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EUROSTAT

Directorate D: Government Finance Statistics (GFS)
Unit D-2: Excessive deficit procedure (EDP) 1

Luxembourg,

FINAL FINDINGS

EDP dialogue visit to Italy

20-21 November 2018 (Part I)

28 November 2018 (Part II)

Executive summary

Eurostat undertook an EDP dialogue visit to Italy on 20-21 November 2018, as part of its regular visits to Member States, with the aim to assess the existing statistical capacity, to enquire on the existing and forthcoming situation with respect to source data, to review the implementation of ESA 2010 methodology, to analyse the recording of specific government transactions and to ensure that the provisions from the ESA 2010, from the Manual on Government Deficit and Debt and from recent Eurostat guidance notes are duly implemented in the Italian EDP tables and national accounts. Particular attention was given to the sector classification of specific entities. Remaining points of the agenda not covered in the meeting on 20-21 November 2018 were discussed in a video conference on 28 November 2018.

Eurostat reviewed the institutional responsibilities in the framework of the reporting of EDP and GFS data. As regards data sources, the discussion largely focused on progress achieved in the implementation of a new database (BDAP) and a new accounting framework at the local government level. Eurostat concluded that the use of these new data for the compilation of EDP and GFS statistics by ISTAT and by the Bank of Italy needed to be encouraged and closely monitored.

Progress achieved by the Italian statistical authorities on open action points from the EDP dialogue visit in 2017 was also discussed. The outstanding issues were mainly followed up under the respective points of the agenda.

A particular attention was devoted to the delimitation of general government. Eurostat reviewed the sector classification of the export credit agency and of national development entities, including the Cassa Depositi e Prestiti. In the case of the latter, the activities of the bank were examined in view of a possible rearrangement of certain operations on behalf of government. Eurostat requested the Italian statistical authorities to recalculate the market/non-market test for public railway operators, taking into account all points discussed in the meeting, and, on this basis, to re-examine the sector classification of those entities. In addition, some other public corporations were discussed (subsidiaries of the GSE group, Metro Brescia, etc.) and their sector classification needs to be further investigated.

On the issue of taxes and social contributions recording, it was concluded that stocks and flows of other accounts receivable relating to taxes would be recalculated without impact on the deficit, eliminating information that solely results from existing tax settlement arrangements between government levels. Eurostat agreed that the revision would be postponed to October 2019, when the accounting reform in local government is fully implemented. Separately, the other accounts payable related to tax refunds will be revised for the years before 2014.

The discussion continued on the implementation of rules for the recording of the so-called EU financial instruments. Eurostat stressed that the neutrality principle of EU flows recording had to be followed in this specific case too, and requested the Italian statistical authorities to examine the recording of losses on financial instruments in public and national accounts.

Eurostat also reviewed the recording of interest in national accounts and asked the Italian statistical authorities to provide corrected and consistent data in the specific template submitted by Eurostat.

Eurostat took note of the long-lasting low availability of accrual data on gross fixed capital formation at the local government level and of the limited progress in obtaining the relevant data so far. It was agreed that the Italian statistical authorities will examine the possibilities of using the legal accrual data reported in BDAP, after the full implementation of the accounting reform.

In relation to specific government transactions, Eurostat reviewed the reporting of guarantees, of government claims and of capital injections in the specific tables of the Questionnaire relating to the EDP tables. Eurostat took note that the Italian statistical authorities were currently working on the reconstruction of stocks and flows of central government claims, following an in-depth analysis by beneficiaries.

The recording of capital injections was reviewed mainly in relation to the equity acquisitions by social security funds that occurred in the recent past. Eurostat considered that the stocks of other accounts receivable (AF.8) needed to be re-examined with regard to the fact that operations in equities might be indirectly included in AF.8 for the years before a change in public accounting was implemented.

The discussion on the recording of dividends mainly focused on the super dividend test and on the particular items of revenues and costs considered in the calculation of the super dividend test. In this respect, Eurostat requested the Italian statistical authorities to clarify the calculation of some specific items. The performance of the super dividend test for cascades of subsidiaries was also discussed.

Concerning Public Private Partnerships, Eurostat repeatedly emphasised the importance of ensuring that all existing PPPs are monitored and relevant data are collected in order to classify them correctly. Eurostat also stressed that all PPP projects for which the contract is not available for an analysis are to be automatically recorded on balance sheet of government.

Other issues discussed included the recording of military equipment expenditure, financial derivatives, privatisation, emission permits, securitisation and sale and leaseback operations. On these matters, the recordings applied seemed to be in line with Eurostat rules.

Final findings

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 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 Italy on 20-21 November 2018.

The delegation of Eurostat was headed by Mr Luca Ascoli, Acting Director of Directorate D and Head of Unit D.1 Excessive Deficit Procedure Methodology. Eurostat was also represented by Ms Gita Bergere, Head of Unit D-2 Excessive Deficit Procedure (EDP) I, Mr Philippe de Rougemont, Ms Daniela Comini and Ms Daniela Ilavska. Representatives of the DG ECFIN and the European Central Bank (ECB) also participated in the meeting as observers. The Italian authorities were represented by the Italian Statistical Institute (ISTAT), the Ministry of Economy and Finance (MEF) and the Bank of Italy (BoI).

The previous Eurostat EDP dialogue visit to Italy took place on 7-8 February 2017.

Eurostat carried out this EDP dialogue visit in order to review data sources for the EDP data compilation and the availability of the data for local government, as well as to review the implementation of the ESA 2010 methodology for the sector classification of units and the application of the accrual principle for the recording of taxes, EU flows and gross fixed capital formation, notably.

The remaining part of the agenda not covered in the meeting in Rome on 20-21 November 2018 was discussed in the video conference on 28 November 2018. Representatives of the DG ECFIN and the ECB also participated in the video conference.

With regard to procedural arrangements, the *Main conclusions and action points* were sent to Italy for review. Then, within weeks, the *Provisional findings* were sent to Italy for review. After this, *Final findings* would be sent to Italy and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat appreciated the information provided by the Italian statistical authorities prior to the EDP dialogue visit. Eurostat also thanked the Italian statistical authorities for the co-operation during the mission and considered that the discussions were transparent and constructive.

1. Statistical institutional issues

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

Introduction

The cooperation and exchange of relevant data between national statistical authorities are administered by formal cooperation agreements that are updated on a regular basis. Those agreements are concluded between ISTAT and the MEF and between ISTAT and BoI. There are other formalised cooperation agreements with the Department of the Presidency of the Minister Office (DIPE), the Ministry of Health, the Ministry of Defence and the Court of Auditors.

ISTAT is responsible for the compilation of non-financial accounts and the delimitation of the general government sector. The MEF is responsible for the State and public sector working balance and for all forecasts. The BoI compiles data for the Maastricht debt and for the financial accounts of general government.

Discussion and methodological analysis

Eurostat enquired about any changes in the institutional arrangements in the compilation of EDP/GFS data since the previous EDP dialogue visit. The Italian statistical authorities informed about the latest update of the agreement between ISTAT and the MEF (State General Accounting Department) that was concluded in summer 2018. The exchange of statistical information between ISTAT and BoI is based on a Protocol of agreement signed in March 2011. The Italian statistical authorities explained that, in case of new requirements, the Protocol is regularly updated. The latest update did not concern the EDP/GFS compilation. In 2017, ISTAT initiated a new cooperation with the Ministry of Health that mainly encompassed the monitoring of PPPs in the health sector.

A permanent working group consisting of ISTAT, BoI and the MEF meets before each EDP notification in order to examine all the issues related to the EDP notification process. Under the Protocol signed between ISTAT and BoI, two subcommittees exist and regularly meet to discuss EDP and GFS related issues. Conclusions of the meetings are sent to the general committee.

Findings and conclusions

Eurostat took note of the explanations.

1.2 Data sources and revision policy, EDP inventory

1.2.1 Availability and use of data sources, revision policy

1.2.1.1. Progress on the data collection system (BDAP)

Introduction

In 2017, a new database developed by the MEF with a view to centralise the collection of data for most general government units was introduced – '*Banca dati delle Amministrazioni Pubbliche*' (BDAP). Consequently, the ISTAT's practice of collecting input data from several sources, i.e. the budgets, financial statements, profit and loss accounts and balance sheets from various public units, should gradually be replaced by the use of the BDAP. Currently, the participation of social security funds and of non-market corporations classified in general government (e.g. ANAS S.p.A) is not foreseen in the BDAP.

Discussion and methodological analysis

The Italian statistical authorities explained that the introduction of BDAP was related to the accounting reform that implemented new accounting rules for general government units, including a new chart of accounts, in 2017. The reform also aimed at the harmonisation of different accounting systems used at the local government level. As explained, the progress on the adoption of the revised accounting principles is currently quite slow, also due to some opposition from local government units.

During the two years of BDAP's operation, Regions, Provinces, Municipalities and other local government units submitted data from financial statements for two years – 2016 and 2017. Notably, two sets of data are collected from units applying the so-called legal accrual (*competenza finanziaria potenziata*): the accounting schemes (financial statements) and analytical data (general ledger) respectively, where the latter one provides data at the chart of accounts level, i. e. details on accounting schemes. The Italian statistical authorities informed that, for 2016, out of approximately nine thousands eligible units, 88% submitted both the accounting schemes and analytical data. For 2017, it was more than 9700 eligible units, of which 77% units submitted the requested data, while the processing was still ongoing. As concerns the units applying accrual accounting, 67 units out of approximately six hundred submitted balance sheets and profit and loss statements in the BDAP.

According to the Italian statistical authorities, the currently used data sources for Municipalities, Provinces and main local government bodies will be replaced, during 2019, so the non-financial accounts for those entities for 2018 will be compiled using the BDAP data. Concerning Regions, the current direct ISTAT survey will continue to be used until the quality of new BDAP data proves sufficient for data compilation. In 2020, however, BDAP data will presumably be used also for Regions. In the medium term, the Italian statistical authorities expect to have a full set of accrual data for local government coming from financial statements, including detailed information on stocks of assets and liabilities, currently missing.

Eurostat enquired about the use of these new data sources by the BoI for the compilation of the financial accounts of general government and of the Maastricht debt of local government. The BoI representatives did not oppose the possible replacing of money and banking statistics - current data source predominantly using counterpart information - with administrative data coming from BDAP in the future¹. They however argued that insufficient quality of data currently prevents a full replacement at this stage. Eurostat stressed the necessity to use direct

¹ Later on, the Italian statistical authorities clarified that the BDAP data could potentially be used for the compilation of stock data on financial assets. They however questioned the opportunity to change data sources for stock data on financial liabilities and for the Maastricht debt of local government. In particular, they argued that the statistical recording provided by the creditors (financial institutions) is more in line with the principle of prevalence of the economic substance over the legal form and the use of a unique data source for financial and non-financial accounts is more likely to provide incentives for window-dressing.

administrative data for the compilation of financial accounts as primary data sources, when they exist, and to use counterpart information (e.g. money and banking statistics) rather as a tool to cross-check the direct source data. The Italian statistical authorities committed to provide an analysis of stock data on financial assets and on liabilities and debt, when available, and to compile data retrospectively.

On the issue of data quality, the Italian statistical authorities described a system of quality checks applied for data verification. Among those, the proximity of commitments and related payments for investments and intermediate consumption is monitored. According to the principle of 'enforced legal accrual', only the commitments related to the amount of the relevant year should be recorded in the accrual expenditure and the remaining liability (equal to the difference between the capital value of the asset and the commitment of the year) is reported in the *Fondo Pluriennale Vincolato*. Currently, the deviation between the commitment of the year and related payment is still significant. It might be a result of incorrect implementation of the legal accrual principle, implying that the enforced legal accrual is not an accurate proxy of accrual according to ESA. There might be other reasons, however, such as a lack of liquidity or legal disputes of certain local government entities which might cause deviations. The Italian statistical authorities will provide a progress report on the coverage and quality of data to be used for the reporting to Eurostat.

Concerning the revision policy, the Italian statistical authorities informed Eurostat about the advancement in the availability of data for social security funds so the final data, even if occasional, will eventually be reported earlier in the October (T+1) EDP notification, instead of the April (T+2) EDP notification. The benchmark revision is planned in 2019.

Findings and conclusions

- (1) Eurostat took note of the progress in the reporting of data of local government units to the BDAP that is expected to replace, for year 2019, the data sources currently used for non-financial accounts of Municipalities, Provinces and main local government bodies. Concerning the Regions, the current source (a direct ISTAT survey) would be replaced only when a sufficient level of coverage and data quality has reached in the BDAP for this set of units.
- (2) The Italian statistical authorities will provide to Eurostat a progress report analysing the coverage and quality of the data reported by local government units to BDAP that are planned to be used for the compilation of 2018 data, for the first time.

Deadline: before the October 2019 EDP notification

- (3) In relation to the compilation of the financial accounts for local government, Eurostat emphasized the need to use the direct data coming from the BDAP as a primary data source when they will be available, while continue using the counterpart data, but mainly as a tool to cross-check the direct data. Eurostat called for the Italian statistical authorities, and particularly the financial accounts compiler (Banca d'Italia), to proactively prepare for the new availability of accrual data in BDAP (financial statements and detailed general ledger). To this effect, the Italian statistical authorities will inform Eurostat about the undertaken action and/or the envisaged action plan.

Deadline: before the October 2019 EDP notification

- (4) The Italian statistical authorities will provide to Eurostat an analysis of the stock data reported for end 2017 and end 2018 on financial assets and on other accounts payable (AF.8) reported in BDAP for local government units that could be used for the compilation of financial accounts (ESA table 27 and EDP table 3). Eurostat encouraged the Italian statistical authorities to use this new stock together with existing flows to compile retrospectively 1995-2018 data.

Deadline: before the October 2019 EDP notification

- (5) In addition, the Italian statistical authorities will provide to Eurostat an analysis of the stock of debt data as reported in BDAP for local government units, which could be used for the compilation of Maastricht debt as well as ESA debt (ESA tables 27/28 and EDP table 1 and 3), and will compare these results with current data. On this basis, they will evaluate the opportunity to change data sources for local government debt compilation.

Deadline: before the October 2019 EDP notification

1.2.2 Compliance with Council Directive 2011/85

Introduction

The data foreseen by Council Directive 2011/85 are published on the MEF website. The provisions on fiscal data concern cash-based data for subsectors of general government and the reconciliation table. Each year, usually in November-December, the MEF publishes data on contingent liabilities, in particular guarantees and off-balance PPPs, as well as data on non-performing loans (NPLs), for the previous four years as a % of GDP, and on liabilities of public corporations for the year (T-2). Data on government participations in the capital of corporations are also published.

Due to non-availability of information, data on guarantees of local government are published as one-off guarantees, without distinguishing the category standardised guarantees. Data on NPLs of local government are not available.

Discussion and methodological analysis

Eurostat had repeatedly enquired about the existence and about reporting of standardised guarantees at the local government level. The Italian statistical authorities informed Eurostat about the results of a survey launched by the Court of Auditors in 2016. Out of around seven thousands responding entities, 190 units declared having granted 286 guarantees under a guarantee scheme for a total amount of 162 million EUR (end of 2016 stock).

A similar survey was launched in June 2018 designed to document the situation with standardised guarantees and NPLs of local government for the year 2017. No deadline to respond was set up for local government entities but, nevertheless, the results of the survey are expected in the course of 2019. The Italian statistical authorities also mentioned that the concept of standardised guarantees is not always fully understood by responding entities at local government level. Eurostat drew the attention of the Italian statistical authorities to the necessity to eliminate those deficiencies in order to obtain correct and timely information. Eurostat also requested the Italian statistical authorities to investigate whether the guarantees

reported by local government entities in the survey were in fact standardised guarantees, as defined by ESA 2010.

Regarding NPLs, the Italian statistical authorities presented two approaches to obtain relevant data for local government. First, using the data reported to BDAP, notably the item *Fondo Crediti di Dubbia Esigibilita* (FCDE) in the accounting scheme that would provide, as a proxy to NPLs, the provisions adjusted on the basis of the average of amounts assessed but not collected in the relevant year and previous years. Some preliminary results for 2016 and 2017 were provided by the Italian statistical authorities, showing the increasing number of units submitting data, however, of still insufficient quality. A system of formal checks is being developed in the cooperation with MEF.

A second approach for obtaining data on NPLs in local government is the survey of the Court of Auditors, also collecting data on standardised guarantees. Compared to 2016, the latest version of the survey gathers information from a higher number of reporting units. However, in the case of municipalities, it enquires only about the existence of NPLs, not requesting figures.

Findings and conclusions

- (6) The Italian statistical authorities will ensure, in cooperation with the Court of Auditors, the timely reporting of data on standardised guarantees and non-performing loans for local government.

Deadline for the progress report: end of June 2019

1.2.3 EDP Inventory

Introduction

The last updated version of the EDP Inventory under ESA 2010 was provided by ISTAT in December 2015 and was published on the Eurostat website in January 2016. Alongside the main document, a list of general government units is published as an annex.

Discussion and methodological analysis

Eurostat recalled the provisions of Council Regulation No 479/2009 that oblige Member States to regularly update and publish their EDP inventories. In the Italian case, Eurostat took note of some changes in the ISTAT's methods and data sources that were presented since the last update in 2015 and requested to provide an updated version of the EDP Inventory. The Italian statistical authorities committed to update, first, the chapter on methodology and, by the end of 2019, the chapter on data sources due to the expected replacement of a current data source for local government.

Findings and conclusions

- (7) The Italian statistical authorities will provided to Eurostat the updated version of the EDP Inventory.

Deadline for sections on methodology: end of July 2019

Deadline for sections on data sources: end of December 2019

2. Follow-up of the previous EDP dialogue visit of 7-8 February 2017

Introduction

The previous EDP dialogue visit to Italy took place on 7-8 February 2017. There are still several open or partially completed action points where the progress was insufficient.

Discussion and methodological analysis

Eurostat recalled a number of action points that had not been completed yet and, therefore, were to be followed up under the respective point of the agenda. Apart from the two action points related to the availability of Directive 2011/85 data, this concerned the absence of consolidating stocks and flows in other accounts receivable/payable (F.8) (action points 3 and 4 from the previous visit), the sector classification of active units not fulfilling the market/non-market test and of public units in liquidation (action points 13 and 14) and various issues relating to the recording of taxes between government subsectors (action points 20-22).

The accrual recording of gross fixed capital formation was included as a specific item on the agenda, also due to the fact that the issue is being discussed for several years and progress is quite slow (action point 26). The recording of capital injections of social security funds (action point 31) and the availability of data on PPPs (action point 33) were also followed up during the meeting.

Findings and conclusions

Eurostat will further follow up on the pending action points.

3. Analysis of EDP tables – follow up of the October 2018 EDP notification

Introduction

The Italian statistical authorities sent the October 2018 EDP notification on 28 September 2018. A national press release on deficit and debt, including the EDP table 1, table 2 aggregated for general government and table 3A were published nationally on 22 October 2018. Alongside the EDP notification, Italian authorities sent to Eurostat a note explaining main revisions and main issues of the October 2018 EDP notification.

Discussion and methodological analysis

In the past, Eurostat had pointed to the sizeable amount of accumulated (negative) statistical discrepancy in local government reported in the EDP table 3 for 2014-2017. Eurostat had wondered if it was related to the consistency between financial and non-financial accounts (i.e. deficit was overestimated) or rather to stock/flow adjustments (change in debt was underestimated).

In this context, the BoI prepared for Eurostat a presentation on data sources, valuation and methods used to compile the local government debt. For this purpose, BoI exploits money and banking statistics providing the counterpart data reported by financial institutions, notably the securities database, and other information (e.g. from the MEF). In relation to Eurostat's questions on consistency, BoI mentioned a recent cross-consistency check between MBS and administrative data sources that was performed for provinces, regions and municipalities and revealed no major inconsistencies in data on flows, apart from some minor misclassification of instruments. Data on stocks of financial assets and liabilities are not available, therefore, regional branches of BoI contact certain local government units on a yearly basis to verify the balances.

In addition, BoI admitted that some transactions might not be consistently recorded between financial and non-financial accounts, thus contributing to the statistical discrepancy, such as the cases of multiyear contributions from central to local government or of debt cancellations. In this sense, BoI representatives believed that the new BDAP accounting system and availability of stocks data could improve the overall consistency. Eurostat noted that the statistical discrepancies for local government are negative in both the EDP table 3 as well as in the EDP table 2C and do not compensate each other. In 2016, the overall statistical discrepancy for general government remains high. Therefore, the Italian statistical authorities were requested to increase efforts in investigating on possible reasons and to reduce it to an acceptable level.

Upon Eurostat's enquiry, BoI explained that MBS provides information on a loan-by-loan basis, applying a certain threshold on individual loans, as well as aggregated data with no threshold. To identify a given counterpart, financial institutions use the business register and the list of general government units published by ISTAT. The loan statistics does not include interest accrued.

Eurostat followed up on long-standing issue regarding to consolidation of debt securities (AF.32) where consolidating amounts are identical in ESA table 27 (market value) and ESA table 28 (face value). This might be related to the debt securities of central government held by local government and social security funds. The Italian statistical authorities committed to re-examine the reporting of respective amounts in the EDP tables and in ESA tables 27 (market value) and 28 (face value) so to avoid reporting identical amounts. In addition, they will try to report the consolidation effects in EDP table 3 for three relevant items (i.e. issuances above/below nominal value, difference between interest accrued/paid and redemptions/repurchase of debt above/below nominal value) that contribute to the (change in) differences in question.

Eurostat followed up on the reporting of stocks of trade credits and advance payable in the EDP table 4 which are also published by Eurostat in a separate note alongside with the EDP notification press release. Over the years, data for Italy are published with a provisional status. Prior to the visit, the Italian statistical authorities sent an analysis comparing the currently reported stocks for local government, calculated as 2012 stock and cumulated flows, with the data coming from annexes to accounting schemes or analytical accounting data available in BDAP. As explained, figures were converging, however, some differences might still result from different definitions of trade credits or from the fact that the provision of this information by municipalities with population up to five thousands inhabitants is only voluntary.

Furthermore, some information on the progress in the electronic invoicing system (PCC) was provided by the Italian MEF. The rate of response in the communication of payments on PCC has improved over time and it is expected to improve further with the introduction of the strengthened information system 'SIOPE Plus'. The Italian statistical authorities thought that only once the SIOPE Plus was fully operational, it would be possible to reliably calculate trade debt in arrears, i.e. in 2019 at the earliest. The data analysis also showed some improvement in the average delay in repaying commercial invoices. Eurostat enquired whether it was possible to distinguish debt arrears. It was explained that the system allows measuring the delay in payment in relation to the original maturity. Eurostat also wondered whether long term trade credits existed. According to available information, the Italian MEF indicated that no trade credits had been ever observed with maturity over one year. In effect, according to the Italian law, trade credits cannot have a maturity over one year. In this relation, the forthcoming methodological guidance, according to which any long-term trade credit should be reported as loan, might be without an impact in Italy.

Findings and conclusions

- (8) The Italian statistical authorities will investigate the possible origin of cumulated negative statistical discrepancies in the EDP table 3 reported in local government over 2014-2017, focusing on those related to the inconsistent recording of some identified operations between financial and nonfinancial accounts.

Deadline: October 2019 EDP notification

- (9) The Italian statistical authorities will re-examine the compilation of the consolidation in debt securities (AF.32) in ESA tables 27 (market value) and 28 (face value) so to avoid reporting identical amounts, whereas a difference should be observed (changing rapidly from one year to the next). To this effect, Eurostat also encouraged the Italian statistical authorities to report, possibly by modelling, the consolidation effects in EDP table 3 in three relevant items (i.e. issuances above/below nominal value, difference between interest accrued/paid and redemptions/repurchase of debt above/below nominal value) that contribute to the (change in) differences in question.

Deadline: April 2019 EDP notification²

- (10) In relation to trade credits, Eurostat took note of the electronic payment database established by the MEF to monitor payment in arrears (notably of local government, hospitals...), which contains the billing date as well as the due for payment date, and will include in future the associated payments dates. The MEF indicated that this database showed that long term trade credit (i.e. payment terms at inception of more than 1 year) were de facto not existent in Italy as government liabilities (also in line with the EU directive). Thus, the forthcoming methodological guidance, according to which any long-term trade credit should be reported as loan, will be without effect in Italy.

4. Methodological issues and recording of specific government transactions

² The Italian statistical authorities delivered a note to Eurostat on 29 March 2019.

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

4.1.1 Application of the market/non-market test

Introduction

The authority responsible for the sector classification of units according to ESA 2010 is ISTAT. Each year, usually in September, ISTAT publishes a list of general government institutional units. The update of the Business Register administered by ISTAT is based on the integration of various administrative and statistical sources.

Discussion and methodological analysis

Prior to the visit, the Italian statistical authorities provided a list of government controlled entities classified in the non-financial corporations sector (S.11), with results of the market/non-market test for 2012-2017 (2017 still provisional)³. Eurostat identified 28 units not complying with the 50% rule and requested their reclassification, unless such current classification is duly justified (e.g. new units). Eurostat enquired on the most significant ones. Further discussions focused on **Metro Brescia** with total liabilities of 92 million EUR for 2017. According to the Italian statistical authorities, Metro Brescia is a public company originally established by private companies with the aim of participating to the tender procedure related to designing, building and maintaining the Brescia's metro.

Concerning **Aquadrome**, a public company originally created to build the area of the former Olympic Velodrome and currently involved in the construction of buildings, the Italian statistical authorities thought that the company does not exist anymore and was deleted from the Register⁴.

Eurostat followed up on the sector classification of **Concessioni Autostradali Venete (CAV)**, a company owned by ANAS⁵ (classified in S.13) and Regione Veneto and originally established to repay ANAS for the construction of the motorway 'Passante di Mestre'. Later on, CAV replaced ANAS in the role of concessionaire for this motorway and other motorways in the region. CAV receives tolls from motorway users. Eurostat considered that CAV operated as an entity financing ANAS and its main activity is related to the concession contracts with the Regione Veneto, therefore, it should be classified inside general government. The Italian statistical authorities confirmed that, in the April 2019 EDP notification, CAV will be classified in general government and data for 2015-2018 will be revised accordingly. The debt of CAV, amounting to around 700 million EUR in 2017, mainly consists of obligations towards ANAS. According to the Italian statistical authorities, new assets built are recorded on the balance sheet of CAV and not of ANAS. The past data however have to be reconstructed, reflecting the transfer of assets from ANAS to CAV via other changes in volume, which will however be consolidated.

³ According to the Italian statistical authorities, 75 units still in the list were already included in S.13 while others had been identified as units to be analyzed in view of the annual update of the general government units list. Others few units, moreover, were already analyzed in previous action points.

⁴ The Italian statistical authorities clarified later on that Aquadrome was currently involved in a process of merging into other company (EUR S.p.A.) and was substantially not operating.

⁵ ANAS is a government owned company that was created for the construction and maintenance of Italian motorways and highways.

Eurostat also followed up on the sector classification of three subsidiaries of GSE Group: *Gestore dei mercati Energetici*, *Acquirente Unico* and *Ricerca sul Sistema Energetico*, all fully owned by GSE S.p.a.⁶ (classified in S.13). **Acquirente Unico (AU)** acts under current legislation as an aggregator of demand from small consumers so to allow them benefiting from a market position similar to large consumers (*'maggiore tutela'*). AU resells energy purchased on the electricity market to operators at a sale price determined according to certain criteria and including also fees to cover AU's operating costs. A part of AU's activities, notably the operations relating to OCSIT (*'Organismo Centrale di Stoccaggio Italiano'*), a central stockholding entity, is rearranged through government accounts. The Italian statistical authorities specified in their analysis that a majority of revenues and costs were related to its trading activity, i.e. the sale and purchase of energy to the operators of *'maggiore tutela'*, complying with the 50% rule. Other remaining activities covered operations of OCSIT, integrated information system, etc. Eurostat did not agree with this conclusion and recalled that sales was a completely different concept to that of turnover. In particular, in the case of traders, sales corresponds to the gross margin made on purchases and resales – a point that is crucial for entities purchasing and selling electricity. In addition, Eurostat pointed to the regulatory rather than trading character of the prevailing activity of the entity. In such a case, the results of the 50% test would typically be secondary, after the examination of qualitative criteria.

The ***Gestore dei mercati Energetici (GME)*** operates power, gas and environmental markets. In particular, as a Nominated Electricity Market Operator (NEMO), GME manages electricity market, organises Mineral Oils Storage Capacity Platform, manages gas market and associated services, and manages environmental markets and energy efficiency certificates. In exchange for provided services, GME collects annual fees from market operators. Eurostat enquired about the nature of fees and, particularly, the GME's influence in the determination of fees. It was stressed that, similarly to the previous case, the Italian statistical authorities should focus their analysis on the nature of the main activity, which seemed to be rather that of a market regulatory body.

The ***Ricerca sul Sistema Energetico (RSE)*** performs research activities, in the field of electrical energy, with national or international funding. The primary activity of RSE is defined by the research program agreed with the Ministry of Economic Development for three years. Main revenues come from research grants connected to the implementation plan, EU funds and other minor type of research projects. Also, in this case, Eurostat stressed that, before automatic calculation of the 50% test, the market/non-market nature of the main output had to be examined.

Findings and conclusions

- (11) The Italian statistical authorities will review the classification of government controlled entities currently classified in the nonfinancial corporations sector (S.11) with results of the market/non-market test below 50% and will reclassify them to general government (S.13), unless their classification in S.11 is duly justified (e.g. for selected newly established units, etc.).

⁶ GSE Group is government owned company established to perform numerous tasks in the energy sector, e.g. promotion and development of electricity produced from renewable sources.

*Deadline: end of March 2019*⁷

- (12) The Italian statistical authorities will analyse the classification of Metro Brescia not fulfilling the market/non-market test for 2012-2017, and reclassify the entity in S.13 if relevant.

*Deadline: end of February 2019*⁸

- (13) The Italian statistical authorities will reclassify the CAV inside the general government sector in the April 2019 EDP notification in view of the fact that the CAV functions as an entity financing ANAS (a government controlled entity involved in the construction and maintenance of motorways, classified in general government – S.13) and its main activity is related to the concession contracts with the Regione Veneto.

*Deadline: April 2019 EDP notification*⁹

- (14) The Italian statistical authorities will analyse the classification of three subsidiaries of the GSE Group (*Gestore dei Mercati Energetici, Acquirente Unico, Ricerca sul Sistema Energetico*), focusing on whether the prevalent activity is market and on appropriately compiling the market/non-market test. To this effect, Eurostat recalled that sales (or output) was a completely different concept to that of turnover, particularly for merchants and traders for whom sales corresponds to the gross margin made on purchases and resales – a point that is crucial for entities purchasing and selling electricity.

*Deadline: 15 March 2019*¹⁰

4.1.2 Classification and rerouting of operations of public financial entities

4.1.2.1 National development institutions and sovereign funds

Introduction

Prior to the visit, the Italian statistical authorities provided a note on the sector classification of national development institutions and sovereign funds. In the analysis, they briefly introduced '*Cassa Depositi e Prestiti*' (CDP) as a national promotional institution and described activities of CDP Equity (former '*Fondo Strategico Italiano*'), a subsidiary of the CDP.

⁷ The note was delivered on 29 March 2019.

⁸ The note was provided on 1 March 2019. In the market/non-market test provided prior the visit, results for the Metro Brescia were derived from a mere application of the standard automatic procedure of processing the test, thus excluding from the Sales the amounts - receipts for the metro from the Municipality - recorded as "Changes in inventories of work in progress, semi-finished and finished products" in compliance with the national accounting standards. In the follow up note, the market/non-market test was corrected accordingly.

⁹ The CAV was reclassified inside general government for the years 2016, 2017 and 2018 in the April 2019 EDP notification.

¹⁰ The note was provided on 15 March 2019. Two of the subsidiaries Acquirente Unico and Ricerca sul Sistema Energetico were reclassified inside general government for the years 2017 and 2018 in the April 2019 EDP notification.

Discussion and methodological analysis

Referring to the Questionnaire on government controlled entities classified outside general government, Eurostat enquired about public entities classified in the financial corporations sector (S.12) that seemed to be involved in the management of public funds, providing finance to local entities/SMEs or otherwise involved in regional investments and economic development. From the list of more than 20 entities identified by Eurostat, a majority were established by regions with a main objective to grant financing in the form of (subsidised) loans or guarantees, to participate in the capital of entities, to distribute public funds for development projects, etc. Those identified and mentioned in the meeting were for instance *Finanziaria Ligure per lo Sviluppo Economico*, *Finanziaria Regionale della Valle d'Aosta*, *Finanziaria per lo Sviluppo della Sicilia*, *Fincalabra*, *Finlombarda* and others.

The Italian statistical authorities thought that those entities, which have been mostly assigned NACE code 64, are either empty shells, therefore to be classified in S.13, or real holding companies having market activities and classified according to the main activity of the group. Eurostat wondered whether those entities had some decision-making autonomy in performing their activities or whether, on the contrary, they were merely acting as ancillary units to local authorities used for channelling public funds. The Italian statistical authorities committed to provide an analysis focusing on the activities of those entities, in particular who were the main beneficiaries of the agencies, the ability to act as a financial intermediary, source of financing, autonomy of decision, etc.

Separately, Eurostat asked about the sector classification of the *Agenzia nazionale per l'attrazione degli investimenti (Invitalia)*, a national agency for investment and economic development owned by the MEF. According to available information, the agency operates mainly in the southern part of Italy and provides various types of support and financing to SMEs as well as services to local administration. Eurostat noted that the Agency seemed to function as a pure agent of government that was created for a sole purpose to pursue public policy functions. The Italian statistical authorities were requested to investigate whether a market nature of the agency's activities can be identified.

Findings and conclusions

- (15) The Italian statistical authorities will analyse the sector classification of the *Agenzia nazionale per l'attrazione degli investimenti* classified in the financial corporations sector (S.12), in particular determining whether a market activity can be identified.

Deadline: 15 March 2019¹¹

- (16) The Italian statistical authorities will analyse the sector classification of financial entities classified in S.12 with the NACE code 64, in particular to what extent those entities are genuine market financial intermediaries, who are their clients (i.e. purchase of their output) and to whether those entities are captive or essentially entities that cannot act independently of their parents (i.e. considered as being on autopilot).

Deadline for the 7 biggest units: 15 March 2019¹²

¹¹ The note was provided on 15 March 2019. The unit was reclassified inside general government for the years 2017 and 2018 in April 2019.

Deadline for the remaining units: end of May 2019¹³

4.1.2.2. Cassa Depositi e Prestiti

Introduction

'Cassa Depositi e Prestiti' (CDP) is the third largest Italian bank, predominantly owned by government (82.8% MEF, 1.3% Treasury shares, 15.9% banking foundations). In 2015, it was assigned a role of National Promotional Institution. The CDP is currently classified in S.12.

Discussion and methodological analysis

It was recalled that Eurostat was more focusing on national promotional banks that were created in Member States in recent years in the context of the Juncker's investment plan. In particular, all transactions that seemed to be carried out on behalf of government were to be scrutinised with a view of their potential implications on national accounts. In the case of CDP, a detailed examination of possible operations having such features needs to be performed. It was also mentioned that an in-depth analysis of the sector classification of each subsidiary needed to be carried out and might result in the reclassification of a subsidiary to general government if its main activity turns out to be carried out for public policy purposes.

In the presentation, the Italian statistical authorities together with the CDP's representatives described the main areas of the CDP's activity, its governing bodies and its financial resources. The activity of CDP is divided into two different management lines. First, the 'Separate Account' manages resources obtained from postal savings deposits. Those funds amounted to 253 billion EUR at the end of 2017 and are covered by a government guarantee in favour of deposits' owners. The use of resources in the Separate Account is strictly earmarked, for instance to provide financing to public entities or to public/private entities in case of general economic interest, for acquisition of shareholdings from government units, etc. Second, the 'Ordinary Management' deals with other sources of financing raised through the issuance of bonds or investments, without being guaranteed by government.

The main executive body is the Board of Directors, consisting of nine members appointed by shareholders. According to the information provided during the meeting, six members were proposed by the MEF (one of them as a government officer) and the remaining three by banking foundations. For the management of the Separate Account, the Board is extended by five additional directors - the General Director of the Treasury, the General Accountant of the State and three representatives of local authorities. A magistrate of the Court of Auditors can join the Board of Directors as an auditor. Upon Eurostat's enquiry, the Italian authorities clarified that the decision making process on single operations depends on the type of transaction, although a respective committee has to be consulted beforehand. The Board of

¹² The first note was sent on 15 March 2019. The following five entities Cassa del Trentino S.p.A., Finanziaria Regionale Valle d'Aosta - Finaosta S.p.A., Finpiemonte S.p.A., Finlombarda - Finanziaria per lo sviluppo della Lombardia S.p.A. and FL.R.A. - Finanziaria Regionale Abruzzese S.p.A were reclassified inside general government for the years 2017 and 2018 in April 2019.

¹³ The second note analysing another nine entities was sent on 19 April 2019. Eight of them - Finmolise, Finmolise Sviluppo e Servizi, Sviluppo Basilicata, SFIRS, FILSE, Ligurcapital Spa, GEPAFIN and Veneto Sviluppo are to be classified inside general government. The third note analysing the remaining 49 entities was provided on 17 May 2019.

Directors decides on the operations considered as non-ordinary and, in certain cases, it can block the decision of committees. The Italian statistical authorities committed to provide detailed information on the composition of the new board and the decision making process in CDP. The CDP Statute was also requested.

The CDP operates in four main areas: (i) general government and infrastructure, (ii) international cooperation and export, (iii) business and enterprises and (iv) real estate sector.

Within the area of business and enterprises, CDP provides loans to enterprises or liquidity instruments to financial institutions for long-term lending to SMEs. In the latter case, banks provide pledges and inform CDP on the final use of the funds. The risk of a loan not being repaid remains with the lending bank, and not with CDP. The maturity of those loans is longer compared to ordinary loans, mainly thanks to the long-term financing coming from postal bonds. The CDP representatives declared that no relief is granted on the loans and the interest rate is comparable to market rates, i.e. the cost of financing of CDP's itself. CDP is prevented by law to enter into operations that could potentially be loss-making.

Eurostat enquired about CDP operations relating to the acquisitions of capital in public and private corporations. It was clarified by the CDP representatives that all acquisitions are realised at market prices, following a thorough financial analysis, with a view towards profitability. In case of unfavourable credit risk, CDP might ask for collateral. It was stressed that CDP in general might only enter into transactions with a perspective of return on a short or long-term basis. As a result, in specific situations, the Board of Directors' decision might contradict the shareholders' interests. As an example, the case of Alitalia was mentioned here where CDP refused to participate as an investor.

In this context, Eurostat questioned the CDP participation in the capital of the two Atlante funds that were established in 2016 to gather capital from financial institutions in order to recapitalise banks in difficulties. The CDP representatives reasoned that although the investment seemed to be risky, the decision to provide capital to Atlante funds was taken by CDP itself to prevent higher loss in the financial sector potentially resulting from banks' default. Furthermore, CDP was only one of 67 investors at that time. It was claimed by the CDP representatives that some recovery was expected.

CDP manages the Revolving Fund for Enterprises providing loans to SMEs that are secured by government as guarantor of last resort. For this purposes, CDP uses funds coming from postal bonds. The loans granted for a maximum maturity of 15 years aimed at supporting R&D, technological innovations, industry, etc. An individual loan can be subsidized for up to 50% or 90% in specific cases. Government reimburses CDP for the difference between the market rate and the subsidised rate paid by beneficiaries.

In the area of international cooperation, CDP was assigned a role of agent and administrative manager of public funds, including the Revolving Fund for Development Cooperation. The main activities focus on granting loans to governments in developing countries and export loans to Italian companies. On behalf of government, CDP concludes agreements with governments in developing countries, including the negotiations in Paris Club, for which CDP receives compensation on market terms. In its own name, CDP recently initiated providing credits to governments or corporations from own sources, complementary to using public funds.

Eurostat requested more details about the process of negotiating and concluding a contract in a developing country. The CDP representatives clarified that CDP is involved in the negotiations together with the Ministry of Foreign Affairs. If financed from public funds, the Public Committee, consisting of representatives of the MEF and the Ministry of Foreign Affairs, must provide its authorisation. In case CDP uses its own resources, the Public Committee only provides an advice. The latter type of loans provided to governments of developing countries typically concern specific projects. Each lending to the Treasury of a country involves an intergovernmental agreement. Eurostat requested to provide details on the loans provided by CDP to developing countries and loans negotiated in the context of Paris Club.

In relation to the lending portfolio, it was clarified that concessional loans are provided only by the Italian government. Accordingly, for this purpose, resources from postal savings cannot be used due to legislative restrictions on loss-making operations. The Public Committee can decide on using postal savings for granting international loans only after considering their potential profitability. These loans are then recorded on the balance sheet of the Treasury, and not of the CDP.

In its presentation, the Italian statistical authorities introduced seven investment platforms created in the framework of the European Fund for Strategic Investments (EFSI), where the CDP was awarded the role of National Promotional Institution. For this purpose, a specific fund with initial funding of 200 million EUR was established by the MEF. Eurostat asked specifically about a large infrastructure platform, which also includes *Autovie Venete S.p.A.*, for building a motorway connecting Venice and Trieste. In this project, CDP provides financing for an amount of 300 million EUR that is, according to rules, secured by the government guarantee up to 80%. With this platform, the MEF can guarantee CDP financing up to a total of 730 million EUR on each transaction. Until now, no guarantee has been activated.

Another platform (ENSI) is aimed at lending to SMEs through securitisations. National Promotional Institutions, in cooperation with the European Investment Fund (EIF), provide support to enterprises in the form of securitisation operations backed by portfolios of loans to SMEs. The credit risk born by CDP is 20% at a minimum. The rest is covered by the MEF and EIF.

By means of participation in the capital of CDP Investimenti SGR S.p.A (70%), CDP is also involved in the field of social housing, with the aim, in particular, to increase the availability of dwellings at controlled prices, as stipulated by legislation. For this purpose, two funds were established – *FIA-Fondo Investimenti per l'Abitare* and FIA2 in 2016, which are dedicated to smart housing and to increasing the availability of dwellings to rent. More details on the FIA2 Fund's activities were requested by Eurostat.

The Italian statistical authorities were further asked to clarify the role of CDP in the implementation of Decree Law n.35/2013 relating to repayment of trade payables of public administration. In principle, CDP acts as a manager of funds on behalf of government, using the funds of the State Budget and CDP managed funds (Separate Account) to accelerate repayments of trade credits of public administration. In 2017, the volume of transactions amounted to about six billion EUR. The Italian statistical authorities will provide a copy of the Decree to Eurostat.

Concerning the management of loans transferred to the MEF, it was clarified that CDP acts as an agent collecting repayments and distributing reimbursements on the MEF's behalf. It also represents the MEF in legal matters. The value of these loans was around 5 billion EUR at the end of 2017.

Eurostat enquired about the scope of the agreement between CDP and the Bank of Italy. It was clarified that the transactions mainly concern auctions and other cash management operations carried out on behalf of the Treasury, where the Bank of Italy acts purely as an agent.

Referring to the 2017 Annual report¹⁴ of CDP, Eurostat enquired about the CDP's authorisation to "*draw on government-backed funding (postal savings funds) also to finance initiatives in favour of private entities in sectors of "general interest", as identified by decree of the MEF*". The CDP representatives explained that the areas where postal savings might be invested are defined in the Decree and, in general, those are environmental protection, public services, infrastructure projects, etc. Since the Decree only provides very general guidelines on the form of investment, the final decision is taken by CDP.

In 2006, CDP created '*Fondo PPP Italia*' to promote PPPs and projects on renewable sources. CDP, in its role of an investor, provides capital to the *Fondo* with other investors for specific purposes, for example creating an SPV together with KfW and EIB. Until now, the *Fondo* invested in seven PPPs and seven renewable energy projects.

Findings and conclusions

(17) In relation to '*Cassa Depositi e Prestiti*'¹⁵:

- a) The Italian statistical authorities will clarify the governance of CDP, mainly regarding the precise composition of the new board and in relation to the decision process and involvement of government¹⁶.

Deadline: April 2019 EDP notification

- b) Eurostat stressed the need of a regular provision of information by CDP to the Italian statistical authorities and to Eurostat on the operations that might have features of carried out on behalf of government.

Deadline: April 2019 EDP notification

- c) The Italian statistical authorities will analyse the sector classification of subsidiaries of CDP.

Deadline: end of May 2019

- d) The Italian statistical authorities will provide details on the loans provided by CDP to developing countries and loans that are negotiated in the context of the Paris Club, including the list of loans.

¹⁴ <https://en.cdp.it/kdocs/1910407/RFA-12-2017-ENG-P6-CP.pdf>

¹⁵ The documents requested in letters a), b), d), e) and g) were provided on 19 April 2019 and the analysis under the letter c) was delivered on 14 June 2019.

¹⁶ Partial information about the composition of the Board of Directors and additional Directors for the Separate Account was provided already during the meeting on 21 November 2018.

Deadline: April 2019 EDP notification

- e) The Italian statistical authorities will provide details on the FIA2 Fund set up by CDP to support smart housing.

Deadline: April 2019 EDP notification

- f) The Italian statistical authorities clarified the transactions performed by CDP with the Bank of Italy: the transactions mainly concern auctions and other cash management operations carried out on behalf of the Treasury, where the Bank of Italy acts purely as an agent.
- g) The Italian statistical authorities will provide to Eurostat the Statute of the CDP and the Decree.

Deadline: April 2019 EDP notification

4.1.2.3. National protection funds

Introduction

In Italy, three entities exist that are considered national protection funds. The National Resolution Fund (NRF) established in 2015 is classified in S.13. The deposits in cooperative banks are guaranteed by the '*Fondo di Garanzia del Credito Cooperativo*' (FGD) and in other banks by the '*Fondo Interbancario di Tutela dei Depositi*' (FITD). Both guarantee funds are private consortia of banks operating under a private law.

Discussion and methodological analysis

The Italian statistical authorities clarified that the two deposit guarantee schemes FITD and FGD, defined as non-statutory schemes, were currently classified in the financial corporations sector (S.12). The stocks and flows of the FITD relating to the statutory part are, however, rearranged through government accounts due to the compulsory nature of ex-ante contributions paid by participating banks. In the April 2019 EDP notification, they intended to also reroute in government accounts the operations of the FGD with a negligible impact on the deficit. Apart from those, the FITD runs the '*Voluntary Intervention Scheme*' that is currently classified in S.12.

Concerning the treatment of the two non-statutory schemes, the findings of the EDP dialogue visit in 2017 were recalled (see action point 17 from the 2017 EDP dialogue visit). Eurostat thought that there had been an agreement at that time to classify FGD and FITD in general government or, otherwise, to partition the units.

During the discussion, the Italian statistical authorities expressed some doubts about the notion of partitioning institutional units, which might contradict the definition of institutional units and cause some practical difficulties with the definition of the list of general government units published by ISTAT. Alternatively, they would rather consider partitioning assets and liabilities effectively separating the activities carried out on behalf of government from the rest. ISTAT recognised that separate accounts kept in both funds could be used for this purpose.

Eurostat proposed two alternatives. First, partitioning each of the guarantee funds to two institutional units would allow classifying them to different sectors according to their predominant activity. Or, second, both guarantee funds would be classified in the sector according to the principal activity, separating the other part of the scheme, to be rearranged through the other sector. The Italian statistical authorities will reflect on the change of the current recording of deposit guarantee schemes in national accounts, following the discussions in the meeting.

In relation to the NRF, the Italian statistical authorities asked for a clarification concerning the recording of contributions levied in 2015. The contributions collected in 2015, before the Directive 2014/59/EU (BRRD) entered into force, and entirely used to finance the resolution of four small banks, were recorded in national accounts as Other taxes on production (D.29). In this context, Eurostat recalled the CMFB opinion of 2017¹⁷ that advised to record the 2015 contributions raised by the NRF as an EU tax. Eurostat stated that, although the situation in Italy had been discussed in the 2017 EDP dialogue visit, no final guidelines had been approved. This issue will have to be addressed in the Eurostat decision to be published in the future. In the meantime, Eurostat recommended to the Italian statistical authorities to follow the CMFB opinion for the recording of 2015 contributions and to treat the resolution either as an EU intervention or, alternatively, as an EU transfer to the Italian government to finance the intervention. A third possibility would be to recognise a national tax in those circumstances, by derogation to the general rule.

Findings and conclusions

(18) The Italian statistical authorities will reflect on how to appropriately describe the partitioning of the operations of the deposit guarantee schemes (FITD – *Fondo Interbancario di Tutela dei Depositi* and FGD – *Fondo di Garanzia del Credito Cooperativo*), of which statutory part is currently rearranged in government accounts (i.e. implying the rerouting/recognising significant FITD's assets as government assets). A first option is to simply describe the statistical treatment as a partitioning each unit into two institutional units, based on the existing segregation of operations in balance sheets and profit and loss statements. Alternatively, the sector classification of each of the two units is to be decided based on the predominant scheme (either of the scheme imposed by the EU directives or, alternatively, of the private scheme) and the other scheme is to be rearranged to the other sector.

*Deadline: April 2019 EDP notification*¹⁸

(19) Eurostat will indicate its recommended recording of the contributions raised in 2015 by the National Resolution Fund to be transferred to the Single Resolution Fund (SRF) in 2016, given that, in Italy, the amounts in question were used nationally for the resolution of four small Italian banks and were not passed to the SRF. Following the CMFB opinion that this tax should generally be recorded as an EU tax, one recording could be to record the rescue as an EU intervention. Another recording would be to

¹⁷ <https://circabc.europa.eu/sd/a/49307908-b40e-4752-9058-1641f27158cd/2017-04-06%20-%20CMFB%20opinion%20on%202015%20BRRD%20levies.pdf>

¹⁸ The note was provided on 29 March 2019. In the April 2019 EDP notification, the FITD was partitioned and the statutory part was classified inside general government. The FGD was reclassified inside general government.

recognise a transfer from the EU to the Italian government while a third alternative would be to recognise a national tax in those circumstances, by derogation to the general rule. This issue is B.9 neutral, but is relevant for GFS and for GNI.

Deadline: April 2019 EDP notification¹⁹

4.1.2.4. Export credit insurance - SACE

Introduction

In Italy, export credit insurance is carried out by SACE S.p.A., which is a public corporation fully owned by CDP, currently classified in the Insurance corporations subsector (S.128).

Discussion and methodological analysis

In the note provided prior to the visit, the Italian statistical authorities explained that, since 2015, SACE benefits from a government guarantee that is provided according to art.32 of the Decree Law 91/2014, converted into law n.116/2014. The conditions of the guarantee scheme are defined in the Agreement signed between the MEF and SACE in November 2014, valid for 10 years.

The government is involved in two guarantee schemes. First, a flat guarantee of 10% (*'Garanzia Proporzionale in quota'*) is applied on the entire SACE portfolio, including claims originated before the Agreement. Potential losses are covered from a special fund capitalised by government with an initial amount of 100 million EUR and further replenished by premiums transferred from SACE.

Second, government can provide a guarantee for the operations exceeding a certain threshold of credit risk in relation to own capital resources (*'Garanzia Proporzionale in eccedente'*). The guarantee is granted on a case-by-case basis following the consent of the MEF.

The Italian statistical authorities explained that fees paid by SACE to government are recorded as Miscellaneous current transfers (D.75) in national accounts and include also the proportional premiums related to the 10% flat guarantee. Eurostat asked to provide a split of the fee.

Eurostat further enquired about the cases of guarantee calls and asked the confirmation of the information that no guarantee call relating to export credits had occurred since 2015. The Italian statistical authorities admitted that some small guarantee calls related to the 10% flat guarantee might have happened in the past, however, they were not recorded in the government deficit (B.9) but rather in the financial accounts. Eurostat also wondered about the recording in case of exporter clients' default in public accounts as well as in national accounts. Furthermore, an additional clarification was expected on the transfer to the MEF by SACE of claims that were subject to Paris Club negotiations. The Italian statistical authorities will investigate about these technical issues discussed in the meeting and inform Eurostat accordingly.

¹⁹ The note was provided to Eurostat on 29 March 2019. The contributions raised in 2015 by the NRF were recorded as an EU tax and, symmetrically, a transfer from EU to the NRF was recognised in national accounts to finance interventions in the Italian financial sector.

Findings and conclusions

- (20) The Italian statistical authorities will clarify the recording of guarantee calls of SACE, the export credit agency controlled by government, in national accounts as well as in public accounts. They will provide Eurostat with answers on a number of technical questions related to the SACE mode of operations (including the relationship with Paris club debt restructurings or debt cancellations). The explanations will concern both the new organisation put in place from 2015 and the previous organisation. The analysis will also elaborate on the sector classification of SACE – or at least of the export guarantee schemes.

*Deadline: April 2019 EDP notification*²⁰

4.1.3 Classification of public railway operators

Introduction

Prior to the visit, the Italian statistical authorities provided a note on the classification of seven public railway operators currently classified in S.11, based on the results of the market/non-market test: the holding company Ferrovie dello Stato S.p.A., two infrastructure managers (Rete Ferroviaria Italiana S.p.A., Ferrovie Nord S.p.A.), two passenger operators (Trenitalia S.p.A., Trenord S.r.l.) and two freight operators (Mercitalia Rail S.r.l., Rail Traction Company S.p.A.).

Discussion and methodological analysis

For each of the seven entities, the Italian statistical authorities sent detailed accounting data showing the items entering the market/non-market test according to three methods. First, an 'in-depth approach' calculates the 50% test using accounting data with a maximum detail. Second, a 'non-prudential approach' is based on aggregated values of sales and costs. And third, a 'prudential approach' uses the non-prudential approach, but excluding all current subsidies received from government. Eurostat thought that the 'prudential approach' was in fact not prudent enough. Eliminating subsidies directly from the detailed sales and costs (as used in the 'in-depth approach') would be more prudent and it would bring the results of the market/non-market test below 50% at least for RFI, Ferrovie Nord and Trenord. Eurostat thought that a modified prudential approach disregarding the current subsidies, but using detailed data as in the 'in-depth approach', should be applied for all companies and asked for revised results of the calculation in this respect. The Italian statistical authorities argued that such detailed data would not be routinely available from the Business Register of the Italian Chamber of Commerce and additional examination of sources such as Notes to the financial statements or service contracts would be needed.

In following discussions, Eurostat focused on the contractual agreements between public authorities and public railway operators, on the nature of the payments, and on the calculation

²⁰ The analysis was provided to Eurostat on 19 April 2019 and a follow up note on 14 June 2019.

of the 50% test for those receiving payments in the context of public service obligation (PSO).

Rete Ferroviaria Italiana S.p.A (RFI)

RFI is the national railway infrastructure manager. Since 2013, the relationship between the RFI and the State is regulated by Programme Contract (*Contratto di Programma*) that has two parts: Investments (CdP-I) valid for the period 2014-2017, and Services (CdP-S) concluded for the period 2016-2021.

RFI receives from government two types of subsidies. The subsidy related to income is paid to RFI by the Ministry of Transport, based on the 'Services' part of the contract, and recorded as Subsidies on products (D.31) in national accounts. Eurostat noted that in the period 2014-2017 the amount of subsidy was strictly identical (975.6 million EUR) each year and thus seemed to be aimed to ensuring the availability of the infrastructure rather than linked to the volume of production. Accordingly, Eurostat thought that the subsidy did not comply with the definition of D.31.

Apart from the subsidy from the State, RFI charges railway companies fees for the use of tracks. According to the ART Resolution 96/2015²¹ (particularly measure 8), the average unit charge for access to railway infrastructure is explicitly calculated as a share of all cost not covered by government contributions or other revenues and the estimated volume of traffic. In this way, those charges are determined with the only aim to ensure the economic and financial balance of RFI by covering residual costs. Eurostat doubted that these receipts could be considered at economically significant prices as defined by ESA 2010.

As regards the consumption of fixed capital, Eurostat also noticed that, for the purpose of the market/non-market test, the Italian statistical authorities use the depreciation from business accounts, which in this case is not considered as compliant with the consumption of fixed capital according to ESA 2010. Examining the 2017 Annual report of RFI, the ratio of amortisation to total value of assets seemed extremely low (0.28% in 2016 and 0.32% in 2017). The stocks of assets in business accounts are reported in the value after deduction of grants received from government. Accordingly, the consumption of fixed capital is severely underestimated, resulting in significantly overestimated results of the market/non-market test.

Eurostat requested the Italian statistical authorities to review the market/non-market test for RFI by correcting both the amount of subsidies as well as the value, as a proxy to consumption of fixed capital according to ESA, of the depreciation from business accounts. In the revised calculation, the Italian statistical authorities will remove the effect of netting out of the investment grants from the fixed assets reported in the balance sheet and its associated impact on the amortisation costs reported in the profit and loss statement (perhaps, by simply adding average grants to the amortisation costs, as a simplified correction proposed by ISTAT during the meeting).

Trenitalia S.p.A.

²¹ <http://www.autorita-trasporti.it/delibere/delibera-n-96-2015/?lang=en>

Trenitalia is the national passenger operator belonging to Ferrovie dello Stato Group. The recent contract signed for transport services of national interest, covering the public service obligation, refers to the period 2017-2026. Trenitalia also operates in various regions, for which specific service contracts are signed with the competent local authorities.

According to the service contract of national interest, compensation paid to Trenitalia is determined according to a number of train-kilometres, recorded as D.31 in the Italian national accounts. Eurostat noted that, after deducting the subsidies paid in the context of public service obligation, Trenitalia still complied with the market/non-market test. Nevertheless, the Italian statistical authorities were requested to examine the subsidies (*'Corrispettivo per contratto di Servizio Pubblico'*) received by the unit, clarifying if those are subsidies on products or on production, given the fact that these subsidies are by train-kilometer, which seems not consistent with the product in question (passenger kilometer), also having in mind the significant alleviation in risk exposure this implies for the operator.

Eurostat also reviewed the values of depreciation from business accounts, used in the 50% test. Although the figures seemed to be reasonable, the Italian statistical authorities were asked to analyse for Trenitalia, as well as for other public transport companies, depreciation from business accounts and, particularly, the possible application of a correcting coefficient to approximate the consumption of fixed capital in the ESA 2010 meaning, for the purpose of the market/non-market test.

Ferrovie Nord S.p.A (FN)

FN is the regional railway infrastructure manager operating in the region Lombardia. It is a part of Ferrovie Nord Milano Group, owned by Regione Lombardia (57.6%), Ferrovie dello Stato (14.7%) and other shareholders (27.7%). The company is listed on the stock exchange. FN manages the railway infrastructure on the basis of a concession contract with the Regione Lombardia concluded for the period 2016-2060.

In the calculation of the 50% test provided by the Italian statistical authorities, payments from the region reached 81% of total sales in 2017. The payments from the region seemed to be connected to the volume of train-kilometres and to availability of tracks. The Italian statistical authorities committed to investigate the nature of payments.

Eurostat also noticed that no amortisation costs are considered in the 50% test, which could potentially underestimate production costs. Although according to the concession contract, FN seemed to be the economic owner of the assets, those were however not recorded on the FN's balance sheet. Eurostat thought that if FN was the economic owner, the total value of the assets and related investment expenditures were to be recorded on the balance sheet of FN and, accordingly, the depreciation relating to the stock of assets would have to enter the calculation of the market/non-market test.

If, on the contrary, FN only provides services to the Region, where the Region is considered the economic owner of the assets, FN is to be seen rather as an ancillary unit, classified together with its parent unit - the Region, in this case.

Trenord S.r.l.

Trenord is a regional railway operator providing public transport services in the region Lombardia. The company is owned by Ferrovie Nord Milano Group (50%) and by Trenitalia S.p.A. (50%). The service contract concluded between Trenord and the Regione Lombardia is valid for the period 2015-2020.

According to the contract, payments from the region seemed to be based on a number of train-kilometers or bus-kilometers, regardless of the occupancy of trains/buses, depending instead on the availability of services. According to the documentation provided by the Italian statistical authorities, 78% of the compensation paid by the region is recorded as D.31 in national accounts and considered as sales in the market/non-market test.

Eurostat recalled that the compensation received from the region needs to be linked to the volume of output to comply with the definition of D.31 to be considered as sales for the 50% test. The Italian statistical authorities were requested to analyse the contract in this context and inform Eurostat.

Findings and conclusions

- (21) As concerns the public railway operators, the Italian statistical authorities will provide revised estimates of the market/non-market test based on the so-called 'prudential' approach (PA), provided in their initial note sent in preparation of the EDP dialogue visit, using the more detailed accounting figures they had used for the 'in-depth' approach (IDA) and taking into account Eurostat remarks.

Deadline: end of January 2019²²

- (22) In relation to 'Rete Ferroviaria Italiana' (RFI), the national infrastructure manager, the Italian statistical authorities will provide a detailed analysis of all government grants related to income ('*Contributi di Stato in conto esercizio*'), and define if these are subsidies on products or on production (i.e. they are considered sales according to ESA2010 definition or not). Eurostat noted that both the terms used in the contract between the RFI and government as well as the fact that the amounts are rigorously fixed in the past 4 years seem difficult to reconcile with a subsidy on products recording.

Deadline: end of February 2019²³

- (23) In the revised calculation of the market/non-market test for the RFI, the Italian statistical authorities will remove the effect of netting out of the investment grants from the fixed assets reported in the balance sheet and its associated impact on the amortisation costs reported in the profit and loss statement (perhaps, by simply adding

²² The note was provided on 1 February 2019.

²³ The note was provided on 1 March 2019. The analysis confirmed underestimated amortisation and provided a provisional estimation of ESA-compliant consumption of fixed capital. The analysis moreover confirmed that the subsidy '*Contributi di Stato in conto esercizio*' has to be reclassified as a subsidy on production (D.39), accordingly resulting in the recalculated market/non-market test below 50% in 2010-2017. The analysis also showed that the revision of the subsidy as D.39 is sufficient to change substantially the result of the test, even without changing the depreciation values disclosed in financial statements (Action points 22 and 23).

average grants to the amortisation costs, as a simplified correction proposed by ISTAT). The Italian statistical authorities will also enquire why the amortisation shown in the profit and loss statement appears very small in comparison to the value of assets (even after netting).

Deadline: end of February 2019²⁴

- (24) Concerning Trenitalia S.p.a., the national transport operator, the Italian statistical authorities will analyse the subsidies (*'Corrispettivo per contratto di Servizio Pubblico'*) received by the unit, clarifying if those are subsidies on products or on production, given the fact that these subsidies are by train-kilometer, which seems not consistent with the product in question (passenger kilometre), also having in mind the significant alleviation in risk exposure this implies for the operator.

Deadline: end of August 2019²⁵

- (25) In relation to Ferrovie Nord, the regional infrastructure manager, the Italian statistical authorities will analyse the concession contract and the nature of payments that are currently recorded as sales. They will also clarify if actual investments of the Ferrovie Nord on infrastructure are currently reported in the public accounts, and are thus captured in the GFS tables (with an impact on B.9 of government). Furthermore, they will indicate whether Ferrovie Nord should be seen as the true holder of the assets (therefore with a need to adapt the consumption of fixed capital and accordingly review the market/non-market test) or, alternatively, merely as an entity providing services to the holder of the assets (thus being an entity providing services to government and, therefore, with a need to apply the qualitative criteria for sector classification of units).

Deadline: end of January 2019²⁶

- (26) Concerning Trenord, the regional transport operator, the Italian statistical authorities will analyse the *'Contratto di servizi o tra Regione Lombardia e Trenord relative agli anni 2015-2020'* and verify if the payments that the operator receives from government are in line with ESA2010 definition of subsidies on products and sales.

Deadline: end of January 2019²⁷

- (27) Regarding the other public corporations receiving large subsidies, the Italian statistical authorities will analyse (starting with the largest/more significant amounts) whether subsidies received by public corporations can be considered sales according to ESA 2010 definition and verify their inclusion, or not, in the market/non-market test of the

²⁴ The note was sent on 1 March 2019. The RFI was reclassified inside general government for the years 2017 and 2018 in the April 2019 EDP notification.

²⁵ In the April 2019 EDP notification, ISTAT agreed to advance the deadline of the action point 24 due to planned benchmark revision. The note analysing the sector classification of Trenitalia was delivered on 16 May 2019. Trenitalia remains classified outside general government and will be further monitored.

²⁶ The note was provided on 1 February 2019. The Italian statistical authorities confirmed in their analysis that FN is not the economic owner of the assets and it acted mainly as a manager to plan the infrastructure network, to ensure and maintain the availability of infrastructure. The analysis confirmed the Eurostat's hypothesis of the reclassification of FN to general government.

²⁷ The note was provided on 1 February 2019 and confirmed the classification of payments from government as subsidies on products. The classification of Trenord outside general government was confirmed.

reporting units (particularly given the observed heterogeneity of reporting of those flows in the accounting statements).

Deadline: 15 September 2019

- (28) The Italian statistical authorities will more generally analyse the consumption of fixed capital of the public units, starting with the largest corporations and/or public infrastructure operators, in order to verify if it is underestimated and affecting in any relevant way the results of the market/non-market test. The Italian statistical authorities will particularly focus their attention on the recording of investment grants (by reference to action point 23 for RFI above) as well as to the opportunity to apply a correcting coefficient. The ratio amortisation/fixed assets (business accounting) will be reported to Eurostat for public corporations (for a recent year).

Deadline: 15 September 2019

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

Introduction

The Italian statistical authorities sent to Eurostat the Questionnaire on government controlled entities classified outside general government in December 2017, reporting data for 2016, 2015 and 2014. For a small group of units having a negligible impact, data referred to 2012 and 2013. The list includes almost 4000 units, of which 82 units are classified in S.12. The total amount of liabilities of the units exceeding the threshold of 0.01% of GDP amounted to 51.8% of GDP.

Discussion and methodological analysis

Eurostat reviewed the list of units reported in the Questionnaire and identified a few cases where the results of the market/non-market test differed from those reported in the Register of units provided separately prior to the visit. In particular, those units concerned the '*Istituto Luce-Cinecittà Società a responsabilità limitata*' and '*Azienda Sviluppo Ambiente e Mobilità*'.

The Italian statistical authorities thought that some deviations might have resulted from a different data sources used by ISTAT for the compilation of the Questionnaire and from the updated information included in the list sent recently to Eurostat. It was agreed that the issue will be clarified and reported to Eurostat.

Findings and conclusions

- (29) The Italian statistical authorities will clarify why there are differences in market/non-market test results, for some entities classified in S.11, as reported in the Questionnaire on government controlled entities compared to as reported in the list of government controlled entities classified in S.11 provided prior to the EDP dialogue visit.

Deadline: end of February 2019²⁸

4.2 Implementation of accrual principle

4.2.1 Taxes and social contributions

Introduction

The Italian statistical authorities sent, prior to the visit, a note on the recording of other accounts receivable/payable (F.8) relating to taxes and on the allocation of tax revenues between the State and Special Statute Regions (SSR). In this context, three pending action points from the previous EDP dialogue visit were discussed.

Discussion and methodological analysis

The Italian statistical authorities described three types of tax revenues collected by SSR: (a) own taxes (*'tributi propri'*) – levied by SSR and recorded as tax revenue of SSR in national accounts, (b) participation to state taxes (*'compartecipazioni'*) – collected by SSR on behalf of the State and recorded as transfers (D.73) from the State to SSR and (c) other taxes ('final settlements').

In relation to the third type of taxes – final settlements, Eurostat argued that although they are automatically transferred to SSR, once collected by the State, the rate and the share of taxes collected by the State is still defined by the law (i.e. by central government). Therefore, they are to be recorded in national accounts as tax revenue of the State and as transfers from central government (D.73) to SSR. The Italian statistical authorities committed to correct the recording in national accounts, following the Eurostat's recommendation, in the October 2019 EDP notification. However, they also admitted that certain problems could arise with the identification of final settlements in certain SSR, namely those regions recording taxes on a gross basis. Two sources of information could be considered in order to correct the recording. First, using the information from the State, which would however not allow recording of those taxes on an accrual basis in some regions. Or, alternatively, using the data from SSR, which could result in discrepancies due to an inconsistent recording of flows between government levels.

The reporting of other accounts receivable/payable relating to taxes and social contributions in the table 5 of the Questionnaire relating to the EDP tables was also discussed. In the presentation, the Italian statistical authorities indicated that, apart from the time adjustment for taxes (representing about 85% of the total amount in the period 2011-2017), receivables/payables related to accounting settlements between government levels and to the time gap resulting from transfers between accounts were also recorded in F.8 in this table. Eurostat requested the Italian statistical authorities to change this practice and to report as soon as possible only the F.8 relating to time adjustment of taxes.

As concerns the recording of F.8 relating to the allocation of tax revenues to the State and SSR, the Italian statistical authorities described their ongoing work on the compilation of both F.8 receivable and payable separately.

²⁸ The note was sent on 1 March 2019. The action point is completed.

Regarding the F.8 receivable, the Italian statistical authorities admitted that the issue was more complicated due to heterogeneity of recording in public accounts between various SSR as well as within a particular Region over the years. Any revision of those data would, therefore, need a detailed analysis and gathering of information from SSR on a case-by-case basis, namely the gross and net recording of cash and accrual flows, final settlements and tax refunds. The Italian statistical authorities proposed to postpone such revision to the October 2019 EDP notification, where it could benefit from the introduction of new accounting principles that foresaw the gross recording in both the State and Regions.

On this basis, F.8 reported in the Questionnaire table 5 would only concern the time adjustment of taxes. The remaining receivables/payables relating to settlements between central and local government or to other time differences would be moved to the Questionnaire table 4. The Italian statistical authorities confirmed that the revision would not have an impact on government deficit (B.9). Eurostat agreed with the proposal to postpone the revision to October 2019, while requesting the Italian statistical authorities to nonetheless provide a progress report by March 2019.

Regarding the F.8 payable, the Italian statistical authorities recalled the recent revision that resulted from an ad-hoc review of tax refunds and identified several inconsistencies in data sources or compilation errors. Tax refunds for the years 2014-2017 were revised in October 2018 and the years before 2014 were planned to be revised in the October 2019 EDP notification. In the meeting, the Italian statistical authorities presented new revised stocks of F.8 payable that would be reported in October 2019. All adjustments discussed in the meeting may result in a significant reduction in the stocks in question, with a need to revise the financial accounts from 1995.

Findings and conclusions

- (30) The Italian statistical authorities will revise the recording of taxes collected by the State and automatically transferred to the Special Statute Regions (the so-called 'final settlements'), currently recorded as tax revenues of local government, to tax revenues of the State and transfers from central to local government (D.73).

Deadline: October 2019 EDP notification

- (31) Following on the work already reported to Eurostat and in the light of Eurostat comments/suggestions, the Italian statistical authorities will re-analyse the approach to be taken for the stocks and flows of other accounts payable (AF.8/F.8) related to taxes to be reported in table 5 of the Questionnaire related to EDP tables. They will also revise the recording of tax refunds for the years before 2014 in the October 2019 EDP notification. All this may result in a significant reduction in the stocks in question, with a need to revise the financial accounts from 1995.

Deadline for progress report: end of March 2019²⁹

Deadline for the implementation: October 2019 EDP notification

4.2.2 Interest and consolidated interest

²⁹ The progress report was delivered on 12 April 2019.

Introduction

Interest expenditure of central government mainly includes the interest paid by the State on government securities and postal savings. It also includes interest paid to depositors at the Treasury and on loans granted to central government. In the case of local government, interest expenditure mainly relate to loans and, to a limited extent, to bonds issued by some municipalities and regions. The Italian statistical authorities provided data on the recording of interest for the period 2014-2017, requested by Eurostat prior to the visit.

Discussion and methodological analysis

The discussion mainly focused on the table provided before the EDP dialogue visit. The Italian statistical authorities informed Eurostat about the difficulties they experienced in completing the table and proposed to continue the discussion on the template. The Italian Treasury indicated that, to their view, the reconciliation between the ESA nominal value and the face value could not be derived from the table. Accordingly, lines 1-21 had been calculated to be consistent with lines A/B which explained deviations from the EDP tables.

Eurostat indicated that, first, the template of the table was rather finalised and had been used, with minor changes, by Member States for almost two years. In addition, the same table had been subject of a review already in the previous EDP dialogue visit in 2017 (see action point 23).

Second, the main aim of the table was to reconcile the stocks and flows of discounts/premiums as well as coupons (lines 1-21) with items of the EDP tables. A secondary aim, in the first block (lines A and B), is to show the link between the debt reported in the EDP tables and ESA debt. The first section of the table – which aims at reconciling the face value with the ESA nominal value, as a pedagogic illustration, based on the rest of the table – need not be reported as long as the Italian compilers disagree that this section could be derived from the rest of the table. The Italian statistical authorities clarified that the table covered budgetary central government and, in terms of financial instruments, only debt securities and postal bonds.

The Eurostat's analysis of the data provided focused on the three main blocks, i.e. stock of coupons, stock of discounts/premium and amortisation of discounts/premiums, as well as the reconciliation with figures reported in the EDP tables. Eurostat observed that in several cases formulas were not respected, thus resulting in significant inconsistencies between stocks and flows or in amounts lacking economic rationale behind. More problematic, the consistency of reported figures with EDP tables was not maintained either, notably for the amount of discounts/premiums at issuance on the one hand and for the accrual adjustment for accrued and paid coupons on the other hand.

Eurostat asked the Italian statistical authorities to provide an updated table, at least covering lines 1-21, respecting the consistency inside the table as well as with data reported in the EDP tables.

Findings and conclusions

(32) The Italian statistical authorities will provide an updated table on interest recording, notably to ensure that the data on coupons, on premium/discounts and on amortisation of premium/discounts are consistent with the EDP tables 3B (or table 3B1). The

coverage of the table should encompass all debt instruments of the subsector being reported, which can be the State/Budgetary central Government. Specific care should be made for estimating the stock of coupons accrued and of discounts/premiums existing at the end of each accounting period, consistently with the flows reported. The first section of the table – which aims at reconciling the face value with the ESA nominal value, as a pedagogic illustration, based on the rest of the table – need not be reported as long as the Italian compilers disagree that this section could be derived from the rest of the table.

*Deadline: April 2019 EDP notification*³⁰

4.2.3 EU flows

Introduction

Since the April 2016 EDP notification, EU flows are recorded on a 'time of expenditure' basis. As concerns the new programming period 2014-2020, in the April EDP notifications the Italian statistical authorities report estimated data on EU flows due to prolonged validation of expenditures by the Managing Authority. Final data for the year (T-1) are available only in the April EDP notification of (T+1). The issue, including the method for estimation, had been already discussed in the previous EDP dialogue visit.

Discussion and methodological analysis

Eurostat enquired about the use of so-called financial instruments in Italy (that are provided from the EU budget) in the form of loans, guarantees, equity investments, etc., rather than usual grants. Eurostat recalled the rule of EU flows neutrality as concerns the recording in national accounts. The Italian statistical authorities clarified that EU financial instruments have been recorded in national accounts since April 2017, applying the recording option proposed by Eurostat, i.e. other accounts receivable/payable are recognised in the system when funds are received from the EU during the programming period. The payables gradually decrease due to losses incurred by the so-called 'beneficiaries' (which are the intermediaries), as opposed to the final recipients, e.g. due to impairment of loans or guarantee calls. In case of losses, the capital transfer payable to a 'recipient' is neutralised by recording a matching capital transfer received from EU, thus having a neutral impact in the accounts of the 'beneficiary'.

During the discussion, the Italian statistical authorities admitted that the recording originally followed the hypothesis that financial instruments were distributed by entities classified in general government. On this basis, the related flows were deducted from government revenues and other accounts payable (F.8) were recorded. A detailed analysis of the MEF carried out later on did not confirm the hypothesis and, therefore, the Italian statistical authorities informed Eurostat in the meeting that the years before 2014 would be corrected in the following benchmark revision. The current stock of payables relating to EU financial instruments amounted to approximately 800 million EUR in 2017.

³⁰ The updated table, including data for 2018, was provided to Eurostat on 4 April 2019.

Eurostat asked about the cases of debt cancellations/claims write-offs or guarantee calls where the funds linked to a financial instrument are considered definitely lost. The Italian statistical authorities clarified that the correction for EU flows was generally recorded as an increase in other accounts payable, corresponding to reduction in EU revenues. In the case of financial instruments, debt cancellations by beneficiaries or claims write-off were not separately identified and, therefore, might not have been included in the other accounts payable in the EDP table 2A. Eurostat recalled that losses on EU financial instruments should lead to a positive impact due to reduction of the stock of payables (increasing EU revenues) counterbalanced by adjustment in loan written-off, thus having a neutral impact on B.9. It was not clear whether the adjustment on the asset side was recorded. Therefore, the Italian statistical authorities were requested to investigate the recording in public accounts as well as in national accounts.

In an annex to the survey on EU financial instruments, circulated in June 2018 to Member States, the Italian statistical authorities provided a list of units involved in the management of financial instruments via Funds of Funds/Holding Funds and the list of entities implementing financial instruments. A major part of these entities were already included in the Questionnaire on public corporations controlled by government classified outside general government. Some of those units were already discussed earlier in the meeting as having the feature of national development agencies and their classification was to be followed up in the context of the action point 16.

Findings and conclusions

(33) Eurostat took note that the in principle financial instruments from the EU are recorded in the financial accounts (stock of 0.8 billion EUR of payables - AF.8) with the change in F.8 payable added as a correction to the EU revenue flowing from the data. To the extent that losses on the financial instruments lead to a reduction in F.8 payable, these losses lead to EU revenue in GFS (which is appropriate). The Italian statistical authorities will confirm that these adjustments are indeed carried out in the EU corrections recorded in the EDP table 2A (as reported in the EDP Questionnaire table 4.2). The Italian statistical authorities will also investigate on the recording of losses on EU financial instruments in public accounts as well as in national accounts regarding the asset side – and confirm that the loss leads to government expenditure in GFS (given that the loss should be B.9 neutral) and indicate where the neutralising entry is reported in EDP table 2.

Deadline: April 2019 EDP notification

(34) The Italian statistical authorities will review the sector classification of the list of entities involved in the implementation of EU financial instruments provided prior to the EDP dialogue visit. Some of the entities were already discussed in the context of the national development entities (action point 16).

Deadline: April 2019 EDP notification³¹

³¹ The first note was sent on 29 March 2019. Some of the financial entities were analysed in the context of the action point 16 and already included in general government in the April 2019 EDP notification. The second note analysing the remaining 5 financial entities was provided on 17 May 2019. Three units (Puglia Sviluppo, Sviluppumbria, Sviluppo Campania) are to be reclassified inside general government and Fidi

4.2.4 Military expenditure

Introduction

The main data sources on military expenditure are expenditure for military equipment under long-term contracts provided by the Ministry of Defence (MoD), under a formal agreement with ISTAT, and specific chapters of the State budget provided by the MEF for the component of military equipment expenditure related to the function “defence”, that are classified in intermediate consumption. In the previous visits, the Italian statistical authorities confirmed that military equipment purchased under long-term contracts was exclusively financed with advance payments, and that no payables in this respect existed.

Discussion and methodological analysis

During the discussion, Eurostat asked about the availability of data on deliveries of military equipment and about the possible existence of sizeable differences between cash payments and deliveries. The Italian statistical authorities informed Eurostat about ten operational programmes aimed at the acquisition of military equipment. Seven of them relating to the delivery of aircrafts or ships were contracted on a long-term basis and were currently reported in the EDP Questionnaire table 7. For all seven, the Italian statistical authorities receive from the MoD both the cash and accrual data. The three remaining projects mainly concerned infrastructure and communication services, outside the scope of the EDP Questionnaire table 7.

Findings and conclusions

Eurostat took note of the explanations.

4.2.5 Gross Fixed Capital Formation (GFCF)

Introduction

The GFCF is recorded on an accrual basis for those units having available accrual data sources (financial statements), e.g. ANAS, GSE, RAI, social security funds and local health units (LHUs). For the units that record on a commitment and cash basis, accrual GFCF is estimated on the basis of actual cash data or recorded cash. The availability of accrual data is very limited at the local government level. The issue of accrual recording of GFCF was discussed in several previous EDP visits.

Discussion and methodological analysis

Prior to the visit, the Italian statistical authorities provided a progress report on the implementation of accrual recording for GFCF, including indicators of coverage by subsectors and by groups of units within subsectors. Eurostat made a remark on a low coverage, mainly at the local government level, and on a limited progress in obtaining accrual

Toscana is to be further analysed (a note was sent on 25 June 2019). The activities of Banca del Mezzogiorno – Mediocredito Centrale SpA tend to have features of a national promotional institution's and, therefore, need to be further monitored.

data. From the information provided by the Italian statistical authorities, it was observed that for central government, coverage was close to 90% in 2017, with the main contribution of other economic service producers and institutions providing cultural services. A lower coverage was observed for research bodies (18 %). The GFCF for social security funds is fully accrual-based. For local government, the coverage was very low (24% on average), varying between 5% in provinces and municipalities to 25% in regions (mainly due to a PPP project recorded in 2017).

In the 2017 EDP dialogue visit, the Italian statistical authorities informed Eurostat about a plan to use the data recorded according to the '*enforced legal accrual*' to approximate the accrual GFCF, expected to be available with the introduction of the new chart of accounts (and BDAP). The analysis carried out later on focused on the application by municipalities of the enforced legal accrual. One of the indicators examined was the gap between commitments and related payments, which was expected to be diminishing over time. However, the outcome of the analysis did not show any significant improvement over years. The Italian statistical authorities thought that this unexpected result might have resulted from either the incorrect adoption of new accounting rules or from the lack of liquidity having influence on the amount of related payments. Eurostat wondered whether the compilation made by ISTAT to estimate the reliability of the BDAP was not subject to a compilation bias.

Indeed, Eurostat enquired about the recording of GFCF in public accounts and the use of this information for the compilation of accrual data in national accounts. The Italian statistical authorities explained that, for this purpose, several items were used. The '*enforced legal accrual*' principle stipulates to record in the respective year the commitment only for the amount that concerns this particular year, contrarily to the full commitment booked at once for the total investment (as it was in public accounts according to previous accounting rules). Separately, cash payments related to the commitment of the year are observed and the difference between those two is monitored. Furthermore, the specific concept of '*Fondo Pluriennale Vincolato*' (FPV) was discussed. Compared to the commitment of the year, FPV is a stock data, measuring the difference between the full commitment and an apportioned commitment, where the latter means the amount actually realised and accrued to a respective financial year. Therefore, FPV can be considered as a “remaining commitment” still to be accrued in following years. Eurostat requested the Italian statistical authorities to provide a note clarifying the recording of investments in public accounts, including the concept of FPV, and its applicability for the purpose of accrual recording of GFCF in national accounts.

Findings and conclusions

- (35) Eurostat takes note of the further postponement in the implementation of accrual recording of investment expenditure for local government (as well as for a part of central government), due to incompleteness and/or seemingly inconsistency of the alternative data sources that were envisaged in the previous EDP dialogue visit in 2017. The MOP data, previously envisaged to be used for some accrual adjustments, appear – after further examination – not well-adapted to this purpose. Recent data from the BDAP appear for the time being difficult to exploit at this stage.
- (36) In relation to the recording of investment expenditure in public accounts, the Italian statistical authorities will provide Eurostat with (1) the template regarding '*Fondo pluriennale vincolato*' and an accompanying note explaining its functioning, as well as (2) a note on the '*apportioned commitments*' and on the payments on such commitments

(and associated reporting template). The aim is to assess whether the adjusted legal accrual data reported in BDAP can be reliably related to payments, and thus used for a reasonable accrual, or not.

Deadline: end of January 2019³²

- (37) The Italian statistical authorities will provide Eurostat with a progress report on the implementation of the accrual recording of gross fixed capital formation by subsectors of general government in national accounts.

Deadline: end of August 2019

4.3 Recording of specific government transactions

4.3.1 Government transactions in the context of the financial crisis

4.3.1.1. Recording of the winding down of Banca Popolare di Vicenza and Veneto Banca and of the precautionary recapitalisation of Monte dei Paschi – follow up

Introduction

In March 2018, following the official request of the Italian statistical authorities, Eurostat provided an advice³³ on the recording of the wind-down process of Veneto Banca and Banca Popolare di Vicenza that occurred in 2017. Prior to the visit, Eurostat requested a note on the current and foreseen government operations relating to the financial crisis.

Discussion and methodological analysis

The Italian statistical authorities confirmed that the liquidation of the two banks was recorded in national accounts in accordance with the Eurostat's advice, i.e. recording as a capital transfer expenditure the difference between the consideration (cash, debt assumed, fair value of guarantees granted...) provided to third parties in the context of a defeasance structure and expected recoveries (mostly on the portfolio of impaired assets acquired). The operation had a negative impact on the deficit of 4.8 billion EUR (0.3% of GDP) and on the debt of 11.2 billion EUR (0.6% of GDP) in 2017.

The non-performing loans of both liquidated banks were later on transferred to 'Società per la Gestione di Attività S.p.A.' (SGA) in the context of the wind-down procedure. The transfer took place in April 2018 and amounted to approximately 18 billion EUR. In the meeting, the Italian statistical authorities confirmed that SGA would start recovering the NPLs. SGA is classified outside general government.

In the meeting, it was also mentioned that another case of bank requiring the recapitalisation might be the private-owned Banca Carige. In this case, the injection would be provided from the Voluntary scheme in the form of a subordinated bond to be repaid by the end of 2018.

³² The note was sent on 1 February 2019.

³³ <https://ec.europa.eu/eurostat/documents/1015035/8683865/Advice-2018-IT-Recording-of-Veneto-and-Vicenza-liquidation.pdf/1e96fe77-b82d-4efa-9b0f-099d68cb0822>

Further discussion focused on the Supplementary table for government interventions to support financial institutions that is aimed at measuring the impact on government deficit and debt from the interventions to support the financial sector. In relation to this table, Eurostat asked about the reporting of contributions levied by the National Resolution Fund for the purpose of the resolution of four small banks in 2015 and additional contributions collected in 2017. With regard to the 2015 fees, it was correct to not include the related revenue in the table since the coverage of the table excluded national protection funds, with the exception of compensations financed directly by government. Eurostat took note that this could explain the discrepancy between B.9 and B.9F for 2015 observed in the table.

The additional contributions collected in 2017 (1.5 billion EUR) were aimed at repaying the outstanding debt of the NRF towards three major banks. Eurostat thought that the additional contributions were levied to carry out fiscal operations on behalf of government and, therefore, had to be included in the revenue in Part 1 of the table. In addition, the loan of the NRF should be reclassified from Loans to Indirect liabilities in Part 3. By doing this, the discrepancy observed between B.9 and B.9f in the table for 2017 would be diminished. The Italian statistical authorities will also report under 'Indirect liabilities' the net effect of selected cash expenditure/revenue (interest paid, dividends earned, guarantee fees, etc.).

Eurostat agreed with ISTAT that the compilation rules regarding the reporting or non-reporting of deposit guarantee funds/national resolution funds revenue and expenditure in these tables needed to be reviewed and adapted.

Findings and conclusions

(38) The Italian statistical authorities, in consultation with Eurostat, will envisage the opportunity of including, in the Supplementary table for government interventions to support financial institutions, the revenues from extra contributions to the National Resolution Fund (NRF) while keeping the full amount of capital transfer expenditure of the NRF, in a manner to improve the consistency of the table. The Italian statistical authorities will reclassify the loan of the NRF from 'Loans' liabilities to 'Indirect liabilities', and more generally will report under 'Indirect liabilities' the net effect of selected cash expenditure/revenue (interest paid, dividends earned, guarantee fees, etc.), in a manner that the net lending/net borrowing (B.9) of part A of the table and the associated B.9f of Part C coincide, without discrepancy. The Italian statistical authorities will also reflect on the opportunity to report the significant guarantee fees collected from banks, not currently included in the table.

*Deadline: April 2019 EDP notification*³⁴

4.3.2 Guarantees

Introduction

Guarantees on borrowing are routinely provided by central and local governments mainly to public corporations, SMEs, exporters, international organizations, banks and local government units. Guarantees on assets are provided in relation to the export insurance and to

³⁴ The updated table was provided in the April 2019 EDP notification.

bank loans provided to local government units and by the EIB. Prior the visit, the Italian statistical authorities provided a table reporting stocks and flows of guarantees for the period 2014-2017.

Discussion and methodological analysis

Referring to the table provided before the visit, Eurostat enquired about the increase in the amount of guarantee provided to SACE in 2017 (13 137 million EUR) that almost doubled compared to the previous year. The Italian statistical authorities explained that it was related to the government guarantee that is provided according to art.32 of the Decree Law 91/2014, converted into law n.116/2014, including a flat guarantee of 10% ('*Garanzia Proporzionale in quota*'), and to the guarantee for the operations exceeding a certain threshold of credit risk ('*Garanzia Proporzionale in eccedente*'), already discussed above in the agenda item 4.1.2.4. The new guarantee scheme resulted from an Agreement signed between the MEF and SACE and it is applied on the entire SACE portfolio.

The Italian statistical authorities also confirmed that the newly issued guarantees on banks' bonds, reported in the table for an amount of 21.1 billion EUR in 2017, related to the precautionary recapitalisation of Banca Monte dei Paschi (11 billion EUR), and to two Venetian banks (Veneto Banca 4.9 billion EUR and Banca Popolare di Vicenza 5.2 billion EUR) that were subsequently subject to liquidation.

Eurostat observed an inconsistency in the reporting of guarantee calls between the table and the table 9.1 of the Questionnaire relating to the EDP tables for the whole reporting period. It was clarified that, in order to mitigate the effects of earthquakes, government provided loans to individuals, financed by borrowing from CDP, that were recorded in national accounts as capital transfers at inception. The annual payments on those 'loans' by government were therefore to be considered debt repayments rather than guarantee calls. The Italian statistical authorities will correct the reporting of those guaranteed loans in the EDP Questionnaire table 9.1 in April 2019.

The coverage of the table referred to central and local government. For the latter one, however, the Italian statistical authorities were not able to distinguish whether the beneficiary of the guarantee was a public or a private corporation. Eurostat also noticed that debt assumptions were reported zero in the table for the whole period. As explained, debt assumptions were mainly examined, on a case-by-case basis by addressing the entity that had reported cash call in public accounts. Eurostat took note that there was not a systematic collection of this information on debt assumption following repeated calls.

Findings and conclusions

(39) The Italian statistical authorities will correct the reporting of guarantee calls in the EDP Questionnaire table 9.1, removing the debt repayments by government of the loans provided by CDP. Those loans were provided to government to support individuals in specific situations (e.g. earthquakes) and recorded in national accounts as government transfers at inception, financed by borrowing from CDP, impacting negatively government deficit and debt. As a result, those operations should not be reported in the table 9.1.

*Deadline: April 2019 EDP notification*³⁵

- (40) Eurostat took note that there is no systematic collection of information about debt assumptions in central and local government and that potential cases would be detected following cash call reported in public accounts.

4.3.3 Debt assumptions, debt cancellations and debt write-offs, government claims

Introduction

Central government claims mainly concern loans provided to corporations (under a particular scheme), households, local government units and foreign countries (Paris Club as well as other claims to less developed countries).

In a note provided before the visit, the Italian statistical authorities indicated a possible reconstruction of time series of government claims, mainly due to stocks/flows consistency issue, that would result in a future revision of the stocks and flows of central government claims reported in the EDP Questionnaire table 8.

Discussion and methodological analysis

The Italian statistical authorities informed that works on building new stocks and flows of government claims was ongoing and that previous activities carried out in this respect confirmed the need for the change of data source and related revisions of stocks/transactions data already reported to Eurostat. A preliminary version of the revised Questionnaire table 8 incorporating the current results of the analysis was provided alongside the note.

In the case of foreign claims, the Italian statistical authorities presented revised stocks and flows on the basis of cash flow data reported in a dedicated treasury account, adding the data on debt cancellations, and thus replacing the previous data received from the MEF and from CDP. The examination of years before 2014 would continue in the future.

Concerning the claims against other government subsectors, cash data on repayments in the Questionnaire table 8 are not available. They were therefore derived from the cash transactions reported in Questionnaire table 2.1 (loans granted to other government subsectors) and from the net transaction in Loans (F.4) reported in the EDP table 3B. The stocks of claims were revised accordingly.

Over the years, the Italian statistical authorities reported a constant amount in the claims towards public corporations. Following a detailed analysis, it was concluded that the amount has not been correctly reported. An analysis was being carried out to reconstruct the stocks and flows of claims against public corporations on the basis of counterpart information. Until then, it was agreed that the Italian statistical authorities would report zero in the table.

As regards the category 'other claims', the Italian statistical authorities admitted that it was compiled as a residual to total stock of claims, without any specific details available on the type of the claim or on the beneficiary. To reconstruct the stocks and flows currently reported for this category of claims, ISTAT in cooperation with BoI back-casted the stocks of total

³⁵ The data were correctly reported in the EDP Questionnaire table 9.1 in the April 2019 EDP notification.

claims reported in EDP, based on flows, and, by reconciliation with financial accounts (compiled by BoI), arrived in the year 2005 when the resulting stock seemed to be consistent and coherent with financial accounts. As a result, ISTAT could explain that a part of the stock of 'other claims' might be related to loans granted from revolving funds. However, a significant amount of claims for an amount of 22 billion EUR still remained unexplained and needs further investigation.

Findings and conclusions

(41) The Italian statistical authorities provided a revised breakdown of the stock of government claims for 2014-2017 (reported in the EDP Questionnaire table 8), based on updated information from the MEF. Eurostat took note that the stock of government claims still remains overestimated, including the unexplained 'other' claims for an approximate amount of 22 billion EUR. The Italian statistical authorities will continue to investigate the data on the initial stocks of government claims in 2005 and reconstruct the stocks forwards to 2017 accordingly.

*Deadline for the progress report: April 2019 EDP notification*³⁶

4.3.4 Capital injections in public corporations

Introduction

According to the EDP Inventory, no capital injections are recorded in central government, other than those provided in the context of the financial crisis. As regards local government, several data sources are used to collect relevant information, in particular, the Structural Business Register covering public units, databases of enterprises' balance sheets, budgets of local government units and cash data from the SIOPE system.

Discussion and methodological analysis

Eurostat followed up on the recording of equity injections reported by social security funds for significant amounts in 2015, 2016 and 2017. The issue is under discussion since the 2017 EDP dialogue visit. However, the Italian statistical authorities were not able to obtain information that would sufficiently clarify the type of investment and beneficiaries.

In a presentation delivered in the meeting, the MEF representative explained that in 2013 there had been a change in the reporting by the so-called 'private social security funds', following a ministerial decree, which improved the availability of accrual and cash data, including details on financial transactions. The new data source disclosed an immediate increase in the item 'equity and investment funds' and an offsetting reduction in 'other financial assets', mainly for the period 2015 and 2016. A specific survey introduced by the MEF obtained more details on the structure of these transactions in equity. In both years, social security funds mostly invested in investment fund shares and, to a lesser extent, real estate funds. The MEF could not provide more details due to confidentiality issue on the corporations where the social security funds acquired shares, however, it confirmed that no capital had been provided to Atlante funds. This is due to the law that prevents social security funds to undertake any risky operations due to legal guarantees on future pension obligations.

³⁶ The progress report was provided to Eurostat on 19 April 2019.

Eurostat discussed the change in data reporting by social security funds in 2013 and pointed that the stock of equity (AF.5) was stable around 2 billion EUR in 2000-2013 with an provisional increase to significant amounts in the period after 2014, following the change in data reporting. At the same time, the stock of other accounts receivable (AF.8) almost doubled in the same period (from 22.0 billion in 2000 to 41.4 billion EUR in 2014). Eurostat wondered whether the AF.8 might be overestimated due to equity transactions incorrectly classified in F.8, since it was not properly identified before 2013. The Italian statistical authorities thought that the increase in the stock of receivables was in principle related to tax evasion in past, i.e. before the adoption of the 'time-adjusted cash' method to estimate the accrual social contributions. Eurostat requested the Italian statistical authorities to investigate the nature of AF.8 reported for social security funds. In case it includes equity transactions, it was suggested to reconstruct the AF.8 backwards on the basis of the stock observed after 2013 and the flows of fiscal claims reported in the table 5 of the Questionnaire related to the EDP tables.

Findings and conclusions

(42) Eurostat welcomed the new information presented in the meeting regarding the significant equity transactions carried out by 'private' social security funds in 2015-2017 and understood that similar flows before 2014/2013 were not identified in their own financial statements and therefore reported as other financial assets, which by construction were classified under other accounts receivable (F.8) in ESA. Eurostat noted a significant amount of receivables accumulated since 2000 that are not related to time adjustment, by comparing the GFS data with the EDP Questionnaire table 5. Eurostat invited the Italian statistical authorities to analyse the stocks of other accounts receivable (AF.8) reported by social security funds and, in particular, to investigate the nature of those not related to social contributions accruals. To this effect, the Italian statistical authorities could envisage collecting data on the stock of equity existing at the end of 2017 and (possibly by retropolation) correcting the stocks (and associated flows) of AF.89 in GFS tables that currently seem to erroneously include also the impact of the unidentified flows of equity prior 2014/2013 in addition to those related to social contribution accruals (or other legitimate other receivables).

Deadline: end of June 2019

4.3.5 Dividends, super dividends

Introduction

The main data sources for dividends are the State Budget reporting and budgets of other central and local government units. In the October 2018 EDP notification, at the Eurostat's request, the Italian statistical authorities provided the super dividend test for Poste for 2017, including detailed items of income and cost that were considered in the test.

Discussion and methodological analysis

Eurostat reviewed the super dividend test for Poste provided by the Italian statistical authorities and pointed to the items B6.1 'Net provisions and losses on doubtful debts' and

B6.3 *'Net provisions for risks and charges made/released from non-recurring charges'* that were included in total costs. Both items are recorded on a net basis, thus increasing the total cost when the provision is created and reducing the cost when reversed. Eurostat enquired about the recording in the situation when losses do not materialise or the provision is reversed. According to the rules, such revenue (or decrease of costs) related to the reversal of provisions should not be considered for the super dividend test. The costs included under the item B6.4 *'Losses'* seemed to be excluded from the calculation of the super dividend. The Italian statistical authorities committed to investigate the recording of all discussed items in the public accounts and to inform Eurostat about the results.

Eurostat further enquired about the recording of holding gains/losses. The Italian statistical authorities thought that they might be included in the sub-item *'of which non-recurring income'* under the A.2 *'Other income from financial activities'* and in the item A3.6 *'Gains on disposals'*. Holding gains/losses should not be reported as part of the operating profit considered in the super dividend test. The Italian statistical authorities will clarify the issue.

The following discussion focused on issues raised by the Italian statistical authorities. First, in the past, they experienced cases of dividends paid from profits that mainly originated from dividends of subsidiaries. Eurostat recalled that the super dividend test should in principle be done first at the level of each subsidiary to prevent the recording of super dividends in the income of the parent. Until systematic data collection is established, Eurostat suggested performing the super dividend test at the level of subsidiaries at least for the biggest corporations. In this context, Eurostat proposed a simplified approach of using consolidated financial statements.

Second, the concept of operating income before or after tax was discussed. Eurostat referred to ESA provisions that promote the distributable profit as a basis for the super dividend test (ESA 2010 4.55). It means that taxes should be deducted from the operating profit before the test is performed.

Findings and conclusions

(43) In relation to the super dividend test, the Italian statistical authorities will clarify the recording of gains/losses, in business accounts, related to provisioning and reversals, notably the links between items of the financial statement B6.1, B6.3 and B6.4 (e.g. when there are provisions and losses materialize). The Italian statistical authorities will also examine the disclosing of holding gains and losses in financial statements (items A3.6 etc.) and report on the content of non-recurring income (item A2p).

Deadline: October 2019 EDP notification

(44) The Italian statistical authorities will review the cases of large companies receiving significant dividends from a cascade of subsidiaries, so to perform the super dividend test already at the level of a subsidiary. A simple approach consists in doing the test using consolidated financial statements.

Deadline: October 2019 EDP notification

4.3.6 Financial derivatives

Introduction

Financial derivatives are used by central and local governments, in particular: options (swaptions), cross currency swaps and interest rate swaps. As regards the recording in EDP table 2, cash amount related to swaps are reported in the working balance and excluded in the 'Other financial transactions, of which: net settlements under swap contracts'. In the EDP table 3, transactions in derivatives (F.71) mainly include the net streams of cash outflows on swaps, the impact of the so-called swaps restructuring and the activation of swaptions. In ESA table 27, the stocks of financial derivatives (AF.71) are recorded on a net basis.

Discussion and methodological analysis

Eurostat noted that the net settlements under swap contracts included in the working balance in the EDP table 2A increased from 3.3 billion EUR in 2014 to 5.4 billion EUR in 2017 while the stock of financial derivatives decreased by 16.7 billion EUR. The Italian statistical authorities confirmed that there were no new swap contracts concluded. As explained in the 2017 EDP dialogue visit, these large cash outflows are mainly caused by a hedging strategy put in place long time ago by the Italian Treasury, paying a fixed rate that was significantly higher (4.3%-4.4%) than the floating rate received, based on EURIBOR that later on became for a certain time even negative. To justify this significant increase in outflows from 2014 to 2017, it was argued that the floating rate had been decreasing between 2014 and 2017.

Eurostat followed up on the recording of off-market swaps. The Italian statistical authorities clarified that the amortisation of swaps is included in the working balance and offset in net settlements under swap contracts. In the EDP table 3, they are treated as debt repayment. The Maastricht debt related to off-market swaps amounted to 9 billion EUR at the end of 2017. In 2017, the exercise of swaptions generating off-market swaps increased debt by 0.5 billion EUR. The flow related to the exercise of swaptions is recorded in *Net incurrence of liabilities in financial derivatives*.

The Italian statistical authorities informed about swap restructuring that started in 2016 as a result of a swaption exercise which implied a debt for an amount of 1.2 billion EUR. The restructuring in 2017 reduced the debt by 1.0 billion EUR. The overall impact on Maastricht debt was thus negligible.

Eurostat had introduced a template used to collect detailed data on financial derivatives and asked the Italian statistical authorities to complete the table and also to provide feedback on the draft template.

Findings and conclusions

(45) The Italian statistical authorities will provide data on financial derivatives by way of filling the one-off table proposed by Eurostat to be sent after the visit. This will help clarify the pronounced movements in the stocks of net derivative positions reported in ESA table 27. The Italian statistical authorities are also invited to provide comments this (draft) template in order to improve this one-off table.

*Deadline: end of February 2019*³⁷

³⁷ The table was sent on 11 March 2019.

(46) The Italian statistical authorities will report to Eurostat a split of the derivative positions reported in EDP table 2 as well as EDP Table 3 (assets), so to identify, for the years 2014-2017, the following: (a) the streams of interest payments on swaps included in the working balances (and other flows that may also be included), (b) the reimbursement of the loan component on off-market swaps, (c) the interest (D.41) imputed on those off market swaps, (d) the impact of swap restructuring. The Italian statistical authorities will similarly split, if necessary, the derivative positions reported in EDP Table 3 (liabilities) for swaptions operations.

*Deadline: end of February 2019*³⁸

4.3.7 PPPs, concessions and energy performance contracts (EPC)

Introduction

The Italian statistical authorities currently report 40 PPP contracts, mainly in the healthcare sector. The ten biggest PPPs are reported in the Questionnaire table 11 for a total value of 7.62 billion EUR, all recorded on balance sheet of government. The total value of the remaining 30 PPPs is 2.37 billion EUR. Out of those contracts, 22 are recorded on balance sheet of government (total value of 1.46 billion EUR) and eight contracts are recorded off-balance sheet (total value of 0.45 billion EUR).

Concerning data sources, relevant information is provided to ISTAT mainly by the Inter-ministerial Department for Economic Programming (DIPE), the MEF, the Ministry of Health (MoH) or collected from other sources (regions, research projects, etc.).

Discussion and methodological analysis

Concerning the **PPP projects**, the discussion mostly focused on the availability of data, as a follow up of the previous EDP dialogue visit when the Italian statistical authorities admitted that available information sources might not have necessarily detected all existing PPP contracts. In this meeting, the Italian statistical authorities informed Eurostat about some initiatives undertaken in the meantime that led to improvement in the availability of information, such as a new cooperation with the MoH, research projects, questionnaires launched at local government level, etc. At the initiative of the MEF, a standard contract model of PPP contract for design, construction and management of public works was introduced in order to promote PPP projects in general and to provide a generally accepted model contract.

In general, the Italian statistical authorities receive a PPP contract, when requested, or a letter with relevant information on the project instead. The latter happened in five cases. Eurostat stressed that, in order to classify the PPP as off-balance sheet, the contract has to be analysed and has to comply with ESA rules. A problem is mainly with small municipalities. Units have a general obligation to report on PPP projects to the administration (DIPE), however, if they do not, no penalties are applied.

³⁸ The note was sent on 1 March 2019.

Following the Eurostat's request, the Italian statistical authorities will provide a list of all 40 PPP contracts indicating a capital value, date of signature and its recording in national accounts. Eurostat enquired about contracts signed after the publication of the PPP Guide³⁹ in September 2016. It was clarified that two contracts were signed in 2018 and seven in 2017.

In relation to **EPC projects**, the Italian statistical authorities informed Eurostat about the list of 33 interventions approved in 2017 by the Ministerial Decree, though those might not necessarily be implemented via EPC. The total amount considered is 39 million EUR. In the note sent to Eurostat, a list of potential EPCs under monitoring by ISTAT was also provided.

Eurostat recalled the EPC Guide⁴⁰ published on the Eurostat's website and rules applicable to EPC recording. In particular, the most important features are the duration of the contract (at least 8 years) and a possibility of future factoring operations on the contract that might immediately decide on the classification of the EPC. The Italian statistical authorities admitted that they might face some problems with availability of data.

Similarly to PPPs, the MEF introduced two or three model contracts to be applied by government units. Eurostat took note that, currently, the amounts in question were low. However, the volume might increase after the model contract is fully applicable and utilised in government sector. In their note, the Italian statistical authorities provided detailed information on the EPC project that was currently under investigation.

Findings and conclusions

(47) Eurostat took note that there are currently 40 PPP (public-private partnership) contracts being monitored and analysed by the Italian statistical authorities. Following Eurostat's request, the Italian statistical authorities will provide the list of all existing PPPs, indicating the contractual capital value, date of contract signature and the recording in national accounts.

Deadline: end of February 2019⁴¹

(48) The Italian statistical authorities will provide to Eurostat contracts of all PPPs that are currently classified off balance sheet of government.

Deadline: end of February 2019⁴²

(49) The Italian statistical authorities will provide to Eurostat a note with an update of the information provided in the previous EDP dialogue visit in 2017 concerning concessions, including the list of currently existing concession projects.

Deadline: April 2019 EDP notification⁴³

4.3.8 Emission trading permits

³⁹ <https://ec.europa.eu/eurostat/documents/1015035/7204121/epec-eurostat-statistical-guide-en.pdf>

⁴⁰ https://ec.europa.eu/eurostat/documents/1015035/8885635/guide_to_statistical_treatment_of_epcs_en.pdf/f74b474b-8778-41a9-9978-8f4fe8548ab1

⁴¹ The note was sent on 1 March 2019.

⁴² One PPP contract was provided on 1 March 2019.

⁴³ The updated note on concessions was delivered on 17 April 2019.

Introduction

The emission permits are recorded in Italian national accounts according to the so-called FIFO method that implies that surrendered permits are deemed first to be those which are sold. Revenues from auctions of permits are collected by the *Gestore dei Servizi Energetici S.p.A.* (GSE, classified in S.13) on behalf of the State and transferred to the State with a one year time lag.

Discussion and methodological analysis

Prior to the visit, the Italian statistical authorities provided an updated table on emission permits. Eurostat noted that tax revenue (D.29) is identical to cash received from sales of permits, except for the years 2012-2014. The Italian statistical authorities explained that the difference was due to an early auction of permits by GSE received in cash but allocated to following years on an accrual basis. Furthermore, revenues are transferred to State with a one year time lag and, in this respect, an adjustment line '*Revenues from sales of emission permits*' is included in the EDP table 2A.

In their note, the Italian statistical authorities pointed to some inconsistency on the volumes of permits sold, as reported in the European Union Transaction Log (EUTL) database and in data coming from GSE. First, a difference might arise from different reporting of surrendered permits. In the EUTL, permits surrendered in 2018, relating to the pollution of the previous year, are reported in the year of pollution, i. e. in 2017, while in the national database (GSE), it is the year of surrendering, i.e. in 2018. Second, the EUTL shows all surrendered permits, while the national database reports only the permits applicable for the year in question, i.e. so-called verified emission permits. The Italian statistical authorities thought that the concept of verified emission permits better complies with the accrual principle of tax recording.

The Italian statistical authorities informed Eurostat that the data reported in the EUTL database were confronted with another information source – ISPRA. In this case, the EUTL turned to be incomplete for information on a single installation/aircraft, normally available in ISPRA database.

Eurostat thanked the Italian statistical authorities for the performed analysis, bringing together several data sources, and committed to reflect on various points or considerations raised during the discussion.

Findings and conclusions

(50) Eurostat took note of the recording of emission permits (ETS) in the Italian national accounts, which is on a cash basis (corrected for cases of permits sold in the year T but that can be surrendered only the year after), in application of the authorised alternative method (so called 'FIFO') foreseen by the MGDD 2016. Eurostat will reflect on the information provided by the Italian statistical authorities about different concepts used/recordings applied in the European databases regarding permits transactions (EUTL) and national databases (GSE and ISPRA in the Italian case).

4.3.9 Others: privatization, sale and leaseback operations, UMTS, securitisation

Introduction

Prior to the visit, the Italian statistical authorities sent a note on the current and planned operations related to privatisation, sale and leaseback, UMTS and securitisation.

Discussion and methodological analysis

The Italian statistical authorities informed about the auction of **licences for frequency bands** in September 2018 for a total amount of 6.5 billion EUR. A part of the proceeds was received cash in 2018 and the remaining amount will be received in instalments until 2022 when the biggest cash inflow of 4.8 billion EUR is expected. In national accounts, total proceeds would be spread over the period of availability of the licence 2019-2037 and recorded as Rent (D.45). During the discussion, Eurostat proposed to record in 2018 other accounts receivable (F.8) for the whole amount of cash proceeds (6.5 billion EUR) less the repayment already made in 2018 (1.25 billion EUR), and the other accounts payable for the whole amount of 6.5 billion EUR. Both the receivables and payables would be diminishing over the duration of the licence until 2037 by the way of recording D.45 and cash repayments (F.2).

Eurostat asked about the list of **privatisations** provided in the table before the visit, notably the privatisation of Poste in 2015 and of sale of CDP shares in the period 2014-2017. In the latter case, MEF was selling a small number of CDP shares to banking foundations.

As concerns the **sale and leaseback operations**, the Italian statistical authorities indicated prior to the visit that they were not aware of any operations. To detect such operations, information from the Italian leasing association *Assilea* is collected on a regular basis. Some information is also collected by the questionnaire circulated by the Court of Auditors to local government units. Based on 2016 results, no data were reported. It was not clear whether the questionnaire collects stock or flow data.

Eurostat took note that, in the past, some operations occurred, as reported in the EDP Inventory, and wondered therefore whether some follow up transactions should not necessarily be reported. Those sale and leaseback operations are often of a long term character. In this respect, the Italian statistical authorities were requested to investigate the contracts, the assets in question and the existence of any repurchase options held by government. In case the latter is applicable, an option to repurchase the assets back at a fixed price would indicate that no sale occurred and government borrowing is to be recorded.

Following the Eurostat's request, the Italian statistical authorities provided a list of **securitisations** for the period 2014-2017. Out of 32 operations, four did not impact the government debt. It was explained that in these four cases government did not recognise the debt and there was an ongoing litigation between government and supplier. Those specific cases are detected in an offering prospectus where the litigation is indicated as a reason for not issuing the securitisation bonds.

The Italian statistical authorities further explained that, in factoring via securitisation, the bank creates a special purpose vehicle that issues securities (bonds) and repays the supplier. The securities might be purchased by banks (BoI, ECB, etc.), depending on the rating. In theory, the securities might be eligible to obtain an investment grade. In factoring via securitisation, the debtor is a local government unit.

Findings and conclusions

(51) Eurostat took note of the sale of frequency bands in 2018 that are to be available in the period 2019-2037. The Italian statistical authorities will reflect on the opportunity to record in 2018 the total amount of proceeds to be collected on these sales (some in delay) in other accounts payable and, in other accounts receivable, the amounts not yet collected, without impact on B.9. In the nonfinancial accounts, the proceeds will be recorded as rent (D.45) and spread through the duration of the contract in the period 2019-2037 (for the years when the permits are useable).

Deadline: April 2019 EDP notification⁴⁴

(52) The Italian statistical authorities will investigate on the current situation regarding the sale and lease back contracts concluded until now and will inform Eurostat about the (a) number of contracts, (b) stock of assets, (c) existence of the repurchase option for government and, if relevant, (d) the valuation modality of such repurchase option (fixed price, market value, etc.).

Deadline: end of June 2019

5. Any other business

No issues

⁴⁴ The note was delivered to Eurostat on 29 March 2019. The potential change in the treatment of the sale of frequency bands will be further discussed with Eurostat.

EDP dialogue visit to Italy
20-21 November 2018 (Part I), 28 November 2018 (Part II)

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, EDP inventory

1.2.1. Availability and use of data sources, revision policy

1.2.1.1. Progress on the data collection system (BDAP)

1.2.2. Compliance with Council Directive 2011/85

1.2.3. EDP Inventory

2. Follow-up of the previous EDP dialogue visit of 7-8 February 2017

3. Analysis of EDP tables – follow up of the October 2018 EDP notification

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government sector, application of 50% rule in national accounts

4.1.1. Application of the market/non-market test

4.1.2. Classification and rerouting of operations of public financial entities

4.1.2.1. National development institutions and sovereign funds

4.1.2.2. Cassa Depositi e Prestiti

4.1.2.3. National protection funds

4.1.2.4. Export credit insurance - SACE

4.1.3. Classification of public railway operators

4.1.4. Government controlled entities classified outside general government (public corporations)

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions

4.2.2. Interest and consolidated interest

4.2.3. EU flows

4.2.4. Military expenditure

4.2.5. Gross Fixed Capital Formation

4.3. Recording of specific government transactions

4.3.1. Government transactions in the context of the financial crisis

- 4.3.1.1. Recording of the winding down of Banca Popolare di Vicenza and Veneto Banca and of the precautionary recapitalisation of Monte dei Paschi – follow up
- 4.3.2. Guarantees
- 4.3.3. Debt assumptions, debt cancellations and debt write-offs, government claims
- 4.3.4. Capital injections in public corporations
- 4.3.5. Dividends, super dividends
- 4.3.6. Financial derivatives
- 4.3.7. PPPs, concessions and energy performance contracts (EPC)
- 4.3.8. Emission trading permits
- 4.3.9. Others: privatization, sale and leaseback operations, UMTS, securitisation

5. Any other business

EDP dialogue visit to Italy
20-21 November 2018 (Part I), 28 November 2018 (Part II)

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