Eurostat with a note on tax refunds, their amounts, and the practice of tax authorities in refunding taxes (typical time lags), in order to assess whether the time-adjusted net cash basis approach currently used in Finland can constitute a reasonable approximation of the time of recording of tax refunds.

²⁸ Action point in progress. Documents received on 30/06/2018. Further clarification will be provided.

Deadline: the October 2018 EDP notification.

4.9 Guarantees on student loans

Introduction

Guarantees are provided by government on loans of public corporations, housing loans, student loans and export credit (provided by Finnvera, S.12). Payments by central government related to guarantee calls are treated as capital transfers. Concerning student loans, guarantees called are treated as the acquisition of loan assets.

Discussion

Eurostat enquired about the stock of claims against students due to guarantee calls as well as possible recoveries. SF informed Eurostat that the claims against students are written off after five years. SF agreed to report to Eurostat the outstanding amount of loan assets linked to called guarantees on student loans and the recording of capital transfers in the last four years.

Eurostat requested SF to report the assets in question in the government's balance sheet related to student loans with the other non-performing loans in the contingent liability questionnaire.

Eurostat was informed that the Finnish government has decided to donate about 50 million euros' worth of government shares in Neste to Itla Children's Foundation²⁹.

The Finnish Parliament approved the donation in view of the one-hundredth Independence Day of Finland.

Eurostat pointed out that this is to be recorded in national accounts as a capital transfer in kind and asked SF to examine the sector classification of the Foundation.

Findings and conclusions

Action point 40. SF will document the typical recoveries in relation to guarantees called on student loans. SF will report to Eurostat the outstanding amount recorded as AF.42A of S.1311 and the D.99p recorded in the past four years. Accordingly, SF and Eurostat will conclude on the statistical recording.³⁰

Deadline: end-May 2018.

Action point 41. SF will report the student loans existing in the balance sheet of central government in the annual questionnaire on contingent liabilities and non-performing loans, if appropriate.

Deadline: end-December 2018.

²⁹ The foundation, which is dedicated to promoting the well-being, equality and position of children and families with children in Finland, will receive a total of 922,168 shares of Neste and become the seventh largest shareholder in the majority state-owned energy company.

³⁰ Action point completed. Document received on 1/06/2018.

Action point 42. SF will record the gift of shares in 2018 to Iitla Children's Foundation (*Itsenäisyyden juhluvuoden lastensäätiö*) as a capital transfer in kind (D.99p/-F.5A). SF will also examine its sector classification.

Deadline: the April 2019 EDP notification.

4.10 Super-dividend test

Introduction

The super dividend test is carried out by Statistics Finland annually. The super dividend test is applied to all dividends paid to central government. The profit definition used in the test is the operating profit excluding possible exceptional income from sale of assets.

Discussion

Eurostat inquired about the exact definition of profit used by SF when applying the super dividend test. SF clarified that the operating profit is used with ad hoc adjustments for exceptional revenue. Eurostat suggested that the relevant part in EDP Inventory text be amended to avoid misinterpretation of the method used.

Findings and conclusions

Action point 43. SF clarified that, for the super-dividend test, SF uses the operating profit with ad-hoc adjustments for known exceptional revenue. SF will accordingly correct the entry on page 90 of the EDP inventory relating to super-dividends, which can be misinterpreted.

Deadline: the October 2018 EDP notification.

4.11 Emission trading permits, UMTS

Introduction

According to the EDP Inventory (p.94), following the first auction which took place in 2012, the first allowances were to be surrendered for the first time in 2014, when a tax revenue was recorded in national accounts. In financial accounts, the sales of emission permits are recorded on other accounts payable of central government. Tax revenue is calculated using data from Energy Authority (Energiavirasto) and the formula given in the MGDD manual.

As for UMTS, auctions have been recorded as rent, in line with Eurostat's guidance note published in 2017.

Discussion

SF briefly discussed the method used for recording revenue from EMTs. Eurostat responded that the current method (FIFO) might not be appropriate and SF might consider changing it given that the issue is being discussed in the context of the TF on methodological issues.

Regarding UMTS, SF confirmed to Eurostat that for the recently signed contracts for UMTS licenses, the proceeds are treated in national accounts as rents. In the financial

accounts transmission in January, some technical issues related to the recording of F.8A/L occurred. The issue was clarified during the mission and Eurostat asked SF to make the necessary changes in the recording of flows related to UMTS licenses in financial accounts.

Findings and conclusions

Action point 44. SF will examine the appropriate recording of Emission Trading Permits, in time for the benchmark revision, once the TF on methodological issues has reached a view on the need to revise the current MGDD.

Action point 45. SF will amend the financial accounts in relation to the UMTS recording.³¹

Deadline: the April 2018 EDP notification.

Derivatives II

In the GFS part of the mission, SF was requested to indicate why no revaluations occurred in relation to AF.42A of S.1311.

Findings and conclusions

Action point 46. SF will verify the recording of other flows of derivatives in central government, notably in relation to the missing revaluations of AF.42A of S.1311 relating to foreign currency movements (see AP.14).

Deadline: the October 2018 EDP notification.

³¹ Action point completed. April 2018 EDP notification.

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EUROSTAT EDP DIALOGUE VISIT TO FINLAND

25-26 January 2018

Draft Agenda

1. **Statistical institutional issues**
 - 1.1. Review of Institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation
 - 1.2. Data sources and revision policy
2. **Follow-up of the previous EDP dialogue visit**
3. **Analysis of EDP Tables and related Questionnaires - follow-up of the October 2017 EDP notification**
 - 3.1 Recording of financial derivatives
 - 3.2 Recording of transfers from central government to the Financial Stability Fund
 - 3.3 Data on settlements of securities and in particular data on settlement claims of S.13141 units
 - 3.4 Statistical discrepancy (B9-B9f) for large units or groups of units
4. **Methodological issues and recording of specific government transactions**
 - 4.1. Delimitation of general government, application of the market/non-market rule in national accounts
 - 4.2. Implementation of the accrual principle
 - 4.2.1. Taxes and social contributions
 - 4.2.2. Interest
 - 4.2.3. EU flows
 - 4.2.4. Military expenditure
 - 4.3. Recording of specific government transactions
 - 4.3.1. Government guarantees
 - 4.3.2. Debt assumptions, debt cancellations and debt write-offs
 - 4.3.3. Capital injections in public corporations
 - 4.3.4. Dividends, super dividends
 - 4.3.5. PPPs (and concessions)

4.3.6 Nuclear decommissioning (Accounting implications of the existing arrangements)

4.3.7. Other: emission trading permits, privatisation, sale and lease back operations, UMTS, tax credits, securitisation.

5. **Other issues (transmission of GFS data etc.)**

5.1. Transmission of GFS-tables

5.2. Consistency between the EDP and the ESA tables