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FINAL FINDINGS

EDP dialogue visit to FRANCE

11-12 June 2019 & 1-3 July 2019

EXECUTIVE SUMMARY

Eurostat undertook an EDP dialogue visit to France on 11-12 June 2019 and 1-3 July 2019 as part of its regular visits to Member States. Some issues that were not covered in the EDP dialogue visit were followed-up by Eurostat and INSEE via videoconference on 25 September 2019.

The main aim of this dialogue visit was to discuss methodological issues and specific government transactions in the light of the implementation of the ESA2010 methodology and of the provisions of the Manual on Government Deficit and Debt. In addition, data sources used for the EDP data compilation were reviewed and some issues raised in the context of the April 2019 EDP Notification were further clarified. In particular, Eurostat examined the recording of Military Expenditure, the (potential) use of *Comptabilité Générale de L'État* (CGE) in the compilation procedures, projects for future recapitalisation of AFD and selected CDC operations, notably concerning social housing. The meeting was also an occasion to discuss revision policy and the consistency of GFS and EDP, as well as the recording of taxes and toxic debt, among other issues.

It was observed that no major change had taken place since the previous dialogue visit regarding institutional responsibilities in the framework of the reporting of data under the Excessive Deficit Procedure (EDP). The quality management system and information related to audit activities were also discussed.

The availability and use of data sources were discussed in detail. In this context, it was agreed that it is imperative that the French statistical authorities explore the CGE in detail, as it may contain significantly relevant information as regards the accrual of expenditure, tax credits, fiscal claims (useful for the national account treatment of taxes), as well as other specific treatments (e.g. PPP, EPC). This topic was already on the NSI's agenda, which works with the DGFIP on the issue.

In particular, an in-depth discussion on provisions, and notably the distinction between '*provisions pour risques*' and '*provisions pour charges*', was undertaken, both in the generality and relating to specific cases (e.g. 3% additional tax on dividends, supplementary hours). Eurostat and the French statistical authorities agreed that the bridge between some concepts of provisions and the national accounts needed thorough analysis, which would also benefit from a discussions at the level of the EDPS Working Group.

Revision policy was discussed in detail, notably emphasizing the legal requirement of keeping all the four years of the EDP notifications open for revision, which is currently not the case in France. Eurostat welcomed INSEE for further reflecting on the broader issue of articulating a revision policy that satisfies EDP and GFS needs while taking into account the slower implementation of the full National accounts. As in the past, Eurostat suggested the French Statistical Authorities (FSA) to report to Directorate D advanced GFS aligned with best practice, though temporarily deviating from other ESA Tables Nationally published (with potentially a bridge table making the link between the same concepts reported in the two sets of tables).

Progress achieved by the French statistical authorities on open action points from the previous EDP dialogue visit and from the ad-hoc visit that took place in May 2017 and January 2018 respectively was discussed. Outstanding issues stemming from the April 2019 EDP notification were analysed in detail.

Concerning delimitation of general government, a discussion about the application of the market/non-market test took place. Eurostat reviewed the list of government controlled entities

classified outside general government and was concerned that a great number of entities that fail to meet the market test threshold are nonetheless kept outside the general government for practical reasons, i.e. because their individual debt or potential B.9 impact are ‘negligible’. Eurostat recalled that such approach was not aligned with currently agreed practices and affirmed that a cumulated 1.5 billion euro of Maastricht Debt, even if spread over 1196 units, was not a negligible sum. No material deficit impact is involved here.

Eurostat and the French statistical authorities also discussed the application of sector classification criteria, with Eurostat encouraging the French statistical authorities to further develop the application of the qualitative criteria, to more attentively conduct the 50% market test, notably concerning a correct definition of sales, and to ensure an annual implementation of this procedure. This issue concerns in practice small entities with non-significant impact on B.9, since material entities are correctly reviewed by INSEE on a regular basis.

The classification of specific financial entities and or their operations was also discussed in detail: *Agence française de développement (AFD)*, *BPI-France*, *Caisse des dépôts et consignations (CDC)*, *Société de financement local (SFIL)*, *Agence France Locale (AFL)*, *Dexia Crédit Local* and *Crédit Immobilier de France (CIF)*. Regarding AFD, Eurostat enquired on the specific regular flows between the State and AFD. Furthermore, INSEE will report in questionnaire table 9 all the guarantees provided to these entities, which is not currently always the case.

As concerns the implementation of the accrual principle, aside from the issues already tackled in the discussion on the CGE, the recording of military expenditure, taxes and social contributions and EU flows was discussed in detail.

Regarding military expenditure, Eurostat welcomed the availability and openness of the French Ministry of Defense to participate in the visit. As regards the ‘specific programmes’, the French authorities agreed to provide detailed information on the military material paid for and delivered in years 2005 to 2018, without applying the old derogation that is not applicable anymore under ESA 2010. As concerns the Rafale, Eurostat agreed that the Rafale programme had some features that made it in some way a borderline case, such that the recording of INSEE so far could perhaps be considered a plausible reading of the MGDD. However, Eurostat thought that the economic substance was to treat R&D in the Rafale following the general rules, because government cannot be considered the owner of the R&D (and merely a kind of co-owner), for consistency reasons with the Eurofighter, and for consistency reasons with the forthcoming New Generation Fighter. INSEE does not agree with the fact that Rafale and Eurofighter should be treated in the same way for the sake of consistency, since the two programs show very different features, in particular regarding the partnership with the constructor. In addition, Eurostat stressed that, for R&D to be recorded as a government acquisition, it would have to be appropriately split from production payments, and the latter would nonetheless have to be recorded on an accrual basis. Indeed, accrual recording should be enforced for the non-R&D production costs, even if R&D were to be recorded separately (possibly on a cash basis).

Regarding taxes, Eurostat and the French statistical authorities discussed in detail the new *Prélevement à la source*, and a possible abandonment of the D.995 in this regard, as well as the recording of social contributions in the absence of any cash information.

The discussion continued on the treatment of *Crédit d'impôt pour la compétitivité et l'emploi (CICE)*, with a careful analysis of the conditions for factoring claims and of events posterior to the factoring and their consequences on each of the actors. The discussions also concerned a correct interpretation of ESA 20.168, the possible need to recognize a debt at time of postponement of CICE refund, and the relevance of CICE declarations to the ACOSS (namely the adjustments made by ACOSS if any, and the reasons for the gap with the DGFIP database).

Finally, Eurostat again invited INSEE to reflect on revising the 2013-2018 data. In Eurostat view, the discussions concerned a number of questions that had not been discussed in 2013. In INSEE view, conversely, all existing information was shared (formally or informally) at that time and the scheme presented was basically what was enforced afterwards.

Regarding EU flows, Eurostat expressed the point of view that, in order to assess the correctness of the recording (namely the correct time of reporting of contributions to the EU and the neutralization of B.9 regarding grants from the EU), a thorough filling of EDP questionnaire table 6 was required. In this context, Eurostat also encouraged INSEE to explore further the CGE.

The recording of the court decision on the 3% additional tax on dividends was again tackled. A posteriori, Eurostat considers that the rejection ratio – a condition set in the letter sent on March 2018 – eventually turned out to be rather low. In addition to that, Eurostat wondered whether the observed change from ‘*provisions pour risques*’ to ‘*provisions pour charges*’ in CGE would not be indicative that the amounts likely to be rejected would tend to be small. Finally, Eurostat noted that the tax administration can accelerate the process applicable to each individual taxpayers by treating claims not yet submitted, in order to avoid taxpayers’ incentive to postpone claims (and thus avoid having to pay related interest).

The recording of settlement costs related to the restructuring of complex debt instruments (so called ‘toxic debts’) undertaken by local government was discussed in detail, starting from a detailed explanation of the way these structured finance products were developed in the 2000s. Eurostat agreed that the margin made by the bank (e.g. Dexia) was probably reasonable, but this did not preclude that the toxic debt contracts could have been overpriced, as the wide risk exposure was routinely hedged by a unique hedging swap. To verify this, Eurostat considered that an exercise had to be carried out to verify that the compiled IRR was reflecting a true market valuation, by way of calculating the market value of the options sold. Contrary to Eurostat’s view, INSEE believes that the EDPS WG thought this verification unnecessary and that it implemented a solution accepted by the EDPS WG Eurostat did not agree with the argument that very long-term options could not be reliably calculable, given that the typical indicators concerned in the toxic debt contracts (e.g. Swiss Francs versus Euro exchange rate) are very liquid. Eurostat argued that if the volatility was not safely measurable for these 20 or 30 years contracts, then Eurostat would consider that the presumed derivative would likely not meet the ESA 2010 derivative definition. Eurostat thought that the banker lending to local government had to ensure that the total cost for the debtor would not be out of proportion of market rates.

Other relevant issues discussed include the recording of interest expenditure, the recording of decommissioning costs, PPPs and concessions as well as superdividend and capital injection tests.

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

INTRODUCTION

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to France on 11-12 June and 1-3 July 2019. Some issues not covered in the EDP dialogue visit were followed-up by Eurostat and INSEE via videoconference on 25 September 2019. The conclusions from the videoconference are included in these findings.

The delegation of Eurostat was headed by Mr Luca Ascoli, Director of Directorate D: Government finance statistics. Eurostat was also represented by Mr Philippe de Rougemont, Ms Laura Wahrig, Ms Daniela Comini and Mr Martim Assunção. A representative of the European Central Bank (ECB) also participated in the meeting as observer.

The French authorities were represented by the National Statistical Office (INSEE), the Ministry of Finance (General Directorate for Public Finances – *Direction Générale des Finances Publiques*, DGFIP), and the Central Bank of France (*Banque de France*, BdF). In addition, representatives from the French Treasury (*Direction générale du Trésor*, DGT) and the Ministry of Defence (MoD) participated for some points of the agenda.

The previous Eurostat EDP dialogue visit to France took place on May 2017. In the meanwhile, Eurostat also conducted an Ad-hoc visit in January 2018 (whose findings were published together with the May 2017 Standard Dialogue Visit (SDV) findings). Eurostat also conducted a Technical GFS Visit in January 2019.

Eurostat carried out this EDP dialogue visit in order to review the data sources for the EDP compilation, to review the implementation of the ESA2010 methodology and the provisions of the Manual on Government Deficit and Debt (MGDD), as well as to discuss some specific government transactions and sectorisation issues.

With regard to procedural arrangements, the *Main conclusions and action points* was sent to the French statistical authorities on 1 August 2019 for review, for comments by 10 September 2019. A consolidated version, after the video-conference, was sent on 9 October 2019 for comments. Then, the *Provisional findings* were sent to the French statistical authorities on 16 June 2021 for review. After this, the *Final Findings* will be sent to the French statistical authorities and the Economic and Financial Committee (EFC) as well as published on the website of Eurostat.

Eurostat appreciated the information provided by the French statistical authorities prior to and during the EDP dialogue visit. Eurostat also thanked the French statistical authorities for the co-operation for the constructive discussions during the EDP visit. ¹

¹ Eurostat takes note that, due to the pandemic situation, and the accompanying increase in the number of new issues to be tackled, the ability of the French Statistical authorities to deal with the Action Points of this mission has been de facto reduced, which explains some of the delays noted throughout these findings.

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1. STATISTICAL CAPACITY ISSUES

1.1. Institutional responsibilities in the framework of the compilation and reporting of EDP and government finance statistics

1.1.1. Institutional cooperation

Introduction

In France, the institutions involved in the compilation of EDP/GFS tables are:

i. The National Institute of Statistics and Economic Studies - *Institut national de la statistique et des études économiques* (**INSEE**).

INSEE is responsible for the methodology and for validating and monitoring the processes used to produce the financial and non-financial accounts of general government.

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

ii. The Ministry of Economy and Finance - *Ministère de l'Économie et des Finances* (MoF).

The MoF is responsible for the compilation of non-financial and financial accounts (the latter shared with Banque de France), the Maastricht debt and the EDP tables (planned data), with its subordinated units:

- **DGFIP**, responsible for monitoring public accounting standards, collecting accounting information and transposing individual data into the national accounts (using the method approved by INSEE), and transmitting the data to INSEE
- **DGTrésor**, contributing to the preparation of the April notification, especially in relation to forecasts

iii. The Central Bank - *Banque de France*

Banque de France (BdF) is responsible for compiling the financial accounts of general government (together with DGFIP) and is involved in preparing some data relevant for annual and quarterly debt.

Discussion and methodological analysis

During the visit, the French statistical authorities confirmed that there were no specific change in the institutional arrangements since the last EDP dialogue visit in May 2017.

Following up on information provided by the French statistical authorities prior to the mission, Eurostat enquired on the ET1 adjustment – ‘*compléments de population*’ – indicated to be made by DGFIP, in the compilation procedure from public accounts to national accounts. DGFIP clarified that, contrary to the understanding of Eurostat, this treatment did not imply a statistical

estimation, with a consequent imputed estimated B.9 impact, for entities that had not reported their accounts in CHORUS. Rather, it concerned directly obtaining the individual accounts of such missing units in CHORUS and a subsequent manual introduction of those accounts in CHORUS.

Main findings and conclusions

Eurostat noted the explanations of DGFIP regarding the compilation procedure from public accounts to national accounts, notably distinguishing two steps and related sub-steps: 1) individual adjustments to correct data notably for a) fusions and mergers, b) transfers and c) extraordinary items (so-called ‘ET2’), and 2) macro-adjustments, a) national accounts adjustments (‘ET3’) and b) intra-government consistency reconciliation (‘ET4’) (consolidation). While ET2 may change the “spontaneous” B.9, ET4 generally does not.

1.1.2. Quality management framework

Introduction

The Quality Management System implemented in INSEE is based on the European Statistical System Code of Practice.

According to the May 2017 SDV, there were still EDP procedures and/or steps not yet fully documented, and additional efforts were needed to implement a quality management framework for EDP purposes.

Discussion and methodological analysis

During the 2019 Technical Visit, INSEE shared with Eurostat some documents – ‘Documentation Permanent APU’ – which documented a number of specific treatments and adjustments undertaken in the context of the EDP procedure.

During the 2019 SDV mission, Eurostat welcomed the usefulness of those documents and enquired on whether all EDP procedures and/or steps are fully documented as in the mentioned examples.

The French statistical authorities clarified that whereas all EDP procedures are individually documented, there is still no compiled summary of all the procedures for all the tables.

Main findings and conclusions

Eurostat and the French statistical authorities (FSA) agreed that centralizing the description of all processes undertaken in the context of the EDP procedure would be a great progress. In this context, the French statistical authorities committed to continue developing the work already accomplished, with a view to produce such a document in the medium-term.

1.1.3. Audit and internal control arrangements

Introduction

The accounts of the State, as well as those of the general scheme of social security funds, are audited and certified by the Court of Audit since the financial year 2006 (according to Article

58-5 of the Organic Law on Finance Laws - *Loi organique relative aux lois de finances LOLF*). Once the Court of Audit has produced its certification report, its potential impact on the accounts is incorporated as soon as possible. Certification of accounts with data referring to year (T-1) is carried out by the Court of Audit at the latest by 30 June of year (T).

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

INSEE has an active and positive relationship with the Court of Audit. A regular meeting takes place between each notification discussing new measures or events. INSEE is also informed of the Court of Audit questions when relevant.

Discussion and methodological analysis

The French Statistical Authorities (FSA) indicated that, while the profit and loss, balance sheet and general ledger (CGE - *Comptabilité Générale de L'État*) is audited and certified by the Court of Auditors (CoA) since 2006, the *Budget de l'État* is on the contrary merely subject to a 'declaration of conformity'. Local governments are not subject to specific certifying requirements.

Eurostat took note of the good cooperative environment between INSEE and the Court of Auditors, including a routine meeting after the April EDP notifications and the practice whereby INSEE is informed in advance of the CoA remarks (in February/March T+1, before publication in June of the CoA report).

Referring to potential advantages of the French Court of Auditors to participate in future SDV meetings (for example the possibility by the Court of Auditors to provide its assessment on specific entries in CGE), Eurostat enquired whether, in the context of those good relations, the French Court of Auditors would be interested to do so.

Main findings and conclusions

Action Point 1: INSEE will enquire with the Court of Auditors whether they would have an interest in participating in future EDP dialogue visits, as is sometimes done in other Member States. This would in particular help on the discussion on the budgetary or accounting rules (e.g. *Comptabilité Générale de L'État*).

Deadline: in time for the next SDV.²

² INSEE agreed to consider such a participation as well as that of some other experts, notably the CNOCP and DGFIP staff involved in CGE compilation.

1.2. Data sources and revision policy

1.2.1. Availability and uses of data sources and related EDP/GFS consistency

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

The main source data for the State's **non-financial accounts** is the *Budget de l'État*. The CGE is also used to bridge cash-to-accrual data (although to an extent to be more precisely determined).

For the **annexed budgets and the public authorities**, the CE1A ("Production and Validation of Accounts") Department of the DGFIP incorporates a general ledger per entity in the CHORUS database at the beginning of the following financial year. These balances are used to code the operations on goods and services and to calculate the B.9.

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

As concerns **ODAC** (other central government bodies), most of these public institutions produce accounts according to the accounting framework and to standards of the instruction known as M9 or according to secondary standards, which then results in applying the rules of the general chart of accounts (*Plan Comptable Général*). However, some entities classified as ODACs follow specific charts of accounts or the general chart of accounts itself (applied by private companies). In any of the cases, these are accrual-based accounting systems.

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

The **social security funds** account is produced from centralised computerised data for the accounts of eleven funds, including the general scheme and the Agricultural Social Mutual Fund - *Mutualité Sociale Agricole* (MSA). For 6 units inside the Social Security sector, DGFIP database collects information directly. The remaining units are reported outside the working balance as public corporation classified in S.1314. Out of these, data from public hospital accounts are collected by DGFIP almost exhaustively.

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

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

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

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

For the compilation of the **financial accounts**, BdF uses the **Comptabilité Générale de l'État**. This makes scope for discrepancies given that source data used for compiling the non-financial accounts is, mostly, the Budget de l'État.

1.2.1.1. Comptabilité Générale de L'État

Introduction

Article 30 of the LOLF specifies that *Comptabilité Générale de l'État* (**CGE**; i.e. the general ledger of the State) is based on the principle of the recognition of rights and obligations. Transactions must be recorded in the year to which they relate, regardless of their date of payment or receipt. This principle is also found in the texts that govern business accounting. As a result, the organic law implies that the accounting rules of the State are not distinguished from those applied by companies.

The CGE brings about a patrimonial vision of the State. It is not only a question of knowing what the State has in its treasury at a moment "T", but of understanding what are its assets, its liabilities and its commitments. The general accounts thus describe what the State controls (land, buildings, roads, receivables, inventories, software, military equipment, etc.), what it owes (the debts) and what it may be required to pay in the future, such as accrued expenditure, provisions or off-balance sheet commitments.

CGE is certified by the French Court of Auditors

In the May 2017 SDV, DGFIP had explained to Eurostat that this source data was relatively complex to use for the State and to reconcile with other source data. Accordingly, systematic use of the general ledger of the State was not envisaged in the near term. Nonetheless, Eurostat strongly encouraged avoiding delaying the exploitation of such a rich source data and encouraged INSEE and DGFIP to take a step by step approach. Eurostat noted that reservations had been issued on the data of another Member State because the national compilers were neglecting using newly available IPSAS-like source data for the State.

During recent EDP Notifications, a number of questions on the use of CGE were raised, concerning in general its use in the compilation of EDP Questionnaire tables 4.1 and the statistical discrepancy (i.e. B.9-B.9f differences). In particular, the use of CGE in the compilation of accrued expenditure, taxes, financial leasing, unexplained residuals (see subsection 1.2.3), etc., was also tackled.

During those bilateral discussions, Eurostat indicated that it would expect CGE and *Budget de l'État* to be consistent among themselves but that, of course, such kind of 'alignments'/verifications cannot be undertaken by INSEE without a very active participation from DGFIP (and BdF). In the view of Eurostat, whereas such exercises are time consuming, investing in them may pay dividends in the future, notably regarding B.9 and B.9f consistency as well as extra information on payables and receivables.

Discussion and methodological analysis

The FSA recalled that Budgeting and Accounting is available in a centralised database (CHORUS) since 2012 onwards, which is “stabilized” since the accounting year 2014 (that is: when CoA lifted its previous reservations). Eurostat recalled that the exploitation of the CGE for the compilation of GFS/EDP was discussed during the May 2017 SDV, recommending a step-by-step implementation strategy.

Eurostat considered that it was important to ensure an adequate and complete conciliation between accounting and budgeting. This topic was already on INSEE’s agenda, which works with the DGFIP on the issue. DGFIP explained that such a reconciliation, albeit in principle possible, was not easily implementable in practice. Budget and Financial Statements were produced according to separate “analysis axes”. The FSA nonetheless thought useful to be able to have a trilateral reconciliation between the working balance (Budget), the profit or loss of CGE and the B.9 of the State.

The FSA wondered whether the starting line of EDP Table 2A could use the CGE profit and loss instead of the budget. Eurostat argued that it preferred having the working balance starting with a cash result (Budget), as Eurostat felt it easier and more transparent to analyse and control. At the same time, Eurostat thought that a transition table from profit and loss to B.9 could be advantageous and suggested that a table T2Abis be delivered together with the notification, on a voluntary basis, by INSEE. Eurostat invited INSEE to present this to the EDPS WG, if interested.

Eurostat noted that the CGE is currently used for the financial accounts, including for filling Questionnaire tables 4.1, which shows the accrual adjustments of expenditure and revenue from a CGE perspective (together with accrual adjustments applicable to other bodies). However,

INSEE does not use this information for the compilation of the Non-financial accounts (e.g. D.1, P.2 accrual), except for the P.51 of PPPs. Eurostat thought difficult to defend that the accrual adjustment available in CGE is not used for B.9 purposes, and recalled again that other Member States have in the past received reservations to the quality of their data due to similar situations (a point already made in the May 2017 SDV).

INSEE argued that accrual adjustments to P.2 would impact the input/output tables and would lead to a break in time-series. Eurostat agreed that, given the existing constraints regarding revision policy in France, the use of this information could start from the last years open for revision in National Accounts, and argued that the break in time-series would probably be manageable, with no structural bias (considering that this concerns an accrual adjustment). Such breaks in time series are deemed to routinely occur when only partial information is available or outside benchmark revisions. INSEE felt however that studies should be made before any systematization of CGE use, but agreed on a step-by-step approach starting with P.2.

Eurostat in particular noted that **trade credit liabilities** of general government had increased by 7.4 billion euro over 2016-2018 in EDP Table 4, an amount roughly consistent with the flows reported in questionnaire table 4.1.2, and seemingly (in part or in full) not reported within the B.9. The FSA indicated that EDP Table 4 is compiled using CGE, appropriately adjusted for **factoring**. The adjustment for factoring used Surfi information (Banque de France database), which notably indicates that 2/3 of factoring is without recourse.

Eurostat also enquired on whether questionnaire table 4.1.2 took into account the correction for factoring, as well as for **leasing/PPP/EPC**, which have to be reported as F.4 liabilities rather than as F.81 liabilities.

In addition, INSEE confirmed that, according to expert information, all PPPs include a *Daily Clause*, which is a kind of factoring without recourse. INSEE indicated that *Daily Clauses* are reported as factoring within Surfi database, and Eurostat concluded that this answered a question raised in the main findings of May 2017 SDV (section 1.2.2). Eurostat enquired on the CGE accounting of PPPs and EPCs and the data that may exist.

At the same time, Eurostat thought that CGE information on **taxes** should not be used to the same extent, if at all, given that the recording principle for B.9 in the French accounts is to follow time-adjusted cash (with zero time lag in some cases) or even cash, while CGE will show amounts on an assessment basis or would not be the same accrual as National Account (for instance, on CIT). As a result, the financial accounts reported in EDP Table 3 and questionnaire table 4.1 should use the time-adjustment deemed to be already reported in questionnaire table 5.

One wondered whether CGE information on taxes may still perhaps be pertinent, for instance if capturing patterns whereby taxpayers were avoiding claiming refunds (given for instance the negative interest on their deposits at banks), with a mention of 7 billion euro of CGE liability (to tax payers). Eurostat agreed that if such patterns existed, this should require a specific adjustment to the time-adjusted cash, such that CGE information for taxes may also be relevant. Eurostat further indicated that an adjustment of this sort had been entered by one Member State, for significant amounts, reducing revenue and classifying the cash received as an F.2 liability of government.

Eurostat discussed the **link between budgeting and accounting for the specific year 2015**, from the point of view of time of recording, of fixed assets recording, of provision recording, and of other factors such as earnings of controlled entities (or bond issuance premia).

In this context, the FSA explained the difference in amounts between the CICE reporting in CGE profit and loss of 2015 (5.9 billion euro), compared to the amounts reported in EDP Table 2A (5.1 billion euro). Eurostat noted that this 5.9 billion entry also implied that CGE recognizes a CICE liability in T+1, rather than year T, with no recording of provisions. Eurostat enquired if CGE recorded anything relating to CICE at the time the form 2577 SD is issued, that is: in the context/at time of factoring.

INSEE also explained that the 5.8 billion euro relating to EDF reflected the sudden recognition in CGE of the State obligation towards EDF that had been paying subsidies to green electricity producers (and collecting a related tax) on behalf of government, for a net cumulated outflow covered/financed by EDF of 5.8 billion euro. Eurostat noted that National Accounts had reported this liability all along and wondered why CGE had recognized these amounts only from 2015 onwards.

Eurostat also noted with interest the negative impact of 6.7 billion euro of public corporations' earnings, which seem to Eurostat to be a kind of D.43 (Reinvested earnings) recording being applied in CGE. INSEE noted that the amounts reflected notably the losses made by AREVA in that year (2038 meur). Eurostat wondered what could explain the remaining 4.7 billion euro, having in mind that a number of corporations are making profits, and also taking into account that Questionnaire Table 10.2 did not identify large loss-making companies in 2015.

Finally, Eurostat enquired on the actual content and use in NA, if any, of 'comptabilité analytique'. The FSA clarified that CHORUS allowed public entities the possibility to elaborate a cost-based accounting analysis, but that this is in a trial phase and as such there is still no global analytical accounting.

Main findings and conclusions

Action Point 2 (former Action Point 3): In relation to the appropriate exploration of CGE in the context of EDP/GFS compilation:

- a. The FSA will aim at using CGE information for the accrual adjustment applicable to B.9, starting with P.2. A progress report is to be sent to Eurostat and first results to be implemented in April 2020 EDP Notification.

Deadline: January 2020 for progress report and April 2020 EDP Notification for first results incorporating P.2³

³ Work in progress. According to the FSA – 13 December 2019 –, there is no direct link between purchases in CGE and P.2 in national accounts, and work that has been carried out turned a maximum P.2 accrual adjustment of 114 million euro in 2016, and an average 52 million euro for 2015-2018. Thus, the FSA consider that the gain of implementing this adjustment is to add little accuracy, in exchange of a considerable effort. Yet, Eurostat considers that if the CGE accounting framework is rather stable, such that the accounts

- b. The FSA will clarify the reconciliation between EDP Table 4 and questionnaire table 4.1, notably in relation to factoring and leasing/PPP/EPC.

Deadline: End-December 2019⁴

- c. The FSA will correct the accrual adjustment for taxes currently entered in the financial accounts (EDP Table 3 and questionnaire table 4.1, item 21a) using questionnaire table 5 and questionnaire table 4.2 rather than using CGE (taking into account perimeter differences, if any).

Deadline: A note in March 2020. Implementation in October 2020⁵.

- d. The FSA will enquire on whether the tax prepayment or refunding patterns had significantly changed in recent years (notably if there has been a significant variation in CGE liabilities related to taxes).⁶

- e. The FSA will report to Eurostat the accounting rules followed in CGE in relation to PPP and EPC contracts.⁷

Deadline: March 2020

Action Point 3 (former Action Point 6): In relation to some specific links between budgeting and accounting:

- a. INSEE will enquire with the CoA about the motivation for CGE not to record prior to 2015 a liability towards EDF (which existed as an asset in EDF balance sheet).⁸

containing P.2-related entries do not vary considerably, a bridge table can be established from those exercises and easily implemented each and every year.

⁴ To be completed. In the meanwhile, on July 5 2021, INSEE informed that there is no specific reporting on EPCs, which are treated or as PPPs (when big, so no issue) or as regular contract (all as P.2).

⁵ The note was provided on 13 December 2019. The recording of tax-related financial accounts is under discussion between INSEE and Eurostat and is thus work-in-progress.

⁶ Action Point completed on 13 December 2019. The liabilities related to taxes recorded in the CGE refer to tax credits, notably to CICE. The stock of these liabilities hence consistently grows until 2019, and then considerably decreases in 2020 taking into account the conversion of the CICE into a plain reduction of social contributions.

⁷ Action point completed on 13 December 2019. The accounting rules followed by CGE in relation to PPPs and EPCs contracts are described in detail in the “*norme 18*” of the “*Recueil des normes comptables de l’Etat*”. The approach of CGE is to record assets on balance-sheet based on a control approach. Given the broad set of criteria, in practice those rules imply that all existing French PPPs are recorded on balance-sheet.

For assets controlled by the State, for which it is possible to estimate reliably their value, a financial debt is recorded as a liability at the time of the transfer of the control of the asset, which generally corresponds to the time of the delivery. The value of this financial debt is generally equal to the value of the asset. During the PPP period, payments by the State to the private partner are split into reimbursement of the imputed liability, payment of interest and purchase of service (intermediate consumption).

⁸ Action point completed on 13 December 2019. INSEE has confirmed that whereas a debt exists in the National Accounts from 2013, this is only the case for CGE since 2015. Whereas a legal principle for repayment by the

- b. The FSA will check if off-balance sheet amounts are recorded in the CGE for CICE at the time the form 2577 SD is issued (i.e. at time of factoring), and will report the amounts recorded, if any.⁹

Deadline: April 2020 EDP Notification.

- c. The FSA will report to Eurostat the entities that explain the remaining 4.7 billion euro of losses on controlled entities, reported in CGE¹⁰.

Deadline: October 2019 EDP Notification.

1.2.1.2. Budget risks associated with tax and non-tax litigations

Introduction

On 17 October 2018, the National Assembly published a report on the budgetary risks associated with litigations¹¹. Eurostat analysed this report with care and agreed with INSEE to discuss its substance in this SDV.

Among its tentative conclusions, the report stresses that:

"Le constat réalisé par la mission est alarmant. Chaque année, les dépenses associées aux contentieux atteindraient 3,6 milliards d'euros en moyenne. Le risque est en forte augmentation : en 2017, la provision pour litiges s'élève à près de 25 milliards d'euros, soit 8 % des recettes nettes du budget général de l'État, et cette provision a été multipliée par cinq en dix ans. L'essentiel du risque est de nature fiscale.", page 10.

"(...) mais ces données ne sont pas non plus exhaustives, puisque les ministères n'ont pas tous répondu", page 23.

According to what was understood by Eurostat, in budget accounting (Budget de l'Etat), the expenses associated with litigation are not subject to any specific treatment, and are not giving rise to a systematic follow-up in each ministry, nor to an harmonized presentation in budget documents or in public data. The CGE, and more specifically the provisions for litigation, allows the potential budgetary risk to be approached comprehensively and centrally, albeit imperfectly.

State to EDF was established in 2013 (triggering the GFS recording), only in 2015 was CAS TE created with an explicit legal obligation to repay that debt (triggering the CGE recording).

⁹ Action Point completed on 13 December 2019. The FSA have confirmed that off-balance sheet amounts are recorded in the CGE for CICE at the time the form 2577 SD is issued. At end-2018, an amount of 1.7 billion euro is recorded in CGE.

¹⁰ Action point completed with the submission of the October 2019 EDP Notification.

¹¹ [Rapport d'information relative à la gestion du risque budgétaire associé aux contentieux fiscaux et non fiscaux de l'État](#)

"En comptabilité générale, le risque budgétaire associé aux contentieux figure à plusieurs endroits du compte général de l'État, selon la nature et le niveau du risque encouru, et le type d'information relative à ces flux.

L'information peut ainsi se retrouver en provisions, pour risques ou pour charges, en engagements dits « hors bilan », qui figurent dans les notes attachées au compte général de l'État, en dotation aux provisions, ou en dotation aux dépréciations des créances liées à l'impôt. Les provisions et les engagements sont des données de bilan, qui correspondent à une photographie des risques, tandis que les dotations aux provisions et aux dépréciations correspondent à des flux". pp 87-88

A very important piece of information as concerns the definition of litigation, is given by the following sentence (pages 88 and 20):

Le risque budgétaire associé à un contentieux doit faire l'objet d'une provision dès lors que la probabilité de condamnation est supérieure à 50 %, et que son coût peut être estimé de manière fiable [underline added].

De nombreux litiges ne font pas l'objet d'une provision pour risques dans la mesure où le risque de condamnation de l'État est estimé faible au moment de la clôture des comptes

Furthermore page 89 quotes,

L'évaluation de la provision pour risques et charges porte sur le montant correspondant à la meilleure estimation de la sortie de ressources nécessaire à l'extinction de l'obligation envers un tiers. Les charges à considérer sont celles qui concourent directement à l'extinction de cette obligation.

Some data and information from the report:

BILAN 2017 DE L'ÉTAT

(en milliards d'euros)

Actif	2017	Passif	2017
Immobilisations incorporelles et corporelles	504,61	Dettes financières	1 710,67
Immobilisations financières	347,66	Dettes non financières	244,12
Stocks	29,23	Provisions pour risques et charges <i>dont provisions pour litiges</i>	148,15 24,5
Créances	85,15		
Trésorerie active	32,58	Trésorerie passive	107,09
Autres	11,99	Autres	61,65
Total actif	1 011,21	Total passif hors situation nette	2 271,68
		<i>Situation nette</i>	<i>- 1 260,47</i>

**ÉVOLUTION DES PROVISIONS ENREGISTRÉES DANS LE COMPTE GÉNÉRAL DE L'ÉTAT,
DEPUIS 2012**

(en milliards d'euros)

		2012	2013	2014	2015	2016	2017
PROVISION POUR CHARGES	Provision pour charges liées à l'impôt	0,57	0,29	0,31	0,36	1,30	5,75
	Provisions pour charges de personnel	8,62	8,86	9,26	9,04	9,22	9,97
	Provisions pour transferts	64,32	77,97	86,47	81,67	82,54	78,70
	Provisions détaillées pour transferts	4,39	4,80	4,77	3,29	4,13	4,93
	Provisions pour remise en état démantèlement	10,32	11,09	13,32	15,48	17,05	20,27
	Provisions pour remise en état du domaine immobilier de l'État – dépollution et désamiantage	–	–	0,91	1,05	0,96	0,88
	Autres provisions pour charges	0,89	0,07	0,06	0,31	0,02	0,02
	Sous-total : provisions pour charges	89,12	103,08	115,09	111,20	115,21	120,53
PROVISION POUR RISQUES	Provisions pour engagements	2,00	1,27	1,15	0,98	1,02	1,45
	Provisions pour litiges liés à l'impôt	12,03	14,71	16,32	21,10	24,06	20,26
	Provisions pour autres litiges	1,52	1,53	1,39	1,02	1,04	4,21
	Sous-total : provision pour litiges	13,55	16,24	17,72	22,12	25,10	24,46
	Provisions pour autres risques	0,91	2,43	0,55	0,57	1,50	1,70
	Sous-total : provisions pour risques	16,47	19,94	19,41	23,67	27,61	27,62
Total général	105,59	123,03	134,51	134,87	142,82	148,15	

Source : direction générale des finances publiques.

Prior to the SDV, the FSA informed that the provisions «*pour risques*» and the provisions «*pour charges*» correspond to liabilities whose due dates and amounts are not precisely fixed.

Being liabilities recorded in the CGE, they however respect three cumulative conditions:

- there is an obligation of the State towards a claimant (in case of a provision recorded for a litigation);
- it is either certain or likely that the DGFIP will have to reimburse some claimants;
- it is possible to reliably estimate the amount of this obligation.

In practice, the DGFIP records two kinds of provisions :

- a « *provision pour charges* » is recorded when it is certain that the DGFIP will have to reimburse some claimants, for an amount which can be reliably estimated.
- a « *provision pour risques* » is recorded when it is only likely that the DGFIP will have to reimburse some claimants, for an amount which can be reliably estimated;

Discussion and methodological analysis

Eurostat enquired on the definition and coverage of the items '*provisions pour charges*' (stock of 121 billion euros, end-2017, according to the report of the National Assembly, page 18) as

compared to ‘*provisions pour risques*’ (28 billion euro) reported in the balance sheet of the State (CGE). The FSA recalled that, following general accounting principles, CGE recognizes a liability when there is a present obligation that implies a certain or likely outflow and when it is possible to make a reliable estimate of the amounts. According to the report by the French National Assembly, “*Provisions pour risques and pour charges correspond to liabilities whose timing or amount are not precisely fixed.*” A ‘**provision pour risques**’ “*is recorded when it is likely that the DGFIP will have to reimburse some claimants, for an amount which can be reliably estimated*”. A ‘**provision pour charges**’ “*is recorded when it is certain that the DGFIP will have to reimburse some claimants, for an amount which can be reliably estimated*”.

In this context, all provisions were a type of liability in the CGE, with the difference that *provisions pour risques* are likely, while *provisions pour charges* are certain. Both kind of provisions remain not fully determined in terms of amount, and not certain in relation to when the amounts are due for payment.

The FSA did not think that *provisions pour charges* necessarily implied a significant reduction in uncertainty related to the amounts recorded, as compared to *provisions pour risques*. Eurostat wondered whether it would not be appropriate to record an expenditure, at time of provisions pour charges, in a number of circumstances.

As a concrete example, Eurostat noted that, in relation to the 3% additional tax on dividends, a *provision pour risques* of 5,933 million euro existed end-2016, which was then fully removed in 2017, as a *provision pour charges* of 4,573 meur appeared end-2017. Concretely, Eurostat wondered whether the **change from provisions pour risques to provisions pour charges** would not be indicative that the amounts likely to be rejected would tend to be small (*see also section 4.3.1.1*).

INSEE recalled that, in National Accounts, provisions were generally not retained in the system, short of exceptions, particularly on the basis that provisions recorded by one entity will not be the amount perceived by the counterpart entity, which flows from the application of the quadruple-entry bookkeeping principle. In addition to that, INSEE referred to paragraph 5 of MGD II.7, referring to a time of recording “*when the amount of the claims/obligations is definitely determined with certainty*”.

Eurostat agreed that provisions were generally not recorded in the system, the clearest case being when the provision has no defined counterpart transactor. However, if taxpayers recorded a claim (e.g. following the Constitutional Court decision), then a recording may be legitimate, and most notably if the submission of claim actually materializes the link between the debtor and the creditor. Furthermore, Eurostat noted that ESA 20.189 clearly indicates the “*expenditure or revenue is recorded as soon as the value of the obligation is **reliably determined***” (bold added), and not necessarily with certainty.

Eurostat enquired on the nature of some of the ‘*provisions pour transferts*’ (within provisions pour charges). They include provisions ‘*pour primes PEL-CEL*’, which represent an estimate of the bonus payable to saving plan holders when they, for instance, contract a housing loan associated to the plan.

Finally, Eurostat took note that provisions ‘*pour remise en état*’ are linked to decommissioning costs, notably of nuclear facilities owned by CEA or the Ministry of Defence (*see section 4.3.11*).

Main findings and conclusions

Action Point 4 (former Action Point 5): INSEE will indicate if there are contingency elements in relation to primes PEL-CEL that would justify not considering those amounts in National Accounts.

*Deadline: April 2020 EDP Notification.*¹²

1.2.1.3. Account 654

Introduction

During the **May 2017 SDV**, the recording under account 654 ("*pertes sur créances irrécouvrables*") was discussed.

INSEE considered that these were write-offs of claims and accordingly in national accounts they were not an expenditure. Eurostat was not convinced by this approach, reasoning that wherever the claims subject to a write-off participated to a government program designed with the intention to convey a benefit, a write-off had to be recorded as a capital transfer. The old notion that write-offs are always 'other changes in volumes' is inherited from ESA 95, but ESA 2010 has significantly altered the perspective on this. Action Point 57 of that 2017 mission asked INSEE to further reflect on this recording.

The issue continued to be discussed during the **January 2018 Ad-hoc visit**.

INSEE and DGFIP restated that this code had all the features of entries in OCV, being an entry to discharge the accountant from any personal liabilities. INSEE thought that this notably covered cases where the unit disappeared.

Eurostat recalled that ESA 2010 had clarified the terminology, compared to ESA 1995. Write-offs were internal actions taken by the accountant often recognising that a claim was not collectable or with expected proceeds below expected costs (ESA 20.233-20.235). Separately, a capital transfer was required when an intention to convey a benefit existed in the first place. A typical example would be student loans. The borderline case, enquired by INSEE, concerned a situation where the student loan is written-off following the death of the student. Eurostat thought that this case was not even so clear-cut, and various answers were possible. Eurostat

¹² Action Point completed on 13 December 2019. For PEL-CEL opened after December 12, 2002 – recorded in CGE as “Engagements hors bilan” –, the premium is contingent on the household asking for a PEL-CEL loan. For PEL-CEL opened after December 12, 2002 – 1.4 billion euro recorded as off end-2018 in CGE as “provisions pour transferts”, among “provisions pour risques” –, whereas there is certainty that those amounts will be paid, there is high uncertainty when this will be done. In fact, the payments can be undertaken in more than 15 years, reason for which the FSA have decided to book as expenditure only the amounts effectively paid (e.g. 130 million euro in 2018).

thought that in the absence of any information on the typical claims concerned, a capital transfer should be presumed.

Action point 56 of that mission requested INSEE to document the types of claims being written-off within account 654 and to propose a way to partition the write-offs between those that have a capital transfer nature and those that can be an OCV (or to, alternatively, report all such flows in the deficit).

Prior to the **October 2018 EDP Notification**, INSEE provided some qualitative and quantitative information on account 6541, on which Eurostat raised some questions, pointing to some accounting movements that, in its view, could clearly not be seen as OCVs.

In this context, Eurostat insisted that INSEE either analyses these cancellations one by one, each year (which INSEE deemed as unreachable), or, to simplify, it would apply a structural ratio OCV vs. transaction for non-finalized accounts, based on a significant or representative sample. In the meanwhile, Eurostat requested INSEE to provide further examples, notably on account 6542.

Discussion and methodological analysis

Eurostat enquired the FSA on one of the examples in the information provided prior to the mission, concerning ‘*Aide Sociale à l’Hébergement*’ (ASH). In the context of ASH, a social benefit is given to the elderly people to support their housing charges and is deemed to be repayable at time of death of the beneficiary (through claiming part of their bequests). INSEE’s approach to this occurrence (at time of death) is to record an expenditure reduction against an acquisition of claim. If it is later observed that there is eventually no recovery, INSEE records an OCV to remove the claim. Eurostat considered this approach wholly unsound.

INSEE agreed with Eurostat that some recording would need to be changed, notably in the case above. At the moment, (1) the social payments enter D.623 (account 651), (2) a revenue in the form of a reduction in D.623 is recorded at time of death (account 751), and (3) any subsequent write-off is recorded as other change in volume (account 654). INSEE agreed that, at the very least, it had to record the write-off as D.623 expenditure, so to have a proper B.9 over time. As a more appropriate recording, the negative D.623 adjustment should be at time of repayment and not at time of death. INSEE and Eurostat noted the commonality of those social payments with the case of Income Contingent Loans (new chapter of the MGDD 2019) and an alternative solution would be to record D.623 reduced by a coefficient at time of social benefit payment, the remainder being a loan. Whatever is the option eventually chosen, this will degrade structurally B.9, although for small amounts.

Concerning the rest of account 654, which has been subject to discussions in the May 2017 and January 2018 missions, Eurostat welcomed the list of examples. Eurostat found that, in addition to the previous case, some other write-offs would have the nature of a capital transfer: e.g. (a) subsidies and salaries found to have been in excess of the rules but, later on, cannot be recovered, (b) ‘write-offs’ to a regional and private television, and (c) more generally write-offs in the case of bankrupt companies. Eurostat felt that a loan write-off can be an OCV unless an intention to convey a benefit existed at time of loan. It is not government function to provide commercial loans, unless as part of its social or economic policy, as a substitute to grants (or as

a refundable grant). Thus, a capital transfer is often to be recommended in case of write-off in such cases of government loans, unless clear evidence suggests the contrary. INSEE pointed out that, even if government's intention is to convey a benefit through, for instance, a low interest rate, the intention is not always to give up on the principal amount of the loan.

INSEE argued that '*Rémise gracieuse*' (account 657 or 674) manifests an explicit government intention to convey a benefit, and clearly contrasted with account 6541 ('*créances admises en non-valeur*'), which encompassed decisions by the government body upon advice by the accountant that it cannot materially recover any amount, and with account 6542 ('*créances éteintes*'), which encompassed cases of liquidation through Court judgements. While agreeing that a transaction is in principle by mutual agreement, Eurostat also noted that agreement is presumed in some cases, such as for taxes, but also for debt cancellations, as indicated in ESA 20.225. As a matter of simplification, Eurostat thought that recording account 654 as expenditure, by convention, can be a solution. On the other hand, INSEE considered that following such an approach would constantly lead to an increase in the deficit, which would not fully reflect the accounting rules.

Main findings and conclusions

Action Point 5 (former Action Point 7): In relation to account 654:

- a. INSEE will reflect on the way to adapt the recording for social benefits repayable in case of death, with a B.9 impact.
- b. INSEE will reflect on the more appropriate way to record account 654 in general, taking into account the nature of government, as well as practical considerations.

*Deadline: April 2020 EDP Notification.*¹³

1.2.2. *Compilation of ESA Table 27 and EDP Tables 3*

Introduction

Banque de France compiles ESA Table 27 and INSEE compiles the financial accounts entries in EDP Tables 3 (and questionnaire tables 4). In this context, inconsistencies between ESA Table 27 and EDP Tables 3 are frequent in EDP Notifications.

On the one hand, some of these inconsistencies are punctual and may simply reflect late communication or agreement. On the other hand, some of these inconsistencies, notably as concerns OAP and OAR, are frequent and/or structural, and reflecting the fact that different data sources are used to compile the two sets of data.

Discussion and methodological analysis

Eurostat took note that, for the compilation of the financial accounts, DGFIP produces input financial accounts that are sent to both BdF and INSEE, who then compile ESA Table 27 (as well as ESA Tables 6 and 7) and EDP Table 3, respectively. This type of organization has scope to create deviations between tables, unless reinforced coordination is implemented. In the April

¹³ No progress so far.

2019 Notification, three rounds were required to mostly align the tables (although a difference of 1.1 bn euro remained between F.8 and F.1/F.6 assets, in 2016).

Eurostat also enquired on the monitoring of statistical discrepancies by the FSA. The FSA indicated that discrepancies are analysed unit by unit at the spontaneous accounts levels (ET1 and ET2; *see section 1.1.1.*) when large, otherwise they are observed on an aggregated level.

Banque de France explained that, for the purpose of the financial accounts, the information on deposits held by government as reported by government units is privileged and the difference with information coming from Money and Banking Statistics (MBS), which tends to be small, is allocated to another counterpart sector.

Eurostat welcomed that the FSA report questionnaire table 4.1 (detailed payable receivable) by sub-sectors, on a voluntary basis. Significant amounts remain unexplained (items 19 of both tables 4.1.1 and 4.1.2).

Main findings and conclusions

Action Point 6 (former Action Point 8): In relation to the consistency and coherency of financial and non-financial accounts as reported in EDP and ESA tables:

- a. The FSA will put in place a data flow relating to the financial accounts that reduces scope for table deviations when reported to Eurostat, and will eliminate the 1.1 bn euro difference between F.8 and F.1/F.6 assets, observed in 2016 between ESA Table 27 (as well as ESA Tables 6 and 7) and EDP Table 3.¹⁴
- b. Eurostat welcomed that the FSA report questionnaire table 4.1 (detailed payable receivable) by sub-sectors (currently on a voluntary basis). At the same time, significant amounts remain unexplained (items 19 of both tables 4.1.1 and 4.1.2). INSEE agreed to enquire on the origin of those amounts and to provide a breakdown for the main operations.¹⁵

Deadline: April 2020 EDP Notification.

1.2.3. Progress on the work reducing unexplained residuals

Introduction

Significant unexplained 'residuals' concerning both other accounts receivable and other accounts payable in questionnaire table 4 have arisen in the past years.

In past EDP notifications, Eurostat has discussed with INSEE whether these unexplained residuals were correctly reported under OAP and OAR. In the view of Eurostat, given their 'unexplained' nature, these 'residuals' could perhaps be better represented as a statistical discrepancy.

¹⁴ Action point completed with the submission of the October 2019 EDP Notifications.

¹⁵ This action point has been discussed in several EDP Notifications and is work in progress.

INSEE explained that it tries to decrease these ‘unexplained residuals’ in every notification. This does not mean that it is successful in doing so – in fact, in several instances Eurostat observed significant increases.

Discussion and methodological analysis

Eurostat recalled that, in some notifications, ‘unexplained residuals’ were revised following revisions in the non-financial side of the accounts (e.g. ARRCO and AGIRC in the October 2018 EDP Notification). It could thus be argued that this is because these F.8 are indeed incorrectly used to balance (part of) the difference between the B.9 and the B.9f. In this sense, the statistical discrepancies reported in EDP Tables 3 would also be incorrect.

For many years, the EDPS WG has discussed the issue of reporting of statistical discrepancies and, most notably, the use of F.8 to artificially reduce the size of the former. The EDPS WG has agreed that such practice was not recommended. While it is true that in French case statistical discrepancies are reported in EDP Tables 3, and that the unexplained residuals sometimes tend to be reduced over time with revisions (although never solved in its entirety), Eurostat considered that the considerable size of these unexplained residuals hinders the accountability of the financial accounts.

The French statistical authorities explained that these explained residuals ought not be statistical discrepancies, but simple reflect a so far deficient use of the CGE, as discussed above (*see section 1.2.2*).

Main findings and conclusions

Eurostat thus encouraged INSEE and Banque de France to build up a plan to cooperatively reduce the size of the unexplained residuals as soon as possible, and to report to Eurostat on these.

See Action Point 6 b.

1.2.4. Revision policy and related EDP/GFS consistency. Benchmark revision 2018 and MGDD Update

Introduction

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

Eurostat has in the past pointed to INSEE that EU legislation refers to the last four years: the EDP notification being open also for years (T-3) and (T-4). In the context of these discussions, during the January 2019 Technical Visit, INSEE has agreed to keep open also T-3 for government accounts.

General government data notified in March of year (T) are usually the same as those that appear in May, moment when INSEE publishes the full national accounts. However, if between March and May new information about the provisional accounts that would result in a revision of the

deficit (especially in the social security funds) emerges, then these changes would be included in the tables sent out in May.

For the October notification, for year (T), only new information that has an impact on the deficit is taken into account, except for Social Security when all accounts are revised.

When there is a change of base (approximately every 5 years), the revision potentially covers all years. An 'interim' benchmark revision has been undertaken in October 2018.

As regards EDP/GFS revision policy, in France – similarly to a number of other member States –, it is preferred to keep the main aggregates tables consistent with the supply and use tables, as well as the regional accounts, etc., which creates specific constraints. As a result, the required changes to EDP/GFS may not be implementable into national accounts main tables, prior the next benchmark revision, and hence incomplete revisions to GFS are implemented.

Two examples of these incomplete revisions concern the sector reclassification of Radio and TV (April 2018) and SNCF-Réseau (October 2018). In both cases, instead of a *de facto* reclassification, an artificial entity was created in order to reroute a part of the operations of the entities to be reclassified, and achieve a correct B.9 and debt. This was done for dealing with the fact that the Structural Business Statistics keeps Radio and TV and SNCF Réseau as part of its perimeter, which then feeds the S.11 account compilation. In the opinion of INSEE, rerouting is, in these circumstances, the appropriate treatment in National Accounts. Eurostat objects to this latter view (unless 'rerouting' would concern all transactions and elements of balance sheet).

As concerns Radio and TV, INSEE has created a central agency body (called CSPA) which is deemed to be collecting the tax recorded as D.59 and be delivering to household a service of broadcasting that is actually provided by to public broadcasting corporations (recorded as D.632 = P.31). Aside from the artificial and incomplete correction in the government accounts, Eurostat was somewhat skeptical of the transactions selected by INSEE.

As concerns SNCF-Réseau, INSEE has similarly created a central agency body and the B.9 of SNCF Réseau impacts S.13 B.9 through a D.759 only. Business Statistics Directorate records the whole SNCF group as a single unit, which according to INSEE, makes the 'pure' reclassification of SNCF-Réseau quite a challenge for the department of National Accounts.

According to INSEE, until the next benchmark revision, there is no other technical choice possible. The data that is used to compile S.11 account (business statistics) consider the group SNCF, as well as Radio and TV. All the aggregates taken from this data source would include SNCF Réseau and TV and Radio. The pure reclassification strategy would lead to double accounting of these entities within the system.

Even though B.9 and debt are correct, Eurostat has expressed during each EDP notification concerned that this procedure is not satisfactorily from a GFS point of view (which is not, per se, the EDP notification purpose in the view of INSEE). There seems to exist a structural issue with respect to INSEE's capacity to enforce sectorisation rules, once identified, an approach that is highly unusual in Europe. Eurostat agrees that consistency between S.13 and S.11 is indeed of extreme importance and that time consistency is a very important feature of national

accounts, but disagrees with INSEE that it is usual practice all over the world to implement reallocation into institutional sectors only or primarily at the time of a benchmark revisions. What is also important for users is that accounts reflect economic reality (time consistency being part of an accurate description of economic reality). Thus, if there is new information available, or changes in sector classifications, not only S.13 accounts should reflect this reality, but also S.11 accounts. *De facto*, GFS are the advanced ESA description of S.13 accounts, and other National Account tables are invited to take over those data as soon as possible, that is before or otherwise (obviously) at the latest during the benchmark revision, as it is well acknowledged among national accounts experts. However, Eurostat admits that its view whilst shared by a large majority is not shared by all across Europe, as evidenced by the non-conclusive task force it conducted few years ago.

In the context of the above facts and constraints, the Eurostat mission has in the past proposed INSEE to envisage the option of letting GFS tables reported under the ESA Transmission Program deviate from main national accounts tables.

Discussion and methodological analysis

In relation to revision policy, INSEE explained that the basic principle of National Accounts (NA) is coherence across sectors, and that all accounts are closed in May T+3. Eurostat recalled again that, in principle, the four years of EDP notification should be opened for revision. INSEE considered that the EDP objective was only or mainly to measure B.9 and debt appropriately. Eurostat indicated that legislation foresees that the underlying government accounts consistent with deficit and debt are to be provided and that the former are considered to be the GFS tables, i.e. ESA Tables 2, 9, 11, 25, 27 and 28.

INSEE, on its side, indicated (like it did during the dedicated task force), that a good practice, which in its opinion would fulfil legal requirements, would be to provide Eurostat with the relevant information during the notification, with no change of the ESA tables. This is because, according to INSEE, there is no written indication that the relevant information must be the GFS tables, the only important point being that Eurostat can control the accuracy of debt and deficit. Eurostat disagreed with INSEE, recalling that the EDP legislation explicitly referred to the ‘underlying government accounts’, which are widely understood to mean the GFS tables.

Eurostat considered that, while understanding that countries that have fully consistent NA (including input-output tables), in application of the legislation, could find it difficult to adapt to EDP/GFS requirements, a number of options were open to them, including: i) delivering to Eurostat adapted GFS tables that would in fact report the forthcoming NA when the latter would adapt to the new government sector accounts, ii) adapt NA without touching the input-output tables with some adjustment entries, iii) adapt GFS tables for the open years and accept a break in time-series. These issues had been extensively discussed in the EDPS WG and in a dedicated expert meeting on EDP/GFS Revision policy in 2016/2017, and has also been subject to discussions in the previous EDP missions (AP 5 and 6 of May 2017 SDV and AP 66 and 67 of the January 2018 mission).

INSEE recalled, however, that the expert meeting dedicated to revision policy failed to reach a consensus on an harmonized practice, proving that the equation is quite difficult to solve, not only for INSEE but for a number of Member States.

Eurostat noted that the change in sector classification of France TV and Radio and of SNCF-Réseau had been subject to an artificial arrangement, reporting only the deficit and the debt of those two entities inside government, which was not, in its view, in line with requirements. This rather unsatisfactory solution also leads to an impact on GDP, potentially large, for instance for SNCF-Réseau. In relation to SNCF-Réseau, INSEE explained that the current reporting followed its doubts in relation to the appropriate recording of the train-km fees collected from transporters. INSEE indicated that it never recorded non-market payments (P.131) for collective goods, and wondered how other MSs were dealing with this issue. Eurostat answered that this issue had been under discussion in the GFS TF and EDPS WG in the past, and thought generally possible that P.131 is collected on such goods. While this recording problem should not, in Eurostat view, constrain the full recording of SNCF-Réseau inside S.13, it nonetheless offered the possibility to discuss this again in the relevant methodological forum.

INSEE pointed out that both France TV and SNCF-Réseau are in the official list of ODAC, such that the current recording is a temporary solution pending the next benchmark revision (2024), which is usual practice in National Accounts.

In relation to France TV, Eurostat remarked that the reclassification inside government arose from the principle set by the 2016 MGDD, released in March 2016. Before the 2018 interim benchmark revision carried out by INSEE, Eurostat had agreed to have a simplified recording on a temporary basis in order to avoid a significant upward break in time-series in government consumption (downward break in private consumption). However, it was particularly hard to understand, for Eurostat, why, given the opportunity, the benchmark revision of 2018 did not encompass a full integration of France TV and retropolation.

INSEE explained (as it did at the time the benchmark revision was implemented) that the 2018 benchmark revision was not planned, and only justified for aligning NA with the BoP statistics. Several methodological issues concerning the S.13 were, however, taken into account, but the full incorporation of revisions was not feasible .

In this context, Eurostat wondered whether a limited benchmark revision of NA for GFS would not be useful before the official 2024 benchmark revision, also in consideration of other topics under discussion (military expenditure, toxic debt, CICE taxes recording).

INSEE noted that EDP was similar to GNI data, *de facto* administrative use of NA, which may open the option of having EDP deviating from GFS. INSEE noted, in particular, that the GNI information submitted to Eurostat was not even published on its website. Eurostat objected to this and insisted that legislation required that GFS tables and EDP deficit (and debt) data be strictly consistent with each other. INSEE continuously defended that regulations only require an alignment of National Accounts and GFS, while EDP could more easily deviate without prejudice of its validity and assuring full accuracy of deficit and debt figures.

Main findings and conclusions

Action Point 7 (former Action Point 9): In relation to revision policy:

- a. Eurostat recommends INSEE to reflect on ways to appropriately address the current reporting of SNCF-Réseau and France TV in GFS, which is currently not carried out according to the rules, including through minimalistically amending the production

accounts, or implementing a break in time-series, or carrying out a limited NA revision for GFS¹⁶.

- b. INSEE will reflect on the broader issue of articulating a revision policy that satisfies EDP and GFS needs while taking into account the slower implementation of the full NA, including reporting to Directorate D advanced GFS aligned with best practice, though temporarily deviating from Nationally published other ESA Tables (with potentially a bridge making the link between the same concepts reported in the two tables)¹⁷.

Deadline: October 2020 EDP Notification

1.2.5. Trade Credits and factoring

Introduction

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

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

This footnote was then withdrawn in the April 2019 EDP Notification. *Surfi* data (and two assumptions) provides information on the estimation of the total amounts related to factoring without recourse against general government units

Eurostat has been trying, since the May 2017 SDV, to collect information on whether the so called *Daily clause* – a kind of factoring in France – was included in the *Surfi* data, so to examine whether there is a material need to extend the current work of estimation on factoring without recourse to the *Daily clause*.

¹⁶ Along with the October 2019 EDP Notification, INSEE sent a note arguing that a correct recording of all transactions relating to the sector reclassifications of France TV and SNCF-Réseau is a mere technical issue. Eurostat disagrees with this interpretation. Moreover, Eurostat considers that, by not being individual consumption, the consumption of France TV services cannot be recorded as Social transfers in kind of goods and services (D.632). INSEE agreed to further reflect on this in order to weigh the advantages and disadvantages of the different possible transactions in the France TV context. INSEE will also reflect on whether SNCF-Réseau can be considered non-market over the period 1995-2015 or not. Eurostat expressed again the opinion that INSEE should consider an interim benchmark revision, similar to that of 2018, in order to address some issues (TV, SNCF, Military, tax recording, CICE and, if necessary, toxic).

¹⁷ Work in progress. INSEE has sent a note along with the October 2019 EDP Notification announcing that it is “investing in a new national accounts information system that will lead to a more flexible process for compiling national accounts that will allow us to modifying the processing of micro data more easily.” Notwithstanding, INSEE flags ongoing discussions in the EDPSWG regarding « implementation issues » and the fact that many Member State are asking for time when no debt and deficit impact are involved.

Discussion and methodological analysis

(see sub-section 1.2.1.1)

Main findings and conclusions

(see sub-section 1.2.1.1 – Action Point 2b)

1.2.6. EDP Inventory

INSEE has provided an updated and more detailed version of the EDP Inventory, according to ESA 2010 in November 2018. This was recently published¹⁸.

After this SDV, updates of the EDP Inventory should be envisaged for selected items (e.g. revision as concerns the introduction, and change in treatment in taxes retained at source).

¹⁸ <https://ec.europa.eu/eurostat/documents/1015035/8572485/FR-EDP-Inventory-Oct16.pdf>

2. FOLLOW-UP OF PREVIOUS VISITS

2.1. May 2017 SDV – Action Point 11 – NPLs information

Introduction

During the May 2017 SDV, INSEE was required to enquire on the possibility to provide information in non-performing loans and to keep Eurostat informed on the results, for compliance with *Council Directive 2011/85 article 14(3)*.

This information has still not been provided by INSEE.

Main findings and conclusions

Eurostat argued that the FSA had to be in compliance with Council Directive 2011/85 article 14(3), one way or another, by way of estimate if need be, including using CGE information on provisions and expert judgment.

Action Point 8 (former Action Point 29): In the absence of any information of NPL that can be easily collected to address the Council directive 85/2011, the FSA will enquire on the stock of provisions recorded in CGE in relation to NPL and examine the way to estimate NPLs based on these provisions and on qualitative information or expert knowledge (for the provision-to-NPL ratio).

Deadline: March 2020

2.2. May 2017 SDV – Action Point 16 – 3.6 billion euro entry in questionnaire table 4.1.2 in 2015, regarding *Prestations spéciales*

Introduction

During the April 2017 EDP Notification, Eurostat enquired on a new entry - called *Prestations* - in Table 4.1.2 of the Questionnaire (item 12x, amount of 3,642 million euro), as part of payables (transactions) reported in Table 3A. INSEE explained, at that time, that this line contained amounts of other accounts payable linked to social benefits.

During the May 2017 SDV, INSEE explained that the payable was increasing significantly in 2016 for the State and the CNAF (*Caisse nationale d'allocation familiale*). From 2016 onwards, the State is responsible for the payment of some housing social benefits.

To Eurostat the transfer from CNAF to the State concerning housing benefits should in principle not explain the rise of AF.8 related to *Prestations* in 2016 in EDP Table 3A, as this table is consolidated. Thus, CNAF may perhaps have increased the F.8 related to other benefits, not related to housing policy, in 2016.

This entry has remained in Questionnaire Table 4.1.2. until, and including, the April 2019 EDP Notification.

Furthermore, due to new information on questionnaire table 4.1.2, Eurostat understood that only a part of the amounts reported refer to *Prestations Sociales* (2,155 meur), the remainder referring to APL and *Prime d'activité*.

Discussion and methodological analysis

When enquired by Eurostat about the flows called *Prestations Sociales* in questionnaire table 4.1.2 (payable of S.1314), INSEE further clarified that these amounts refer not only to adjustments in CNAF payments but also to an increase of late invoices (300 meur for *Pôle Emploi* and 200 meur for CNAF). Eurostat agreed that these latter 500 meur are then correctly reported in questionnaire table 4.1.2.

Regarding the sole adjustments in CNAF payments (the remaining 1,650 meur), INSEE clarified that these are not related to flows between CNAF and the State, but rather concern delayed payments of benefits, notably concerning the fact that, contrary to what was usual, the latest payments for 2016 (and also for 2017) social benefits occurred later on in 2017 (and in 2018 respectively). The late payments regarding 2016 benefits were not offset by any recording related to 2015 benefits given the fact that all 2015-related benefits were paid in time in 2015. Thus, it is expected that the stock of payable that increased in 2016 will be reduced overtime.

Regarding APL and *Primes d'activité*, INSEE explained that, at the moment, it had no detail to separately identify the amounts regarding each of these two programs. Nonetheless, according to the FSA, the sudden increase in payables in 2016 for these two operations was also linked to delays in cash payments in that year. Eurostat took note that APL concerns benefits to poor people, and that *Prime d'activité* concerns supplement for low-income earners, both payable by the State. In this context, Eurostat wondered why these amounts are not specifically identified as well in questionnaire table 4.2.2. and EDP Table 2A, given their possible impact in B.9.

Main findings and conclusions

Action Point 9 (former Action Point 32): The FSA will separately identify, in questionnaire tables 4.1.2 and 4.2.2 and, if relevant, in EDP Table 2A, the accrual adjustment applicable for APL and *Prime d'activité*, notably for approximately 1 billion euro in 2016.¹⁹

Deadline: March 2020.

2.3. May 2017 SDV – Action Point 22 – units classified in government on the basis of qualitative criteria

Introduction

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

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

During the May 2017 SDV, Eurostat enquired if there were cases of units reclassified into S.13 because they are the sole supplier of government (or due to other qualitative criteria). INSEE

¹⁹ Action Point completed. This issue was discussed during the April 2020 EDP Notification. These adjustments correspond to accrual adjustments of the CGE without equivalent in the non-financial account.

committed to provide some examples of units classified in government on the basis of qualitative criteria.

Discussion and methodological analysis

Prior to the mission, INSEE provided a number of examples of units classified in the French S.13 on the basis of qualitative criteria: Sagess, private-owned non-profit hospitals, Académie française, Tunnel Euroalpin Milan Turin (TELT; *see section 4.3.4.2.*) and BPI Assurance Export (BPI AE).

Main findings and conclusions

Eurostat considered this pending action point 22 of the 2017 SDV as completed.

2.4. May 2017 SDV – Action Point 33 – codes in ‘Liasses fiscales’ used for liability and profits columns in the Questionnaire on Public Corporations

During the May 2017 SDV, INSEE explained that the data used for calculating the 'liabilities' and 'operating profit/loss' in the Questionnaire on Public Corporations are extracted from the 'Liasses fiscales', and committed to provide Eurostat with the codes used for the liabilities as well as for the operating profit.

(see section 4.1.1)

2.5. January 2018 Ad-hoc visit – Action Point 65 – a detailed clarification of the ‘other property income’ (D.42_to_D.45REC)

Introduction

During the January 2018 Ad-hoc visit, Eurostat enquired on the content of the property income other than interest (D42-D.45) revenue that showed significant amounts for local government (2 billion euro a year).

The amounts reported for D.42_D.45. S.1313 are the following (in million euro):

	2015	2016	2017	2018
D.42_D.45. S.1313	2526	2668	2754	2929

Discussion and methodological analysis

Eurostat and the FSA discussed, based on detailed information provided prior to the mission, each of the codes used in bridging these revenues to national accounts standards.

As an example, code C_757, amounting to 968 million euro in 2017, contains notably fees paid by farmers to use lands for pasture to their cattle.

INSEE agreed with Eurostat that some of the transactions under analysis are borderline cases, noting that the distinction between taxes and rents is difficult in some cases. Eurostat agreed with the view of INSEE, and thought that the choice of INSEE was justified overall.

Nonetheless, Eurostat noted, concerning C_7032²⁰ (amounting to 716 million euro in 2017), that these seemed not solely related to the exploration of natural resources per se, possibly pointing to a mixed recording of rent/tax, as well as P.11 (recognizing that there may be fixed assets requiring maintenance).

Eurostat enquired whether harbour fees should instead be considered as taxes.

Main findings and conclusions

Eurostat concluded that the recording of transactions seemed appropriate, albeit suggesting that INSEE could further investigate whether harbour fees could instead be considered as taxes.

²⁰ *Droits de permis de stationnement et de location sur la voie publique, les rivières, ports et quais fluviaux et autres lieux publics*

3. FOLLOW-UP OF THE APRIL 2019 EDP REPORTING

Introduction

The French statistical authorities sent the April 2019 EDP notification on the 29th of March 2019, within the legal deadlines. The EDP notification tables were reported with full internal consistency. Together with the EDP tables, INSEE sent a note explaining main revisions and main issues for this notification. Eurostat judged the accompanying note of a high standard of quality and comprehensiveness.

The EDP tables are not published nationally. Nevertheless, INSEE publishes wide-ranging quantitative and qualitative information, which in practice covers the data contained in the EDP Tables.

Discussion and methodological analysis²¹

In relation to the EDP Table 2A entry *Droits d'enregistrement*, which led to corrections to B.9 in 2016, 2017 and 2018 (+0.1, +1.6, -1.7 bn euro) in the April 2019 EDP Notification, DGFIP explained that this resulted from an error in the accounting/recording in Budget de l'État for taxes (*droits d'imputation*) that were not recorded despite being effectively received in cash. DGFIP explained that amounts cashed enter a suspense account (515), pending validation and detailed allocation across budget codes. The working balance being closed on 16-20 January of T+1, any amount in account 515 in relation to year T will *de facto* enter T+1 working balance. There exists a stock of such suspense accounts that is usually relatively stable across time but that steeply increased due to service reorganization in 2017. In contrast to budgeting, CGE correctly recorded those amounts, because closing later than the working balance and because an ad-hoc adjustment was also carried out in CGE.

INSEE agreed that, when such suspense accounts would significantly fluctuate, a correction is applicable in order to avoid a distortion in what is measured in EDP/GFS. Such a correction is, in INSEE view, a form of time adjustment of cash. Eurostat recommended INSEE to reflect on the way to more systematically address those suspense accounts problems, by more systematically incorporating account 515 in the compilation process (as a preference), or by reporting to Eurostat the stock of account 515, etc.

INSEE indicated that at least another similar case of suspense accounts occurs for the so-called STDR (*service de traitement des déclarations rectificatives*), created in 2013, that concerns self-reporting of tax-payers of bank accounts held abroad, with the associated settlement payments in favour of the French tax authorities. According to a report from the CoA, 51000 declarations led to reporting 32 billion euro of assets and 8 billion euro revenue for the State cashed between 2014 and 2017.

Main findings and conclusions

Action Point 10 (former Action Point 2): In relation to the recording of suspense accounts:

²¹ Note that many issues other than these listed in this section pending from the April 2019 Notification are presented elsewhere in these findings.

- a. Eurostat recommended INSEE to reflect on the way to more systematically address those suspense accounts problems, by more systematically incorporating account 515 in the compilation process (as a preference), or by reporting to Eurostat the stock of account 515, etc. INSEE should inform Eurostat of its analysis. INSEE will also report to Eurostat if there are other occasions of suspense accounts similar to those that concern ‘droits d’enregistrement’ or STDR.²²

Deadline: December 2019.

- b. INSEE will indicate where the relevant amounts concerning STDR are reported in EDP Table 2A²³.

Deadline: Explanatory note supporting the October 2019 EDP Notification.

²² Action Point completed. The FSA have informed Eurostat that suspense accounts are correctly incorporated in the compilation process, in the same way than the other accounts, and that if some important suspense accounts are created, a specific information will be provided by DGFIP and INSEE to Eurostat.

²³ This action point has been completed. STDR amounts are reported under *Non-financial transactions not included in the working balance* in EDP Table 2A.

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

4.1. Delimitation of general government, application of market/non-market rule in national accounts

4.1.1. *Practical implementation of the market/non-market test*

Introduction

According to previously shared information, INSEE reviews each unit's **sector classification** on several occasions, although not every year: in the context of the creation of a new unit, when there is a major change in governance of the unit, and during benchmark revisions. However, on its side, DGFIP tests sector classification every year for the 50% threshold, and informs INSEE in case one significant unit would fall under the 50% threshold.

During past visits, INSEE explained that the **50% test** is calculated using the "*liasse fiscale*" and that, whereas the item "*FO - subvention d'exploitation*" is correctly excluded from the numerator ("sales"), it had however experienced situations where subsidies had been included in position "*FL-chiffres d'affaires nets*" (i.e. turnover) by the accountants of the units. During the May 2017 mission, INSEE gave the example of RATP (the operation of Paris metro and bus lines), whose 50% test ratio (for 2015) fell from 105% to 58%, once correctly accounting for subsidies.

In this visit it was hence concluded that a prudent approach should be followed, which involves excluding revenue items that may contain subsidies on product, when the latter cannot be separated. Given that the subsidies on production can often be reported in sales within the '*Liasses fiscales*' (i.e. company financial statements returned to tax authorities), without further information, Eurostat recommended an alternative approach consisting in using DGFIP data on counterpart information (i.e. beneficiaries of the subsidies on production) at least for the biggest amounts.

Furthermore, INSEE was believed to include, since the 2017 May SDV, the 'changes in inventories' (of finished goods and work in progress) within sales for the market/non-market test, taking a production approach (given that costs are likely to be on the basis of cost of production rather than of cost of sale).

At the same time, INSEE informed that losses on inventories and on receivables are both (correctly) included within costs for the 50% test (and also deducted from value added in national accounts).

During the January 2018 Ad-hoc visit, INSEE noted that, as regards the **qualitative criteria** for the sector classification, it had no possibility to currently make a systematic assessment. A classification inside government was decided, on a case by case basis, whenever government was identified as the unique client. INSEE cited the case of hospitals, of SAGESS.

Eurostat then thought that the sales to government could perhaps be systematically collected through the annual survey (SBS). INSEE had doubts that this could be achieved, as this may require dropping other information from the annual survey – which will naturally be resisted by the business statistics department. As pointed by INSEE already several times, there seems to be a rule that, for every new question in the SBS, another must be dropped. In this context, during that 2018 mission Eurostat asked INSEE to “...to examine ways to collect turnover made with government, through the annual survey (or the *liasse fiscale*), either routinely, or at least as ad-hoc exercises”.

Discussion and methodological analysis

INSEE confirmed to Eurostat that, at the moment, the **50% test** is not carried out annually for all units, as is required, but only for the biggest ones, i.e. those with liabilities above 150 meur. Eurostat pointed that this issue had already been discussed in the May 2017 SDV, and its Action Point 23 prescribed that INSEE would do an annual test for all entities (as DGFIP does for the entities covered by DGFIP). INSEE wondered whether this exercise was useful, given that such an exercise had also inconveniences, notably resulting from its automatization, which requires a significant number of hypotheses and cannot address a number of cases (such as subsidiaries serving mothers, etc.).

INSEE thought that, at least for small units, a system classification as market or as non-market based on NACE had merit, avoiding the mishaps of practical implementation. Eurostat thought that being above 50% in the test was a necessary condition to be a market producer, such that a NACE classification should not in principle prevent a classification inside government. However, to the extent that the entities concerned are very small, and that the 50% test carried out suffers practical mishaps, Eurostat was not opposed to such a practical approach, on the condition that it should be systematic and only concern very small units cumulating to small total debt, expenditure and deficit, and only after the express approval of Eurostat.

Eurostat also noted that, following an ad-hoc exercise carried out by INSEE, testing all 7700 companies reported in the Questionnaire on Public Corporations (QPC) regardless of their size, 1196 units failed the 50% threshold in the market-test for three years in a row (2014-2016). Eurostat expressed concern about this. While only a few companies have an individual debt in excess of 150 meur, the companies with debt lower than this threshold cumulate to a total of 1.5 billion euro. Eurostat needed information on the companies with a debt higher than 150 meur. Regarding the smaller ones, Eurostat thought that 1.5 billion euro was nonetheless not negligible.

In this context, Eurostat noted significant delays in compiling the 50% test (reported in the QPC), and in reclassifying units. Due to the practice of INSEE to report in the QPC submitted in December of T the 50% test for reference year T-2 and before, by June 2019, the year 2016 was the most recent year available for the 50% test, and the three year period available for the test was therefore 2014-2016. Eurostat recalled that, in principle, the April 2019 Notification should have included changes in sectorisation for units over the period 2015-2017. However, this is not the practice of INSEE, also in consideration that NA are in principle closed in France for the year 2014 and 2015 in this case. Eurostat argued that some flexibility could be envisaged for small units, such that the reclassification is carried out, at least as a macro-adjustment, with a simplified recording, for the years closed in NA.

As regards the **practical implementation of the 50% test**, as discussed in the May 2017 SDV, as well as in the January 2018 mission, although the *Liasse Fiscale* distinguishes subsidies on production from turnover (which would include most subsidies on products), INSEE had observed cases where subsidies on production were reported in turnover (e.g. RATP). The action point 14 of the May 2017 SDV and action point 48 of the January 2018 mission (also following on action point 23 of the June 2014 SDV), recommended to use budget information to verify the adherence to the rule, at least for the biggest units. DGFIP noted that CHORUS included the SIREN code of the counterpart transactor, however no reporting had been designed for this and, in addition, information may not be always available.

INSEE noted that investment grants, which are amortised as a revenue (account 777), were excluded from the calculation of the 50% test. In the case of HLM companies, as an example, the stock of investment grants not yet amortized represents 10% of fixed assets end-2016.

Eurostat also inquired on the content some other lines of the '*liasse fiscale*', and whether, or how, these should be included in the 50% market test: '*autres produits a recevoir*' (R315),

‘*autres produits a payer*’ (R222), inventory positions (R211 and R213), proceeds on securities (R331), and positions R502 and F101 which should be only relevant to unincorporated entities (and should therefore be zero in the database).

Concerning the application of the **qualitative criteria**, INSEE reported the case of units classified inside government, other than as a result of the 50% test application: Hospitals, SAGESS, Académie Française (all already mentioned in the January 2018 mission), but also TELT and BPI Assurance Export. Eurostat noted that the qualitative criteria also referred to cases of predominant sales to general government, following ESA 20.24-20.28. Eurostat recalled action point 49 of the 2018 mission, suggesting adding a series in the SBS or in the *Liasse Fiscale*. INSEE indicated that the law prevented increasing the reporting burden, such that a new series would lead to disappearance of other series. The CNIS has to be consulted on such matters. INSEE asked what was the situation in Europe and the cost-benefit analysis. Eurostat agreed that prioritization had to be made. Eurostat noted that, in a number of countries, special surveys had been developed on this, on a routine or ad-hoc basis.

Main findings and conclusions

Action Point 11: In relation to the practical implementation of the market/non-market test:

- a. INSEE will clarify the number (and identification) of entities with a debt above 150 meur for which the 50% test failed three years in a row, and their cumulated debt. (former Action Point 19d)

*Deadline: January 2020.*²⁴

- b. The FSA will adapt their reclassification policy in terms of time of implementation, by reclassifying units as soon as the 50% test fails for no more than three years in a row, i.e. retrospectively to the first year of failed test, with some flexibility for small units and/or for years closed in NA: by way of a macro-adjustment, possibly simplified with a B.9 and Debt impact. INSEE will indicate when units are to be reclassified in general government with their complete accounts, which should be as soon as technically possible. (former Action Point 19c)

*Deadline: From accounting year 2019 onwards.*²⁵

- c. The FSA will consult in order to establish whether modification of the statistical or fiscal reporting can address the qualitative criteria requirements following ESA 2010 (also in the light of the next action point). (former Action Point 19i)

*Deadline: May 2020.*²⁶

- d. Eurostat recommends that CHORUS counterpart information be used more systematically, for the qualitative criteria (counterpart of purchases) and for the right implementation of the subsidy revenue, included in the 50% test. The FSA will provide a feasibility note addressing this issue. (former Action Point 19j)

²⁴ To be completed.

²⁵ To be completed.

²⁶ To be completed.

*Deadline: May 2020.*²⁷

- e. In the meantime, Eurostat recommends that an analysis be made for the 50 biggest subsidies granted to public corporations classified outside S.13. (former Action Point 19k)

*Deadline: April 2020 EDP Notification.*²⁸

- f. The FSA will clarify a) the content of ‘*autres produits a recevoir*’ (R315; as well as ‘*autres produits a payer*’, R222) and if it is prudent to include this item within sales in the context of the formula used for the 50% test; b) the sign in relation to inventory positions (R211 and R213); c) the content of item R331, proceeds on securities; and d) whether positions R502 and F101 should not be excluded from the formula, given that they are only relevant to unincorporated entities (and should therefore be zero in the database). (former Action Point 19l)

*Deadline: December 2019.*²⁹

4.1.2. Changes in sector classification since the last EDP dialogue visit

Introduction

Since the last EDP visit, the main changes in sector classification were those of Radio and TV and of SNCF Réseau, which were reclassified inside S.13. The unsatisfactory way in which these reclassifications were implemented in practice is addressed in section 1.2.4 (Revision Policy) of these findings.

Apart from these two units, INSEE has also provided, prior to this SDV, a list of new units in S.13 (14) and units removed from S.13 (20) since the last SDV.

Discussion and methodological analysis

In relation to SNCF-Réseau, apart from the practical implementation of its reclassification, Eurostat recalled that this unit had been reclassified inside government from 2016 onwards, the unit market test falling below 50% in that year, after INSEE implemented a number of adjustments recommended by Eurostat. Eurostat noted that most railway infrastructure in the EU are inside government, with the remaining ones being subject of review by Eurostat.

Eurostat had welcomed the reclassification of SNCF-Réseau inside government during the October 2018 Notification, accepting that this reclassification occurs only from 2016 given that the benchmark revision was closed in May 2018. However, Eurostat thought that there was a strong case for classifying infrastructure inside government based on the qualitative assessments, also in consideration of EU regulations requiring the separation of the infrastructure companies (that are de facto monopolistic) from transporters (in principle open to competition).

²⁷ To be completed. INSEE also recommends that those issues be discussed in the EDPS WG.

²⁸ To be completed.

²⁹ To be completed.

It would generally be difficult to assess if the fees charged by infrastructure meet the economically significant price criterion or not, also taking into account the significant subsidies paid by government to various railway companies (including Public Service Obligation, PSO).

While reclassification of entities via OCV was a traditional statistical standard, Eurostat nonetheless recalled the SNCB case. Given the commitments of the State, made in 2018, to assume SNCF-Réseau debts in the future, Eurostat thought more prudent to have this entity classified inside government for the whole reporting period (1995 onwards), so to avoid any misinterpretation, although this could be implemented in the next benchmark revision.

Furthermore, as concerns the 14 units now classified to S.13, INSEE explained that all these are *de facto* new units (sometimes with mergers as origin), such that they are not strictly speaking sector reclassifications. As concerns the 20 units removed from the general government list, INSEE clarified that these are all units that were either closed or merged between themselves to create a new unit (also classified in S.13).

Main findings and conclusions

Action Point 12 (former Action Point 19m): INSEE will reflect on the qualitative criteria application for SNCF-Réseau, for the next benchmark revision, so to remove the OCV in assets and liabilities currently existing in 2016 reporting year.

Deadline: no later than the 2024 benchmark revision.

4.1.3. Questionnaire on government controlled entities classified outside the general government sector

Introduction

In the *Questionnaire on government controlled entities classified outside general government* (QPC), with 2016 as reference year, sent by INSEE to Eurostat on December 2018, 7700 public corporations are listed.

During the May 2017 SDV, Eurostat had remarked that a number of public corporations were flagged to be NACE O (*see Action Point 32*) or to have no employment (*see Action Point 34*). Eurostat recalled that NACE O is always nonmarket under ESA 2010, and that autonomy of decision requires employment.

Discussion and methodological analysis

Responding to Eurostat query about the fact that the Questionnaire on government controlled entities classified outside general government (QPC) contains a number of entities with a test below 50% (*see section 4.1.2 above*), INSEE pointed to cases where legal entities are serving their mother or their group. Eurostat agreed that, when the reporting for the QPC is based on legal units, rather than institutional units, some daughters reported there are *de facto* considered ancillary units. Eurostat nonetheless requested that such entities be identified (also identifying the mother), for instance by way of locating the daughters under their mother (in the Questionnaire), or (which would be preferable from a user point of view) by identifying the relevant information on a separate column to be inserted/added on the right-hand side of the sheet (indicating the code of the mother). It is notably the case, for instance for GEODIS and SNCF Participations (subsidiaries of SNCF), EDF International and Societe C25 (subsidiaries of EDF), GIAT Industries (subsidiary of Nexter), etc.

Regarding GIAT Industries, INSEE reported that the Nexter/KMW group is an association between the French State and a German private group (KMW), bringing together resources to

build military armoured vehicles (Scorpion, Leclerc, Leopard), ammunitions, rifles (FAMAS), etc. GIAT Industries encompassed some residual elements left after the transfer of the French assets to Nexter. Eurostat asked if Nexter (or part of Nexter/KWM group) should not be reported in the QPC.

This is also applicable to holdings (such as New AREVA Holding, Ermewa Holding, etc), but in this case INSEE has to verify that the holding is serving the group rather than government, e.g. when the holding is a subsidiary of a public corporation.

DGFIP noted instructions made in the past to reduce the number of entities that were seemingly dormant. In relation to these dormant units, or units under liquidation or in bankruptcy, INSEE noted that any legal entity in existence had to report a balance sheet and a profit and loss. Eurostat concludes that, in France, according to INSEE there are no issues of dormant public entities classified outside S.13.

Eurostat noted a number of units reported in the QPC with NACE 84, which is by definition non-market and should thus be automatically classified in the general government. Furthermore, Eurostat noted other units reported with NACE codes 70, 72, 85, 86, 87 and 88, which are also typically non-market activity and suggested that (given the practical constraints referred by INSEE on analysing the sector classification) units with such NACE codes could, by convention/default, be classified inside the general government.

Main findings and conclusions

Action Point 13: In relation to the Questionnaire on government controlled entities classified outside the general government sector

- a. INSEE will arrange to annually carry out the 50% test for all units, irrespective of their size, using the ‘Liasses Fiscales’. (former Action Point 19a)

Deadline: From accounting year 2019 onwards.³⁰

- b. INSEE will improve its sectorisation policy, based on the annual 50% test, taking into account the other practical implementation aspects mentioned in the following action points (notably using NACE as an indicator of sector classification for small units). INSEE will report to Eurostat on this. (former Action Point 19b)

Deadline: From accounting year 2019 onwards.³¹

- c. The FSA will identify daughters that are ancillary units in the Questionnaire on Public Corporations. Eurostat will reflect on amending the template to insert an additional column, so to address structurally this reporting problem. (former Action Point 19e)

Deadline: December 2019.³²

- d. Regarding holdings, INSEE will report to Eurostat its analysis of who is benefitting from the service of the holding, either by identifying the mother in the QPC (see Action Point

³⁰ On June 2021, INSEE informed that it had started working on the issue and would, soon, provide a feedback on the status quo of this exercise.

³¹ No progress so far.

³² To be completed.

above), or justifying the reason why the holding held by government should not be classified inside government. (former Action Point 19f)

*Deadline: December 2019.*³³

- e. The FSA will clarify the structure of Nexter/KMW and how many institutional units should be recognized. Given the partnership nature, due consideration will be given to control through specific means, such as through contracts. (former Action Point 19g)

*Deadline: December 2019.*³⁴

- f. The FSA will analyse units that are reported with NACE 84 (which is by definition non-market) in the Questionnaire on Public Corporations and amend it as appropriate. Similarly, the FSA will clarify entities that are NACE 70, 72, 85, 86, 87 and 88, particularly in the light of the suggestions of INSEE that the classification inside government could be based on the NACE code as a way for a practical implementation. (former Action Point 19h)

*Deadline: December 2019.*³⁵

4.1.4. Sector classification of specific units

Introduction

As a follow-up of the May 2017 SDV (*see Action Point 32*), and before the January 2018 ad-hoc mission, INSEE explained that the NACE O coding reflected errors in the business register, which were being corrected. Following this, 732 units had been reclassified to NACE I ("**syndicats des eaux**"). Eurostat enquired on the autonomy of decision of the water boards.

Separately, the absence of employment data (or 0 employment), also observed in the May 2017 SDV, resulted principally from so-called "matching failures" arising when comparing different databases to fill the questionnaire on public corporations. As action point 50 to that 2017 visit, INSEE was to provide further information on the sector classification of these units, concerning both their quantitative and qualitative criteria.

As concerns **HLM**, in the January 2018 Ad-hoc visit, INSEE saw no reason to reclassify social housing, given that investments are covered by grants of the State and by loans, notably from the CDC. In recent years, according to INSEE, banking loans started to be competitive compared to those of CDC. Although rents are lower than the market, they are supposed to cover costs. The reference rate is the same for all tenants, although it may be nonetheless modulated upward for the small fraction of tenants whose income is above a threshold. In addition, if housing benefits cover a part of the rentals (and may be directly paid to HLM), the housing benefits were provided to any eligible tenant in France, whether renting to HLM or to private landlords. As a result, INSEE considered these amounts as social transfers in kind via market producers (D.632) and legitimate sales for the 50% test.

³³ To be completed.

³⁴ To be completed.

³⁵ To be completed.

Furthermore, according to INSEE, HLM bankruptcies are not frequent. When they occur, a reclassification inside government is conducted. HLM decides on the tenants they select, although local governments can impose tenants for up to 25% of HLM capacity.

Since that mission, INSEE was to provide further information requested by Eurostat (*see Action Points 52 and 53*).

Discussion and methodological analysis

Out of the 7700 units reported in the QPC, 3426 are Water Syndicate corporations (**Syndicats des Eaux**), with a debt of 4.6 billion euro. Out of these, 261 units have a score of less than 50% in the market test over 2014-2016, mostly concerning very small units (cumulated debt of 12 meur only). Those entities remain classified in S.11 based on their activity.

In this context, Eurostat enquired on the exact activity of water syndicates and whether they are providing service to local government for selling water or were selling water themselves. INSEE noted that they are not ‘budget annex’ of local governments, have a different immatriculation number (SIREN), can serve several local governments and can even be private.

Prior to this SDV, a note of INSEE pointed to the existence of 264 OPH³⁶. Eurostat could nevertheless only find 29 of these units in the QPC and hence enquired with the FSA whether the remaining were classified in S.13 or were simply, by mistake, not reported in the QPC. INSEE explained that the majority of these entities are not identified in the Questionnaire on Public Corporations as OPH, such that an immediate identification might be burdensome. After the mission, INSEE was to forward to Eurostat a list identifying OPH in the QPC (*done on 22 October 2019*).

Furthermore, Eurostat noted that the 50% market test results of the 29 OPH units visible in the QPC are typically around 100%, and wondered what would explain this.

Main findings and conclusions

Regarding the *Syndicats des Eaux*, INSEE agreed to investigate whether, in the price paid by consumers in the water invoice, taxes other than common VAT are included. If this is the case, INSEE will further analyse the size of these taxes in the total price paid, as well as who is the final recipient of those amounts.

Regarding HLM, INSEE agreed to forward to Eurostat the accounts of Paris Habitat and OPH du Val de Marne³⁷.

4.1.5. Government and the financial sector: sector classification and rerouted operations

4.1.5.1. Agence Française de Développement

Introduction

During the May 2017 SDV, Eurostat questioned the classification of *Agence Française de Développement* (AFD – *see Action Point 38*) and wondered to what extent all transactions

³⁶ Offices publics d'habitations, EPIC

³⁷ These data were sent to Eurostat on 22 October 2019.

carried out on behalf of the State were adequately rerouted (*see Action Point 36*). Eurostat also discussed the conversion of the Treasury loans to AFD into equity (2.4 billion euro) carried out in 2016, which had to be capital injection tested.

In the absence of progress on the above issues, by the end of the October 2017 EDP notification, Eurostat expressed a reservation on the quality of the data reported by France in relation to the recording of some operations of AFD.

During January 2018, the discussion centered on the need to reroute certain AFD operations, notably the sovereign loans, on a potential captive classification of AFD, and on the governance of AFD.

AFD sovereign loans are guaranteed by the government of the receiving country and seemed also to benefit from some support from the French government through the "*compte de reserve*". Eurostat enquired on whether the *compte de reserve* was not a mechanism providing *de facto* a government guarantee on these sovereign loans. INSEE was requested to clarify some other specific issues regarding sovereign loans: the AFD participation in Paris Club meetings, the cash flows regarding these loans, and the compensation for Paris Club write-offs.

Furthermore, the activities of AFD on distributing subsidies on behalf of the State were discussed in the 2018 mission. Eurostat emphasized that, to its knowledge, no entity classified outside government in the EU distributed subsidies to developing countries or (except for Austria) distributed sovereign loans that were not rerouted in government accounts, as their main activity.

Finally, regarding the 2016 conversion of the 2.4 billion euro loans in equity, following discussions with Eurostat, INSEE proposed during the 2018 mission to record the loans granted as capital transfers at time of provision of the 'loans', such that no entry is required in 2016 in relation to this loan conversion. Eurostat agreed to this proposal.

For the April 2018 notification, without any positive evolution on this other issue, Eurostat maintained the reservation on the French data regarding AFD.

Responding to questions on governance, the French authorities eventually altered the composition of AFD board. In the October 2018 EDP notification, Eurostat accordingly withdrew the reservation on the quality of the data reported by France in relation to AFD.

Notwithstanding this, two main remaining issues required further discussion in this SDV:

- Pending action points from the previous missions (notably the cash flows in relation to sovereign loans, the cash flows from the State to AFD, the role of AFD representatives in the Paris Club, the functioning of 'compte de reserve' and whether AFD receives a fee from the State when providing guarantees);
- Future recapitalisations of AFD.

Discussion and methodological analysis

Eurostat recalled that AFD had been subject to many discussions with INSEE in the past, with three action points in the May 2017 SDV and seven further action points in the January 2018 mission. This concerned (a) a recapitalisation event of 2.4 billion euro in 2016, (b) the classification of AFD, and (c) a potential rerouting of selected AFD assets (sovereign loans). AFD was the subject of a number of reservations on this basis, in the October 2017 and April 2018 EDP Notifications.

As a way to remove the reservation on the capital injection in 2017, INSEE proposed that the concessional loans granted by the Treasury to AFD (so-called RCS) are reclassified as capital transfers, at time of granting of loans, across the years. The actual conversion of those loans into equity in 2016, therefore, becomes statistically a non-event. Separately, as a way to address some Eurostat concerns in relation to the AFD governance, the composition of the Board of Governors of AFD was changed from September 2018, so to cover a majority of non-government-officials. In October 2018, the reservation on the quality of data of the French EDP as regards AFD was removed.

The FSA recalled that AFD tasks are to distribute subsidies on behalf of government, manage the FSD on behalf of government, and to act as a public development bank. The FSA provided an extract of the Budget de L'État (cash), showing the expenditure that concern/benefit AFD operations, in the form of gifts, 'loans' (including interest subsidies on loans) or fees. The FSA also provided an extract of AFD analytical profit and loss as well as 'key figures'. Eurostat asked a number of questions in relations to these two tables and their consistency. Eurostat understood that some of the flows ('total don' of the FSA table, that includes *Aides budgétaires globales et assimilées of Programme 11, transferts à l'AFD of Programme 209, FSD and taxe sur les transactions financières affectées à l'AFD*) from the State to AFD do not transit via AFD financial statements, AFD acting as a pure agent (556 meur in 2018, after 581 meur in 2017).

The FSA reported government plans to carry out future injections in AFD, indicating that, in their view, these should be transactions in equity, given that AFD was profitable. In addition, they considered that the treatment of RCS as capital transfers may not be justified and that recording these RCS as loans (as before) may be more appropriate. Regarding the treatment of RCS, Eurostat considered that the classification was indeed a question of judgement but thought that it would be difficult to come back to the loan recording, given that the transfer recording had been decided at the initiative of INSEE during the 2018 mission for the specific purpose of avoiding a capital transfer in 2016, thereby obtaining the removal of the reservation. INSEE, however, reflected that the decision was taken too quickly, during a dialogue visit, and that further analysis and reflections took place afterwards, notably at the European level (CMFB workshop for instance), which would justify, according to INSEE, to come back to a reassessment of the recording of the RCS loans.

Regarding the treatment of future capital injections, Eurostat's view was that AFD was profitable only after loans 'bonifications' are taken on board. As a result, as pointed by Eurostat in the January 2018 mission (paragraphs 16-18), any expansion of the size of AFD would not lead to higher return (government revenue) in future but to more subsidies expenditure, such that the capital injection test *de facto* fails. Eurostat also recalled that, according to ESA 20.198 a), a capital transfer is applicable also when the injection is made "*for public policy purposes*". In addition, Eurostat pointed that capital injections to MDBs are expenditure, according to MGDD chapter IV.6, when the MDB grants concessional loans. INSEE recalled that AFD is not, in its view, in an MDB and that more than half of the granted loans are non-concessional.

Eurostat considered that the rationale of the chapter was applicable also to national concessional loans agency. As mentioned in the January 2018 mission (paragraph 19), one rationale for recording a capital transfer in case of concessional loan MDBs mentioned in the MGDD (i.e. that the capital of the MDBs in question then tends to deplete overtime) does not invalidate the conclusion for AFD, given that the capital of AFD does not deplete only because of the equilibrium subsidy provided by the State. Although AFD also carries out normal lending, Eurostat nonetheless noted that a third of the lending was concessional, which started to be significant. Furthermore, Eurostat noted that government investments in BEI and ESM were transactions in equity, because those entities did not have concessional loans.

Eurostat also enquired on the subsidy management activity of AFD, whether AFD staff was merely managing the administration or was actually deciding on the beneficiary of the subsidies. In the latter case, this activity would seem to be governmental in nature, which could question the classification of AFD, taking also in consideration the large concessional loan activity, or perhaps alternatively could suggest rerouting the activities of the concerned department of AFD. The FSA recalled that loans are at the sole initiative of the AFD, without any governmental approval, without prejudice of the fact that it is an inter-departmental government entity (CICID), chaired by the Prime Minister, that decides on the geographical distribution of AFD core activity. In its view, AFD is an entity carrying out financial intermediation, and generating a profit. Eurostat noted that the profit resulted from the ‘*bonifications*’ (subsidies) and that the financial intermediation character was debatable given that if on the liability side AFD transacts with the public at large, the asset side was much constrained. In addition, it was debatable if the financial intermediation service was market or non-market, i.e. whether the volume of supply and demand responds to prices (i.e. interest rate charged), given the subsidy element attached to the interest rate. INSEE, on its side, considered that the ‘*bonification*’ is fully part of the interest rate, and represents a subsidy to the final beneficiary of the loan, not to AFD.

Eurostat thought it necessary to clarify the functioning of the *Compte de Reserve* (see also Action Point 12 of January 2018 mission), that seemingly grants a guarantee on asset by the State according to the annual report of AFD (“*The French government covers arrears and loan write-offs in the sovereign activity through its reserve account which, at the end of 2016, had a balance of €622M*”, 2016 report). This *compte de reserve* is fed through setting aside a part of the bonifications paid by the budget on sovereign loans. The issue was whether this *compte de reserve* was merely a common provision account foreseen by banking regulations, or a device to *de facto* shield the AFD shareholders equity from any risk associated to sovereign loans. Eurostat thus reasoned that the exact waterfall governing the *compte de reserve* was important to be clarified in order to determine the economic ownership of the sovereign assets.

Main findings and conclusions

Action Point 14 (former Action Point 11): In relation to AFD:

- a. The FSA will report the FSD in questionnaire table 3³⁸.

Deadline: October 2019 EDP Notification

- b. The FSA will provide the necessary detail to link the budget presentation of the flows from the State to AFD with the AFD financial statement and key figures.³⁹

³⁸ Action point completed with the submission of the October 2019 EDP Notification.

³⁹ Action Point completed. On 26 January 2021, the FSA provided a short note drafted by the French Treasury. According to this document, AFD’s activity is broken down between loans, subventions and others. The total net banking income (PNB, produit net bancaire) amounted to 637 million euro in 2018, of which 51 million euro regarding the subvention activity. Out of the 488 million euro of PNB regarding loans, 197 million euro correspond to the grant element of the concessional lending that the French State pays AFD. No detailed information is provided regarding the ‘other’ activity, corresponding to 98 million euro of PNB in 2018. Whereas the PNB for activities clearly undertaken on behalf of the State corresponds to 46% (excl. ‘others’) and 39% (incl. others), it must be considered that these figures of the consolidated financial statements exclude

- c. The FSA will enquire on whether sovereign loans (concessional or not) are de facto part of inter-governmental agreements.⁴⁰
- d. The FSA will clarify the functioning of the *compte de reserve*, notably whether all sovereign loans are covered by the scheme, and how the bonifications set aside is recorded in the NA. The FSA will reflect on the economic ownership of sovereign loans.⁴¹
- e. The FSA will clarify if and where IDA flows (or flows regarding the replenishment of any other MDB) can be observed in AFD financial statements or key figures.⁴²

Deadline: February 2020

- f. Taking into account the findings in the previous action points, the FSA will reflect on the classification of AFD in the light of its activity (nature of the subsidy department, sovereign loans activity, FSD management) or on the rerouting of part of the AFD portfolio.

Deadline: April 2020 EDP Notification⁴³

4.1.5.2. Caisse des dépôts et consignations

Introduction

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

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

the replenishments of Multilateral Development Banks, which ADD also undertakes on behalf of the State (following information provided on action point 14.e).

⁴⁰ Action Point completed on 26 January 2021. According to the FSA, the sovereign loans (subsidised or not) are not part of any "inter-governmental agreement": the credit decision belongs to the AFD only. Loans decisions are validated by the AFD decision-making bodies, whose composition guarantees the autonomy of the Agency.

⁴¹ Action Point complete on 26 January 2021. The reserve account is used to provision losses in case of default on a sovereign loan. The reserve account is mainly provisioned in two ways: 1) a fraction of the total bonification paid by the State at the time of the grant, through which the State subsidises the risk premium of the loan, which is made at the time of the granting of the loan and not when the default of payment occurs; and 2) a contribution on loans granted to "very large emerging countries", paid by the AFD, but which is determined jointly by AFD and the State.

⁴² Action Point completed on 26 January 2021. These flows are not reported in the consolidated statements of AFD, although it is de facto AFD who undertakes those contributions/loans on behalf of the State.

⁴³ To be concluded.

- CDC is a public group made up of a Public Institution and subsidiaries. Missions of general interest are the responsibility of the Public Institution. Subsidiaries are in charge of commercial activities;
- CDC is an autonomous public agency and makes its investment decisions autonomously. It independently manages its assets and its personnel are not, for the most part, made of civil servants.

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

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

During the May 2017 SDV, Eurostat enquired on the amounts managed by CDC that were rerouted and not recorded in Table 13 of the Questionnaire, other than PIA funds and the repayable advances to Airbus. INSEE confirmed that no other CDC operations were currently rerouted through government accounts over 2013-2016.

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

Furthermore, during the May 2017 SDV, Eurostat noted that **Fonds d'épargne CDC** are not consolidated with the CDC central section in CDC publications. Additionally, in the Questionnaire on government controlled units classified outside general government, the *Fonds d'épargne CDC* is registered separately. For Eurostat, this suggested that CDC itself considered that the group was not exposed to the risks and rewards on these funds. Accordingly, a question arose whether these should not be hosted in government accounts (principal party recognition).

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

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

Discussion and methodological analysis

Eurostat enquired on the information provided by the FSA concerning the operations managed by CDC and seemingly rerouted in the accounts of the State. Eurostat understood that CDC

manages 15 funds on behalf of the State. Eurostat enquired which of those funds, if any, featured in the financial statement of CDC or in the CGE and/or Budget presentation (Working balance), so to clarify to what extent one should be speaking of cases of rerouting to be reported in Questionnaire Table 13 (which is currently empty in this respect). Eurostat also noted that CDC manages four retirement schemes of the public sector, classified in S.1314. INSEE also explained that repayable advances to AIRBUS, for instance in support of the A350, are recorded as expenditure (D.92) and revenue (D.759).

Eurostat thought that, at this stage, the interrogations raised in the findings of the May 2017 SDV (page 33) remain mainly standing, except in relation to *Fonds d'Épargne* that, starting from 2017, are now consolidated with the rest of CDC group in the Annual Report of CDC. The lack of consolidation of *Fonds d'épargne* and CDC had raised the attention of Eurostat in the May 2017 SDV (see action point 42). Eurostat noted that 60% of the assets funded by *Fonds d'Épargne* consist in lending to social housing entities, the latter being guaranteed in full by their respective local government (179.3 billion euro in 2017) or by CGLLS (3.2 billion euro), a dedicated entity created for this purpose. Eurostat noted that CGLLS is classified in S.11 and that Table 9 does not have guarantees on either of those amounts.

Eurostat noted that *Fonds d'Épargne* benefit from guarantees by general government units on both the asset and the liability sides, through social housing guarantees and through guarantees on 'Livret A'. Eurostat thought that this situation was rather different from EU-regulated guarantees on deposits, or from the backup role of the central bank, given that *Fonds d'Épargne* benefitted of guarantees on assets for the majority of its balance sheet, such that, de facto, government was acting as a lender-of-first-resort, and not as a lender-of-last-resort or guarantor of deposits upon liquidation. At the same time, the *Fonds d'Épargne* could, as any normal bank, be subject to a bank run on its deposits.

In this context, INSEE indicated that it would actively participate the forthcoming Task Force on development banks.

Main findings and conclusions

Action Point 15 (former Action Point 12): In relation to CDC activities:

- a. The FSA will report in questionnaire table 13 the lending operations (or expenditure) carried out by CDC group on their own funds or on *Fonds d'Épargne* that are, or should be, subject to rerouting⁴⁴.
- b. The FSA will include the missing amounts of guarantees on social housing in questionnaire table 9 (as well as in the table relating to the Council Directive 2011/85)⁴⁵.

Deadline: October 2019 EDP Notification

- c. Eurostat recommended INSEE to analyse whether the CGLLS should be considered a market producer, notably given its mandate in the context of social housing financing.

⁴⁴ Action point in progress. During the October 2019 EDP Notification, Eurostat suggested that INSEE sends a note before the April 2020 EDP Notification analysing possible operations to be re-routed in the context of CDC operations

⁴⁵ Action point completed with the submission of the October 2019 EDP Notification. INSEE reported amounts of guarantees for years 2015 to 2018. The stock of guarantees on social housing in the context of CDC operations is of 134.8 billion euro end-2018.

- d. The FSA will enquire on who is the lender-of-last-resort in case depositors would withdraw their deposits from Livret A.

Deadline: December 2019⁴⁶

- e. The FSA will clarify the facts and terminology with respect to the activity managed by CDC on behalf of the State, and will report to Eurostat the fees collected as part of the remuneration of this service to government, if any.

Deadline: February 2020⁴⁷

4.1.5.3. Agence France Locale

Introduction

Specialized public financial institutions financing local government are typically borderline classification cases between financial corporations and government sectors.

According to ESA §2.77, financial intermediaries such as corporations engaged in granting mortgages (including building societies, mortgage banks and mortgage credit institutions) or municipal credit institutions are to be “*classified in subsector S.122 where it is their business to receive repayable funds from the public, whether in the form of deposits or in other forms such as the continuing issue of long-term debt securities.*”.

Thus ESA § 2.77 makes a specific exemption (corporations engaged in granting mortgages or municipal credit institutions) to the obligation for financial intermediaries to fund themselves through deposits or equivalent (substitutes). Long-term bonds are not considered a substitute for deposits, in the manner that certificates of deposits (AF.31) or money market mutual fund shares (AF.52) are.

ESA §2.62, specifies that exceptions to the general limitation of financial intermediation to financial transactions on the market on both the liability and asset sides exist. "*Examples are municipal credit and savings banks which rely on the municipality involved, or financial lease corporations that depend on a parent group of companies for acquiring funds or investing funds. Their lending or their acceptance of savings shall be independent of the municipality involved or the parent group, respectively, in classifying them as financial intermediaries*".

This paragraph contains a different implied concept of "municipal credit entities". According to ESA §2.62, municipal credit and savings banks should not be classified by convention as financial intermediaries **in case there is no clear evidence that they are performing their lending or borrowing activity independently from their parent or owner** – in this case the local government: municipalities or regions.

In the context of the above, and of the discussions being undertaken at the level of the EDPS WG, Eurostat questioned the FSA regarding the sector classification of AFL.

⁴⁶ To be completed.

⁴⁷ To be completed.

The AFL group is composed of two entities: AFL-ST, classified in S.13, and AFL-SF, which has a banking license, borrows on the market and lends only to the local authorities that are shareholders of AFL-ST. AFL-SF liabilities are guaranteed by AFL-ST and also by each local government (double guarantee), which allows AFL-SF to raise funds very competitively.

Discussion and methodological analysis

Eurostat thought that such an entity that only lends to local governments should be seen as an ancillary unit to the group of units that participate to the ALF group, in line with ESA 20.24. In fact, it is questionable if AFL-SF has autonomy of decision.

The FSA noted that the Surveillance Board of AFL-SF was constituted of independent members, which in its view created a “Chinese wall” with AFL-ST, and considered that AFL-SF was a financial intermediary. Eurostat doubted whether AFL-SF was a financial intermediary, notably given the restrictions on the asset side, lending to only its shareholders, and could instead be seen as their captive.

The FSA also noted that AFL lending (2 billion euro) is only to government, such that the classification of AFL inside S.13 would de facto hardly impact the Maastricht Debt and Deficit.

While Eurostat agreed that exclusive lending to shareholders existed in other contexts, such as with mutualist banking groups, this specific case had two further characteristics: 1) the list of participants is restricted to local governments (and not to other legal entities or corporations) and 2) the shareholders are jointly and severally liable in case of default (whereas in a mutualist group the borrower exposure is limited to the equity that it had to purchase upfront).

Eurostat noted that this issue of Local Government Funding Authorities (LGFA) was under discussion in the EDPS WG. It can also be noted that, according to AFL reports, local governments cannot go bankrupt and cannot be put into liquidation, i.e. the State is likely to intervene. INSEE was of the opinion that this criteria (i.e. that ‘the State is likely to intervene’) is not a relevant one, since it would apply to various situations, even to the private sector (for instance the car industry) in case of major crisis. In INSEE’s opinion, it is, after all, one of the missions of the State to prevent severe economic damages to happen.

In the view of Eurostat, AFL is not different from an independent department of the State debt agency that would be in charge of funding local governments, which seems not that dissimilar to the independence of the State debt agency towards the Ministry of Finance observed in a number of Member States. Even when enjoying considerable autonomy of organisation, these entities do not have autonomy of decision in their principal function, because they have to raise the funds required by the Ministry of Finance (or the local governments). These are thus ancillary units in Eurostat’s view.

Main findings and conclusions

Action Point 16 (former Action Point 15): In relation to AFL:

- a. The FSA will report the guarantee on AFL debt actually issued in the questionnaire table 9, unless AFL is classified inside government.⁴⁸

Deadline: October 2019 EDP Notification

- b. Given the specific French circumstance, and in the context of the discussion in the EDPS WG, the FSA will reflect on the classification of AFL inside government.

Deadline: April 2020 EDP Notification⁴⁹

4.1.5.4. SFIL

Introduction

Société de financement local (SFIL) was created to keep providing funding to the local public sector, given the resolution of Dexia/DCL.

SFIL is a French public development bank created on February 1, 2013. The French government is the principal shareholder, with a 75% stake in its capital, the remainder being owned by *Caisse des Dépôts et Consignations* (CDC, 20%) and *La Banque Postale* (LBP, 5%). SFIL is a *société anonyme à conseil d'administration*. SFIL holds 100% of the capital of CAFFIL (*Caisse Française de Financement Local*), its sole subsidiary, with the status of *société de crédit foncier*. SFIL and CAFFIL are in the sector of financial intermediaries (S.122) in the national accounts.

The governance is organised around a Board of Directors and several committees (Governance and Appointments Committee, Compensation Committee, Financial Statements Committee, Internal Control and Risks Committee). The BoD is composed by 15 members, with a majority of not government officials.

SFIL has 3 main activities:

Local refinancing

SFIL provides French local government entities and public hospitals with access to long-term bank financing, in addition to the offers provided by commercial banks and French or European public institutions operating in this segment.

Loans are first granted by LBP. The loans in question are simple, being exclusively at fixed rates or with a single indexation (Euribor + margin) or two-phase structure (fixed rate then variable rate). CAFFIL then acquires the loans distributed by LBP. CAFFIL raises refinancing by issuing debt via covered bonds or *obligations foncières*. This debt is benefiting from the legal privilege (repayment privilege in the event of collective proceedings applicable to the

⁴⁸ Action point completed with the submission of the October 2019 EDP Notification. INSEE reported amounts of guarantees for years 2015 to 2018. The stock of guarantees is of 3.0 billion euro end-2018.

⁴⁹ To be completed.

société de crédit foncier; L.513-11 Code monétaire et financier). This status thus allows granting loans with competitive rates.

The market share in terms of outstanding loans to local government entities and public hospitals is of 23% (end 2018).

Sensitivity reduction

SFIL and CAFFIL have been created within the framework of the orderly resolution process of Dexia which was validated by the European Commission on 28 December 2012. On 31 January 2013, Dexia finalised the sale of Dexia Municipal Agency (DMA) to the French State, as a majority shareholder alongside CDC and LBP. Sensitive loans on the balance sheet of DMA were within the scope of this disposal. The risky structured loan sensitivity reduction program is now close to completion. The initial sensitive loans outstanding of EUR 8.5 billion in 2013 has been reduced to less than EUR 1.0 billion.

Export refinancing

In 2015, the French State gave SFIL the additional mission to refinance large export credits in order to bolster the competitiveness of French export offers.

The European Commission granted, on 5 May 2015, its authorisation to expand the scope of SFIL's activities as a public development bank, in order to resolve an identified market failure in this sector.

Discussion and methodological analysis

Eurostat took note that SFIL originates from the resolution process of Dexia, with the sale in January 2013 of DMA, hosting 1) the local governments and public hospital new lending, and 2) the 8.5 billion euro Dexia portfolio of so-called 'toxic debt' (see section 4.3.6.1 below), that created a significant legal risk to the creditor (e.g. local government debtors starting suing Dexia for inappropriately marketing of particularly risky debt contracts). SFIL also owns a subsidiary (CAFFIL), a 'foncière', that issues 'covered bonds' and refinances SFIL (as well as *La Banque Postale*) loans to local government.

Finally, in 2015, the State gave an additional assignment to SFIL: to refinance large export credits. SFIL purchases the largest part of the claim financed by a given bank, and refinances itself with CAFFIL. It benefits from a full guarantee through an enhanced guarantee mechanism introduced in the 2012 finance law. SFIL new loans are now exclusively originated with the French public sector as debtor. Eurostat thus wondered whether SFIL could be seen as ancillary to general government.

Eurostat noted that the guarantees provided to SFIL are not reported in questionnaire table 9.

Main findings and conclusions

Action Point 17 (former Action Point 14): The FSA will ensure that the guarantees provided to SFIL are reported in questionnaire table 9.⁵⁰

Deadline: October 2019 EDP Notification

4.1.5.5. BPI France/group

Introduction

Created at the end of 2012, *La Banque Publique d'Investissement* (BPI) aims at supporting the financing of small and medium-sized enterprises. BpiFrance intervenes with companies of all sizes, mainly small and medium-sized businesses, SMEs and larger companies, when they have a strategic importance for the national economy, territories or employment.

The main functions of BpiFrance are:

- Short, medium and long-term financing in partnership with banks (co-financing), including pre-financing of CICE;
- The guarantee of financial assistance;
- Financing innovation;
- Equity investments;
- Financing the needs of companies for export.

Compared to the last dialogue visit, the only notable change is the takeover by BPI of the public export insurance activities that COFACE was doing on behalf of the State at the beginning of 2017. BPI Export Insurance is classified as a miscellaneous entity of central administration (ODAC). It does not have an insurance company license.

The Ministers of Finance, Action and Public Accounts and of Higher education and Research appoint the board members of BPI.

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

BPI Groupe is composed of three different clusters:

- the first one consists of *Bpifrance Financement*, which provides loans, guarantees and support to innovation (subsidies, repayable advances, zero-interest loans); it is considered by the FSA as a financial institution, classified in S.12;
- the second one consists of both *Bpifrance Participations* (S.13112), which detain 100% the *Bpifrance Investissement* (currently in S.12), and is focused on investment;

⁵⁰ Action point completed with the submission of the October 2019 EDP Notification. INSEE reported amounts of guarantees for years 2015 to 2018. The stock of guarantees on social housing is of 7.4 billion euro end-2018.

- the third is Bpifrance Assurance Export (S.13112)⁵¹, in charge of managing, on behalf of the State, the export insurance (ex-Coface).

Since the April 2018 EDP Notification, the FSA were supposed to reclassify Bpifrance Investissement, given that this entity works only for its parent.

Discussion and methodological analysis

Eurostat reviewed the activity, structure and classification of the various BPI group units. Eurostat took note that COFACE activity for long-term exports is taken over by BPI Assurance Export, which is classified inside S.13⁵², such that the specific COFACE adjustments carried out in national accounts in previous years were not needed anymore. BPI France has two main streams of activities: financing and investments on own funds. The latter transits via BPI Participations or via funds managed by BPI Investment, involving four main sections: i) strategic participation in larger companies, ii) participation in SMEs, iii) innovation business, iv) fund management.

Eurostat's analysis focused on BPI Financement activity. BPI Financement has three activities: 1) support of innovation (subsidies or loans, for around 1 billion euro a year), 2) guarantee business, 3) funding of investment (around 6/7 billion euro a year) or of working capital (around 7-9 billion a year, including CICE funding).

INSEE indicated that budget contributions to BPI Financement activities of type 1) and 2), which are in principle carried out on behalf of government, are simply recorded as expenditure, as a simplified approach of recording (instead of carrying a complete rearranging, as would be required). Eurostat noted that the guarantee business could be considered as a standardised guarantee scheme, and recommended that the FSA further collect information and data on this.

Eurostat wondered to what extent, aside from business 1) and 2), some elements of the activity 3) would de facto be activities in the interest of the public, as a matter of public policy. In particular, it noted the specific activity of CICE pre-funding, where BPI Financement seems to have a clear leadership if not *de facto* exclusivity (on the retail banking clients), BPI Financement carrying 70% of the total CICE factoring amounts in France: 5 billion euro in 2017, which itself overtakes the flow of other factoring operations of BPI Financement (3.6 billion euro). Eurostat enquired on what the 5 billion euro in CICE exactly consist of: prefinancing in year T only, or all factoring operations of CICE claims? Eurostat enquired on why BPI Financement had this 70% share in CICE prefinancing. It noted that the CoA refers to BPI Financement offering very low charges/fees, and fast processing of claims, while banks tended to have less appetite in carrying those operations. In addition, Eurostat understood that banks that are pre-financing themselves CICE could also have access to BPI guarantee activity (underwritten by the State).

As a result, Eurostat wondered if the classification of BPI Financement was appropriate given the significant activity undertaken on behalf of government: innovation, guaranteeing and CICE pre-funding, or at least require envisaging the implicit or explicit rerouting of those operations. Separately, Eurostat thought that, de facto, government had organized itself to arrange the

⁵¹ Prior to the October 2019 EDP Notification, INSEE has explained that this entity is de facto not classified in S.13, and that this reclassification would be undertaken for the April 2020 EDP Notification.

⁵² INSEE informed after the SDV that indeed BPI AE is not classified inside S.13

prefunding of CICE through a dedicated agency, which in turn may have consequences on the recording of the CICE in NA.

Main findings and conclusions

Action Point 18: In relation to BPI:

- a. The FSA will reclassify BPI Investment inside S.13 as it was presumed to be the case, as a follow-up of Action Point 40 of the May 2017 SDV (see footnote 24). BPI Investment is an agent only serving BPI Participations, the latter being classified in S.13. The FSA will also classify BPI AE in S.13, which was presumed to be the case since the creation of this entity.⁵³

Deadline: April 2020 EDP Notification

- b. The FSA will enquire on the ways to collect data on the guarantee section of BPI Financement, which could be rearranged and reported as standardised guarantees on questionnaire table 9.4.⁵⁴ In the meantime, the guaranteed amounts are to be reported in questionnaire table 9.⁵⁵

Deadline: April 2020 EDP

- c. The FSA will report data on BPI Financement activities over 2015-2018 to Eurostat, will clarify the coverage of the CICE claims reported in the key figures of BPI Financement, and will indicate the maturity of these claims.⁵⁶
- d. The FSA will report to Eurostat the detail of the budget (or other government unit, such as other BPI Group entities) flows that benefit BPI Financement activity, identifying when those amounts are reported within its financial statements (Profit and loss and/or balance sheet) or not.⁵⁷
- e. The FSA will reflect on the classification of BPI Financement, or on the need to implicitly or explicitly rearrange through S.13 the business carried out on behalf of government, including the CICE factoring business.⁵⁸

Deadline: February 2020

⁵³ Action Point completed. BPI AE and BPI Investment were reclassified to S.13 in the April 2020 EDP Notification.

⁵⁴ Action point partially completed with the submission of the October 2019 EDP Notification. INSEE reported amounts of guarantees for years 2015 to 2018. The stock of guarantees is of 16.2 billion euro end-2018. INSEE is analysing whether these guarantees meet the definition of standardised guarantees.

⁵⁵ Action Point completed in the April 2020 EDP Notification.

⁵⁶ Action Point completed on 13 December 2019. Figures in the financial report of BPI France are figures of the balance sheet, which represent the outstanding of claims factorised by BPI, but not yet reimbursed by the Government to BPI. According to the French “Order of the Accountants”, the bank that has pre-financed the claim of CICE may benefit from the reimbursement of this claim by the State, under the same conditions as the ceding company. BPI factorises between 55% and 60% of the total of factorised claims: 1.1 billion euro in 2013, 1.7 billion euro in 2014, 1.6 billion euro in 2015 and 1.5 billion euro in 2016.

⁵⁷ To be completed.

⁵⁸ To be completed.

4.2. Implementation of the accrual principle

4.2.1. Military Expenditure

Introduction

INSEE and Eurostat have been involved in in-depth discussions on the recording of Military Expenditure since, at least, the May 2017 SDV.

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

In the May 2017 SDV, Eurostat noted that INSEE continued applying the derogation - allowed in the Eurostat decision on military expenditure of 2006 under ESA 1995 - for selected military contracts (including the Rafale, apparently). This old derogation foresaw a transition period to implement this Decision where countries were permitted to record on a cash basis deliveries prepaid before 2005, with a correction to the actual deliveries from 2005 onwards (so to avoid double counting expenditure over time), instead of prescribing a backward revision. By definition, this derogation is however not applicable with changes in system, that is: since the switch to ESA 2010 (October 2014 notification). INSEE considered that, however, this was not flagged by Eurostat at the time ESA 2010 was implemented by Member States. Eurostat thought it self-obvious that a change to a new manual implies the removal of all ad-hoc rules/derogations granted under the previous manual, and that appropriate retropolations were therefore in order, unless Eurostat would explicitly carry-over that rule/derogation.

In the January 2018 Ad-hoc visit, Eurostat understood that the 'specific programmes' (other than the Rafale) are generally recorded on a full delivery basis (except one), though still using the derogation for pre-2005 years, while the Rafale and all the remaining military equipment expenditure in national accounts are recorded on a cash basis.

Eurostat also enquired on why the stock of receivable relating to the 'specific programmes' had increased by 14 billion euro over 2005-2016. A large part of the problems was the insufficiently detailed data sources available at INSEE. INSEE and Eurostat agreed to work to ensure better exhaustiveness of information, and hence the correctness of B.9. Eurostat and INSEE have concluded that the incomplete (sometimes inaccurate) information provided by the Ministry of Defence was at the core of the recording problem.

As a tentative way-forward, it was agreed that representatives from the MoD would shortly join the June 2019 SDV in order to both clarify some outstanding issues as well as to agree on what information could be provided.

Discussion and methodological analysis

As regards the '**specific programmes**', Eurostat welcomed the detailed information on military equipment delivery by programme, provided by the French authorities for EDP notifications, designed to underpin the verification of questionnaire table 7. The Ministry of Defence at the request of INSEE produces this table. At the occasion of the May 2017 mission, Eurostat however noted that the FSA continued applying a derogation applicable in the 2006 Eurostat decision on military expenditure, under ESA 95. During that mission, Eurostat explained that this derogation was not applicable anymore under ESA 2010. Accordingly, the data reported in ESA tables over 1995-2018 (using an apportionment method for years from 2005) was not yet

following the accrual principle as required by legislation. See Action point 51 of the May 2017 SDV.

Although Eurostat understood in the course of 2007 that most of the underreporting of expenditure since 2005 (booked as expenditure on a cash basis before 2005) concern mostly early years, with probably smaller impact for the EDP reporting years, Eurostat has been repeatedly requesting a table of deliveries before any apportionment for the derogation (see Action Point 30 of January 2018 Ad-hoc visit).

Eurostat briefly recalled the various and sometimes conflicting information received on this issue over the past two years, and thought that the presence of the MoD table compiler was an ideal occasion to have a final clarification of the situation. A specific treatment for the M51 had also to be clarified (Action Point 32 of the January 2018 Ad-hoc visit). Eurostat noted in the January 2018 mission that the difference between the cash and deliveries over 2005-2016 (i.e. 12 years) amounted to 13.6 billion euro, prompting Eurostat to wonder whether there had been a significant change in payment patterns in relation to military equipment (See Action Point 31 of the January 2018 Ad-hoc visit).

The MoD explained that they were not aware until recently that the derogation was not anymore applicable and had foreseen to provide a new table for the next benchmark revision. Eurostat requested to have this information before, noting that a benchmark revision had already occurred in France in May 2018 (aside from the 2014 ESA 2010 benchmark revision) and that Eurostat could not wait for the next benchmark revision. Eurostat also wondered why the table of deliveries without derogation was not easily available, if a table with apportionment was available. The MoD explained its compilation formula indicating that a recalculation would have to be made, for each year, which would take some time.

The general formula applied by the MoD to determine the amount of each delivery is the total contractual amount payable under the contract, revalued to date, minus the value of deliveries to date, divided by the number of items remaining deliverable. The application of the derogation simply implied running the formula from 2005 onwards with all payments before 2005 deemed value delivered. The MoD explained some technical details regarding the M51, to the satisfaction of Eurostat.

The MoD indicated that no material change in payment pattern (or financing strategy) had occurred in the last decades, with still significant prepayments made. Eurostat reasoned that, due to the overlap of programmes, it expected an upward trend in the stock of receivable, and moving in line with the volume of deliveries over time. As a result, the new data to be provided by the MoD is expected to remove a significant part the 13.6 billion euro increase in receivable over 2005-2018.

In relation to the **Rafale**, Eurostat recalled that the Rafale is currently recorded on a pure cash basis, one reason being that the Rafale contains significant payments for R&D which occurred mainly in the 1990s. Eurostat had made the point that, in its view, this recording deviated from the ESA 2010, and that the MGDD 2016 paragraphs 20 and 43 of Chapter II.5 foresee that R&D associated to deliveries of equipment are to be apportioned to the latter and recorded at time of equipment delivery. This issue was discussed in the January 2018 mission, with INSEE arguing that the R&D could be considered as purchase by the French State, independently from the delivery of any equipment (see Action point 28). Eurostat also argued that the Eurofighter had been recorded according to those MGDD rules, and that the New Generation Fighter to be jointly developed between France, Germany and Spain, among others, would likely follow these rules. In the opinion of the French authorities, however, the Rafale is a very different program, and hence different rules might apply.

The MoD explained that, in their view, the Rafale was a very specific programme, concerning a highly polyvalent plane, implying delivery of *de facto* significantly different objects across time. They explained that the Rafale programme, that initially foresaw 320 planes in 1986, reduced to 294 in 1996 and again to 286 in 2006, was just indicative concerning delivery targets, while actual commitments are in fact carried through separate contracts that foresee separable tranches of deliveries (13, 48, 59 and 64 planes, respectively). In addition, each tranche included additional military capacity of the Rafale, although already delivered planes would generally be subject to retrofitting, where applicable. The MoD argued that the broader programme retraced political intentions and did not entail a commitment of the State, and that, as a result, government could decide to abandon future tranches not yet signed without penalty. In contrast, there would be penalties in case government would not take deliveries of all the agreed Barracudas, as an example. Eurostat judged this point rather pertinent.

However, Eurostat found it difficult to consider that government had purchased the R&D, even though government gets bonuses on export contracts. To the extent that exports of Rafale are agreed with government, R&D ownership of government could also be arranged through classifying Dassault Aviation inside government, at least the military part. INSEE thought that Dassault was a market producer, totally private, also involved in civil aviation production, such that a classification inside government seemed not appropriate. Eurostat argued that the alternative is to follow the apportionment indicated by the MGDD, although the Rafale seems to constitute in many ways a borderline case. Eurostat noted that the R&D was in fact continuing (was not done all before the first delivery) and that the apportionment should be on the policy target, likely to be eventually implemented, as it would not seem appropriate to allocate it all to the first tranche of 13 planes. MGDD Chapter II.5 paragraph 7 indicates that in case of renegotiation in the number of items to be delivered, a rule of apportioning of the remaining amounts is to be used. Conversely, the R&D newly added that benefits to past deliveries retrofitting can be expensed at time of retrofit (i.e. at time of update of 'old' equipment with new technology).

Eurostat agreed that the Rafale programme had some features that made it in some way a borderline case, such that the recording of INSEE so far could have been considered as a plausible reading of the MGDD. However, Eurostat thought that the economic substance was to treat R&D in the Rafale following the general rules, because government cannot be considered the owner of the R&D (and merely a kind of co-owner), for consistency reasons with the Eurofighter (despite the well understood differences), and for consistency reasons with the forthcoming New Generation Fighter. In addition, Eurostat stressed that, for R&D to be recorded as a government acquisition, it would have to be split from production payments, and the latter would nonetheless have to be recorded on an accrual basis.

Main findings and conclusions

Action Point 19 (former Action Point 10): In relation to military expenditure:

- a. The MoD will provide INSEE with an amended table of delivery by programme, without application of the derogation rule, covering at least 2005-2018 (and preferably also 1995-2004)⁵⁹.

⁵⁹ Action point partially completed with the submission of the October 2019 EDP Notification. The letter sent by the MoD indeed points to an underestimation by 6,531 meur of the B.9 of 2005-2018, with notable underestimations of 2.4 billion euro in 2010 and 1.3 billion euro in 2016. INSEE will check with the MoD the

- b. The French authorities will report to Eurostat the Rafale expenditure on a delivery basis following the normal rules (taking into account all expected tranches to be signed in the future), as well as a possible variant with R&D recorded separately.⁶⁰

Deadline: October 2019 EDP Notification

- c. The FSA will reflect on the proper accounting treatment of the Rafale to implement in the NA, in relation to the R&D recording, while Eurostat will examine the opportunity to discuss this issue at the EDPS WG. Accrual recording should nonetheless be enforced for the non-R&D production costs, even if R&D were to be recorded separately (possibly on a cash basis).⁶¹

Deadline: January 2020

4.2.2. Taxes and social contributions

4.2.2.1. Basis for recording taxes – D.995 and the specific case of Prélèvement a la Source

Introduction

The basis for recording taxes in France has been discussed in the May 2017 SDV and the January 2018 Ad-hoc visit. According to the findings of those missions, INSEE did not, at that time, apply the assessment method reduced by a coefficient, for obtaining the B.9 impact of (most) taxes, but used, instead, the cash or the cash time-adjusted.

However, at that time, when reporting GFS, some taxes were nonetheless reported on an assessment basis and the difference with the B.9 (which in itself equals cash or TAC) is an entry in D.995. One of the taxes for which such approach was taken was the Personal Income Tax (PIT).

Because the cash collected in any given year typically relates to many years, it can occasionally exceed the assessments of a given year – such that following this approach, the D.995 may have a reverse sign than usual. The D.995, which is in general a negative revenue (i.e. so to reduce the assessment to a more correct revenue level) would then become positive.

Overall, Eurostat had noted that this practice of INSEE appeared to move assessments and declarations data back to a cash basis, and wondered if it was in line with ESA2010 rules (ESA 4.27 and 4.82). In this context, Eurostat wondered if INSEE would not be better off abandoning the D.995 recording, given the anomaly occasionally created and the fact that the coefficient method is not in effect used.

INSEE was to further analyze this issue, in order to examine and implement alternatives compliant with ESA2010 rules, i.e. either using a time-adjusted cash method, which could

figure provided for this notification, and how precisely MoD removed the 2005 derogation. Action point completed for the April 2020 EDP Notification.

⁶⁰ Action Point completed. Information provided on 30 January 2020. Revision in recording undertaken in the April 2020 EDP Notification.

⁶¹ This issue needs to be addressed in the EDPS WG/new MGDD version, in order to ensure clarity.

imply totally abandoning the D.995 recording, or an assessment and declarations method with coefficient.

In the meanwhile, and as previously announced by INSEE, a change in collecting method of the PIT was introduced by the French authorities: instead of being paid in N+1, it is since 2019 retained at source. In the May 2017 SDV, INSEE indicated that, following ESA 2010 (§4.82), the income tax deducted at source would be recorded on a time-adjusted cash basis. Eurostat then noted that the new system for personal income tax was very similar to the current system for corporate income tax, and corporate income tax is currently recorded on a cash basis from the deficit point of view.

Discussion and methodological analysis

INSEE recalled that, following the discussion in the January 2018 on the recording of PIT, a change in method was implemented in the 2018 benchmark revision, to address Eurostat's remarks. Thus the discussions concerned for PIT the new method applied by INSEE.

The previous method recorded in D.51 the assessment with a neutralizing **D.995** calibrated to have a B.9 impact on a cash basis. The D.995 amount itself contained two components: one coming from information from CGE and the rest being the amount required to comeback to a cash basis for B.9. This method had the inconvenience of not aligning on any of the methods foreseen in ESA, with even a possibility of having D.995 adjustment with a reversed sign (i.e. cash exceeding assessments).

The new method uses, to compile D.995 for PIT, a coefficient calculated for unpaid taxes (a few percentages), observed over a long time-period. Eurostat took note of this change and the fact it complies with ESA rules, although it clarified that the Eurostat remarks made in previous mission were more targeted to definitively abandoning the D.995 (that creates difficulties, notably of interpretation, and can be viewed as distorting household income) and/or to switch to a TAC method.

However, INSEE was considering coming back on this change given that a new collecting system implemented from 1st January 2019 (*'Prélèvement a la source'*) implied that information on the assessment would not be any more easily available. This new collection system de facto applies the CIT collecting method to the PIT. INSEE was thus envisaging to temporarily compile an assessment and an associated D.995, starting from the cash, in order to avoid a break in time series, which is relevant in particular when reporting the growth rate of household income. Eurostat took note of that but thought that, for the next benchmark revision, totally abandoning the D.995 should be thoughtfully considered.

INSEE noted that France had a derogation in relation to the **split of D.995 in ESA Table 9**, expiring in 2018, and that, accordingly, the split will be provided in the September 2019 transmission.

Eurostat understood that the **2018 (personal) income** was going to be disregarded altogether (whose tax would usually have to be paid in 2019), given that it is the 2019 income that will be taxed in 2019 and that taxing twice in a given year is not envisageable. However, Eurostat enquired on the expected temporary impact of the switch to the collection at source approach, which started on 1st January 2019, as on the one hand the 2018 exceptional income would nonetheless be taxed, but on the other the final settlement for T-1 would not take place in 2019 (it will take place in 2020 in relation to the 2019 tax). INSEE also noted that tax credits pertaining to 2017 would be paid in 2019 (with a large pre-payment in January 2019, expected to depress Q1 income tax). The Ministry of Finance thought that, overall, the effect would be neutral for 2019. Eurostat recalled that in principle, only one year of tax income should be

recorded within any year, and invited INSEE to monitor the situation. INSEE argued that this principle knows exceptions in ESA, for instance in the case of PAYE taxes, where the recording of amounts relating to two different years is indeed possible and foreseen by the manual. However, in the view of Eurostat, this specific ESA exception could not legitimize recording more than 12 months of tax in a given year, which can potentially happen in case of change of prepayment rates: in such a case, an ad-hoc adjustment is to be made.

INSEE noted that a one-month time shift might be applicable in case the *Prélèvement a la source* of the income in month M will actually be paid in M+1. This is particularly important for year 2019. Otherwise, INSEE was not planning further time shift, for instance in order to generate a certain stock of fiscal receivable, as discussed by Eurostat.

Finally, Eurostat enquired on the recording of taxes (and change thereof following the PIT reform) in CGE, relating to PIT as well as to CIT. Eurostat understands that CGE records CIT all in T+1 (such that prepayments in T are considered advances), and wondered whether CGE would record similarly all PIT in T+1. This recording of all the taxes in T+1 has some merit, recording all taxes belonging to a given year in one unique year, given the inability of accountants to revise past data. However, this is economically debatable and leads to large stocks and flows of payables. In turns, those are then inappropriate for use in the financial accounts, otherwise this leads to significant discrepancies (in addition, as significant receivables due to assessments exist also on the asset side, the net impact on discrepancies is unknown). Thus, Eurostat underlined again the importance of reporting in EDP Table 3 fiscal receivables/payables consistent with the non-financial accounts (see above).

Main findings and conclusions

Action Point 20: In relation to the recording of PIT (and the introduction of *Prélèvement a la source*)

- a. INSEE will change its compilation methods for PIT, from 2019, in order to adapt to the new Tax at Source collection method.⁶² For the next benchmark revision, INSEE will consider totally abandoning the D.995.⁶³
- b. The FSA will confirm to Eurostat the time shift that they plan to apply, if any, to address the administrative delays of employers, when passing the PIT to government.⁶⁴
- c. Concerning the transitional year 2019, Eurostat recalled that in principle, only one year of tax income should be recorded within any year, and invited INSEE to monitor the situation arising from the implementation of the *Prélèvement a la source*, and possibly implement an adjustment in case of need. A note will be sent to Eurostat.⁶⁵

⁶² Action point completed for the April 2020 EDP Notification.

⁶³ This is under discussion. Eurostat and INSEE have been exchanging information and carrying out practical exercises in order to analyse whether a compilation system that abandons D.995 totally is viable and less complex.

⁶⁴ Action point completed. The time shift is of one month.

⁶⁵ Action Point completed on 13 December 2019.

- d. DGFIP will explain if the change in PIT recovery will lead to changes in CGE accounting. DGFIP will report the stock of fiscal receivables and payables, in CGE, per type of tax.⁶⁶

Deadline: April 2020 EDP Notification.

4.2.2.2. Subsector allocation of taxes

Introduction

During the April 2019 EDP Notification, Eurostat and INSEE have discussed the recording of a number of taxes which, although being imposed, collected and their rate being defined by the State are recorded directly as revenue of local government. In the view of Eurostat, and in the light of ESA 2010 1.78, the national accounts should in principle, pending all relevant information that could point at the contrary, be recorded as tax revenue of S.1311, subsequently transferred, via D.73 transfers, to S.1313.

Discussion and methodological analysis

Referring particularly to ESA 1.78, Eurostat questioned again the current recording of a number of taxes collected by central government and passed to local government and social security, currently recorded in ESA directly in the latter accounts. INSEE argued that their practice seems to be in line with ESA 4.118, “*the tax receipts destined for the other government agency are shown as if they were collected directly by that agency and not as a current transfer within general government*”. Eurostat thought that ESA 4.118 was not deviating from ESA 1.78 and had to be read in the light of the latter: “*A tax is attributed to the government unit that exercises the authority to impose the tax (either as a principal or through the delegated authority of the principal) and has final discretion to set and vary the rate of the tax.*” The reference to ESA 4.118 thus applies especially when additional rates are superimposed on taxes levied by central government, however at the discretion of the government level that is the recipient of those amounts. What seems crucial is the ability to impose and to set the rates.

INSEE argued that, in the French case, the situation was not so simple, with local government and SSF having some powers to vary the rates. Eurostat wondered to what extent SSF was genuinely independent from Central government for this determination of tax rates, if the SSF case is negotiated between the Ministry of Budget and the Ministry of Social Solidarity. In addition, Eurostat was also not convinced that taxes that are fully affected/allocated to SSF (e.g. tax on tobacco) should be recorded as SSF tax revenue, unless Social Security was delegated the authority to impose and set the rate. Similarly, CVAE, a 1.5% tax on value added allocated to local government hosting the taxpayer (presumably calculated by local-KAU, thus separately from VAT returns), should mainly be recorded as central government revenue, the tax and the rate being imposed by central government, even though the cash flows do not enter the State working balance (e.g. of EDP Table 2A), or the CGE profit and loss (the flows being reported as receivable/payable in the CGE general ledger).

DGFIP collects all taxes in France, which enter dedicated extra-budgetary accounts. Amounts are passed to local governments and to SSF. Eurostat enquired on what basis the amounts passed are calculated and who is exposed to the risk that a certain taxpayer fails to pay its tax. This question is relevant given that EDP Table 2C does not show any D.995 adjustments, despite the WB being on an accrual basis, which could suggest that the fiscal revenue are recorded on the

⁶⁶ Action Point completed on 13 December 2019.

basis of cash received. In contrast, SSF follows ‘droits constatés’ (accrual/assessment), leading to D.995.

In this context, Eurostat enquired on how the time adjustments are carried out for those taxes that are routed to various sub-sectors. INSEE indicated that the accrual adjustment (D.995) is allocated to central government, which Eurostat thought was justifiable in case all taxes are recorded as central government tax revenue, but was not ideal given the current practice of INSEE, with some distortions of the sub-sector allocation of fiscal receivable/payable. This practice could also lead to discrepancies between subsectors (depending on which tax revenue is routed to other subsectors). INSEE noted that the general government data were correct, however.

Main findings and conclusions

Action Point 21: In relation to the subsector allocation of taxes:

- a. The FSA will indicate who is exposed to the risk that the taxpayer fails to pay its tax.
- b. The FSA will provide a note explaining, for each tax collected by central government and passed on to local government or SSF (and directly recorded in the NA of those beneficiary sub-sectors), the legal arrangements underpinning those flows (authority in imposing, setting the rate, etc.).
- c. The FSA will reflect on ways to allocate fiscal receivable/payable consistently with their recording of tax revenue by subsectors, and indicate if their current practice leads to any discrepancy.

Deadline: February 2020.⁶⁷

Action Point 22: The FSA will provide to Eurostat monthly cash information pertaining to taxes (and social contributions), for the past five years (2014-2018), broken down with the relevant detail (type of tax, subsector, inflows and outflows).

Deadline: February 2020.⁶⁸

4.2.2.3. Questionnaire table 5

Introduction

During the 2018 Ad-hoc visit, Eurostat had enquired in detail on the newly revised questionnaire table 5 that INSEE had completely revamped during the October 2017 notification, following comments by Eurostat on the previous table 5, notably during the 2017 SDV.

The previous table 5 was indeed an extraction of the financial accounts compiled by the FSA based on the CGE, which therefore did not truthfully reflect the difference between the amounts of taxes recorded in national accounts and the cash collected, which is the specific purpose of this table 5. Accordingly, the previous table 5 could not permit Eurostat to cross-check the

⁶⁷ Action Point to be completed.

⁶⁸ Action Point to be completed.

adherence to ESA 2010 rules regarding tax/social contribution recording with respect to the French notification.

Thus, during the 2018 Ad-hoc visit, Eurostat judged that the new table 5 was, by and large, an improvement, although a number of anomalies were identified. INSEE was requested to improve on this table.

Discussion and methodological analysis

Eurostat underlined that the Questionnaire Table 5 is meant to monitor the cash to ESA accrual reconciliation, for control purposes. This is thus also the amount that should be reported in the financial accounts. In the view of Eurostat, the fact that the financial accounts currently show inconsistent data compared to the non-financial accounts (which in itself is not appropriate in the specific case of fiscal claims) should not pollute the Table 5.

In this context, Eurostat recalled that, at this stage, its biggest concern is not the consistency of Questionnaire Table 5 with the financial accounts reported under CGE, which can only be fully aligned following complex inter-institutional arrangements and once a number of recordings are decided, a correct exploration of CGE information is undertaken, and a number of other conditions is met. The main objective is thus that the financial entries shown in Questionnaire Table 5 are consistent with the accrual adjustments made in the non-financial accounts with respect to taxes/social contributions.

Eurostat recalled all the possibilities for the filling of questionnaire table 5: (i) booking the CGE adjustments to taxes, (ii) reflecting the TAC/accrual adjustments present in EDP Tables 2A, 2C and 2D, or (iii) reflecting fully all ESA table 27/financial accounts entries related to taxes and social contributions.

Eurostat first thought that (iii) is currently not informative of the cash-to-national accounts adjustments undertaken by the French statistical authorities. Indeed, Eurostat recalled that it is the financial accounts that will ultimately need to reflect the cash-to-national accounts recording in the non-financial accounts, so to eliminate the discrepancies currently existing in this regard.

Second, Eurostat recalled that, regarding (i), CGE information should not be used for taxes to the same extent it can/should be used for the accrual of expenditure (and other revenue), if at all. This is because the principle for the B.9 recording of taxes is to record time-adjusted cash (or even cash), while CGE shows amounts on an assessment basis.

Eurostat thus expressed the view that, in the short-term, a recording following (ii) is most appropriate, envisaging reporting only identified adjustments to D.2, D.5, D.91 and D.6rec.

In the medium-term, a comprehensive cash to ESA accrual reconciliation related to taxes and social contributions is to be reported in questionnaire table 5.

The financial accounts reported in EDP Table 3 (and ESA table 27) and questionnaire table 4.1 should also be revised and use the time-adjustment reported in questionnaire table 5.

Main findings and conclusions

See Action Points 2c and 26b.

4.2.2.4. CICE

Introduction

The *Crédit d'impôt pour la compétitivité et l'emploi* (CICE) consists in a reduction, since 2013, of social security contributions payable by employers delivered in the form of a payable tax credit on (corporate) income tax.

The accounting issue under discussion is whether the conversion of the CICE into a plain reduction of social contributions, implemented by the French government in 2019, would imply a double impact on the net lending/net borrowing of government for that year. This double impact would arise because of the way INSEE is planning to record the new 'transformed CICE' and the way in which it has been recording the CICE so far, based on a Eurostat advice dated 19 August 2013. Following a letter by INSEE dated 31 May 2013 (sent on 11 June 2013), Eurostat requested further details on the pre-financing of the CICE. This information was provided by INSEE on 23 July 2013.

Much later on, some new information was provided on CICE during the rounds of requests for clarification that took place during the April 2017 EDP notification process. INSEE then provided, prior to the dialogue visit of May 2017, a note on *Recording of Crédit d'impôt pour la compétitivité et l'emploi (CICE)*, at the request of Eurostat.

On 5 July 2017, INSEE sent a letter asking for an official Eurostat's advice on the subject of the forthcoming transformation of the CICE into a reduction of employers' social contributions. On 17 July 2017 a videoconference occurred between INSEE and Eurostat, where INSEE provided further arguments.

Further exchanges occurred during the October 2017 EDP notification, and again during the April 2018, October 2018 and April 2019 EDP notifications, as well as at the occasion of the 9-10 January 2018 ad-hoc visit.

Discussion and methodological analysis

Eurostat recalled the extensive discussions carried out in the past two years related to **CICE**, a scheme introduced in 2013, designed to convey a reduction in social contributions by way of a payable tax credit (PTC) on corporate income tax (CIT), of around 20 billion euro a year (40% of CIT actually paid and close to 1% of GDP). INSEE records CICE in National Accounts as a subsidy on production, on the basis of its interpretation of ESA 20.168 and a Eurostat 2013 advice which shared this interpretation. Following a request of INSEE, enquiring on the appropriate moment of recording, in T or in T+1, Eurostat indicated in a 2013 advice⁶⁹ that a recording in T+1 would not be a deviation from the accrual principle, assuming that a liability was not established in T, and more specifically that a meaningful verification of the claim was carried out at time of tax declaration (April T+1). The 2013 advice also agreed that whereas the CICE would be recorded as a reduction in CIT (D.5) under ESA 1995, this would not be possible under ESA 2010, and the D.39 proposed by INSEE seemed applicable.

As a result, the CICE concerning wages in T impacts the government B.9 in T+1. Given that government converted CICE to a normal social contribution rebate, starting from January 2019 onwards, a double impact on the deficit of 2019 is then to occur – a double count that Eurostat has been objecting too since the April 2017 notification (when Eurostat first identified this risk, although the risk was, according to INSEE, well known from the very beginning, following the electoral campaign of 2017 where the conversion of CICE was actively discussed).

In addition to that, CICE claims are not immediately paid out in cash if in excess of the CIT, but the settlement is reportable up to 3 years (and then paid out in cash). In the meanwhile,

⁶⁹ Eventually published in the course of 2018.

CICE claims can nonetheless be used as a mean of payment to settle other fiscal obligations than just CIT (a point not well understood before). Furthermore, the CICE claim can be subject to factoring during year T, i.e. even before final CIT declaration to the State in April T+1, including for amounts not yet accrued – when the claim is so-called ‘en germe’.

During the May 2017 SDV, Eurostat had made a number of points concerning CICE and its conversion to a social contribution rebate that was initially scheduled for year 2018 (some points had already been made during the April 2017 EDP Request for Clarification): a) it primarily objected to any double impact in 2018, b) the ‘assessment, control and verification’ mentioned in the letter had to be material, which should manifest itself by a non-negligible amount of rejections (Eurostat enquired on the amounts of rejections in question), c) the CICE may perhaps be recorded as reduction in government revenue (D.61) rather than as government expenditure (D.39) (which would automatically imply a recording in T), d) the CICE claims subject to factoring or to postponement of settlement may need to be accounted as debt.

INSEE agreed during the May 2017 SDV that rebates of a general character may be not of an expenditure nature, and indicated that this was also its recording practice so far. However, INSEE was primarily concerned at that time by the fact that the reversal of the 2013 advice may be misinterpreted by users.

Four action points were drawn regarding factual information and their accounting implication, including a planned discussion in the EDPS WG of July 2017 on the interpretation of ESA 20.168 (see May 2017 final findings, pp. 35-40).

During the January 2018 mission, CICE was again discussed, leading to nine further action points (see annexes to May 2017 final findings, pp. 85-89), Eurostat arguing that significantly new information was discovered compared to when the 2013 letter was issued: 1) the verification procedure is in fact not material (CICE claims are verified only in the context of the general verification of the tax declaration, and later on in detail in case of tax inspection), 2) a claim exists in business accounts in year T (an issue not mentioned in the 2013 exchange of letters, 3) the supreme and independent accounting body in France (ANC) had recommended on 28 February 2013 to record CICE as a reduction in wage in business accounting, “*given the objective followed by the legislator*” (this recommendation is not compulsory and only 70% of the entities follow it, the remainder recording a reduction in tax paid, as only very few entities record a revenue), 4) the rules in national accounts on the distinction of targeted reductions in social contributions versus general reductions were not yet established (they were released in 2019), 5) the exact interpretation on the scope of ESA 20.168 had not been discussed previously, 6) CICE could be converted leading to a double impact. On this basis, “*Eurostat considered that the 2013 letter could be seen as not applicable anymore*”. Eurostat stated again its opposition to the principle of any double impact in year 2019 (the conversion of CICE having been postponed, for some reasons, by one year). INSEE stressed again the communication problems with the idea of restating the years 2013-2017.

As concerns point 2), INSEE considered that it should not be surprising that a claim is reported in the year T in the business accounts of the corporation, since the corporation is the claimant. Regarding point 3) INSEE argued that the accounting recommendations of the ANC need not necessarily be taken at face value in the NA context, providing as an example the fact that while those rules command to record the CIR as a reduction of CIT, it is nonetheless agreed that CIR should be recorded as subsidy in National Accounts. Regarding point 4), INSEE argues that the rules in national accounts on the distinction of targeted reductions in social contributions

versus general reductions had been discussed as soon as in the December 2011 FAWG⁷⁰). However the final decision, after consultation of the NAWG (National Accounts Working Group), was made end 2013. Finally, regarding point 6), INSEE argued that it had been widely known, since the start of the measure, that CICE would or could eventually be converted.

During the January 2018 mission, issues regarding debt were also discussed, starting with the recording of factoring according to the two modalities (*'cession à titre de garantie'* and *'cession à titre d'escompte'*) and with enquiring on the actual amounts subject to factoring.

Following action point 46 of the May 2017 SDV mission, the interpretation of ESA paragraph 20.168 was discussed in the EDPS WG meetings of December 2017 and June 2018, with the filling of a questionnaire (summer of 2018), whose results were presented in the Task Force of Methodological Issues of December 2018 and again, in more detail, in the June 2019 meeting of the EDPS WG (see below).

During the April 2019 EDP Notification, INSEE provided, in a number of tables, significant amount of new information on the recording of claims, on the **prefinancing of CICE**, and on the **settlement of CIT** ('prepayment', 'final settlement' and 'other', including refunds), data presented before CICE and after CICE, triggering a number of questions (18 in total), some of them left not fully clarified. Nonetheless, Eurostat thanked INSEE for the very interesting elements of information provided at that time, notably on ACQUIPRO and MVC databases and on the link (due to CICE adjustments, and due to other tax credits) between cash entries in the WB and D.51 in NA.

Information on CICE is indeed actually available from **ACQUIPRO** and from **MVC** databases. MVC is a database linked to the accounting IT application of DGFIP, and is robust according to INSEE because encompassing only validated claims. However, MVC does not distinguish the year of origination of the CICE claims used to settle prepayments or settlements, showing together prepayments in T-1 as well as final settlements in T (regarding T-1). ACQUIPRO is used for estimating this missing information. ACQUIPRO is a database on taxpayer obligations and settlements, and accordingly has the required detail.

Eurostat noted that the Working Balance (WB) is on a pure cash basis, such that CICE claims submitted for prepayments and final settlements do not enter the WB and, conversely, cash settlements of CICE claims (paid after three years to taxpayers or paid to banks) enter the WB. In order to reach a correct D.51, the cash net tax figure of 2017 should be grossed up by 14.8 billion of CICE claims used: for final settlement (6.5 billion euro in 2017), for prepayments (1.1 billion euro) as well as cash paid to settle CICE claims (7.3 billion). Simultaneously, a subsidy (new CICE claims recognized in 2017 related to 2016 salaries) of 17.6 billion euro is recognised in 2017, such that an adjustment to the working balance of -2.8 billion euro (14.8-17.6 billion) is shown in EDP Table 2A, to obtain B.9. In a sense, to Eurostat, CICE claims can be seen as a three-year IOU, or a kind of fiscal money, usable to pay income tax obligations.

During the meeting, Eurostat also wondered how **banks** classified their claim (arising from CICE factoring) against the State (either as short- or as medium-term?) and more generally when banks are being actually repaid by the State (at the end of the three years only, or before?). Eurostat reasoned that it was unlikely that the bank is paid by the State as soon as technically possible, but it was possible that the bank is paid following a chronology of submitted CICE claims by the taxpayer. In that latter case, the repayment of the CICE claim of the bank against

⁷⁰ Financial Accounts Working Group, the predecessor of the EDPSWG.

government would have the strange characteristic of depending on the actions of the original taxpayers.

Eurostat repeated that it thought that **factoring** without recourse needed to enter debt, in the spirit of the 2012 Eurostat decision, even though the claim was not a trade credit. INSEE argued that no debt could be recorded in T, as no liability was recognised by the State. Eurostat noted some sort of circularity given that the liability recognition depended on the choice of B.9 impact (in T or in T+1), which was precisely under discussion, and on whether the banks recognize a claim on the State. In addition, from April T+1, it would seem that the bank has an F.4 asset – not an F.8 asset – against the State, as the claim is not ‘en germe’ anymore. Furthermore, factoring of the T claims carried out after April T+1 should similarly be in the debt of the State.

Eurostat referred to the discussion on BPI Financement in relation to claims factored. Eurostat wondered what were the amounts concerning the stock of these claims according to the two following situations: claims factored while ‘en germe’, and other claims factored. Eurostat enquired on the table (provided by INSEE for the April 2019 EDP Notification) showing an estimate of claims factored (e.g. 3.8 billion, end-2018), using the pattern of cash refunded on claims observed in the CICE database (distinguishing claims factored or not factored).

During the meeting, Eurostat enquired on the answers, provided by INSEE in advance of the June 2019 SDV, that are relating to three of those April 2019 EDP Notification questions remaining to be clarified. First, Eurostat wondered why INSEE had indicated that the firms recorded an asset towards the State only at time of CIT declaration and not before. INSEE acknowledged that a claim exists in year T but argued that balance sheets are generally not drawn/published before the end of the year. Eurostat considered that the important issue was whether the **general ledger of the firm** had recorded a claim on the State (as indicated in the ANC advice and other accounting prescriptions consulted) and that balance sheets can be drawn at any point (and are actually drawn quarterly in some jurisdictions), such that the drawing date of the balance sheet was not a particularly relevant criteria.

Second, INSEE indicated that, at time of **factoring of créance en germe** (declaration form 2577-D), the bank declared a claim on the firm and not on the State. Later on, at time of tax declaration, and sending of form 2574-D to the bank, the bank records a claim against the State, for the amounts factored (the remaining amount being a company claim against the State). Eurostat wondered whether this recording was the same for both modalities of factoring: ‘*cession à titre d’escompte*’ and ‘*cession à titre de garantie*’. In addition, Eurostat noted that such a bank recording would not be consistent with the corporation recording, as, in case of cession 1) ‘à titre d’escompte’, the claim is derecognized from the corporation balance sheet, while in case of cession 2) ‘à titre de garantie’, the claim of the corporation is maintained, but changed into a claim against the bank (see also paragraph 61 of the January 2018 mission). Eurostat found it strange that the claim on the State would actually disappear upon factoring following the business/banking accounting alleged, with pure accounting arbitrary choice bearing consequences on the solvability ratio of the banks (in particular BPI Financement).

Third, Eurostat did not understand the answer of INSEE in relation to what happens **when the State refuses the claim previously factored**, at time of tax declaration or after, and distinguishing if the event occurs before the State has repaid the bank (line 3a of a table requested by Eurostat regarding AP23 of the January 2018 mission; the table was never filled by the FSA), or after (line 3b). A similar question arises in case the claim has been factored but not yet subject to form 2574.

The FSA indicated that the bank has a direct claim against government for the accrued rights such that, in case of **bankruptcy**, the claim is not subject to any pretensions by other creditors.

The FSA clarified that instructions to DGFIP services exist to make some checks at time of tax declarations regarding CICE: check the consistency with ACOSS declarations, check the consistency with form 2572, and check the conformity for immediate cash refund. Eurostat thus noted that monthly information of CICE claims is therefore known by ACOSS and similar entities (MSA) and wondered to what extent the existence of this information would not imply that an appropriate **source data is available in year T** for estimating CICE during the year, which in the view of Eurostat seemed contrary to what the 2013 letter indicated. INSEE argued that the 2013 letter merely indicated the need of revisions (in the case of the year T recording, without saying how big these may be) and in this context explained that, nonetheless, the ACOSS figures significantly differed from the final data.

Eurostat asked INSEE to clarify a statement (that included a **formula on when a tax credit is liquidated during the final settlements and when it is postponed**) made in the last round of the request for clarification of the April 2019 EDP notification, which could not be analysed by Eurostat before the mission. INSEE clarified a point insufficiently well understood before: that the CICE claim is in fact postponed only in the specific circumstance where the tax credit of year T exceeds the CIT of year T, and for the amount that exceeds that CIT (the amount of CICE that is equal to CIT is itself recorded as a reduction in final settlement, including a “negative final settlement” which is actually paid out). The amount that is postponed is significant only because CICE is rather large compared to overall CIT. As a result, when the tax credit is inferior to the CIT but is superior to the final settlement (owing to prepayments) the company is actually refunded: shown under “negative final settlement”, rather than under “refunded”, which mainly shows the terminal settlement that occur after 3 years. In case the tax credit is immediately repaid due to meeting existing derogations, the amount is also reported as “refunded”. In addition, the claim that is reported can either be used for subsequent prepayments or for final settlements. The remainder is settled after three years in cash and is recorded as “refunded”. All those specific arrangements clarified the view of INSEE on how the CICE worked in practice, and were completely new to Eurostat.

Overall, Eurostat felt that many issues had been clarified only over the past two years, even though some other issues remained unaddressed, such that it was difficult to argue that the 2013 advice was provided with a full understanding of the case by all institutions. Eurostat repeated its reluctance to have a double count (or a “*double coût*”) in the B.9 of 2019, and indicated that it would not write a similar advice if Eurostat was approached by another MS on a comparable scheme. At the same time, Eurostat agreed that INSEE faithfully followed the 2013 advice of Eurostat. INSEE repeated its concern with the communicational difficulties with revising the CICE recording, which could be perceived by users as opportunistic. Eurostat did not feel this issue was so significant and thought that many users would be more confused by the double count and the message it may give (government extending gifts to corporates, etc.).

In this context, Eurostat thought that a solution would be to recognize that the CICE is a **reduction in government revenue** (social contributions, D.61) and not an expenditure (subsidies, D.39), which would require a recording in T. Although (as pointed out by INSEE) the Eurostat 2013 advice agreed with the D.39 recording (in place of the deduction to D.5 applicable under ESA 1995), Eurostat argued that this alternative accounting solution (deduction to D.61) had not been actually envisaged in 2013 (neither in INSEE nor in Eurostat letters) and may be appropriate following the ongoing consultation of the EDPS WG (following Action Point 46 of the May 2017 SDV).

Although the results of the consultation at the EDPS WG were not final at this stage, Eurostat found strong support for interpreting **ESA 20.168** regarding two issues: 1) Payable Tax Credit are to be recorded as expenditure only when the underlying flow is itself an expenditure (in fact ESA 4.81 only refers to subsidies and social benefits), 2) a Payable Tax Credit that is considered

an expenditure should be recorded in T, according to the accrual principle, even if concerning a tax credit on a PAYE tax where the national accountant affords itself the ESA derogation foreseen in ESA 4.82, fifth indent.

However, INSEE was unsure what ‘the underlying flow’ meant. Eurostat clarified that this regarded the distinction when the CICE reduction in social contributions would be delivered through a reduction in monthly cash paid versus when the CICE is delivered through a Payable Tax Credit. Eurostat thought that the CICE being a general reduction in social contributions had a character of reduction in D.61, in contrast to a targeted reduction in social contributions (that would concern a region, an industry, a size of company, etc., which has to be recorded as an expenditure – D.39). The fact that the CICE is delivered through a Payable Tax Credit should not be relevant for the classification.

INSEE thought that, given the characteristics of the CICE, in particular its complexity, the classification of the CICE as expenditure may in fact be appropriate. Eurostat thought that this interpretation could well be chosen by INSEE, even though Eurostat did not think complexity should be a particularly relevant criteria, also recalling INSEE position expressed during the May 2017 SDV (page 39). In addition, Eurostat thought that National Accounts and GFS would exhibit a fall in government expenditure and revenue in 2020 compared to 2018 of 1 p.p., only due to a change in CICE delivery, which was difficult to justify and could confuse users. Eurostat also noted that labor cost statistics (compiled by INSEE itself) report the CICE as a reduction in labor costs in T, wondering why National Accounts felt compelled to deviate from this.

Given the circumstances (the advice of 2013), an agreement on principle could usefully be reached, taking into account the EDPS WG deliberations and the new elements brought into the debate, but leaving the date of implementation at the discretion of INSEE, though no later than the next benchmark revision (for full implementation). This concerns the various issues: i) recognising a reduction in social contributions (versus an expenditure), ii) recording in T (versus T+1), iii) recognising a Maastricht Debt component for the amounts factored, or for the amounts reported, or for all claims.

Main findings and conclusions

Action Point 23: In relation to CICE:

- a. The FSA will clarify what triggers the refund to the banks of factored CICE claims.⁷¹
- b. INSEE will adapt the table estimating the stock of factored claims based on Eurostat’s comments.⁷²
- c. The FSA will contact BPI to establish the stock of CICE claim factored that are ‘en germe’ and not ‘en germe’, the recording of such claims in their business accounting and

⁷¹ Action Point completed on 13 December 2019. At the time of the 2577-D declaration, the bank records an asset towards the firm and the firm a debt towards the bank, for the pre-financed amount. At the time of the firm’s CIT declaration, the firm records an asset towards the State for the total amount of the CICE claim. At the same time, the 2574-SD declaration is sent and the firm cancels all or part of this asset, for an amount equal to the pre-financed amount (or less if the pre-financed amount is greater than the amount finally recognised). At the same time, the bank, in parallel, records an asset on the State corresponding to the amount that was cancelled by the firm, the pre-financed part of this claim.

⁷² Action Point completed on 13 December 2019. The FSA sent a table with complete information to Eurostat.

in their Monetary Statistics reporting, by maturity and by counterpart sector. BPI will indicate the refunding practices of CICE claims by the State.⁷³

- d. The FSA will clarify if the bank has a definitive claim on the State, and is therefore shielded from any dispute thereafter, from the moment the tax declaration is made (i.e. the form 2574 SD is issued).
- e. The FSA will clarify if the bank is shielded in case of bankruptcy even when the claim is ‘en germe’ in year T.⁷⁴
- f. The FSA will describe the CICE declaration to the ACOSS, the adjustments made by ACOSS if any, and the reasons for the gap with the DGFIP database.⁷⁵
- g. Concerning the rule on reportable CICE, the FSA will clarify whether only tax credits arising from year T activity is to be compared to CIT, or all CICE claims submitted for CIT of year T (i.e. including CICE claims of T-1, T-2, etc. submitted as prepayments in T or final settlements in T+1). In the former case, there would seem to be a loophole, with companies potentially benefitting from frontloading CICE claims of previous years.⁷⁶
- h. INSEE will reflect on the way forward in relation to CICE. Eurostat will aim at finalising the discussion around the interpretation of ESA 20.168 in the EDPS WG.

Deadline: February 2020.

4.2.2.5. Recording of fiscal claims

Introduction

During the January 2018 Ad-hoc visit, INSEE explained that the F.8 reported in the financial accounts (ESA table 27 and EDP table 3) in relation to taxes was derived from the general ledger (CGE).

Eurostat then expressed the view that this was improper in so far as the general ledger booked as credit the assessment and as debit the repayments as well as the write-offs. Write downs are entered in another account.

⁷³ To be completed.

⁷⁴ Action Points d. and e. completed on 13 December 2019. In case of bankruptcy after the issuance of the 2574-SD, the bank has a direct claim against Government for the accrued rights: the claim is not shared among creditors because the claim has been surrendered to the bank. Companies that have been the subject of a conciliation, judicial or liquidation procedure may, from the date of the decision or the opening judgment of any of these procedures, request to the State for the immediate reimbursement of their unused CICE claims (paragraph 4 of II or article 199 ter C of the Code Général des Impôts). They also can ask a credit institution for the prefinancing of the unused CICE claims: if this prefinancing intervenes before the decision or the opening judgment of the procedures, then the bank can directly request to the State for the immediate reimbursement of the prefinanced CICE claims.

⁷⁵ Action Point completed on 13 December 2019. The FSA shared a comprehensive explanation of the CICE declaration to the ACOSS.

⁷⁶ Action Point completed on 13 December 2019. The explanations provided by the FSA suggest that no company can benefit from frontloading CICE claims of previous years.

Eurostat recalled then that, under ESA 2010, compilers have two methods for impacting B.9: either to time adjust cash or to use assessments reduced by a coefficient for the amount expected not to be collectable. Accordingly, using assessment reduced by write-offs was not in line with ESA2010, given that the write-offs arrive by construction in delay. While write-offs and coefficients would yield similar results in a stationary environment, this is not the case for an economy with a trend increase in taxes: tax revenue/B.9 and/or F.8/AF.8 is then, on average, overstated when using the write-offs. Given that the B.9 impact of taxes is calculated by INSEE using cash (with adjustments for some taxes), the F.8 currently recorded for fiscal claims were thus creating a discrepancy.

Discussion and methodological analysis

Prior to the visit, INSEE provided an accounting example whereby a company paying CIT to the State also held a CICE fiscal claim against the State.

Eurostat welcomed the example provided and agreed with the mechanics of the recording in national accounts demonstrated by INSEE, based on its internal assumptions. Nonetheless, Eurostat was not sure on the substance behind this example, notably concerning what was exactly recorded in the data sources (CGE). Whereas the same flow of payable (claim from the firm on CICE) was being recorded simultaneously in CGE, ESA financial accounts and EDP, this seemed not to be the case as regards the flow of receivable (tax payable by the firm), such that Eurostat wondered on the consistency between the different information sets.

Main findings and conclusions

Action Point 24 (former Action Point 33): Eurostat welcomed INSEE clarifications regarding the F.8 recording for fiscal claims on CIT in NA (e.g. advances, final settlements, CICE claims and settlements of the latter) as well as the resulting B.9 impact, and invited the FSA to provide similar T-accounts for the CGE-related recordings (as well as the CGE profit/loss impact).⁷⁷

Deadline: January 2020.

4.2.2.6. Supplementary hours

Introduction

Since end-2018, there has been demonstrations by French policemen, on the account of supplementary hours worked but not paid, inter alia in the context of special needs (e.g. ‘gillets jaunes’). The French Minister of Interior had then mentioned an amount of 275 million euro of unpaid supplementary hours.

Prior to the visit, Eurostat had requested INSEE information on the negotiations for the effective payment of these (and other) supplementary hours to French civil servants, as well as on the accrual recording of wages in general.

Discussion and methodological analysis

⁷⁷ Action Point completed. On 13 December 2019, the FSA provided a comprehensive note explaining the tax-related fiscal claims entries in the CGE.

INSEE informed Eurostat that supplementary work/hours are indeed recorded in CGE as ‘provisions pour charges’ corresponding to ‘compte d’épargne temps’, with a stock of 1,466 million euro end-2018. Furthermore, it was noted that, in the course of 2017, this stock had increased from 871 million euro to 1,270 million euro.

Eurostat recalled ESA 2010, paragraph 4.12, item a), according to which wages and salaries “*are recorded in the period during which the work is done*”, which applies both to wages paid in cash or in kind.

Albeit acknowledging that such prescription might be difficult to comply with in cases where the public accounting systems do not record provisions for unpaid work, Eurostat saw no reason not to include the provisioned amounts in the national accounts as accrued expenditure, given that the State accountants were acknowledging this future obligation.

INSEE explained that it was still not clear whether this supplementary work, though quantified in CGE, would de facto be paid in cash or in kind, thus expressing some reserves on immediately recognizing an uncertain outcome. To INSEE, ESA 2010 paragraph 4.137 applies, whereby “*payments of compensation are recorded when they are made (voluntary payments) or when they are due (compulsory payments)*”.

Eurostat noted that, in 2017 and 2018, the French GDP has increased in this context due to the supplementary work of policemen (and eventually other civil servants) and that the non-recognition of their work as wages in the national accounts was simply distorting (decreasing) the unit/price of labour. To Eurostat, the only uncertainty is on whether this work will be paid in cash or in kind, which did not constitute a strong reason not to record it when done.

In the view of Eurostat, the CGE entry for ‘provisions pour charges’ with respect to these supplementary hours should be assimilated as an accrual adjustment (to be reported under F.8).

Main findings and conclusions

Action Point 25 (former Action Point 34): In relation to ‘provisions pour charges’ regarding supplementary hours worked, notably of policemen:

- a. The FSA will clarify the content of the 1.466 meur stock of provisions reported in CGE in 2018: ‘compte d’épargne temps’ as well as supplementary hours, and whether the 275 meur supplementary hours quoted by the Minister of the Interior are included in the latter. The FSA will report the split in related amounts, if possible.⁷⁸

Deadline: December 2019.

- b. The FSA will reflect on the opportunity to use this entry in ‘provisions pour charges’ as an appropriate additional accrual adjustment (F.8), in order to better reflect the true

⁷⁸ Action Point completed on 13 December 2019. Out of the 1,466 million euro mentioned in the SDV, 93% correspond to the national police, and concern mostly ‘compte d’épargne temps’. According to the FSA, these amounts nonetheless constitute liabilities for which the due date or the amount is not known precisely at the end of the financial year. According to the FSA, the amount is calculated as a product of the average cost by category of agent (net of social contributions and divided by 264 working days) and the number of holiday days not taken (or supplementary hours worked); it thus appears as tentatively rather accurate.

consumption of police protection services by government, in both volume and value terms.⁷⁹

Deadline: February 2020.

4.2.2.7. Recording of Social Contributions

Introduction

During the January 2018 Ad-hoc visit, INSEE noted to Eurostat that it did not have the data on social contributions on a cash basis, but DGFIP was likely to have this. Eurostat wondered what was the basis of recording of D.611 and D.613.

Discussion and methodological analysis

INSEE explained that social security funds also use, for their own needs, a cash-based accounting, although this information is not publicly available and not available to INSEE either. The published accounts are on an accrual basis, following a well documented chart of account, such that there is, in the view of INSEE, no need for cash data. Social contributions payable are directly observable in the social security data sources and the D.995 is calculated by INSEE using information from DGFIP on “*admissions en non valeur*”.

Eurostat recalled that, in the French national accounts, for the PIT, the sum of tax revenue and D.995 equaled the cash effectively received in a given year. Regardless of the issues raised on this specific method, Eurostat acknowledged that such a practice ensured an immediate analysis between national accounts and cash effectively collected, which is useful for quality controls both for INSEE and Eurostat. Eurostat thus enquired on how such a systematic check and quality assurance would be possible in the absence of cash data on social contributions.

INSEE explained that the PIT recording was unique and that indeed, for social contributions, it did not know whether, in the short- or longer-term, cash equaled national accounts recording. In the view of INSEE, the absence of this control was not significant, as the accounts of social security funds are monitored in-depth by the French Court of Audit, and as INSEE considers that the treatment applied is in line with requirements.

Eurostat noted that whereas the Court of Audit looks at compliance with the French accounting system, Eurostat looks at compliance with the national accounts. In this context, Eurostat needs to observe social contributions over the long run, say for the past 15 years, from a cash data and from a balance sheet point of view, and grasp whether in the long-run cash and accrual tend to each other.

Furthermore, Eurostat enquired INSEE on the specific compilation of the **D.995** related to social contributions. Social security accounts' item “*produits á recevoir*” records social contributions relative to one period for which the justifying documents arrive only in the

⁷⁹ Action Point completed on 13 December 2019. The FSA do not agree with the recording proposed by Eurostat during the SDV. The issue is also being discussed in the GFS TF and the EDPS WG (‘*Recording of wages and salaries - 13th month payments and holiday money; entitlements due to overtime*’).

following period. This by itself does not allow measuring social contributions assessed but not received, even if this item could (or should) be usefully used to compile the correct amount of social contributions receivable in a given year.

In this context, INSEE uses DGFIP's "*admissions en non valeur*", which measures amounts that have been written-off by the accountant, to account for social contributions assessed but not received. Eurostat expressed the view that "*admissions en non valeur*" occurs at a very late stage, certainly after the assessment of non-payment and possibly some years after, such that it cannot be correctly used (not even as a proxy) to compile D.995.

Finally, Eurostat enquired whether "*re-admissions en valeur*" existed (write-off reversals). INSEE explained that these reversals were in fact common, but that these were not considered anymore since 2018 due to Eurostat's disapproval for negative D.995. Eurostat clarified that D.995 should in principle not be negative, and that this used to occur routinely in French national accounts due either i) to comparison between assessment and cash in the same period or ii) to the incorrect use of write-offs and reversals, instead of using a coefficient (i.e. implying an effective assessment of non-payment).

Main findings and conclusions

Action Point 26 (former Action Point 35): In relation to social contributions recording, Eurostat noted that the French recording does not strictly comply to the rules, given that the amounts not collected are deducted from the B.9 only at time of write-off (*'admission en non valeur'*):

- a. The FSA will substantiate in an appropriate way their claim that their method is a reasonable proxy to requirements, either by providing the related cash data or, alternatively, by using profit and loss and Balance sheet accounts, on condition that the receivable (or potential payable) can be strictly circumscribed to social contributions, and that related write-offs, as well as write-off reversals, can also be well identified.
- b. On this basis, the FSA will report the stock of fiscal receivables related to Social Contributions (and underlying flows) in Questionnaire Table 5 for the whole time-series, in order to verify that the accrued amount of D.61 net of D.995 over time corresponds to the cash collected, as is required under ESA 2010.

*Deadline: March 2020.*⁸⁰

4.2.3. Interest

Introduction

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

As regard the interest revenue, for the *State*, the source data are the budget accounting (cash-based) and the general ledger (accrual-based). For *Other sub-sectors*, information obtained on

⁸⁰ To be completed.

local government comes from public accounting, and is accrual based. The same is true for the ODAC and the social security funds.

Prior to the visit, INSEE provided to Eurostat the filled-in *Questionnaire on the recording of interest for the period 2015 – 2018* ('interest table'), excluding capitalisation on indexed securities.

Discussion and methodological analysis

Eurostat enquired on the discrepancies between EDP Table 3B and the table on interest provided prior to the mission, notably as concerns discounts and premiums at issuance, as well as the difference between interest accrued and paid, noting nonetheless that those differences mostly compensated each other.

INSEE explained that this is due to presentational differences, regarding where discounted interest on Treasury bills (Billets du Trésor Français – BTF) are reflected. Nevertheless, this seemed contradictory to Eurostat, as the interest table is recording BTF in the discounts and premiums at issuance (line 8 and 10), and asked for a confirmation from Agence France Trésor (AFT). Eurostat thought that the presentation undertaken by AFT seemed to have some merits, and thought the issue could be discussed at the EDPS WG level.

Eurostat questioned why/if the interest table provided by INSEE was excluding capitalisation on HIPC indexed-securities, as the ESA nominal value of debt should include this, and wondered whether this was indeed being also reported in the Maastricht Debt. Those amounts are also to be reported in interest expenditure.

Finally, Eurostat enquired on why the interest table provided by INSEE shows only the State (S.1311_1), rather than the whole central government.

Main findings and conclusions

Action Point 27 (former Action Point 36): Regarding the interest table:

- a. The FSA will ultimately ensure that the recording of interest, notably on BTF – currently negative –, are treated homogeneously between this table and the EDP Table 3.
- b. The FSA will verify that the discounted interest on BTF are recorded within discounts and premium in the interest table (items 8 and 10, as well as 12 and 13) and within difference between interest accrued and paid in EDP Table 3A.
- c. Eurostat will reflect on the more appropriate reporting in EDP Tables 3 of discounts/premiums in short-term bonds (T-bills).
- d. The FSA will resend the interest table to assure a complete coverage by instrument, at least covering the State (S.1311_1), and preferably the whole central government sector (S.1311).
- e. The FSA will clarify that the capitalisation on HIPC indexed-securities (e.g. 4.4 billion euro of flow in 2018, with a B.9 impact) are reported in the stock and the flows of the interest table, in lines A, B, 1, 3 and 4 (line A corresponding to Maastricht Debt).

*Deadline: March 2020.*⁸¹

4.2.4. EU flows

Introduction

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

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

During the October 2018 EDP Notification, and in the face of an incomplete filling of EDP questionnaire table 6, which did not allow for a clear analysis of EU flows in the French S.13, Eurostat and INSEE initiated a discussion concerning the recording of EU flows.

Discussion and methodological analysis

Eurostat recalled the discussions during the October 2018 EDP Notification, aiming at an apparent inability to fill-in all entries in questionnaire table 6, which could suggest the inexistence of such information. To Eurostat, the recording of the different EU flows in National Accounts follows a number of rules that require a certain amount of information. Without such minimum information, one cannot presume that EU flows are correctly recorded in the National Accounts.

Eurostat noted that, in questionnaire table 6, adjustments for grants are equal to adjustments for contributions. INSEE had explained, during the October 2018 notification, that the DGFIP database did not allow to breakdown between contributions and grants. Eurostat noted that the existence of a single account where the heterogeneity of EU-related inflows and outflows is included may imply that these are recorded in National Accounts as cash or at least approximately to cash.

As regards the VAT- and GNI-based own resources (D.76), Eurostat noted that the absence of detailed information seems to imply that this recording is cash-based, apart from a unique adjustment referring to *Amending Budget 5/2016 (AB5) adopted on 1 December 2016* and the result of a recommendation of Eurostat back in the April 2017 EDP Notification. On the other hand, it is possible to have no adjustments in relation to EU contributions in case the cash paid by France follows exactly the time the obligation to pay arises.

As regards EU grants, Eurostat enquired on the flow of funds when the final beneficiary is a non-government unit, notably whether the funds transit via government units and via the working balance of EDP tables 2. The FSA confirmed that indeed several, even if not all, of the funds transit via government units, but that no specific adjustments are being made in EDP Table 2A. They indicated that B.9 neutrality was assured by the fact that EU flows benefiting

⁸¹ Action Point to be completed.

non-government beneficiaries are recorded as third-party accounts in the financial accounts (in public accounting and in National Accounts).

In this context, concerning both EU contributions and EU grants benefitting government units, Eurostat wondered whether CGE contained information that could be safely used by the FSA to ensure a neutral impact in B.9.

As regards funds transiting via local government and social security funds, whether the final beneficiary is a government unit or not, the FSA indicated that, by definition, the fact that the working balance of these subsectors is accrual-based should assure a correct neutralization of B.9.

Main findings and conclusions

Action point 28 (former Action Point 37): In relation to the recording of EU flows, Eurostat took note that the adherence to the rules is mostly ensured by the fact that, i) EU flows benefitting non-government beneficiaries are recorded as third-party accounts in the financial accounts (in public accounting and in NA), ii) the working balance of government units other than the State (ODAC, local governments and social security funds), being ‘accrual’, contains a revenue when the EU finance expenditure is carried out.

- a. The FSA will enquire on the amounts of payable and receivable in the CGE, and consider adjusting the B.9 of the State according to requirements, in relation to EU grants benefitting the State (possibly for small amounts), and adapt accordingly EDP Tables as well as the related questionnaire table 6.
- b. The FSA will also adapt Questionnaire Table 6 to reflect the accrual adjustments, currently included in the French National Accounts, relating to EU finance expenditure of the other units: ODAC, local governments and social security funds.
- c. The FSA will confirm that the lack of accrual adjustments for contributions to the EU (except for years 2014, 2015 and 2016) reflects a genuine absence of payables/receivables between the French State and the EU Commission or, instead, a simplified approach.
- d. The FSA will send a note summarizing the French practice in relation to EU flows management, as well as its recording in public accounts and in national accounts. In doing so, it will also explain the recording of disallowances, as well as of so-called EU-financial instruments.

*Deadline: July 2020.*⁸²

4.2.5. Gross Fixed Capital Formation – Société du Grand Paris

Introduction

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

⁸² Action Point to be completed.

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

Prior to the visit, INSEE sent a note informing on the investment activities and projects of Société du Grand Paris (SGP), an EPIC (S.13) created in 2010 with the objective of conceiving and undertaking the project for renovating the transport system of Paris. The total cost of the project and construction is estimated to reach a total of 40 billion euro, by 2024. Until 2018, the accumulated P.51g is of 3 billion euro.

Discussion and methodological analysis

On the general compilation of accrued GFCF, INSEE is to further explore CGE (see 1.2.1.1).

As regards Société du Grand Paris, Eurostat welcomed the information provided. Eurostat also took note that it is possible for this entity, in the context of its attributions, to engage in PPP contracts and thus requested INSEE to be attentive to the eventual use of this possibility.

4.3. Recording of specific government transactions

4.3.1. Court Decisions

4.3.1.1. 3% tax on additional dividends

Introduction

As a consequence of decisions by the European Court of Justice and by the Constitutional Council of France (May 2017 and October 2017, respectively), which are considered as final judgements of the case, the French State had to refund the 3% additional tax on dividends imposed and collected in the period 2012-2017, as this action of the State was declared by the Courts as being in breach of the principle of equal treatment of taxpayers.

In line with the French Fiscal Code, companies have the right to ask for the reimbursement of the amounts unduly paid, for the three years prior to the submission of the claim⁸³. Nevertheless, as this tax started being judicially contested in 2013, some of the amounts to be reimbursed by the tax administration refer, *de facto*, to earlier years, from 2012 onwards. The French tax administration was expected to treat all the claims received as soon as materially possible, in the last quarter of 2017 and in 2018, notably given the fact that the amounts illegally received by the State bear interest, with an annual rate of 4.8% a year, retroactively applied. There is thus a clear economic incentive to process the claims as soon as possible.

⁸³ The ‘three years prior to the submission of the claim’ was here, and always before, interpreted by Eurostat as years T-3, T-2 and T-1, for a claim submitted in year T. Such an understanding was present in written in several instances, as well as an assumption for several exercises undertaken. The French statistical authorities had never contested this understanding. Nevertheless, during the October 2019 notification, INSEE indicated that, actually, the ‘three years’ limitation period indeed cover only years T, T-1 and T-2.

According to information provided by a report from *Inspection Générale des Finances* (IGF) on this subject, dated November 2017⁸⁴, the revenues related to this tax amounted to 9.9 billion euro over years 2012 to 2017, in the following way (in billion euro):

2012	2013	2014	2015	2016	2017	Total
0.2	1.9	1.9	2.2	2.0	1.7	9.9

Also according to the IGF report, a total of 1 billion euro of interest penalties must be added to this amount, i.e. the potential amount concerned by those court decisions rises up to approximately 11 billion euro. This figure is not the amount expected to be refunded, however, given that it does not exclude the amounts that, according to the French Fiscal Code's three-year rule (statute of limitations), cannot be contested anymore.

According to Eurostat's internal calculations, the amounts that could not be contested by the time of the Constitutional Council decision amounted to approximately 1.1 billion euro, concerning the years 2012 to 2014. Hence, disregarding these, the amount concerned by the court decisions would approximately approach 9.8 million euro (9.9-1.1+ 1.0).

According to the information published in the IGF report, the claims for reimbursement actually submitted by taxpayers to the tax administration as of 31 October 2017 amounted to a total of 7.9 billion euro (including interest).

According to the information provided by INSEE and DGFIP, by 31 December 2017 the cases validated and already paid out by the tax administration amounted to 5.3 billion euro (of which 0.5 billion euro of interest). By the April 2018 EDP Notification, a further 3.1 billion euro were paid (excluding interest).

By January 2019, according to the information shared by INSEE and DGFIP for the April 2019 EDP Notification, a total of 8.6 billion euro, excluding interest, were paid by the French tax administration to taxpayers. An amount fairly close to the 8.8 billion euro, excluding interest, estimated by Eurostat in March 2018.

The main problem at stake concerned when to record the government expenditure related to this refund: at time of Constitutional Court Decision (all in October 2017)? At time of submission of claim (mostly within the year 2017)? Or at time of processing of claim (broadly half in 2017, half in 2018). The issue was actively discussed in the Ad-hoc Visit of January 2018, essentially to what extent the processing of claim was material (such that a significant rejection rate would occur) and was not merely an administrative control of conformity. Based on the notion that a significant control was carried out, Eurostat agreed, in an advice dated March 2018, that the time of recording could be at time of processing of the claims, pending on final clarification.

Discussion and methodological analysis

As mentioned in the context of the discussions above about the provisions in CGE, Eurostat noted that, in relation to the 3% additional tax on dividends, a ‘*provision pour risques*’ of 5,933 million euro already existed end-2016, which was fully removed in 2017 following the Constitutional Court Decision, while a provision pour charges of 4,573 meur then appeared end-2017. At the same time, a ‘charges a payer’ (presumably most paid) of 5,251 meur (of

⁸⁴ *Mission d'enquête – La contribution additionnelle à l'impôt sur les sociétés de 3% sur les revenus distribués (dividendes)*, NOVEMBRE 2017, Marie-Christine LEPETIT et al.

which 543 meur of interest and 4,708 meur of principal) was recorded in CGE in 2017. The newly recognized liabilities during the year were thus 3,891 meur (=4,573 + 5,251 – 5,933). The total amount recognized as of end-2017 in relation to this case is 9,824 meur (5,933 + 3,891). The amounts of claims submitted by taxpayers as of 6 October 2017 (i.e. the date of the Constitutional Court decision) was of 7,677 meur.

The issue concerned a 3% additional tax on dividends, instituted in 2012, which was subject to court cases starting from that year, and where the CGE recorded a ‘provision pour risques’, reflecting some likelihood that government would have to refund some or all the amounts contested (despite some internal advice that had an optimistic reading on the subject, see 2017 IGF report⁸⁵, section 2).

After an ECJ decision in March 2017, the French Constitutional Court in October 2017 ruled that all the taxes collected were to be refunded without delay (without prejudice of the ‘limitation period’ rule of the French Code Fiscal). As a result: 1) given the certainty of being repaid, taxpayers sent the remaining claims not yet submitted (some even outside the ‘limitation period’), 2) the French Tax Administration started processing the claims, creating a special unit dedicated for this task, starting with the biggest or more certain claims (in order to limit interest payments), 3) 5,251 meur was actually paid out in 2017.

The question of the **time of recording** of this refund related to a court decision was first discussed in the January 2018 mission, and was then subject to a March 2018 advice. This advice indicated that on the basis of the information provided, the time of recording could be the time of validation of each claim, assuming that the validation process was material, which could be assessed for instance by the number of claims rejected (and according to the Eurostat letter would indeed need to be assessed at a later stage).

During the April 2019 notification, the FSA provided detailed data, which mostly showed that the large majority of claims pending end-2017 were treated in the first 3 months of 2018, and that the amounts rejected were relatively small in general. While the amounts of claims rejected (processed in 2017, 2018 and early-2019) apparently totaled 3.9% (0.4% in 2017, 7.9% in 2018 and 0.0% in early-2019), an analysis carried out by Eurostat aiming at excluding rejections of false claims (such as those outside the ‘limitation period’) showed an effective rejection rate of 1.6% only (likely to be even lower if a correction for other errors would be carried out, e.g. ‘doublons’).

Eurostat thought that the **rejection rate was fairly small**, including for claims processed in 2018. Eurostat also noted that the example of a submitted claim allegedly contested by the tax authorities (amounting to 436 meur) that was raised during the January 2018 mission (see paragraph 45, page 84, of the January 2018 visit findings) could not be actually found. The total amounts rejected in 2017 was of 19 meur and in 2018 of 333 meur. The biggest claim subject to some rejection in part or in full amounted to 293.8 meur, for a rejected amount (itself the highest) of 128.5 meur, the latter being in fact all ‘false claims’, being outside the ‘limitation period’.

During the January 2018 mission, Eurostat recalled that three times of recording were conceivable following the MGDD: 1) time of Constitutional Court decision, 2) time of submission of claim and 3) time of validation. In the advice of early March 2018, Eurostat indicated that the 0.2% rejections of claims processed by end 2017 was not material enough. However, Eurostat agreed that rejection rates could raise significantly so that it could make

⁸⁵ [Mission d'enquête – La contribution additionnelle à l'impôt sur les sociétés de 3% sur les revenus distribués \(dividendes\), NOVEMBRE 2017, Marie-Christine LEPETIT et al.](#)

them material, though pointing that the determination of this rejection rate had to eliminate false claims, e.g. due to the limitation period.

Nevertheless, a posteriori, Eurostat considers that the **rejection ratio** eventually turned out **rather low**. In addition to that, Eurostat wondered whether the **change from ‘provisions pour risques’ to ‘provisions pour charges’** would not be indicative that the amounts likely to be rejected would tend to be small.

INSEE agreed that the amounts of rejections is overall small, although significantly higher for the claims processed in 2018.

Finally, Eurostat noted that the tax administration can accelerate the process applicable to each individual taxpayers by treating claims not submitted for selected years, in order to avoid taxpayers’ incentive to postpone claims (and thus avoid relating interest). This answered part of action point 14 of the January 2018 mission. Most importantly, this reduces the uncertainty of the amounts to be reimbursed by the State, as these are not being solely dependent on whether taxpayers claim at once all the relevant amounts or not.

Main findings and conclusions

Action Point 29 (former Action Point 4): In relation to the Court Decision on the 3% additional tax on dividends⁸⁶:

- a. The FSA will enquire on when corporations recorded an asset (claim) in their own accounts in relation to the 3% case, and whether this may justify a different recording also in the light of the reclassification from ‘provisions pour risques’ to ‘provisions pour charges’ in CGE balance sheet, following the court decision.⁸⁷
- b. The FSA will complete the analysis of the rejection rates in the light of the analysis of Eurostat carried out during the April 2019 EDP Notification and of the guidance included in the Eurostat advice of March 2018. The FSA will, also considering the findings of the previous action point, decide whether it would be more appropriate to record claims at time of submission or at time of assessment, also in the light of ESA 20.189⁸⁸.

⁸⁶ As a result of the conclusions taken on the following action point, in the April 2020 EDP Notification INSEE revised the recording of the court decision on the 3% tax on additional dividends. The amounts were recorded at time of court decision/submission of claim, as Eurostat initially proposed. This thus implied a 0.2 p.p. of GDP downward revision of the deficit of 2018, and a parallel upward revision to the deficit of 2017.

⁸⁷ Action point completed with the submission of the October 2019 EDP Notification. Companies in France recorded an asset receivable from the State at time of Constitutional Council decision (for claims previously submitted) or at time of claim submitted (when submitted after that decision), i.e., in any of the cases, in their closing balance sheet of December 2017.

In the opinion of Eurostat, this further legitimates recording these amounts in National Accounts at time of court decision/claim made, notably because the submission of the claim actually materializes the link between the debtor and the creditor, materializing an “automatic and incontrovertible right” established, “for a given amount that can be individually determined”, in line with ESA 20.189.

⁸⁸ Action point completed with the submission of the October 2019 EDP Notifications. The issue is still under discussion. INSEE has provided an analysis made with the information available at March 2018. As a result of its analysis, INSEE argues that the final cost for the French State could have then been estimated in the

4.3.1.2. CSPE and Précompte liquidation

Introduction

Following its reading of the report on the budgetary risks associated with litigations, published on 17 October 2018 by the French National Assembly, Eurostat had enquired INSEE, during the April 2010 EDP Notification, on further information about the litigations (and eventual court decisions) concerning CSPE and Précompte liquidation, both referring to taxes collected in the past.

The **Précompte** is a tax that existed in France since 1965, until being removed in 2005, following a decision of 2004 of the CJEU that condemned a similar Finnish tax. Moreover, following that Finnish case, several French companies made claims between 2006 and 2008. Since these dates, many judgments have been rendered, and in particular, two decisions in principle were set by the Conseil d'Etat in 2012, although none of those judgements was considered definitive. On 4 October 2018, the CJEU questioned these decisions: the judgment of the CJEU is considered as definitive.

CSPE is a tax that existed from 2003 until 2015, with the objective of financing the public service of energy. In the meanwhile, in 2016, the French State created a *Compte Affectation Spéciale – Transition Énergétique* (CAS TE), which is financed by other taxes, thus leading to the dissolution of CSPE. CSPE has been judged as incompatible with the European excise directive, which requires excise duties to be linked to a specific purpose in the EU Member States. The CJEU has made a decision on 25 July 2018 and the Conseil d'Etat on 3 December 2018.

Only the part of the CSPE allocated to ecological purposes would be considered as complying with the excise directive. According to the French statistical authorities, complex calculations must thus be established to determine, for each firm, the part allocated to ecological purpose and to check that the CSPE financing other policies than this ecological purpose had not been passed on prices.

Discussion and methodological analysis

Eurostat enquired on the potential impact of the litigations related to CSPE and 'Précompte'.

interval between 7.2 and 9.7 billion euro to be imputed in 2017. INSEE argues that the great interval of uncertainty justifies the cash recording undertaken, such that the expenditure in 2017 is of 5.3 billion euro.

During the October 2019 EDP Notification, Eurostat contested the assumptions, extrapolations and conclusions of INSEE's analysis. Eurostat considers unsubstantiated the assumption that two-thirds (2.6 billion euro) of the amounts claimed in 2017 (3.9 billion euro) should be considered as covering amounts outside the limitation period. Eurostat can only agree that amounts paid in 2012, 2013 and 2014, and not claimed by end-September 2017, are lost, which means that out of the 9.9 billion euro of total taxes received, only 8.8 billion euro (excluding interest on late payments) were liable to be legitimate claims. As a result, the 7.2 billion euro of minimum estimated impact seems a clear understatement. Finally, Eurostat considers unwarranted the conclusion that, in face of uncertainty, the best statistical solution in the national accounts context would be cash recording.

In relation to **CSPE**, an electricity tax collected for significant amounts (6.7 billion euro in 2015 and 36.9 billion over 2003-2015), a ‘provision pour risques’ of 1.3 billion euro was recorded in CGE end-2017. A ‘provision pour charges’ of 0.8 billion euro was recognized following a CJEU decision on 25 July 2018 and a Conseil d’État decision on 3 December 2018. The amount of provisions are significantly lower than the CSPE collected given that only the part not allocated to ecological purposes is covered by the legal case. A “complex calculation” must be done for each firm to be refunded.

Eurostat agreed that much uncertainty existed at this stage, which could support awaiting before recording an expenditure. At the same time, given that this Court Decision concerns tax recording, and that ESA 2010 foresees a specific recording for taxes, i.e. the assessed amount minus the coefficient to correct for the expected irrecoverable (which are themselves uncertain), a question may arise as to whether a different treatment would be appropriate. In this case, the issue is whether the change from ‘provisions pour risques’ to ‘provisions pour charges’ would be an appropriate criteria for correcting the coefficient. This coefficient can be corrected backwards (retrospectively), or forwards, or both. Member States that do not use assessment but time-adjusted cash are also concerned by this given that the TAC is meant to be a proxy of the other method; such that, in this case, some cash payments may be recorded as advances.

A similar case concerns **Précompte Mobilier**, related to rather old tax payments from 1965 to 2005 (the case relating to the coverage of ‘avoir fiscal’), contested by several companies from 2006 to 2008, following a 2004 CJEU decision on a similar Finnish case. Following the October 2018 CJUE decision, which is definitive, the French government has to refund taxpayers (fiscal litigation in substance) and potentially pay penalties to them (litigation in liability), reflecting the fact that the State misinterpreted the first decisions of the CJEU on this case, however only if the taxpayer can prove damage. Eurostat noted that DGFIP is planning to record an expense of 0.6 billion euro spread over 2019 to 2022, and enquired why those amounts are much smaller than the 2.9 billion euro provisioned for litigation in substance and 1.2 billion euro for litigation in liability. The FSA indicated that the indicated 0.6 billion euro are merely budget ceilings (authorisations d’engagement) to any payments to be made during given years.

Eurostat wondered why a recording in 2018 is not implemented (using the provisioned amounts, at least for litigation in substance), why companies do not ask for the immediate settlement (what administrative process is required), and whether there will be late interest paid for the delayed settlement.

Main findings and conclusions

Action Point 30 (former Action Point 24): potential impact of the litigations related to CSPE and ‘Précompte’:

- a. INSEE will explain the gap between the amounts provisioned in the CGE in relation to Précompte (4.1 billion euro) and the expected budget costs estimated by DGFIP. INSEE will clarify why settlements are spread over time and what interest will accrue to plaintiffs.⁸⁹

⁸⁹ Action point completed with the note sent along the October 2019 EDP Notification. According to INSEE, the provision recorded in the CGE is a maximal cost (cautious assumption of a risk rate of 100%), but the amounts that will be finally reimbursed are very difficult to estimate. Indeed, to be reimbursed, the firms have to provide strong evidence on the CIT paid abroad, which can be difficult to estimate properly in particular when there is a chain of intermediate subsidiaries. This important uncertainty on final amounts to be reimbursed, as well

- b. INSEE and Eurostat will reflect on the possible inclusion of CSPE (and possibly Précompte) provisions pour charges in the EDP/GFS reporting.⁹⁰

Deadline: October 2019 EDP Notification.

4.3.2. Government transactions in the context of the financial crisis

4.3.2.1. SFEF (for the record)

Introduction

SFEF was created at the end of 2008 so to address the severe liquidity crisis occurring at that time in the interbank market, by way of arranging emergency lending to financial corporations. SFEF was majority owned by private banks, but its borrowing was fully guaranteed. By 2016, SFEF remained one main beneficiary of the State guarantees.

Although INSEE had initially classified SFEF within government, with the full support of Eurostat, the section 8 of the Guidance note on *The statistical recording of public interventions to support financial institutions and financial markets during the financial crisis*⁹¹ subsequently published (29 September 2009) was nonetheless interpreted so to suggest that SFEF should be classified outside government. In particular, the Guidance note, published under ESA 1995, states that “Majority privately-owned special purpose entities which are established with a short temporary duration (their existence would be for a short period of time strictly linked to the actual duration of the financial crisis) and have a sole purpose to address the financial

as the fact that it will take time for firms to provide evidence, explain the gap between the provision recorded in the CGE and the expected budget costs.

⁹⁰ Action Point completed with the note sent along the October 2019 EDP Notification.

As concerns the CSPE-related litigation, the 0.8 billion euro estimate (in ‘provisions pour charges’) is supposed to take into account that only the part of the CSPE which is not allocated to ecological purpose should be reimbursed. According to INSEE, the estimate however remains quite uncertain because it is difficult to estimate, for each firm, the part allocated to ecological purpose and to check that the CSPE financing other policies than this ecological purpose had not been passed on prices. Hence, INSEE has decided not to record those provisions in the B.9, in the moment they were recorded in CGE. In the meanwhile, the decree defining the conditions for being reimbursed is available since 30 October 2020 (<https://www.legifrance.gouv.fr/loda/id/JORFTEXT000042483235/>). In this context, INSEE informed that an estimated 100 million euro would be recorded in the 2020 accounts (as a revision of the October 2021 EDP Notification).

As concerns Précompte, the difficulties to estimate with certainty the final costs of the litigation lead INSEE not to record these litigations in NA in October 2019. This issue is still under discussion (April 2021 EDP Notification). In the year 2020, an amount of 1.5 billion euro cash payments by the State were neutralised in the B.9, as according to INSEE there is still an ongoing appeal by the French State at the Supreme Court. In this context, Eurostat requested INSEE to gather and share further details on the ‘precompte mobilier’ legal dispute.

⁹¹ See: <https://ec.europa.eu/eurostat/documents/1015035/2041357/Eurostat-guidance-note-FT-10-September-2009.pdf/ae8874d-3e2e-401d-b3cf-50063473bb0b>

crisis, even if they receive a government guarantee, are to be recorded outside the general government sector”.

Although legal ownership of SFEF is indeed majority private, INSEE considers that economic ownership is in fact public, government being exposed to both the risks and rewards arising from SFEF operations: the SFEF borrowing is fully guaranteed by government, and government earns the interest differential charged by SFEF to its clients through guarantee fees paid to government.

Economic ownership is applicable under ESA 2010, which also explicitly foresees that public control can be established through contracts aside from ownership. In substance, SFEF is a device created by government for emergency lending to the financial sector, with government exposed to nearly all risks and rewards.

Accordingly, INSEE reclassified SFEF inside general government from 2008 onwards at the occasion of its spring 2018 major revision. SFEF operations are therefore, from spring 2018 onwards, retraced in the core of the supplementary tables on the financial crisis (Annex 5 – see also section 4.3.2.4) rather than in the memo items. Similarly, SFEF operations are removed from the tables reporting on guarantees (Questionnaire table 9) or on contingent liabilities (these tables being reported consolidated).

Main findings and conclusions

Eurostat agreed with the reasoning of INSEE and took note of the reclassification of SFEF inside government from inception, implying a revision upwards of government debt, pronounced in 2008-2009 and gradually falling back over time (as banks reimbursed all their borrowing and SFEF redeemed all its debts).

4.3.2.2. DEXIA/Dexia Crédit Local

Introduction

Following the serious refinancing difficulties encountered by Dexia in autumn 2011, the European Commission approved the revised Dexia Group's orderly resolution plan, of which Dexia Crédit Local (DCL) is now the only operating subsidiary (all the activities previously carried out in Belgium or Luxembourg have been either disposed-off or combined there).

In order to avoid bankruptcy, the Belgian, French and Luxembourg governments intervened at the end of 2011 by providing a remunerated guarantee to DCL (up to €85 billion over a 10-year period, which has neither been fully used nor been called so far), thus enabling it to continue to finance itself at moderate rates. The Belgian and French governments also recapitalized the group at the end of 2012, for €5.5 billion (which impacted the B.9 of both Member States)

DCL is no longer carrying out new activities:

- The loan portfolio is now managed in run-off mode, until the maturity of the outstanding loans, even if the large majority of these are not NPLs;
- The group's target perimeter was reached with the completion in 2013 of an asset disposal program: Dexia Municipal Agency (DMA), Dexia Kommunalkredit Bank Polska, Dexia Bail, Public Long-Term Leasing, Dexia Sofaxis and Domiserve. The reduction in the perimeter of the group continued thereafter. In March 2019, the bank sold Dexia Kommunalkredit Deutschland and closed its Madrid branch.

To date, DCL, which still has a banking license and is included on the ECB list of Monetary and Financial Institutions (MFIs), is classified into the S.122 sector.

Concerning the Dexia group, the French (44,4%) and Belgian (50,02%) governments are the main shareholders and it is therefore very important to ensure a consistent recording of Dexia in national accounts in both countries.

In the weeks prior to this SDV, it has been raised, both in the press as well as by other international organizations, that DCL was losing its banking license. In the context of this news, Eurostat requested further information (and eventual confirmation) from INSEE.

Discussion and methodological analysis

The FSA noted that there had been no change in DCL status yet (e.g. with no decision yet on losing its banking license), and that they considered DCL to be a financial intermediary. The FSA thought that even though DCL was on a run-off mode, operations on assets were nonetheless still significant, as loans were renegotiated or even sold-off.

For the FSA, DCL is not a defeasance structure because the assets of DCL are broadly performing, as DCL went bankrupt due to illiquidity rather than solvability issues. Dexia went into difficulties notably due to bad hedging positions. The orderly resolution process of Dexia, validated by the European Commission Decision on 28 December 2012, implied the sale of Dexia Municipal Agency (DMA, now a part of SFIL) to the State, along some other assets, and the wind-down of the remaining assets hosted by DCL. DCL is jointly owned by the French and Belgian governments, through a holding classified in S.13 in Belgium.

Eurostat argued that DCL cannot be thought of as a normal financial intermediary and that transactions in assets were not meaningfully different from transactions in assets of defeasance structures. Eurostat noted that DCL does not take deposits from the public at large, or close substitutes, such that it did not seem to meet a priori the definition of units classified in S.122 (paragraph 2.75 of ESA 2010). However, being part of the MFI list of the ECB, Eurostat saw no inconvenience to classify DCL in that subsector, in application of ESA 2.67, unless DCL was considered non-market (or a government captive).

Eurostat argued that although defeasance structures are generally thought to encompass NPLs, ESA 2010 seems not so explicitly about this, emphasizing the financial rescue dimension, the wind-down aspect, as well as a capital transfer at inception reflecting redistribution of wealth. A capital transfer was in fact recorded, as a result of the classification decision of a recapitalization of Dexia by Belgium, France and Luxembourg, after consultation of the CMFB.

Eurostat enquired on how the French stake (and associated flows) in the Dexia holding, classified in the Belgian S.13 was recorded in the French NA. Eurostat wondered whether such intergovernmental joint ventures may involve a split of assets and liabilities, similarly to TELT (see below).

Eurostat noted that the guarantees provided to Dexia/DCL were not reported in questionnaire Table 9.1 nor in the contingent liability questionnaire (Council Directive 2011/85). The FSA will furthermore report on the fees paid on those guarantees in Table 9.1.

Main findings and conclusions

Action Point 31 (former Action Point 13): In relation to Dexia:

- a. The FSA will report in questionnaire Table 9 the guarantees provided to Dexia/DCL (as well as in the contingent liability questionnaire, Council Directive 2011/85). The FSA will furthermore report on the fees paid on those guarantees.⁹²

Deadline: October 2019 EDP Notification

- b. Eurostat and the FSA will reflect on what is the appropriate classification of DCL following the ESA 2010 and MGDD rules. They will also reflect on the recording of the Dexia Holding currently fully classified in the S.13 of Belgium. These issues may benefit from a discussion in the EDPS WG.⁹³

Deadline: April 2020 EDP Notification.

4.3.2.3. CIF

Introduction

Crédit Immobilier de France (CIF) was a specialised mortgage lender to low-income households in France, which used to finance itself almost exclusively on the wholesale market, through covered bonds.

In 2011 and 2012, CIF faced a serious liquidity difficulty, triggering the intervention of the State, which put CIF in run-off mode from 2013 and provided CIF with a guarantee, though remunerated. It is expected that the loan book will be held to maturity until 2030 and then CIF will cease its operations.

CIFD, which actually holds the CIF assets, is owned by the SACICAPs (formerly SACIs), which are mutualistic societies (CIF being their centralising body). Two financing entities complete the CIF group: CIF-Euromortgage (CIF€) and 3CIF. CIF€, a 'foncière' (which issues covered bonds) is in a run-off mode since 2017, keeping a claim against 3CIF (8.25 billion euro), which is guaranteed by the State. 3CIF itself finances CIFD (13.6 billion euro) by way of borrowing from CIF€, as well as through further bond issuance that are also guaranteed by the State (7.2 billion euro).

Discussion and methodological analysis

The FSA consider that CIF group is carrying financial intermediation and cannot be assimilated to a defeasance structure; each of the three entities have a banking license. The CIF group is also private, being owned by the SACICAPs. Eurostat enquired on 1) whether the three entities were one institutional unit or three separate institutional units, 2) whether the State guarantees are reported in the EDP questionnaire table 9, and 3) whether the significant fees on the guarantee are fully reported in the supplementary tables on the financial crisis (as well as in questionnaire table 9).

Eurostat noted that questionnaire table 9 apparently included only partially the two guarantees, which was to be verified/confirmed by INSEE.

⁹² Action point completed with the submission of the October 2019 EDP Notification. In questionnaire Table 9, the guarantees provided to Dexia/ DCL are recorded for amounts of 27.9 billion euro in 2015, 32.6 billion euro in 2016, 30.8 billion euro in 2017 and 29.9 billion euro in 2018.

⁹³ To be completed by Eurostat and the FSA.

In relation to the **guarantee** provided by the State, Eurostat noted its very specific structure: 5 basis points (bp) a year plus 145 bp if the solvability ratio of CIF group remains above 12%. Since the latter condition has always been met (the ratio being 16.8% end-2017), payments to the State were significant and amounted to 855 meur so far. Furthermore, Eurostat noted that when the additional guarantee fee is not paid (to protect the solvability of the CIF group), the amounts are nonetheless still due upon liquidation of CIF. Eurostat also noted that, in 2017, 170 meur were distributed to shareholders, following the sale of the CIF headquarters. Eurostat asked INSEE to clarify the recording of the 170 meur distribution of dividends in 2018.

Eurostat observed that the rather large guarantee fee payment and their structure could be an argument to either consider CIF as a defeasance structure or to rearrange CIFD loans to government. This is because: (1) the economic ownership analysis shows that the State is exposed to most of the risks on those loans, given the full guarantee provided; (2) equally, government seems *de facto* reaping most of the rewards through this guarantee fee. INSEE wondered whether Eurostat implied that the guarantee fee of 150 bp was not a market price. Eurostat responded that to the extent that the guarantee was meant to cover a liquidity risk only, with no solvability risk, such a guarantee fee seems indeed a priori high, and that as a result the guarantee could be seen as a way to appropriate the economic benefits of the loan portfolio. At the same time, a financial rescue occurs because of some market failure such that it would be difficult to determine if such a fee actually reflected genuine market pricing. Although the CIF group was owned by the SACICAPs and therefore seemingly private, the structure of the guarantee could make the group public through contracts (ESA 20.309). In a sense, the conditional guarantee payments could be seen as *de facto* remuneration on government economic ownership. In addition, government owns a preferential share in CIF group that may provide specific powers.⁹⁴

Similarly to Dexia, Eurostat thought that the CIF group could be classified as S.122 despite not being financed through deposits or close substitutes, given that they are on the MFI list, as long as CIF is considered market. Covered bonds cannot be considered substitutes of deposits, given the interest risk to which they are exposed and as they are incomparably less liquid than cash. Eurostat noted that MMFs (Money Market Funds) are substitutes to deposits, being within money aggregates, on the explicit criteria that the share value exhibits little sensitivity to changes in market rates.

Main findings and conclusions

Action Point 32 (former Action Point 16): In relation to CIF:

- a. The FSA will correct the questionnaire table 9 to fully include the two State guarantees to the CIF group, and ensure consistency in the supplementary table on the financial crisis.⁹⁵
- b. The FSA will report to Eurostat the recording of the 170 meur distribution of dividends in 2018.

⁹⁴ Eurostat made a parallel with the Portuguese case of [BANIF](#).

⁹⁵ Action point completed. During the October 2019 EDP Notification, INSEE clarified that questionnaire table 9 was already including all these guarantees, with a stock of 6.1 billion euro end-2018.

*Deadline: October 2019 EDP Notification.*⁹⁶

- c. The FSA will describe the specific powers provided by the preferential shares owned by the State.⁹⁷
- d. The FSA and Eurostat will reflect on whether the structure of the CIF rescue and guarantee fees might require a reclassification of the CIF inside government or a rearrangement of CIFD assets through government. The FSA will indicate if the CIF group constitutes one institutional unit or more.⁹⁸

Deadline: February 2020.

4.3.2.4. Supplementary table on the financial crisis

Introduction

During the April 2017 EDP Notification and the May 2017 SDV, INSEE had agreed to provide details in Part 3 (voluntary) of the Supplementary table on the financial crisis in order to allow Eurostat to better review the quality of Part 1 and Part 2 of the table (which are published): transactions in financial assets, actual liabilities of general government, for the October 2017 notification. These details were nonetheless still not provided.

Discussion and methodological analysis

Eurostat noted that the guarantee fees earned in the context of the financial crisis as reported in the supplementary table on the financial crisis appear significantly lower than what would be expected.

In addition, Eurostat thought that the consistency of the Parts 1 and 2 of this table could be improved, noting for instance that the cumulated B.9 impact of the financial rescue was in fact positive, notably due to the guarantee fees, while the net assets impact was significantly negative. Eurostat recalled that the net assets to be calculated include an imputed debt impact that captures all cash flows paid or received not impacting any specific line of Part 2. As a result, Eurostat recommended that INSEE compiles Part 3 which, although voluntary, can be instrumental to prevent reporting errors. Eurostat also recalled that interest paid is to be calculated on the imputed debt.

Main findings and conclusions

Action Point 33 (former Action Point 17): In relation to the supplementary table on the financial crisis:

⁹⁶ To be completed.

⁹⁷ To be completed.

⁹⁸ To be completed.

- a. The FSA will amend the supplementary table on the financial crisis, to report all guarantee fees earned from the various entities.⁹⁹
- b. The FSA will review the consistency of Parts 1 and 2 of the supplementary table on the financial crisis, including by way of filling Part 3 of the table, and as a result improve the net debt impact of the financial rescue in France.¹⁰⁰

Deadline: April 2020 EDP Notification.

4.3.3. Capital injections in public corporations, dividends, privatization

Introduction

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

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

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

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

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

In May 2017, Eurostat requested INSEE to analyse the possibility to apply a statistical model to calculate appropriately D.9 of **local government**, as all capital injections from this subsector are classified as financial (F.5). The same kind of analysis was also requested as concerns the **superdividend test** paid to local government entities.

Discussion and methodological analysis

Eurostat welcomed INSEE’s step-forward in analyzing the capital injections by local government, taking 2016 as reference year, albeit taking note that, in the planning of INSEE, this is still work-in-progress.

Eurostat noted that one-third of the entities receiving capital injections are lossmaking in the same year, thus wondering whether taking one-third or a half (as some entries are lossmaking

⁹⁹ Action Point completed in the April 2020 EDP Notification.

¹⁰⁰ Action Point completed in the April 2020 EDP Notification.

in one year, and other in another years) of the capital injections, every year, as capital transfers would not be a potentially sound pragmatic approximation.

Eurostat also noted that INSEE pointed to 228 meur as the net amount of flow of equity acquisition in 2016, although in EDP Table 3D 228 meur are reported as gross.

Eurostat further welcomed INSEE for the detailed information provided on capital injections of central government, on superdividend test on dividends paid to central government, and on some future privatization plans. Eurostat nonetheless asked for the detail on capital injections of the State available from APE (Agence Participations de l'État).

Furthermore, Eurostat enquired why neither the capital transfer related to RCS, benefitting AFD nor the addition to equity related to the dividend in kind of EDF (see next point) were reported in Questionnaire Table 10.2.

Main findings and conclusions

Action point 34 (former Action Point 38): In relation to capital injections:

- a. The FSA will reflect on the opportunity for partitioning the capital injection flows of local government, based on the share of companies (subject to recapitalisation), that are loss-making (one third or more), after verifying the reason for the difference in amounts between public accounts source data and SBS information (Esane).

Deadline: March 2020.¹⁰¹

- b. The FSA will provide the reported detail for capital injections of the State, using information from APE (Agence Participations de l'État).

Deadline: July 2020.¹⁰²

- c. INSEE will include in Questionnaire Table 10.2 the capital transfer related to RCS, benefitting AFD, as well as the dividend in kind paid by EDF.

Deadline: March 2020.¹⁰³

4.3.3.1. Dividends in kind by EDF

Introduction

The item *Dividendes versés sous forme de titres* in EDP Table 2A refers to an agreement between EDF and the French State “to reinvest a large part of the annual dividend into the company on the long run“. Other shareholders have the same right to capitalize their dividends.

Discussion and methodological analysis

¹⁰¹ To be completed.

¹⁰² To be completed.

¹⁰³ To be completed.

INSEE confirmed that, apart EDF and Banque de France (see below), it has no knowledge of other situations where the French State receives dividends in kind.

4.3.3.2. Dividends in cash, dividends in kind and taxes paid by Banque de France

Introduction

In 2015, Banque de France purchased a Rembrandt painting, on behalf of the French State, in the context of an agreement between Netherlands and France. Concretely, Banque de France paid for one of the two paintings that constitute a couple, while Netherlands paid for the other one. The two paintings are alternatively exhibited in the Louvre and the Rijksmuseum. The price paid by Banque de France for the painting is of 80 million eur but gave rise to an income tax reduction of 72 million euro (90% of the price), because the painting is deemed to be a piece of art of considerable importance.

Discussion and methodological analysis

Eurostat welcomed INSEE for the information provided prior to the meeting.

INSEE and Eurostat agreed that the purchase should be reported in government accounts, carried out on behalf of government.

Eurostat noted that, although this would not impact the superdividend test for Banque de France in 2016, the 72 million euro of income tax reduction benefitting Banque de France should be taken into account in that test. Eurostat took note that no other cases of sponsorship benefitting public entities have been undertaken in France.

Main findings and conclusions

Action Point 35 (former Action Point 40): In relation to the Rembrandt painting financed by Banque de France (80 meur) in 2015, Eurostat and INSEE agree that the State NA should show an expenditure of 80 meur in valuables (P.53), matched by an imputed tax (D.51, of 72 meur) and 8 meur of D.42. This will be implemented as soon as possible, taking into account INSEE's revision policy (e.g. by the next benchmark revision). INSEE agrees that, in concept, the 80 meur should be added to the amounts to be superdividend tested, but points that in practice this will not alter the result of the test. INSEE will also reflect on whether the 8 meur assumed by Banque de France has the nature of a dividend or, alternatively, of a purchase of a service, in the light of information provided in the meeting.

Deadline: When applicable.

4.3.4. *Public Private Partnerships, concessions and EPCs*

Introduction

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

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

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

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

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

Discussion and methodological analysis

INSEE has confirmed that all PPPs in France are recorded on-balance sheet.

4.3.4.1. Railway (SNCF-Réseau) PPPs

Introduction

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

In the October 2017 EDP notification, INSEE decided to reclassify the concession granted by SNCF-Réseau to LISEA inside government owing to the risk exposure of government. This translated in a degradation of the B.9 (3.5 billion euro over 2011-2016) in that Notification, reflecting LISEA investments, net of grants received. INSEE remarked that 1 billion euro of investment had however been initially missed out, which was in the meanwhile corrected in the April 2018 EDP Notification (including covering earlier years).

In the meanwhile, in October 2018, SNCF Réseau was reclassified, which might have changed the status quo.

Discussion and methodological analysis

Eurostat took note that there have been no changes in this regard.

4.3.4.2. Other specific concessions

Introduction

Prior to the SDV, Eurostat requested notes recalling the national accounts treatments of Aeroport de Paris, the railway tunnel between Lyon and Turin (TELT), Tunnel under Mont Blanc, Fréjus and Motorways.

Discussion and methodological analysis

Eurostat took note that *Aéroport de Paris* is classified outside S.13, albeit being majority owned by the French State (to whom it pays dividends).

Eurostat also took note that the concessions regarding the tunnels under Mont Blanc and Fréjus are classified in S.11, albeit being majority owned by the French State. Nonetheless, the totality of their debt is included in the Maastricht Debt, as being issued by *Caisse Nationale des Autoroutes* (CNA).

As regards Motorways, Eurostat took note that these were built by the French State and given in concession, gradually until 2006, to private concessionaires. The proceeds of those concession sales were considered as indirect sales of non-financial assets and recorded as F.5. Eurostat noted that extension of the maturity of these concession had been granted against investment commitment by the concessionaires.

As regards EPCs, Eurostat took note that in France it is not possible to isolate automatically in CGE accounts the amounts related to EPCs, but only through a costly screening on the PPP list. Although such an exercise cannot be run frequently, 5 EPCs have already been identified by the FSA.

Eurostat informed INSEE that the Italian statistical authorities reclassified to S.13 half of TELT transactions and stocks during the April 2019 EDP Notification. INSEE explained to Eurostat that, in fact, it had broken down the accounts of TELT in three, classifying one third in the French S.13, deeming one third as to be classified by the Italian colleagues, and assuming a final one-third as belonging to the Rest of the World accounts (EU institutions). Eurostat doubted about the validity of such practice and though a split in two was to be recommended. Eurostat asked the financial statements of TELT for the recent years.

Eurostat invited INSEE to further analyse the accounting rules followed in CGE in relation to PPP and EPC contracts (see section 1.2.1.1).

Main findings and conclusions

Action Point 36 (former Action Point 26): Concerning TELT (the new railway tunnel between Lyon and Turin), the FSA will adapt its current recording, and split the unit resident in France in two parts, rather than three parts, to be allocated in the general government sectors of both France and Italy, the two parties of this partnership – to be reported in the notification.¹⁰⁴ The FSA will provide to Eurostat the financial statements of TELT, for recent years.

Deadline: October 2019 EDP Notification.

¹⁰⁴ Action Point completed for the April 2020 EDP Notification.

Action Point 37 (former Action Point 27): The FSA will clarify the substance of the 145 billion euro recorded in the CGE in relation to concessions and the corresponding recording in NA, if any.¹⁰⁵

Deadline: March 2020.

4.3.5. ETS and electricity subsidy/tax

Introduction

Eurostat and INSEE discussed, during the April 2019 EDP Notification, the recording of Emission Trade Schemes (ETS). From 2013 onwards, France has attributed emission permits through auctions procedures, hereby generating cash receipts.

The treatment by INSEE is clear – with cash, received by Agence nationale pour l'amélioration de l'habitat (ANAH) and/or the State, moved by one year. ANAH (S.13) collects cash related to ETS but the flows are routed through the State with a transfer to ANAH and an F.8 recorded in the State account. Thus, the ANAH B.9 equals the cash collected, and the State B.9 equals D.29 minus the cash collected. The flow from the State to ANAH is a D.73. In 2018, the D.73 of ANAH is capped to 550 meur.

Discussion and methodological analysis

Eurostat recalled that, according to MGDD provisions, receipts should be recorded when permits are surrendered and not on a cash basis. Eurostat took note that the treatment by INSEE of moving the cash proceeds by one year is clear and a sound proxy of the correct methodology, although driven by insufficient information. Eurostat thus welcomed INSEE to undertake efforts in order to assure direct reliable information on when permits are surrendered.

INSEE described the steps already taken on obtaining more data from the Ministry of Sustainable Development, although recalling that European coordination on the subject is vital.

4.3.6. Financial derivatives

Introduction

The only derivatives used by the State are swaps. Since 2002, no swap renegotiations and no occurrences of off-market swaps (IRS, currency, or other) have taken place in France.

¹⁰⁵ Action Point completed on 13 December 2019. INSEE confirmed that, end-2015, the CGE recorded 146 billion euro in concessions relating to highways (among 206 billion euro of total concessions). The CGE takes a very general notion of control (notably, the fact that the asset eventually is reverted to general government is enough to record it in the CGE balance sheet). However, according to the FSA, those assets relate to de facto concessions in light of ESA 2010 and the MGDD.

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

Discussion and methodological analysis

Eurostat thanked the FSA for the derivative table, which only covers the State operations. Eurostat enquired the FSA on the observed transactions in social security funds, presumably related to CADES, wondering whether it would be possible to be provided with further detail.

Main findings and conclusions

Eurostat asked if INSEE could submit Eurostat's financial derivatives' table to CADES, wondering whether CADES would be available to provide further detailed information. INSEE agreed to enquire CADES on this matter.

4.3.6.1. Toxic Debts

Introduction

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

These thresholds were reached in a number of cases, especially when linked to the EUR/CHF exchange rate, after the significant appreciation of the Swiss Franc. This resulted in very high 'apparent' interest rates (annual payment divided by the face value of the loan, which could exceed 25%) for a number of local government units. Many of them entered in negotiations with their creditors (spontaneously or under the pressure of central government) and transformed their liabilities into normal fixed interest rate loans against the payment of a cancellation lump sum. This usually resulted in very large indemnities due to banks, sometimes exceeding 200% of the principal.

INSEE records the cancellation penalties (lump sums) for toxic debts incurred by local government in the financial accounts, despite public accounts recording an expense, while not fully able to sufficiently document this recording.

These lump sums amounted to 1.4 billion euro in 2015, 2.7 billion euro in 2016 and 0.4 billion euro in 2017.

This issue was initially subject to a reservation in the April 2016 notification, as Eurostat questioned on what basis INSEE afforded itself to deviate from the public accountant. The reservation was removed pending European wider consultation on this technical issue, through a dedicated expert meeting (DEM).

The DEM has tended to accept the theoretical option of treating the lump sum in the financial accounts proposed by INSEE, but put strict restrictions to this – notably the need of adequately measuring the IRR (internal rate of return) of the instrument and to satisfy the definition of derivative. The DEM thought that these toxic debts can be analysed as a joint incurrence of loans together with the issuance of (call) options sold. The market value of the options issued is in concept interest, that should accrue over the life of the instrument in addition to the low contractual minimum interest. While the early repayment penalty on a loan is generally to be

expensed, one exception is considered if derivatives can be considered. The DEM work led to a new section of the MGDD2019.

INSEE has recalculated interest expenditure over the past 20 years (upward for a cumulated 0.8 billion euro), but using an IRR that seemed optimistic to Eurostat, using the average interest charged on local government borrowing on the basis of an arbitrage argument and of internal information used by the bank that originated the loans. INSEE argued that the assumptions made used a method that INSEE believes was validated during the discussion at the level of the EDPS WG, and are in its view totally coherent with the lump sums paid by local authorities in order to redeem their debt.

Discussion and methodological analysis

Eurostat recalled the case of debt contracted by local government in the 2000s (amounting to around 10 billion euros) that included aside from a low minimum rate additional conditional payments, and that eventually turned out to be very costly for a rather small fraction of them. The yearly interest rate commonly went up to 20% or more annually. Accordingly, lump sum payments to achieve early redemption of those so-called toxic debts were very large, 100% or more of the principal – as a penalty in addition to the latter.

A significant part (2/3) of these loans had been granted by the public bank ‘Dexia’ (successor of CAECL, then Crédit Local de France, and now SFIL). See above. Following legal developments, where local government started suing bankers, the State set up a scheme to incentivise local government to terminate their contracts, agreeing to assume a large part of the termination costs. Overall, local government and some other units of government (e.g. hospitals) paid out close to 5 billion over 2015-2017 as compensation payments on toxics.

During the April 2016 notification, Eurostat expressed a reservation concerning the treatment of these penalty payments (2 billion in 2015) as financial transaction, without an impact on B.9, given that public accounting in France recorded those amounts as expenses (in the working balance).

Taking into account that the MGDD had not be fully adapted to the ESA2010 on the recording of those termination payments and given that INSEE had argued that these penalty payments had the nature of transaction in derivatives, Eurostat removed the reservation in the October 2016 notification, pending the examination of the subject by a group of expert.

Following experts discussions in the EDPSWG and various task forces reporting to it, Eurostat took note of the broad agreement with the proposal by INSEE favouring the notion that ESA 5.220 b), which is applicable to debt securities, could be extended to loans. Accordingly, rules would not a priori prevent recording the lump sum on toxics termination in France as financial derivatives. The MGDD change to this effect had been agreed and was to be published soon. In a nutshell, the rule foresees recording as interest the internal rate of return on the instrument, implying adding to the fixed minimum interest the market value of the options capturing the contingencies inserted in the contract.

The discussion between INSEE and Eurostat had thus focused in the past two years on whether the source data allowed to recognise the derivative in question, and what amounts should be used for revising the underestimated D.41 expenditure in the 2000s on those contracts. This was also, actually, part of the discussion within the EDPSWG in 2018 and 2019. During the 2018 benchmark revision, INSEE revised the interest D.41 expenditure on those toxics since 2000, in order to be consistent with the financial treatment of the termination lump sum, using a rate of 5.5% that was deemed to reflect the internal rate of return on the basis of a pure arbitrage argument: 5.5% was the borrowing rate of local government and, with efficient

markets, this implies a pricing of the derivative issued. Eurostat had reserved its opinion on the soundness of the method, until important information is provided.

This issue was discussed extensively during the January 2018 mission, and in the requests for clarifications, during the April 2018, October 2018 and April 2019 EDP notifications. Eurostat recalled that it had agreed that INSEE did not have to do a complete treatment of all those toxic contracts, as would be the case for new contracts, but could instead use some sufficiently representative sample to model, over years 2000-2017, to calculate the D.41 recording pertaining to toxic debts, the transactions and the stock of derivatives and of receivables. Eurostat had in particular requested that an internal rate of return (IRR) be provided (for each of the 20 contracts selected following Eurostat request), as well as the market value of the option sold at inception and the lump sum paid if any.

INSEE had provided an estimated IRR based on a measure of an observed ‘margin’, internal to the bank, and in order to underpin those amounts INSEE had also provided in the April 2019 EDP notification a short description of the characteristics of each of the 20 selected contracts. A significant part of the discussion during the meeting consisted in clarifying the context of these descriptions and linking them to the IRR.

During the discussion, it was recalled the specific circumstances where structured financed loans were created, at the end of the 1990s, with margins on the loan market to local governments collapsing, due to European competition and in the context of falling interest market rates. As local government debtors have not the right to force a renegotiation of their debts (contrary to households), some banks imagined new products designed to show a lower ‘nominal’ rate, by way of including some contingency elements. Such products were thus used in the context of a renegotiation, but also gradually more and more as brand new lending.

The specific organisation of banks (notably dealing with these products) was also recalled, where an internal accounting system exists with the dedicated units in charge of specific products deemed to be acquiring assets by borrowing from the bank, and entering in hedging positions through derivative contracts with the market. In this context, each unit (e.g. in charge of toxic debt/structured finance) would be able to measure its margin. To this effect, the bank produces, for instance weekly, tables applicable to compile the commercial margin to achieve for a given type of client, maturity, etc. (‘Barème’).

Eurostat understood that the unit in charge of structured finance with local government (for instance, Dexia) entered into a unique contract, commonly called ‘swap’, hedging the exposure on the toxic debt compared to the floating rate borrowing charged by the bank. The FSA explained that they understood (following long discussions with bankers) that the value of the swap was balanced, given that they had been carried out in a competitive environment, contracted with, typically, derivative units of other international banks. This arrangement where each loan was hedged through a unique ‘swap’ was new to Eurostat.

First, Eurostat thought it debatable that such contracts be called swaps given that they involve exchanging a sequence of payments and options. Eurostat recalled that ESA distinguished forward-type derivatives, classified in AF.712, from option-type derivatives, classified in AF.711. Thus, it sounded to Eurostat somewhat artificial, and perhaps misleading, that a contract involving option sales, though with delayed payments, be assimilated to a forward. One way to see this Eurostat objection is that such a contract has, for one of the parties, a maximum loss of the prepayment and an unlimited gain. In contrast, forward instruments are purely symmetric for both parties. Eurostat, however, admits that whereas the terminology is not perfectly aligned with the system of NA, it is the one used by bankers and experts of the field.

Second, Eurostat needed to verify the market value of the hedging contracts, given that those were tailored contracts, rather illiquid, which may prevent a safe measurement of their market value. Options being not sold individually, as Eurostat had erroneously assumed before, no trace of market value of those options exists.

Given the description above, Eurostat could agree that the margin made by the bank (e.g. Dexia) appears reasonable, but – in the absence of liquidity – this did not preclude that the toxic debt contracts may not have been overpriced. To verify this, Eurostat still considered that an exercise had to be carried out to verify that the IRR was reflecting a true market valuation, by way of calculating the market value of the options sold. Eurostat did not agree with the argument made during the meeting that very long-term options could not be reliably calculable, given that the indicators concerned (e.g. Swiss Francs versus Euro exchange rate) are very liquid. In addition, even if it would turn out to be true that the volatility is not safely measurable for 20 or 30 years contracts, then Eurostat would consider that the contract would likely not meet the derivative definition. A specific work could be conducted by specialists, which Eurostat could consider financing .

More generally, Eurostat thought that the banker lending to local government had to ensure that the total cost for the debtor would not be out of proportion of market rates.

Main findings and conclusions

Action Point 38 (former Action Point 28): In relation to the so-called ‘toxic debt’:

- a. Eurostat requested an evaluation of the market value of the options sold, through observed option prices or through option models, concerning their panel of 20 selected contracts: i) at inception, ii) at termination, if applicable, in order to verify that the toxic debt contracts are eligible to the new MGDD 2019 section on debt that contain a derivative. Eurostat also requested the termination lump sums concerning each debt of their panel of 20 selected contracts, when applicable.
- b. Eurostat will discuss, in the EDPS WG, the recording of the so-called ‘swaps’ entered in by the unit in charge of the structured finance instruments to hedge its exposure on the toxic debt compared to floating rate borrowing.

Deadline: February 2020.¹⁰⁶

4.3.7. Guarantees

(also see sections 4.1.5 and 4.3.2 on guarantees to several financial institutions)

4.3.7.1. SG FGAS

Introduction

In the April 2019 EDP Notification, Eurostat enquired INSEE on the negative entries, in 2017 and 2018, in F.66 liability/capital transfer payable observable in questionnaire table 9.4,

¹⁰⁶ To be completed.

seemingly related to standardized guarantees provided by *Société de Gestion des Financements et de la Garantie de l'Accession Sociale à la Propriété* (SG FGAS).

SG FGAS is a sort of service provider of credit institutions to manage guarantees provided by the State: each credit institution participating in the FGAS mechanism has signed an agreement for the distribution of home loans, including zero-rate loans. The purpose of the State guarantee is to offset, in the event of default by the borrower, any loss of the credit institution, being defined as any reduction in the expected rate of return when the loan is granted. The guarantee granted is somewhat complex, organized in three stages according to the level of default (“*sinistralité*”) and reference thresholds.

To this effect, SG FGAS has developed a statistical model to simulate losses based on various information (outstanding of loans, prepayments, smoothing, etc.), which is used to estimate the change in payments related to credit incidents. In 2018, a methodological change to the model led to a downward revision of the provisions of this standardized guarantee scheme, hence a revenue recorded in the own accounts of the FGAS, which was recorded by INSEE as capital transfer revenue (D.9).

Discussion and methodological analysis

Eurostat recalled that the 2008 SNA, and accordingly the ESA 2010, innovated by distinguishing within guarantees those that were ‘standardized’ from those that were not. Whereas non-standardized guarantees are (generally) still recorded as pure contingent assets/liabilities, standardized guarantees are in contrast to be treated as insurance, with a recognition of a liability (AF.66) at inception for the expected loss and the prepayment of the service provided. Thus, premium paid on standardized guarantees are not revenue at inception but enter the financial accounts under F.66. For standardized guarantees provided for free or at a non-economically significant price, a capital transfer is to be recorded for the expected loss not covered by the fees. Guarantee calls are then also entered in the financial accounts. The MGDD suggests using the provision booked in the own account of the government entity to estimate the AF.66. There is however a question relating to the treatment of re-estimates in those provisions.

Eurostat enquired on the capital transfer revenue (46 meur in 2018, against 30 to 70 meur yearly capital transfer expenditure in 2015-2017) arising from the change in provisions concerning SG FGAS guarantees (a recognised standardised guarantee scheme), reported in questionnaire table 9.3 and 9.4.

INSEE mentioned paragraph 51 of MGDD section VII.4.3, seemingly suggesting that changes in provisions lead to a correction in capital transfer expenditure and potentially in capital transfer revenue, at time of re-calculation. INSEE agreed with Eurostat that nonetheless this paragraph needed interpretation.

Eurostat thought that, in general, re-estimates of expected losses could either belong to revaluations (which is not preferred in the specific case of nonmarket schemes) or lead to re-estimates of the capital transfer at inception to be applied over time for standardised guarantees, but should not lead to a capital transfer upon re-estimation date. The reverse capital transfer mentioned in the MGDD is deemed to be spread and awaiting for confirmation of such re-estimate. Eurostat nonetheless also agreed with INSEE that the MGDD is not clear in this context.

Eurostat agreed with INSEE that the amounts in question in France are small.

Main findings and conclusions

Action Point 39 (former Action Point 25): In the context of the discussions on SG FGAS, Eurostat will consult with EDPS WG on the appropriate recording of re-estimates of expected loss in the case of standardised guarantees.¹⁰⁷

Deadline: December 2019 EDPS WG.

4.3.8. Income Contingent Loans

INSEE reported that there are no income contingent loans involving the State. Furthermore, and albeit arguing that these do not fulfil the conditions to be deemed as income contingent loans, INSEE clarified the treatment of the repayable advances granted by CDC to Airbus (see section 4.1.5.2).

4.3.9. Debt assumptions, debt cancellations and debt write-offs

Introduction

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

Debt cancellations and remissions are classified in the central government sub-sub-sector “Real Treasury transactions” as D.991 expenditure in the non-financial accounts. This leads to a counterpart recording in financial transactions (F.4). Information on debt cancellations is communicated by the “Financial fixed assets” department of the CBCM (Budgetary Control and Ministerial Accounting department), which is part of the DGFIP, and is then incorporated into the public accounts.

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

Prior to the visit, INSEE provided the list of the *Reprises de dette par l'Etat, intra S.13*, and the list of the *Remises de dettes à des pays étrangers*, both for years 2008 to 2018, with their respective amounts.

Discussion and methodological analysis

Eurostat welcomed the information provided by INSEE

¹⁰⁷ The recording of standardised guarantees is being revisited in the EDPS WG (June 2021).

4.3.10. Mobile phone licenses – UMTS and LTE

Introduction

Eurostat published on 27 March 2017 a Guidance note on the recording of 'mobile phone licences, exploration rights and other licences' fully adapting the MGDD to ESA 2010 chapter 15.¹⁰⁸

During the April 2018 EDP Notification, INSEE has changed the reclassification regarding the recording of Mobile phone licenses ('*Ventes de licences hertziennes*'), in line with the March 2017 guidance note.

Prior to the visit, INSEE has provided to Eurostat a short note on UMTS and/or LTE contracts signed and foreseen since the last EDP mission and the treatment foreseen/implemented in government accounts.

Discussion and methodological analysis

Eurostat thanked INSEE for the information provided and took note that the French government foresees to launch a tender for the attribution of 5G licenses in the fall of 2019, for effective attribution of licenses in 2020. For the moment, INSEE did not have any further information on estimated expected amounts or on the time lag of license concession.

4.3.11. Nuclear decommissioning and nuclear waste management

Introduction

During the May 2017 SDV, Eurostat was informed that there were few recordings and/or small amounts of decommissioning costs (and none related to EDF reactors), recorded in public administration' accounts. In the context of the analysis of the CGE and, specifically, of the provisions, Eurostat noted that some entries appear to relate to provisioning for decommissioning costs.

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

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

¹⁰⁸ <http://ec.europa.eu/eurostat/documents/1015035/7959867/Mobile-phone-licences-exploration-rights-and-other-licences.pdf>

At this moment, the issue is still not finally decided, although it is acknowledged that the French State will pay 490 million euro to EDF.

Discussion and methodological analysis

Eurostat enquired the FSA on whether provisions ‘pour remise en état’, within ‘provisions pour charges’, were linked to decommissioning costs, and whether the FSA could provide further information (amounts, valuation methods, contingency, etc.). The FSA explained that these indeed relate to decommissioning costs, notably of nuclear facilities owned by CEA and to military facilities of the Ministry of Defence, but that at the moment it had no further data that could be provided.

In this context, Eurostat noted that CGE also includes ‘démantèlement CEA’ in ‘autres provisions’ and wondered what distinguished this entry from the one above. According to INSEE, ‘autres provisions’ includes also tax credits.

In light of the discussions held in point 1.2.1.1 of the SDV agenda, Eurostat wondered why the amounts regarding decommissioning activities are recorded in CGE as ‘provisions pour charges’, rather than as ‘provisions pour risques’. According to INSEE, the entry as ‘pour charges’ is solely linked to the fact that it is certain that the State will incur an expense to decommission the assets in question, while the amounts provisioned are of an extremely uncertain nature. Nonetheless, what Eurostat had previously understood regarding provisions ‘pour charges’, is that the expense is certain, the amounts are very reliable, and the moment of cash payment is in the near future. The nature of ‘provisions pour charges’ in the context of decommissioning costs thus seemed to differ considerably from the general explanation.

Eurostat thus suggested it would foresee three possible explanations for those amounts: i) as being an educated guess of the total decommissioning costs, ii) as foreseeing only a (very certain) tranche of the total decommissioning costs, the remaining being captured somewhere else as ‘provisions pour risques’, iii) as foreseeing both a part which was rather certain as well as a part being a guess.

As regards Fessenheim, Eurostat wondered why, after so many years of discussion, no contract had still been signed, nor any expenditure had still been recognised in national accounts. Particularly, Eurostat noted that the contract to be signed between the French State and EDF contains both a fixed part of 490 million euro, as well as a flexible part, to be estimated, aimed at compensating EDF for lost profits. INSEE explained that the process is rather political, such that there is no certainty at this stage.

Main findings and conclusions

Action Point 40 (former Action Point 30): Regarding ‘provisions pour charges’ (provisions ‘pour remise en état’), regarding nuclear decommissioning costs (either military or CEA), the FSA will provide the amounts in question and clarify the valuation method used by CGE accountants. In particular, they will clarify if these provisions capture an estimate of the total dismantling costs or only an estimate of the amounts already decided (e.g. first tranche) when decommissioning takes place by tranches.¹⁰⁹

Deadline: July 2020.

¹⁰⁹ Action Point completed on 13 December 2019. These include broad estimates of provisions for future decommissioning costs of nuclear facilities and equipment, regarding both civil (CEA, 17.2 billion euro end-2018) and military (2.9 billion euro end-2018) purposes.

Action Point 41 (former Action Point 31): Eurostat took note that no expenditure is currently recorded as compensation for the early retirement of the Fessenheim nuclear reactor, which contains a fixed part as well as a variable part (the latter aiming at compensating EDF for forfeited profits), because the formal decision of stoppage has yet to be taken. The FSA will clarify the exact rationale for the fixed part of the compensation, as this could bear implications for the time of recording.¹¹⁰

Deadline: July 2020.

4.3.12. Others: securitisation, disposals of non-financial assets by general government, sale and leaseback operations and other

Eurostat welcomed the information provided by INSEE relating the sales of real estate assets for the period 2015-2018.

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

Eurostat took note that, in the central government, the most important changes in inventories come from SAGESS (*Société Anonyme de Gestion de Stocks de Sécurité*) which is in charge of the management of oil stocks, from CEA (*Commissariat à l'énergie atomique*) which is a entity specialized in nuclear research, and from the universities. As concerns local government, the change in inventories mainly corresponds to growing crops (which are estimated by the statistical service of the Ministry of Agriculture).

Eurostat took note that there is no new securitization operation since the May 2017 SDV.

Finally, Eurostat took note that there is no large government transaction in 2019 that is not covered by the agenda.

¹¹⁰ Action Point completed on 13 December 2019. Despite its 'fixed' designation, according to the FSA that part does not correspond to a contractually agreed amount but rather to an anticipation/provision over time of all the costs to be incurred post-operation. For that reason, that 'fixed' amount is revised over time, with a last estimate June 2019 of 400 million euro (and not 490 million euro as of when information was provided for the SDV).

5. OTHER ISSUES

The French statistical authorities did not raise to the attention of Eurostat any other major upcoming government operation, neither any other business not tackled above.

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