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Directorate D: Government Finance Statistics (GFS)
Unit D-2: Statistics for Excessive Deficit Procedure I

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FINAL FINDINGS

EDP dialogue visit to Denmark

7-8 May 2019

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Executive summary

Eurostat undertook an EDP dialogue visit to Denmark on 7-8 May 2019.

The main objectives of this EDP dialogue visit were (1) to review institutional responsibilities in the field of government finance statistics (GFS) including EDP reporting and to discuss the revision policy for national accounts and GFS, (2) to analyse and clarify technical issues relating to the EDP data provided in the context of the 2019 April notification, (3) to clarify aspects related to the practical implementation of the market/ non-market test plus the sector classification of some specific units, (4) to discuss the accrual recording of different taxes (use of the 'coefficient method' and associated data revisions) and the estimation of taxes unlikely to be collected, as well as (5) to clarify the recording of specific government transactions such as capital injections into public corporations. Some parts of the agenda, for example, guarantees, dividends and super-dividends, classification of Private-Public-Partnerships (PPP) and concessions, emission trading permits etc. were not covered in the meeting in Copenhagen on 7-8 May 2019. These issues were addressed in a videoconference held on 29 May 2019.

Eurostat reviewed the **institutional responsibilities** with respect to the reporting of data under government finance statistics and EDP. Eurostat briefly discussed with the Danish statistical authorities the division of responsibilities for the compilation of EDP statistics and government accounts and the developments since the latest EDP dialogue visit, which took place on 19-20 of September 2016. As far as the split of responsibilities is concerned, there have been no major changes compared to the previous EDP visits: both financial and non-financial accounts (annual and quarterly) are compiled by Statistics Denmark (SD).

The EDP tables and the EDP questionnaire are all compiled by SD for the actual data and by the Ministry of Finance (MoF) for the planned data. The National Central Bank (NCB) is not responsible for any of the EDP tables, but provides some of the source data for the financial accounts.

The existence of several formal agreements between the institutions involved in the compilation of EDP statistics was also shortly discussed. There are Memoranda of Understanding signed between SD and MoF, SD and the Danish National Audit Office as well as between SD and Moderniseringsstyrelsen, the Danish Agency responsible for the central government book-keeping. Since 2018, there is also a Memorandum of Understanding between SD and the Danish National Bank. The discussion on the compliance with Council Directive 2011/85 focused mainly on the clarification of the accounting basis of the monthly/ quarterly data and the reconciliation table.

Furthermore, Eurostat focussed the discussion on **data sources**, notably for taxes. Eurostat recommended that the Danish statistical authorities develop a strategy to make better use of the available information on payables/ receivables related to taxes and, additionally, to consider whether the IT software could be adapted in order to support the reporting of cash information in the long term. The discussions continued with the **revision policy** for national accounts. Eurostat welcomed the announced new revision policy which will allow to ensure consistency between the EDP and GFS data published by Eurostat at the end of October and the national accounts data published by SD at the beginning of November. Eurostat recalled that the new revision policy, to be implemented starting with 2020, address problematic aspects related to the differences in the revision timetable between the national and European revision policy. In this context, Eurostat had questions on some important aspects that needed to be clarified, such as the years open for routine revisions, the implementation of the revision policy and the timetable for major revisions.

As a **follow-up of the EDP dialogue visit** of 20–21 September 2016, Eurostat welcomed the implementation of the majority of the action points and further discussed the state-of-play of the action points having a continuous deadline implementation.

Regarding the **analysis of EDP data for the 2019 April** EDP reporting, the discussions focussed on technical aspects such as the reconciliation of other accounts receivable/ other accounts payable (OAR/OAP) between EDP table 3B and EDP table 2A as well as on EDP questionnaire table 5 on taxes. Regarding EDP questionnaire table 5, Eurostat mainly investigated the reasons for the negative stocks reported for several years. In addition, shortcomings in the current completion of the table as well as possible improvements concerning the data to be provided in this table were further discussed under this agenda point. With respect to the statistical discrepancies, Eurostat appreciated the progress made in recent years in reducing statistical discrepancies in EDP table 3, but noted that the statistical discrepancy for 2018 is still high and therefore further work should be undertaken to reduce it.

The discussions on methodological issues focussed mainly on the delimitation of the government sector, the implementation of the accrual principle, as well as on the recording of specific government transactions.

Concerning the **delimitation of general government sector**, Eurostat discussed the state of play of the implementation of the 2019 updated Manual on Government Deficit and Debt as well as the changes in sector classification since the 2016 September EDP visit. In addition, aspects related to the practical implementation of the market/ non-market test and discussions on government controlled units classified outside general government, notably on some individual entities having results close to the 50% threshold for the market/ non-market test were also discussed under this agenda point.

A substantial part of the discussions was related to the sector classification of specific units such as Metroselskabet, the Green Investment Fund, KommuneKredit or some railway companies.

Regarding 'Metroselskabet', which is responsible for the operation, development and construction of the Copenhagen Metro, the discussion mainly focused on how the depreciation of assets, respectively the write offs are reflected in the market/ non-market test. Eurostat concluded that there is some uncertainty with regard to the accounting practice of the company concerning amortization/ write downs and the way in which the compilation of the 50% test is currently undertaken.

The classification of the Danish Green Investment Fund, entirely owned by government, and which is responsible for co-financing projects supporting the sustainable development of the Danish society was also debated under this agenda point. It was agreed that the fund remains classified as it is currently, notably in S.12.
Extensive discussion took place on the sector classification of KommuneKredit (KK), a public bank providing lending to local governments. Eurostat invited SD to consider how KK activities can be reflected in government accounts, including a possible change in sectorisation, rerouting of assets and liabilities, in the short run as well as in the longer term.
The discussion on the different public railways companies classified in the non-financial corporations sector focused on how the different grants and subsidies received by these companies, as well as the depreciation, should be treated in the market/ non-market test. It was agreed that SD will further reflect on whether the Public Service Obligation (PSO) payments should be rerouted or not to the Public Infrastructure Company (already reclassified into S.13) given the nature of such payments.

Eurostat and the Danish statistical authorities also reviewed the **implementation of the accrual principle.** Extensive discussions took place on the recording of taxes, the revision of the tax figures and the method used for estimating write offs/ write downs of arrears. Eurostat expressed some concerns as to whether the method currently used in Denmark for compiling the B.9 impact of taxes and social contributions is consistent with the two methods foreseen by ESA 2010 (time adjusted cash or coefficient method).

The recording of a possible refund of property tax and the valuation of land for the purpose of determining the property tax in the context of a new legislation introduced in Denmark was also discussed. It was agreed that, the refund of property tax expected to be carried out in the future, is to be recorded when the obligation is established, i.e., when the decision on the compilation method is taken, and not when the amounts are paid or when the amounts are merely administratively calculated. In addition, specific aspects related to the implementation of the "Mini One-Stop Shop" (MOSS) scheme was discussed, as well as detailed aspects related to the recording of interest and derivatives.

With regard to the recording of specific government transactions, the discussions concentrated on topics such as the recording of guarantees, government claims as well as capital injections into public corporations. Eurostat further clarified with the Danish statistical authorities other topics such as dividends paid by public corporations to government and the super-dividend test. The recording of Public Private Partnerships (PPPs) and Concessions was also briefly discussed. The implementation of the guidance on the recording of mobile phone licences, exploration rights and other licences, the recording of emission permits as well as of energy performance contracts, financial lease were other technical topics which were analysed during the EDP dialogue visit.

Eurostat appreciated the information provided by the Danish statistical authorities prior and during the EDP dialogue visit. Eurostat thanked the Danish statistical authorities for their co-operation during the EDP visit and considers that the discussions were very open and constructive.

PROVISIONAL FINDINGS

Background

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP standard dialogue visit to Denmark on 7-8 May 2019.

The delegation of Eurostat was headed by Mr Luca Ascoli. Eurostat was also represented by Ms Gita Bergere, Ms Nicoleta Savu as well as by Mr Philippe de Rougemont and Mr Thomas Forster. Two representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) also participated in the meeting as observers. The Danish statistical authorities were represented by Statistics Denmark (SD), the Ministry of Finance (MoF), the Danish Central Bank and the Agency for Modernisation of Public Administration (Moderniseringsstyrelsen).

The previous Eurostat EDP dialogue visit to Denmark took place on 19-20 September 2016.

Eurostat carried out this EDP standard dialogue visit in order to review the implementation of the ESA 2010 methodology and to ensure that the provisions of the Eurostat Manual on Government Deficit and Debt and that the Eurostat decisions are duly implemented in the Danish EDP and Government Finance Statistics (GFS) data.

The main objectives of this EDP dialogue visit were (1) to review institutional responsibilities in the field of government finance statistics (GFS) including EDP reporting and to discuss the revision policy for national accounts and GFS, (2) to analyse and clarify technical issues relating to the EDP data provided in the context of the 2019 April notification, (3) to clarify aspects related to the practical implementation of the market/ non-market test as well as to the sector classification of some specific units, (4) to discuss the accrual recording of different taxes (use of the ‘coefficient method’ and associated data revisions) and the estimation of taxes unlikely to be collected, as well as (5) to clarify the recording of specific government transactions such as capital injections into public corporations. Some parts of the agenda such as guarantees, dividends and super-dividends, classification of Private-Public-Partnerships (PPP) and concessions, emission trading permits etc. were not covered in the meeting in Copenhagen on 7-8 May 2019. These issues were addressed in a videoconference held on 29 May 2019.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, indicating that within days the main conclusions and action points would be sent for comments to the Danish statistical authorities. Within weeks, the provisional findings would be sent in draft form for review. After amendments, the final findings will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat appreciated the quality of the information provided by the Danish statistical authorities prior to the visit. Eurostat also thanks the Danish statistical authorities for the excellent co-operation during the meeting and considers that the discussions were transparent and very constructive.

(1) <u>Statistical capacity issues</u>

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

1.1.1. Institutional cooperation and EDP processes

1.1.2. Upstream issues. Audit and internal control arrangements

Introduction

In Denmark, national accounts data for the general government sector, both financial and non-financial (annual and quarterly) are compiled by Statistics Denmark (SD). The EDP tables and EDP questionnaire are compiled by SD for the actual data and by the Ministry of Finance (MoF) for the planned data. The supplementary tables for the financial crisis are compiled by SD in cooperation with the MoF.

There are several cooperation agreements signed between SD and other institutions involved in the EDP compilation. Since 2014, there is a signed Memorandum of Understanding (MoU) between SD and MoF related to EDP statistics. In January 2018, the 2013 MoU on financial accounts between SD and the National Central Bank (NCB) was updated in order to formalize the role of the NCB as provider of source data in the EDP process. These co-operation agreements define the area of responsibility of each of the institutions and ensures high quality and reliability in the submission of EDP data. Additionally, SD signed also a cooperation agreement with the Danish National Audit Office which stipulates closer cooperation on quality issues and enhancement of the transparency of the accounts for public institutions as well as one with Moderniseringsstyrelsen, the Danish Agency responsible for the government book-keeping.

Discussion

Statistics Denmark confirmed during the discussions that there have been no changes in the institutional responsibilities for the compilation of EDP data and EDP tables compared to the last 2016 EDP dialogue visit or as regards the information already provided in the 2015 EDP Inventory, except for the formalization of the NCB role in the EDP process by updating the existing MoU between SD and NCB in January 2018. SD also confirmed that there have been no changes for other aspects such as the quality management framework and the audit and internal control arrangements. Regarding the existing agreement between SD and the Supreme Audit Institution (Rigsrevisionen), the cooperation focuses on flagging some inconsistencies. The annual financial audit report of the public accounts is submitted to SD for information each year, usually seven months after the reporting period, and before its publication. There are no regular meetings, but only if needed and the last one took place in 2017. SD mentioned that if the report reveals mistakes, the working balance is not changed but the related corrections are included as adjustments in the EDP tables 2.

Eurostat took note that since the 2016 EDP dialogue visit, there have been no factual changes in the institutional responsibilities regarding the compilation of the EDP tables and the related internal audit procedure. Eurostat asked SD to update the EDP Inventory with the responsibilities derived from the new MoU between SD and NCB.

Findings and conclusions

<u>*Action point 1*</u>

(2)[1]Eurostat recommends that Statistics Denmark (SD) updates the EDP Inventory along the lines discussed during the meeting (Memorandum of Understanding with the central bank, table on central government source data, exceptions to accrual recording in the working balance, formula used for the 50% test, etc.). *Deadline: January 2020*[2]

1.1.3. Compliance with Council Directive 2011/85

Introduction

Under this agenda point Eurostat shortly reviewed the publication of fiscal data according to Directive 2011/85/EU. The Directive requires the publication of cash-based fiscal data or equivalent figures from public accounting on a monthly basis for the central government, state government and the social security subsector and on a quarterly basis for the local government subsector.[3] In addition to these data, annual information on guarantees, liabilities of public corporations, off balance sheet PPPs, non-performing loans and participation of governments in the capital of corporations shall also be provided. The Directive also provides for a detailed reconciliation table showing the transition from the fiscal to ESA 2010 data.

The task of collecting and publishing the relevant fiscal data from the public authorities has been entrusted to the "Agency for the Modernisation of Public Administration" (Modernisieringsstyrelsen), a body under the responsibility of the Ministry of Finance, which is responsible, inter alia, for drawing up the accounting and auditing guidelines. The first publication of the required fiscal data was on February 2014. However, when the data are published, no data are reported separately for the social security subsector, as no monthly data are available for this sub-sector. Some of the missing information for the

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[1] The action points resulting from the May 2019 EDP visit keep in the brackets the numbering as agreed in the document “Main Conclusions and Action points” sent to the Danish Statistical Authorities in August 2019.

[2] Action point implemented.

[3] The definition of subsectors according to the Directive 2011/85/EU corresponds with that of the respective valid ESA regulation.

social security subsector is included in the central government data (e.g. unemployment benefits are covered by the budget of the Ministry of Employment).

Discussion

The discussion under this agenda item focused mainly on three issues: (1) clarification of the accounting basis of the monthly/quarterly data, (2) whether the reconciliation table presented meets the requirements of the Directive and (3) whether the access to the data for international users could be improved (i.e., making it easier to find the information, provision of tables in English language etc.).

Eurostat understood that the monthly data were taken from government accounts, although it was not entirely clear to what the term 'government accounts' refers to, i.e. whether it refers to the budget, profit and loss account/ balance sheet or the general ledger. SD explained that the term government accounts ultimately refers to the general ledger and that the profit and loss accounts are a separate product which is also based on the chart of accounts used for the preparation of the general ledger. As regards the chart of accounts, it was explained that an eight-digit number accurately describes a revenue or expenditure item. The number contains information about the unit that makes/ receives the expenditure/ revenue and the economic kind of the expenditure/ revenue (last four digits of the eight-digit number). SD then uses the classification by the economic kind of expenditure/revenue in the general ledger for the calculation of transactions in national accounts. The first two digits of the four-digit number are used to inform the Danish Parliament on the major budgetary performance. The information summarized in this kind of budget presentation is de facto a mixture of profit and loss items and balance sheet items. This specific presentation is necessary because Parliament interprets certain expenditure/revenue items differently in relation to national accounts. For example, the purchase of an asset is recorded as a capital expenditure in national accounts, but from the Parliament's point of view, it is an appropriation. The profit and loss accounting that is prepared for the Parliament is called 'Drift, anlæg- og udlån' – DAU (operating, construction and lending), which, however, cannot be compared with a profit and loss account in the ordinary sense.

With regard to missing information, e.g. for institutions such as the Church or extra-budgetary units, SD explained that an estimate would be carried out and added to the available source data. Universities and secondary schools are not frequently providing fiscal data to Modernisieringsstyrelsen. Therefore, estimates are also made for these entities based generally on the central government transfers to these institutions.

Eurostat enquired whether the sum of the monthly balances of the revenue and expenditure of the Directive data is identical with the working balance reported in the EDP tables for the different government subsectors. SD explained that the sum of the monthly balances is not identical with the working balance because the former covers the central government as a whole whereas the later only covers the core central government. However, for the core central government the sum of the monthly balances (12 months) should correspond to the working balance reported in the EDP table 2A. The same applies for the local government subsector.

After Eurostat obtained a more detailed overview of the accounting basis of the Directive data, the discussion turned to the requested reconciliation table. Eurostat asked, essentially, why the information regarding the reconciliation table is in principle limited to a reference to the EDP Inventory and an Annex 3 table (bridge table). SD stated that it has always assumed that this would meet the requirements of the Directive, as the bridge table allows the conversion of the source data used to fulfil the reporting obligations under the Directive into national accounts data. Thus, the bridge table and the additional information provided in the EDP inventory on specific accounting issues allow the full reconciliation between source data, Directive data and national accounts data.

Eurostat took note of this explanation, but considered it necessary to provide additional information, in particular concerning the social security subsector (e.g. the partial coverage of the expenditure data in the central government core unit), the need of carrying out estimations for certain entities (e.g. universities, extra-budgetary units) and a description of the methods used for the estimations. In this context, Eurostat also recommended to facilitate the access of users to the data of the Directive. For example, it should be ensured that the links used on internet pages are always up-to-date, which was probably not always the case in the past. Another point that would facilitate access to the data would be, for example, the additional provision of tables and accompanying information/description in English.

Findings and conclusion

<u>*Action point 2*</u>

(1) Eurostat took note that the infra annual (monthly etc.) ´fiscal data´ published by the Ministry of Finance (MoF) in accordance to Directive 2011/85 is on a quasi-accrual basis (consistently with the working balance of EDP table 2A, table 2C, table 2D), and not on a cash basis, and with full general government coverage. Therefore, Eurostat recommended that:

a) adequate explanatory notes (in Danish and also in English) flag this basis of recording for the users and indicate the estimation carried out for a limited number of entities (notably churches, universities, social security);

b) MoF will also ensure that the published detail of monthly data in accordance to Directive 2011/85 allows an exact link to the annual working balance reported in EDP tables;

c) in addition, in line with action point 25 of the 2016 SDV, Eurostat also recommends that the MoF examines the possibility to additionally compile/publish monthly cash data, taking into account the points raised during the 2019 EDP dialogue visit by the Public Account Department of MoF regarding cash flow information.

Deadline: January 2020[4].

[4] Action point partially. The Agency for Public Finance and Management intended to make further efforts to supplement the current publication of monthly data (in accordance to the directive 2011/85) with cash based data for central government. This will require that information on the revenue and expenditure, and notably on the payment data will be structured in a different way. A report on the progress should be provided by November 2020.

1.2. Data sources and revision policy

1.2.1. Data sources for central (extra-budgetary accounts), local government and social security funds in the light of the forthcoming revision policy

Introduction

According to the EDP Inventory published on Eurostat website in December 2015, the general government sector is composed by 3 subsectors in Denmark: central government sector (S.1311), local government sector (S.1313) and social security funds (S.1314). Generally, the "public accounts" are the main source data for the compilation of EDP tables and annual/ quarterly accounts of general government. Public accounts are used by public units and refer to accounting records and relating accounting outputs (financial statements) based on the accounting framework defined by a national legislation. The accrual accounting bookkeeping system is used by the government units and public corporations classified in all three subsectors. The accounting records and evidence of all public units are regulated by related national legislation. The institutions responsible for the bookkeeping standards used by public units, as well as for data collection, processing and validation, are the Agency for the Modernisation of Public Administration (MoF agency) for S.1311 and S.1314 and the Ministry of economic and domestic affairs for S.1313.

Also according to the EDP Inventory, in Denmark the actual book-keeping systems for central government, local governments and social security subsectors are to a considerable extend based on incoming invoices when received and approved and outgoing invoices when sent. According to the "Government Finance Statistical Manual 2001" paragraph 3.40 the time of recording can be determined on broadly four bases: the accrual basis, the due-for-payment basis, the commitment basis and the cash basis. The time of recording in the Danish central government, local governments and social security sub-sectors accounts could be described as being essentially on a commitment basis. However, for some entries i.e. wages and salaries the time of recording coincides with the actual payment i.e. cash recording.

In Denmark there are no cash based primary accounts from central government or local governments. To comply fully with the accrual principle, adjustments are made to taxes, interest and commitment values (amounts reserved in the budget) and consumption of fixed capital are substituted by gross fixed capital formation. For the working balance, budget reporting is used and all entries except taxes and some interest flows are on an accrual basis. Preliminary data are available to SD at the end of February and final data in May. The vast majority of central government activity is included in the working balance except the activity carried out by extra budgetary units.

Since the 2016 EDP visit, SD implemented some new data sources for the compilation of GFS and EDP data concerning local government interest payments from swaps and local government trade credits.

Discussion

Eurostat recalled that Denmark reports government deficit and debt to Eurostat on the basis of source data, which are essentially on an accrual basis. Nevertheless it occurs again, that SD carried out significant revisions between EDP notifications. Eurostat wanted to better understand the need for such revisions and asked the statistical authorities for a detailed presentation of the issue including the underlying data sources, their availability and the adjustments made when compiling EDP tables. Eurostat also enquired about the new data sources or questionnaires to collect further data in order to improve the quality of the EDP data in the future. An expert from the Agency for the Modernisation of Public Administration (a MoF agency) explained that the budget reporting in DK consists of a balance sheet covering all public entities (own account of the State having 12-digit codes) and a related profit and loss account (income statement of the State having 8-digit codes). The last 4-digits of the 8-digit number informs about the economic kind of the expenditure/ revenue. In addition, a special budget presentation is compiled which is essentially an aggregation of budget headings for which the first 2-digits of the 4-digit number are used. This budget presentation is specifically intended to inform the Parliament and its balance (single government account in the central bank) appears in the publication of the central bank about government debt. SD also explained that this special budget presentation is not used as a source data in the compilation of the EDP data but that the government profit and loss account (own account of the State) is used as the aggregation results in the loss of a substantial part of the information needed to calculate the EDP/GFS data. With regard to the preparation of a cash flow statement fully consistent with the balance sheet, the representative of MoF agency stated that there is only one government bank account for all incoming and outgoing cash flows, which makes it impossible to establish a consistent link with the balance sheet. Such a link is only partially possible, but by no means comprehensive.

The representative of the MoF agency further explained that the source data are mostly on an accrual basis following EPSAS rules. However, taxes, subsidies, infrastructure expenditure, social contributions and social benefits are recorded on commitment basis in the income statement. SD added that the accrual adjustments in respect of items not recorded on an accrual basis in the WB are shown in the EDP tables 2A and 2C in the sections 'Other accounts receivable/payable' ("Taxes net figure only") and 'Other adjustments' ("Corrections to commitment values", "Adjustments from CFC to GFCF after the cost reform"). Regarding the actual cash flow of taxes received, it was explained that they are collected by commercial banks on behalf of the government and then transferred to the government account held at the central bank without any associated movements in the balance sheet. SD added that using time adjusted cash data for taxes would be difficult as the same bank account is used for several taxes and also for other revenue/expenditure items (see above). The situation is different for subsidies where data for commitments, actual payments and outstanding amounts can be easily extracted from the source data. For infrastructure, the recording of an expense (acquisition) is different in each of the three existing data sources and according to different depreciation methods used for specific assets (railways, roads, military assets, forests, land). Regarding social contributions and benefits, these data are reported on a cash basis and it is assumed that the amounts are equal to commitments.

Eurostat understands from the explanations of the Danish statistical authorities that the working balance is not on a full accrual basis and recommended SD to update the text of the EDP inventory (see action point 1) regarding the accounting basis in the section on data sources. The update should clearly indicate the accounting basis (accrual basis, commitment basis etc.) for each revenue and expenditure item/ or group of items in the financial and non-financial accounts. In addition, Eurostat proposed to change the selection from "accrual to "mostly accrual" for the working balance in the EDP tables and to add a comment on the accounting basis in the (last column of the EDP tables in future notifications.

Findings and conclusions

Action point 3

(3) Eurostat recommends that SD inserts a comment, in EDP table 2A, 2C and 2D, indicating that the working balance is mostly on an accrual basis, and also adds, in the label of detail 1 in the adjustment line of EDP table 2A, the mention *´amounts received in the budget´. Deadline: October 2019 notification*[5]

Action point 4

(8) Eurostat took note of the accounting department remark that the 'general ledger', showing the individual items of the chart of accounts (12-digit codes), does not necessarily identify the receivable/payable existing at a given point in time associated to each transaction, so that each cash payment may not be easily linkable with accrual transactions. The accounting department indicated that a one-to-one link could exist for some categories of transactions such as social benefits, subsidies, while receivable/payable on operating expense and investment may tend to be pooled in the current data source. On this basis, Eurostat recommends:

a) that the Statistical Authorities elaborate a strategy to exploit as much as possible the payable/receivable information, notably in the context of table 4 of the questionnaire related to EDP tables.

b) that the accounting department examines the possibility to adapt its IT software in order to support a systematic reporting of cash information in the long term.

c) SD enquire on the possibility to report a detailed split F.81/F.89 (breakdown by group of units), either in the table 4 of the questionnaire related to EDP tables or, preferably, in the F.8 reconciliation table mentioned in action point 15 and 16, in order to better substantiate the data on the stock of AF.81 liabilities reported in EDP table 4.

[5] Action point implemented.

Deadline: Progress report February 2020[6]

1.2.2. Revision policy: Progress and implementation timetable

Introduction

The Danish annual non-financial accounts data are revised three times every year: in March, June and November. The revision and the publication policy of SD causes consistency issues for the EDP/ GFS data and the EU aggregates, due to the fact that each year in November quarterly and annual national accounts data are subject to a routine Member Statesrevision. Additionally, the EDP data published by Eurostat in October as a result of the October notification process is often revised at the beginning of November by the Danish statistical authorities. This problematic aspect of the revision policy has been discussed several times with SD in order to find possible ways out to adjust the timetable between the national and European revision calendars in order to ensure consistency in the data published. Furthermore, the revisions or corrections occurring between the April and October EDP notifications, i.e. the revisions implemented in June , are only partially taken into account in the Danish national publication in November of the year N+1 and therefore implemented just for the April notification of the year n+2, which again creates delays in implementing the corrections of the data published by Eurostat.

Since 2016, Statistics Denmark and the National Central Bank have developed a joint proposal based on the recommendations of the CMFB to implement a new revision policy in Denmark. The proposed changes should address the problematic aspects related to the differences in the revision timetable between the national and European revision policy. The joint proposal follows the subsequent schedule: March (end-of)

Preliminary version T-1

July (beginning)

Preliminary version T-1 Preliminary version T-2

Final version T-3

Furthermore, the proposal recommends that the July results for T-1 and T-2 will be updated in September, primarily with new information on foreign investment income.

<u>Routine revisions</u>

The yearly routine revisions of the Danish national accounts take place in connection with the November version of the national accounts. As part of the November version, the year T-3 is finalized and is therefore not open anymore to further changes until the next major revision of the national accounts. In addition to the T-3 data, also T-1 and T-2

[6] A report was provided by SD end of February 2020.

data are published. After their publication, these versions are not revised until the following November, one year later. In November, the version of the T-1 data is preceded by two preliminary versions of data in March and in June. The GNI and EDP reporting regarding T-1 is based on the June version, while the reporting of earlier years in both cases relies on the November version of the previous year. Following the November version of the yearly national accounts, the quarterly data and the sector accounts data are revised and published with a 2-3 weeks delay.

<u>Major revisions</u>

In Denmark major revisions normally occur atan interval of 7-8 years. Occasionally so-called "data revisions" could take place in order to include significant new information or to correct significant identified errors. Nevertheless, there are no specific thresholds in order to determine what is considered a minor and respectively a major correction.

According to the EDP Inventory (*chapter 4.1 Reason for other than ordinary revision*), minor methodological changes due to recommendations from Eurostat in connection to the EDP clarification process or EDP-dialogue-visits, which only have limited effects on the deficit and debt, can be implemented as part of more frequent limited revision.

Discussion

Prior to this mission, SD sent to Eurostat a note on the state pf play of the future revision policy. According to this note, the Danish revision rhythm is currently being changed with the purpose of moving the current November revision into the third quarter. During 2018, analyses were carried out on data availability (delivery dates) and internal dependencies out. The objective was to align the revision process for the yearly national accounts system as a whole (including Government Finance Statistics) and Balance of Payments Statistics from the third quarter of 2020 onwards. This work was carried out by Statistics Denmark in the framework of the study "Changing Revision Policy in Danish Annual National Accounts", co-financed by Eurostat.

Following the 2018 study, an implementation project has been initiated. This project runs in 2019-2020 as activity 4 of the Eurostat grant agreement no. 831401, 2018/DK/NA-BOP. The title of the activity is "Alignment of national revision policies to the principles of the Harmonised European Revision Policy". The main purpose of the on-going activity is to implement the new revision policy according to the plan laid out in the 2018 study. An important part of the activity is an internal pilot between Statistics Denmark and 'Danmarks Nationalbank' (Central Bank of Denmark) in 2019. The pilot project will test the complicated logistics of the necessary data delivery and would evaluate the consequences for the data quality. Furthermore, as part of the activity, some specific sub-activities are implemented in order to deal with quality issues due to the accelerated publication. These projects include the developing of new methodologies and practices regarding income paid taxes and investments by public enterprises and extra-budgetary units. Finally, a communication strategy directed towards the press and professional users as well as the public at large is being developed. By bringing forward the current November revision (starting from 2020), the Danish EDP-reporting will be aligned with the harmonised European revision policy, with the consequence that there will be no longer a revision of the EDP data just one month after the October notification.

Eurostat welcomed the improvements of the revision policy and notably the fact that this will ensure consistency between the EDP and GFS data published by Eurostat at the end of October and the national accounts data published by SD at the beginning of November. Eurostat invited SD to already notify EDP and GFS data for the October 2019 EDP notification in line with the November 2019 national accounts data. SD agreed to examine this, but was reluctant in view of the problems (existing compilation process/ internally agreed timetable) involved.

In addition Eurostat recalled that, according to the conclusions of the expert meeting on revision policy, it is recommended that the open years for routine revisions in national accounts should concern at least 4 years (EDP reporting period) and not just three years.

Eurostat recalled that, due to the Danish practice to revise only three years, major errors or a methodological problems are sometimes not corrected if they concern the year t-4, and therefore a break in the EDP reporting period might occur. Eurostat emphasized that, in case of such issues, the EDP data should be corrected despite some constrains imposed by the consistency principles (e.g. sector accounts).

Eurostat maintained the previous recommendation to SD to investigate whether it would be possible to carry out a major revision in an interval of 4-5 years. This would allow implementing faster the corrections due to methodological changes and/or to the detection of errors. Eurostat invited the Danish statistical authorities to analyse whether the routine (major) revisions could in the future be implemented more frequently than it is currently the case, to be in line with the outcome of the DMES revision task-force.

Findings and conclusions

Action point 5

(14) Eurostat welcomed the new routine revision policy announced by SD, which Eurostat had strongly recommended in the past, where the November update of national accounts data (implying significant changes to government surplus/deficit and debt within a few weeks after the October EDP notification Press release) will be moved to June, from 2020 onwards. *Deadline: October 2020 notification*[7]

Action point 6

(15) Concerning routine revisions, Eurostat recalled that the EDP regulation foresees that data on deficit and debt and related statistics should cover four years, implying the need to keep the accounts opened for revisions for those years when necessary. The EDP regulation also foresees the delivery of the ‘underlying government accounts’ (ESA

[7] SD provided a note on this action point and explained why it is not possible to implement the new revision policy starting with October 2019 notification.

tables 2, 9, 11, 25, 27, 28) to Eurostat that are consistent with the EDP data/tables. SD is therefore invited:

a) to reflect on how to better adapt to these requirements of the EDP regulation and to report to Eurostat on the measures taken in this respect.

b) to reflect on how a major revision answering GFS/EDP needs can be implemented on shorter delays, also considering any necessary revisions related to the MGDD update of 2019, reclassification of units or possible corrections of errors. Eurostat observed that the current plan of SD to implement the next benchmark revision in national accounts in 2024 (after 2014 - ESA implementation) might not be in line with the best practice agreed in the DMES TF on major revision policy (every 5 years).

Deadline: Progress report January 2020[8]

(2) Follow-up of the EDP dialogue visit of 19-20 September 2016

The majority of the action points agreed during this EDP dialogue visit have been implemented by the Danish statistical authorities. Nevertheless, some of the action points were still under discussion.

Action point 11: SD will monitor the development in relation to potential changes to the land tax in Denmark and report to Eurostat. Eurostat and SD agreed that any possible refunding of the land tax will be recorded at the moment in which the official decision will be taken and the amounts for reimbursement will be determined. Deadline: when available.

Action point 17: SD will monitor on a continuous basis and in cooperation with the tax authorities, the development of the tax arrears in order to ensure a correct recording of the amounts unlikely to be collected including extraordinary arrears and report regularly to Eurostat. SD will inform Eurostat immediately in case of further write-offs by government. Deadline: With each EDP notification.

The implementation of these action points was discussed under the methodological part on taxes.

Action point 15: SD and Eurostat agreed that Dong Energy A/S had the feature of a head office and could therefore be classified in the financial corporations sector (S.12). SD was also invited to analyse all enterprises belonging to the DONG group, in particular to see whether some of the units should not be regarded as ancillary units, to be classified together with the controlling entity. Deadline: Progress reports for the April and October 2017 notification.

The implementation of this action point was discussed under the methodological part on delimitation of general government.

[8] A note was provided on this item.

(3) Follow-up of the April 2019 EDP reporting – analysis of EDP tables

3.1 EDP tables

3.2 Questionnaire related to the EDP tables

Introduction

According to the EDP Inventory, accrual adjustments reported under the section "Other accounts receivable/other accounts payable" in EDP table 2A are related only to taxes. The source for the relation between amounts assessed and amounts collected is the data provided by the tax authorities. The amount charged to revenue but not yet paid is part of the central government's financial accounts. However, the section "Other adjustments" includes other F.8 adjustments, such as the 'corrections to "commitment values"', the 'corrections for central government guarantees for tax revenue in local government', the 'adjustment from CFC (consumption of fixed capital) to GFCF (gross fixed capital formation) after the "cost" reform' and the 'consolidation adjustments for transfers inside subsectors'[9]. The use of "commitment values" is restricted to subsidies and investment grants (D.3 and D.92). "Corrections to commitment values" are made so that the figures reflect the actual payments and not the commitments made in a given accounting year in the budget. The data related to actual payments is received from the MoF. These data are used by the MoF to control the actual cash flow. When these adjustments are negative in some years, it indicates that amounts actually paid out are higher than commitments made in the budget (i.e. the stock of commitments is reducing). From 2014 onwards, a new method has been implemented so that the consolidation adjustments for transfers between subsectors has disappeared. The amounts received by the local governments/extra-budgetary units are compared to the amounts accounted for in the central government accounts. The information from central government accounts "overrules" the information from local government accounts/ extra-budgetary units. The assumption is that central government account is correct and therefore the balancing is done in local government/extra-budgetary units on a non-financial entry to avoid any effect on B.9. Corrections for central government guarantees for tax revenue in local government captures the adjustments between the local government actual tax revenue based on the assessment from the central tax authority and the tax revenue in the accounts of the local government (which is partly based on a central government guarantees). So the item reflects actual transfers between central government and local governments. Adjustments from CFC to GFCF (negative sign) captures the adjustments from consumption of fixed capital in the working balance to the amount of GFCF by using the entry "anskaffelser, året tilgang" in the balance sheet, which is the purchase of capital goods (investments) in the accounting year in question. This item is only relevant from 2007 onwards, as from that date the working balance changed from an expenditure basis to a cost basis.

[9] This detail included in the EDP table 2A and 2C refers to consolidation of transfers between units of the same subsector.

During the October 2018 and the April 2019 EDP notifications, the reconciliation of F.8 Other accounts receivable/ Other accounts payable (OAR/OAP) between EDP table 3B and EDP table 2A was extensively discussed. The reason for this was that the figures of "Other accounts receivable/Other accounts payable" in EDP table 3B for 2015 and 2016 did not to correspond to related items in EDP table 2A.

Discussions

In the April 2019 EDP notification, SD sent to Eurostat a note, as a follow-up of the October 2018 notification, explaining the F.8 reconciliation between EDP table 3B and EDP table 2A for 2017 and 2018, including detailed data.

F.8 reconciliation between EDP table 3B and EDP table 2A			
	Other accounts receivable (in mill. DKK)	**2017**	**2018**
1	*Government account*	9.844	-2.523
2	*Extra-Budgetary Units*	-497	0
3	*Corrections to tax data reported as other accouns receivable/payable in EDP table 2A*	-453	-3.380
	Total OAR (in line with EDP table 3B)	**8.894**	**-5.903**
	Other accounts payable (in mill. DKK)	**2017**	**2018**
4	*Government account*	2.806	-1.380
5	*Extra-Budgetary Units*	280	0
6	*Corrections to tax data reported as other accouns receivable/payable in EDP table 2A*	0	16.689
	Total OAP (in line with EDP table 3B)	**3.086**	**15.309**
	Other accounts receivable/other accounts payable in table EDP table 2A (in mill. DKK)	**2017**	**2018**
	Other accounts receivable in EDP table 2A	-453	0
	Other accounts payable in EDP table 2A	0	-20.069
3	*Other accouns receivable - corrections to tax data - from EDP table 3B*	-453	-3.380
6	*Other accouns payable - corrections to tax data - from EDP table 3B*	0	16.689
3-6 = 7	***Other accounts receivable/payable from EDP table 3B in line with EDP table 2A***	**-453**	**-20.069**

According to clarifications provided to Eurostat in April 2019 and confirmed during the EDP dialogue visit in May 2019, OAR/OAP from the financial accounts of GFS and as reported in EDP table 3B can be divided into three categories:

- OAR/OAP from the ‘government accounts’ (GA) – own account of the State
- OAR/OAP from Extra-Budgetary Units (EBUs)
- OAR/OAP as corrections to tax data

The discussions on this issue were conducted at a very technical level (i.e. an analyses of each line in the table) and SD provided in this context additional clarifications. This made it possible to further improve the data presentation and the content of the table, which should also facilitate the assessment of the data quality in future notifications.

DK explained that OAR/OAP from the balance sheet of the own account of the State corresponds to the income statement of the State and is included in the working balance (WB) in table 2A. Thus, no corrections are made in the transition from the WB to the net lending/net borrowing (B.9). OAR/OAP from the balance sheet in the financial report of the EBUs corresponds to the income statement in the financial report of the EBUs and is included in the item “net lending/net borrowing of other central government bodies” in table 2A. Thus, corrections are made in the transition from the WB to the net lending/net borrowing (B.9) under the mentioned item. Corrections to the tax data as reported in the own accounts of the State are received from the tax authorities and are recorded in the

OAR/OAP in both EDP tables 2A and 3B and therefore are equal. This is also reflected in the above table.

However, revisions in OAR/OAP due to the correction of an error should not necessarily be reflected in both EDP tables 3B and 2A, as also agreed with Eurostat. If there would be any revision regarding OAR/OAP due to updated data sources in the GA, the revisions in EDP table 3B would be reflected in the WB of EDP table 2A. The same applies for any revisions regarding OAR/OAP due to updated data sources from the tax authorities, with the revision in EDP table 3B reflected in the item OAR/OAP in EDP table 2A. However, if there would be any revisions in OAR/OAP due to updated data sources in the balance sheet in the financial report from the EBUs, the revisions in EDP table 3B would not be necessarily reflected in EDP table 2A. SD explained that the reason comes from the fact that SD does not always compile the information in the balance sheet at the same time as the income statement of the EBUs. Thus, there could be inconsistencies between the GFS non-financial accounts and the GFS financial accounts regarding EBUs.

Eurostat welcomed the detailed explanations provided by SD, which would allow a better understanding of the information provided in the October 2018 EDP notification, in particular for F.8 reporting in EDP table 2A (such as the OAR data reported in the April 2019 EDP notification for the year 2016). In order to further improve the assessment of the EDP tables, Eurostat asked SD to provide an F.8 reconciliation table (split by F.81 and F.89 if data would be available) for S.1311 in all future EDP notifications and for S.1313 in the context of the EDP dialogue visits (in the format provided in the April 2019) to Eurostat.

Table 2A: Provision of the data which explain the transition between the public accounts budget balance and the central g

Member State: Denmark Data are in ...(millions of units of national Date: 29/03/2019	Year 2015	2016	2017	2018	2019	
Other accounts receivable (+)	-14,283	17,577	-453	0	0	
Detail 1		*22,954*	*4,896*		*0*	Taxes (netfigures only)
Detail 2	*-14,371*	*-6,633*	*-5,349*	*0*	*0*	Extraordinary depreciations of arrears
Other accounts payable (-)	-25,284	0	0	-20,069	-5,184	
Detail 1	*-25,284*	*0*	*0*	*-20,069*	*-5,184*	Taxes (netfigures only)
Detail 2						EU flows

In addition, regarding the F.8 inconsistencies on EBUs, Eurostat recalled that EDP data have to be reported to Eurostat according to the latest available source data, and invited the statistical authorities to align accordingly the internal revision policy regarding GFS data.

In this context, Eurostat recalled that taxes that are not paid should not enter the B.9. ESA 2010 (paragraph 4.150) stipulates, for those countries using the assessment and declaration method for reporting taxes on an accrual basis, two possibilities for recording taxes never collected (write offs): They should either be recognized via a capital transfer expenditure to the relevant sector or via a coefficient adjustment applied to the full assessed revenues. The calculation of the coefficient is not described in the Regulation and thus there could be a variety of approaches for estimating it. Eurostat added that some MSs are calculating this coefficient based on the actual cash receipts. SD explained that DK uses no correction coefficient for accrued taxes as the method used is moving the cash receipt to the right year, which is one of the reason for the revisions in each EDP notification. However, it is essential that over the long run corrected assessed data would be equal to the cash data. In order to verify if Member States follow the provisions of the Regulation on accrued taxes, Eurostat uses questionnaire table 5 which shows the link between accrued and cash data.

Furthermore, Eurostat together with SD analyzed questionnaire table 5 reported by DK in the April 2019 EDP notification. Eurostat observed no payables and asked if assets are recorded net. SD confirmed and explained that receivable and payable cannot be identified separately for taxes. Eurostat asked therefore for some clarifications related to the terms used by SSO (note on the transition from public accounts to government accounts, text of the EDP Inventory) when referring to taxes such as “public debt” or to the time of recording as “taxes are recorded on a due basis”. Eurostat highlighted that taxes should be recorded when the obligation exists, not according to due for payment and asked SD to correct the text of the EDP Inventory accordingly and to double check the time of recording. SD admitted that the term “public debt” was wrongly used for “public claims on taxes” and the MoF explained that taxes are recorded following ESA 2010 when there is a legal right to receive a revenue and that the note and the EDP Inventory text will be corrected. Moreover, Eurostat recalled that the data in questionnaire table 5 should be equal to the difference between ESA accounts and related accounts on cash basis. Taking as example D.5, as reported in questionnaire table 5 and in the GFS data (own accounts data), the difference should be the cash data for D.5. SD explained that in the questionnaire table 5, the line D.5 included in fact D.2, D.5, D.61 and D.91, as detailed data are not available for all items. Eurostat pointed out that in this case, only line 1 should be compiled and SD acknowledge that cash data could be reconstructed using this approach. In addition, Eurostat made another comment related to the negative stocks reported for several years, meaning that liabilities of government are higher than its receivable, which could be the result of tax revenues being underestimated for a quite long period or due to wrong initial stock. SD commented that a possible explanation could be the influence of the pensions, i.e., the change of due for payment to 13 months instead of 12 months. As regards the initial stock, SD explained that this point will be further checked. Eurostat also wondered whether the “due for payment” is impacting the assessed taxes and asked SD to clarify. SD stated that the taxes in the working balance are recorded on a cash basis and not on an accrual basis and that questionnaire table 5 is based on same data source. Eurostat asked SD to invite the MoF and SKAT to provide more details, in a videoconference necessary to finish the agenda of this mission.

Furthermore, Eurostat enquired whether it is possible to receive the tax data on a gross basis and not only on a net basis for financial accounts in the EDP tables 2 and 3 and in the EDP questionnaire tables 4 and 5. SD explained that, SKAT only reports receivable net of payable for each unit – person or company. Eurostat took note of this but suggested that SD should discuss with SKAT the possibility to introduce two separate lines for the information related to financial transactions, one on receivables and one on payables. All the other countries seem to be able to do so.

Eurostat concluded that completeness of questionnaire table 5 could be substantially improved as the table provides currently only net information for all taxes and social contributions. The fact that questionnaire table 5 provides incomplete information might raise some concerns about the quality of B.9 or the statistical discrepancies reported in EDP tables 3. Eurostat invited SD to improve the content of questionnaire table 5 by first reporting receivable and payable on a gross basis and not on a net basis and then, later on, starting to compile receivable and payable by tax categories. In addition, Eurostat proposed to SD to compile an ad hoc questionnaire table 5 in three versions: (1) using time adjusted cash method, (2) using a coefficient method (coefficient should evolve in time and be tax specific) and (3) using the data from the own accounts in order to check if the current system for recording of taxes is still appropriate.

Discussions continued on another outstanding issue related to trade credits resulting from the previous EDP dialogue visit and from the April 2019 EDP notification. Regarding the implementation of the Eurostat decision on the recording of some trade credits operations for all subsectors, SD agreed to continue the investigation on factoring without recourse operations of local government units, as this operation does not occur for central government.

SD explained that in the survey on trade credits for local government units, counterpart information is also requested. In 2018, trade credits (AF.81L) for local government units amounted to 15492.1 mill. DKK where 19.1 mill. DKK of those have S.12 as counterpart. However, the counterpart information is unfortunately difficult to extract from the accounting systems used by the local governments and should therefore be interpreted with caution. SD contacted also the Danish member of the European Factoring Association, “Finans og Leasing” but unfortunately they do not have this level of information regarding trade credits. SD also contacted “KL” (Local Government Denmark), the association and interest organisation of the 98 Danish municipalities, but they also do not have this kind of information. SD will contact again “Finans og Leasing” and “KL” to find a common solution to this data source problem. However, DK mentioned that the amounts involved should be negligible or equal to zero. Eurostat took note of this.

Eurostat asked about the work undertaken to reduce the statistical discrepancies, in particular with a view to 2018. SD explained that it is a normal pattern for the statistical discrepancy for the first compilation of a new year to be relatively high due to the fact that data are preliminary for local government and estimated for extra-budgetary units (financial and non-financial accounts). For example, the statistical discrepancy for 2017 was significantly improved between the April 2018 and October 2018 EDP notifications by 10.9 bill. DKK. SD added that, using additional information from the securities statistics compiled and published by the Danish Central Bank also decreased the statistical discrepancy reported for 2015 and 2017 between the October 2018 EDP notification and April 2019 EDP notification. The statistical discrepancy for 2018 will be significantly reduced firstly in the October 2019 notification, when final data for municipalities and regions will be available, and secondly in the April 2020 notification, when financial reports of extra-budgetary units will be included in the GFS and EDP data base. Considering the statistical discrepancies reported for 2016, SD agreed to further investigate the issue.

Findings and conclusions

Action point 7

(5) Eurostat emphasized that countries not following the time adjusted cash method had to report a complete table 5 of the questionnaire related to EDP tables for the full reporting period 2000-2018 to ensure that the amounts recorded in B.9 in relation to taxes and social contributions correspond, in the long run, to the cash received. SD recognized that questionnaire table 5 is currently not fully compiled in line with requirements. Eurostat also noted that the table was incompletely filled. Thus, Eurostat asked SD to improve the reporting of this table: (1) separating receivable/payable to the extent possible (with estimates if needed), (2) reporting the accrual adjustment for each of the main categories, and (3) clarifying what could explain the unusual pattern of negative stocks of net fiscal receivables (i.e., excess of fiscal payables over receivables), in the absence of known delayed tax refunds in Denmark. *Deadline: April 2020 notification*[10]

Action point 8

(6) Eurostat invited SD:

a) to verify whether cash information can substantiate the statement of SD that the table 5 of the questionnaire related to EDP tables shows the appropriate accrual adjustment included in the ESA accounts. As discussed during the meeting, this may be done in particular by using the net fiscal revenue recorded in the working balance corrected for the change in stock of fiscal receivable/payable reported in the balance sheet of the own accounts of the State.

b) to fill, on a test basis, the table 5 of the questionnaire related to EDP tables using various methods: time adjusted cash, a coefficient method (e.g. assessed amount minus, say, 1 percent), the use of own account data (working balance), in addition to the current method.
Deadline: Progress report January 2020[11]

[10] A note was provided on this item. SD explained that there are no cash data available on taxes. Only aggregated net receivable amounts on taxes are available in Denmark. Nevertheless, as a first step Statistics Denmark together with the Danish Tax Authorities will investigate unusual pattern in taxes and provide a note to Eurostat on their outcome for the October 2020 notification.

[11] A note was provided on this item. SD explained that there are no cash data available on taxes. Only aggregated net receivable amounts on taxes are available in Denmark.

Action point 9

(7) SD will adapt the transition table, reported routinely in the context of the notification, between working balance impact and ESA 2010 B.9 impact of taxes and social contributions, according to the discussions held during the meeting (i.e., inserting additional lines, adapting labels for clarity). SD will ensure that the detail in this table or in EDP table 2A/ EDP table 2C allows reconciling the data. SD will ensure that the correction in EDP table 2A (´taxes net figures only') should be recorded on the receivable side, in the absence of any other information, and on the appropriate side, once a split between receivable and payable becomes available. *Deadline: October 2019 notification*[12]

Action point 10

(16) SD agreed to provide to Eurostat the F.8 reconciliation table related to the central government subsector in each EDP notification and to the local and social security subsectors in the context of the dialogue visits.

Action point 11

(17) SD will provide to Eurostat an amended EDP table 2A in relation to an inconsistent breakdown of other accounts receivable for 2016 (and an adapted questionnaire table 4 and EDP table 3B, if necessary). *Deadline: October 2019 notification*[13]

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. MGDD (2019 edition) - State of play

4.1.2. Practical implementation of the market/non-market test

4.1.3. Changes in sector classification since the September 2016 EDP visit

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

Introduction

According to the EDP Inventory (last version dated 2015), market entities which are included in the public budget and can be regarded as institutional units, are to be classified to the corporation sector. In this way the general government sector only includes non-market entities. However, some government controlled entities which are

[12] Action point implemented.

[13]Action point implemented.

included in the general government sector could be considered as being close to quasi-market entities. Examples are entities that are active in the property area. These units let buildings to a price which should reflect the market price, but they are limited in their business options since they can only let their properties to government institutions. For entities with market activities (income from sales of goods or services) it is checked whether they meet the 50% criterion (i.e, it is checked if the income from sales covers 50% or more of the production cost – production cost defined as compensation of employees, intermediate consumption, consumption of fixed capital, other taxes on production and net interest charge). If this is the case, the entity is regarded as a market entity. Entities with a ratio close to the 50% are checked on a regular basis. If the ratio changes from over to under 50% or vice versa, then the entity will be reclassified if the change holds for a period of three years. The business register is used as source data for the list of government controlled entities and a validation of the entities in the business register is conducted quarterly by the GFS unit of SD, with the aim of identifying new government entities. For the classification of new units inside general government, ESA criteria are used: non-market units controlled by government are included in the government sector and also government controlled market entities which cannot be regarded as institutional units are classified inside the government sector. SD receives information on new entities from ministries, the media and annual account statements from the government owned entities. Account data and data from the budgets of the central and local governments are used for the 50% test. This information (preliminary and final data) is collected on an annual basis and includes transaction data by institution.

Changes due to an incorrect classification of units are implemented when historical national accounts data are revised. Changes due to structural changes of a unit (shift from a market to a non-market entity or vice versa) are implemented when the change takes place.

Furthermore, the EDP Inventory states that non-profit institutions controlled and included in the general government sector are primarily to be found in the central government sector. The bigger NPIs included in the general government sector are: the Danish National Church, the secondary educational as well as higher educational level institutions, eight universities, other , Udbetaling Danmark (the administration responsible for the payment of transfers to households), Danmarks Radio, A/S Øresund and Femern Landanlæg A/S. The remaining public controlled NPIs are mainly active in the social affairs area (less than 1% of compensation of employees within the NPI area). No quasi-corporations are included in the general government sector.

The EDP Inventory also states that, as a result of the application of the market/non-market test the railways and the road infrastructure companies are classified in the government sector, as no significant revenue from sales is recorded. However, excluded from this are the bridges where the users have to pay a toll for using them (Øresundsforbindelsen and Storebæltsforbindelsen). All public utility companies are financed by the users, such as airports, ports and metro – so all these entities are classified in the corporation sector (S.11).

The EDP Inventory also explains that universities and schools are all classified inside the government sector, since they are non-market and controlled by government. An exception are the private schools which are classified in the sector non-profit institutions serving household (S.15) since these entities are not controlled by government. All public hospitals are controlled and financed by the local government sector which again leads to a classification inside the government sector (S.13). No SPV (Special Purpose Vehicle) unit is classified in the general government sector.

During the 2016 EDP dialogue visit, Eurostat enquired about a number of public corporations, and amongst other also 'DONG Energy A/S' which was close to the 50% threshold of the market/ non-market test. SD explained at that time that DONG Energy A/S is a parent corporation having several subsidiaries. During the 2016 EDP dialogue visit, it was agreed that Dong Energy A/S had the features of a head office and could therefore be classified in the financial corporations sector (S.12). SD was also invited to analyse all enterprises belonging to the DONG group, in particular to see whether some of these units might be regarded as ancillary units and should therefore be classified together with the controlling entity.

Discussions

Eurostat enquired about the information included in chapter 5 of EDP Inventory, regarding the sectorisation of public entities inside the government sector, and recommended SD to update the text according to the current situation after analysing the classification of public entities based both on the quantitative criterion and the qualitative criteria. SD explained that specific entities such as hospitals, schools, institutions for children or public real estate companies are either considered as ancillary entities or not meeting the qualitative criteria by default. SD also confirmed that specific entities are considered together in groups of units (as included in the introduction part of this agenda point) and follow the sector classification as described in the EDP Inventory.

Firstly, Eurostat recommended SD to elaborate more the EDP Inventory paragraph referring to NPI control and to describe exactly what SD considers relevant to conclude that entities are controlled by government. Secondly, Eurostat recommended SD to include the exact formula used for the calculation of the 50% test in the EDP Inventory and to add a detailed description of the data sources used for each element of this formula. Thirdly, Eurostat asked SD to present during the meeting the process of applying the 50% market/ non-market test in practice. SD explained that a specific annual survey is used as data source for the calculation of the 50% test. The survey includes information from the financial statements covering all public corporations and one private entity. SD also mentioned that the formula items correspond to the data in the survey. Eurostat asked SD if a standardised chart of accounts for financial statements of companies exists in DK and if the formula is based on this. SD explained that there is no such chart of accounts in Denmark but will check and inform Eurostat if necessary. Eurostat asked SD to provide the 50% test formula to Eurostat, including an explanatory note as well as the questionnaire included in the survey. SD agreed to provide to Eurostat the related formula used for the 50% test and the survey template. In addition, Eurostat asked about how subsidies are identified, whether subsidies on products and subsidies on productions are shown separately and how these subsidies are treated in the 50% test. SD informed Eurostat that subsidies are included in total sales (turnover) and not deducted when applying the 50% test. This information is not included in the survey, but could be found in the annual report of the companies. SD argued that as there are approximatively 700 companies tested and that the examination of the amount of subsidies from the annual reports would take too much time. The same applies for investment grants. Eurostat concluded that this constitutes a substantial problem for the quality of the questionnaire on public corporations classified outside government and, consequently, for the sectorisation of public entities (based on the result of 50% test). Considering the issues, Eurostat asked SD to rethink the process in order to be more in line with the ESA 2010 provisions when applying the 50% test. Eurostat suggested to SD to ask data on subsidies and investment grants from MoF (if a sufficiently detailed information is available in its database) or, first, to conduct a one off exercise by using information from the annual reports of the public entities. In addition, Eurostat suggested SD to adapt the survey questionnaire (inserting new lines for the necessary items) in order to follow the ESA 2010 rules regarding the 50% test for the sector classification of public entities.

Furthermore, Eurostat asked to be informed about any changes in the composition of the government sector (public entities classified to S.13 or government entities classified to S.11/ S.12) since the last EDP dialogue visit. SD informed Eurostat that no entities have been removed from S.13 and that one entity has been created in general government since the last EDP dialogue visit in September 2016 (Fjordforbindelsen - a bridge and its connecting roads in S.1311 – EBU). Eurostat took note of this information and asked SD to confirm some recording in GFS related to the financial stability mechanism. Further, Eurostat requested SD to confirm that the public real estate company is classified inside S.13, considering that its main activity is to lease buildings to government units. SD confirmed the sectorisation of this entity inside S.13, but mentioned that the lease payments can be considered in line with the market conditions even if counterparties are governments units.

Discussions continued further on the questionnaire on public corporations classified outside the general government sector. Eurostat recalled the rules that should be applied when filling the questionnaire. In particular, it was recalled that units which do not pass the market/non-market test for three consecutive years are to be classified in the general government sector. Eurostat noted that there are several cases in the questionnaire which seem not to be in line with this rule and asked SD to check the related entities and, if necessary, to reclassify them. Another rule recalled by Eurostat refers to the entities having NACE code 84 (public administration and defence, compulsory social security). This NACE category can only occur in the government sector. SD should therefore check again all entities with the corresponding code and if the NACE code proves to be correct, the entities have to be classified in S.13. Eurostat mentioned that the 50% test would normally not be applicable to public entities classified in S.12 but only to public entities classified in S.11. An exception are units that are considered to be financial auxiliaries and which are classified in the financial auxiliaries subsector (S.126) in national accounts. Eurostat further explained that, for entities which are dormant or in liquidation, the result of the 50% test would not matter as they should be reclassified immediately in the government sector. Eurostat recommended SD to analyse if some entities have the characteristics of ancillary/artificial units and, if it is so, to group all ancillary/artificial entities below the parent entity in the questionnaire or to classify them in S.13. In particular, Eurostat asked SD to investigate the regional bus/train companies listed on the questionnaire (e.g. Fynbus, VestBanen, etc.).

Regarding the DONG group, Eurostat referred to an outstanding action point (analysis of the subsidiaries) of the 2016 EDP dialogue visit and asked SD to present the situation. SD informed Eurostat that, in the meantime, DONG Energy, including some subsidiaries, changed the name and became ØRSTED on 6 November 2017. SD has analyzed the entities of Ørsted and divided them into four main categories: wind power, bioenergy and thermal power, distribution and customer solutions, and a residual category. The entities in the first two categories and in the residual category deemed to be all market producers. The residual category includes some inactive companies but the entities in this category can potentially include some non-market production. The entities in the third category are: Ørsted Sales & Distribution A/S, Ørsted Salg & Service A/S, Danish Oil Pipe A/S, Radius Elnet A/S, Ørsted Real Estate A/S, Ørsted Pipelines A/S, Danish Offshore Gas Systems A/S, Obviux A/S and B2C El & Gas A/S. SD explained that the department for critical statistical entities within SD will further analyze these entities in detail and that the results of the analyses will be communicated to Eurostat as soon as they will be available.

SD also stated that the Danish government holds the majority of Ørsted shares (50.1%) and that the Capital Group Companies, (in particular, the American EuroPacific Growth Fund's and SEAS-NVE – cooperative company) hold over 5% of the shares. Ørsted is listed on the stock exchange. According to a political agreement, the Danish Government shall maintain a majority in the company until 2025. Reduction of the ownership below 50% requires the political agreement of Danish Parliament. Ørsted passed the market/ non-market test for the years 2015 to 2017 and is classified in the nonfinancial corporations sector.

Eurostat took note about the information provided by SD and asked about the result of the 50% test for the subsidiaries of Ørsted. Most of the subsidiaries do not seem to meet the market/ non-market test and for most of them also no employees were reported in the questionnaire on public corporation provided to Eurostat in December 2018. Eurostat recalled that non-market subsidiaries should be classified in S.13 even if the parent is to be classified in S.11. SD agreed to further investigate the issue and inform Eurostat about their findings.

Eurostat then moved to the entity Hofor Holding also listed in the questionnaire on public corporations. Eurostat took note that, for this entity, the market/ non-market test was compiled and that Hofor has failed the test for three consecutive years. Eurostat recalled the criteria relevant for distinguishing whether an entity is a holding company or a head office. Eurostat further stated that if Hofor is a public holding it has to be reclassified in S.13. If, on the other hand, Hofor meets the criteria to be considered as a head office, it should be classified in S.11 and not in S.12 as it is currently the case. As the questionnaire did not show any employee and as Hofor had a number of subsidiaries, Eurostat asked SD to analyse the issue again and to classify the entity accordingly. Eurostat also noticed some major movements in the results of the 50% test from one year to another as well as zero values or missing results for several entities. Eurostat requested SD to investigate those cases and to inform Eurostat about the results.

Findings and conclusions

Action point 12

(32) Eurostat takes note of the good practice existing in Denmark regarding the application of the qualitative criteria (hospitals, schools, institutions for children and adults with special needs, public real estate companies) and recommends SD to consider collecting information more systematically in the long term on the share of sales of public corporations to government, for instance through the annual survey. *Deadline: Progress report - January 2020*[14]

Action point 13

(47) SD agreed to provide to Eurostat a note on all the existing extra-budgetary entities. This information will be afterwards included in the EDP Inventory. *Deadline: September 2019*[15]

Action point 14

(24) SD will provide Eurostat with the formula used for the 50% test, showing the survey items and the related business accounts' codes applicable, as well as the template of the annual survey. Eurostat recommends including the exact formula in the EDP inventory. *Deadline: December 2019*[16]

Action point 15

(25) Eurostat takes note that the 50% test reported in the questionnaire of government controlled entities includes, in Denmark, all subsidies within sales irrespective of their nature, which is not in line with guidelines. SD will:

a) report as a one-off exercise the recalculation of the 50% test, deducting from the denominator subsidies on production, taking into account the counterpart information in the subsidy database available at the MoF, for all the units unless they are small/ marginal (by size of turnover, liabilities, subsidies received).

b) report as a one-off exercise the recalculation of the 50% test deducting from the denominator also the investment grants amortization, presumably based on annual

[14] Action point implemented.

[15] Action point implemented.

[16] Action point implemented.

report information, at least for the biggest units (by size of turnover, liabilities, subsidies received). Eurostat takes note that investment grants received are recorded in the balance sheet and within sales amortized over the years, which is also not in line with requirements.

c) consider amending the annual survey in order to be able to calculate the 50% test closer to requirements (subsidies by nature, investment grants, EU funds, other revenues etc.).

d) verify the NACE codes reported in the questionnaire on government controlled entities classified outside general government, notably taking into account that NACE code 84 is always non-market.

Deadline: Progress report Mid-December 2019[17]

Action point 16

(26) Eurostat noted that the entities reported in the Questionnaire on government controlled entities classified outside general government may not be all institutional units and may have rather the character of ancillary/artificial units that could explain apparent anomalies (zero employees, abnormal 50% test results). While Eurostat can accept such reporting in the questionnaire, Eurostat recommended that:

a) these units should be reported under the relevant 'mother' entity.

b) for the entities for which the results are below the 50% test (such as Fynbus, Vestbanen, etc.), in case they are not artificial units, Eurostat asked to reclassify them to the government sector starting with the first year in which the entity is failing the 50% test (three years in a row), in application of the MGDD rules, taking into account the national policy for routine revisions).
Deadline: December 2019[18]

Action point 17

(27) SD will provide a final evaluation on the classification of the units belonging to Ørsted (previously DONG) group (electricity/ energy company). Subsidiaries that are deemed to be institutional units are to be classified inside government if not meeting the 50% criterion. The 'mother' company sectorisation outside government should be reconsidered if the subsidiaries are predominantly non-market or if there are a holding rather than a head offices. If the company is market it should be classified in S.11 and not in S.12 as it is currently the case (being a head office of a

[17] Progress report provided. Some analysis still to be performed until June 2020 as regards the units with NACE codes 84.

[18] A part of the action point was implemented. Some analysis still to be performed until June 2020.

non-financial group). In the same manner, SD will clarify the sectorisation of units belonging to HOFOR group (gas company). *Deadline: December 2019*[19]

4.1.5. Discussion of specific cases

Metroselskabet

Introduction

Under this agenda point, Eurostat and SD reviewed the sector classification of the public entity 'Metroselskabet', which is responsible for the operation, development and construction of the Copenhagen Metro. Metroselskabet was founded on 26 October 2007 under the provisions of the Act regarding Metroselskabet I/S and Arealudviklingsselskabet I/S and is jointly owned by the City of Copenhagen (50%), the Danish Government (41.7%) and the City of Frederiksberg (8.3%). Metroselskabet benefits from direct unconditional, joint and several liability of its owner for all of its obligations including the loans taken out. Metroselskabet has also access to re-lending loans at Danmarks Nationalbank[20]. The main aspects of the analysis carried out by SD are as follows: Metroselskabet does not receive public subsidies since 2007; the repayment of existing loans is expected by the end of 2065; it is expected that the entity will generate a positive cash inflow over the coming years and that it will generate an operating profit (net of interest) from 2023 onwards. Based on the aforementioned aspects and on the results of the market test, SD concluded that Metroselskabet should be classified in the nonfinancial corporations sector (S.11).

Discussion

Eurostat thanked SD for the detailed analysis of Metroselskabet for the EDP dialogue visit, in particular for the results of the market/non-market test (50% criterion) for the years 2014 to 2018.

Eurostat took note that Metroselskabet has made significant investments in infrastructure in the past years (for the period 2011 to 2017 the investments amounted to DKK 24.4 bn) and further investments of around DKK 13 bn are planned by the end of 2024. The high investment activity has a considerable influence (via the associated depreciation and interest expenses) on the operating result of Metroselskabet, which was negative in the years 2014 to 2018. However, according to the analyses of SD, the entity met the requirements of the market/ non-market test and the unit is also expected to generate positive operating results as soon as the sizeable investment activity would be completed and the new lines put into operation.

Eurostat questioned the calculations presented, in particular with regard to the calculation of depreciation, i.e. the existence of significant depreciation, which ultimately leads to negative balance sheet equity of DKK - 1.5 billion. It was explained that the write-downs

[19] Implementation of the action point postponed for June 2020.
[20] Please see Metroselskabet, Annual Report 2017, page 17

were the result of Metroselskabet's specific accounting approach, which measures fixed asset not at historic costs less depreciation but compares the book value of a fixed assets with its recoverable value[21]. If the recoverable value is lower than the book value, a write-down is recorded in the profit and loss accounts and the book value of the fixed asset is adjusted in the balance sheet accordingly. In this context, Eurostat also asked whether SD adjusts the book values for the calculation of depreciation, in addition to the exclusion of the write-downs for the compilation of the market/non-market test. It was explained that the test is based on the figures reported in the annual report. Eurostat found that the market/ nonmarket test would be distorted by this as the figures for the depreciation were too low and therefore a correction should be carried out.

Eurostat pointed to another problem in the compilation of the depreciation and referred to Metroselskabet's annual report, which provides that fixed assets are not subject to regular depreciation during the construction, while unscheduled write-downs for impairments (recoverable value) are made[22]. Eurostat recalled that ESA 2010 treats fixed assets under construction, such as the ‘Metro’, as fixed capital formation that needs to be amortised. The missing depreciation on work-in-progress leads to a further distortion of the results of the 50% test, which cannot be ignored in the case of Metroselskabet. According to the Annual Report 2017, the work-in-progress amounts to DKK 24.5 bn (acquisition sum) at the end of 2017. The corresponding figure for the assets in operation amounted to DKK 6.4 bn and the annual depreciation for assets in operation is indicated with DKK 170 mn[23]. The ratio of this two figures is approximately 0.03. If this ratio is also applied to the figure for the work in progress, the estimated amount of depreciation of the work in progress would be around DKK 660 million, which is currently not included in the 50% test. The calculation is based on the assumption that the average structure of the assets under construction is similar to the structure of the assets in operation. Eurostat believes that the assumption is justified but if the structures would substantially differ, the effect might be higher or lower. However, even in the ‘best case’ scenario, the depreciation to be included in the 50% test would likely double in comparison to the current value. Another feature of Metroselskabet is that it does not compete with private operators. Both facts together and the fact that Metroselskabet has *de facto* negative balance sheet equity of DKK – 1.5 bn, lead to uncertainty about the result of the 50% test and therefore considerable limits the conclusion that can be drawn from it.

SD remarked that, in the ESA 2010 accounting framework, Metroselskabet does not have negative equity. Eurostat took note of this, however, observed that in the annual reports, significant write-downs were reported shortly after the construction of the fixed assets was completed, indicating that Metroselskabet assumes at a very early stage that it will not recoup its investments. This also raises serious doubts as to whether Metroselskabet will actually be able to repay its debts, as it currently appears that the recoverable income (future income generated by the assets or realised by the sale of the asset) will not be sufficient to repay all debt as underlined by the negative equity reported in the annual

[21] The recoverable value is the higher of the following two values: net selling price of the fixed asset less costs or present value of the estimated future cash flows generated by the fixed assets.
[22] Please see Metroselskabet, Annual Report 2017, page 48.
[23] Metroselskabet, Annual Report 2017, page 60 and 61.

report. In such a case, and against the background of the specific liability commitment of the owners of Metroselskabet (see above), it should be considered to rearrange the debt of Metroselskabet, i.e., to recognise debt in the government accounts. This would not result in a deficit impact, since a loan of the same amount to Metroselskabet would be recorded at the same time (if it could be assumed that it can be repaid by Metroselskabet). The loan would be recognised on the government balance sheet until a guarantee call and/ or an officially confirmed debt assumption/ cancellation takes place.[24]

Such a treatment is similar to an on-lending transaction where a loan is directly financed by the government (e.g. via issuing bonds) and then on-lend to the government-owned companies which are paying interest and redemption to government. Eurostat understands that already a significant part of the debt of Metroselskabet is raised via on-lending. As a result, the debt impact of the suggested reporting in the government accounts should be limited in the short-term to approximately DKK 4 bn.

During the further course of the discussions, Eurostat also enquired on the procedures at the foundation of Metroselskabet in 2007. It was understood that Metroselskabet's predecessor was another public corporation in the nonfinancial corporation sector and that the assets were written down to zero book value before being transferred to Metroselskabet, which would create another problem for the market/ nonmarket test. SD replied that they would check the value of the assets in the Metroselskabet's opening balance sheet in 2007 and will report to Eurostat.

SD agreed that there is a need to review the depreciation entered in the market/ nonmarket test in respect of work-in-progress and at which value the assets entered the balance sheet of Metroselskabet at its foundation.

Another point raised by Eurostat in connection with the 50%-test was the consideration of leasing income within sales. Eurostat asked for what type of assets Metroselskabet acts as the lessor and whether it has been verified by SD that it is a real leasing arrangement and not simply a way to structure subsidies (i.e. who is the lessee and how are the lease instalments determined?).

Findings and conclusion

<u>*Action point 18*</u>

(28) Regarding 'Metroselskabet', the company operating the Copenhagen Metro, Eurostat noted the accounting practice of the company concerning amortization/ write-downs, which leads to uncertainty as regards the compilation of the 50% test as well as to

[24] If, for example, Metroselskabet were to make partial or full use of the guarantee, a corresponding capital transfer would be recorded in the non-financial government accounts, accompanied by an outflow of funds (ceteris paribus being financed by a loan) which, as a first step, would be recorded in the financial accounts. In a second step, Metroselskabet would use the cash inflow (due to the call for guarantees) to repay its loan to the government, which would result in a decrease in the government's loans assets. The corresponding 'revenue' would then be used by the government to repay the related imputed loan liability. In summary, a guarantee call would result in net borrowing of government, but not in an increase in government debt. In the best case, the debt would even decrease, if the amount called could be financed from available resources.

company negative net assets in the company own accounts (i.e. negative shareholder equity). Eurostat asks SD to clarify what was the book value (e.g. historical cost, historical cost after impairment, fair value, etc.) of the transferred assets, when Metroselskabet was established in 2007. SD will clarify the nature of the leasing revenue reported in the P&L of Metroselskabet and treated as sales in the 50% test. In addition, Eurostat recalled that ESA 2010 prescribes recording of consumption of fixed capital already on fixed assets under construction, potentially leading to costs for amortization of gross fixed capital formation four times higher than currently considered in the 50% test (table 'without write offs'). Eurostat asked SD to reassess the sectorisation of this entity given (1) the uncertainty surrounding the 50% test, (2) the negative net assets recognized by the accountants (reflecting expectations that future revenues will not be sufficient to cover all construction costs) and (3) that the company is not facing competition with private operators. *Deadline: March 2020*[25]

Action point 19

(29) In case SD concludes, in consultation with Eurostat, that Metroselskabet is correctly classified, Eurostat is of the opinion that rerouting of debt should then be considered, given the fact that the net assets of the company are negative, implying that the company itself does not expect to be able to repay fully the debt related to the construction costs of these assets. The counterpart of the debt would be a claim on the company without deficit impact (assuming SD makes an evaluation confirming the existence of a true claim), until a guarantee call and/or an actual debt assumption/ cancelation takes place (notably in a legal form). SD will determine the appropriate general government subsector to be involved in this rerouting. *Deadline: March 2020*[26]

Railway companies

Introduction

Before the mission, Eurostat requested a note from SD on the classification of railway companies in national accounts, including the calculation of the market/non-market test for these companies (including those involved in the freight transportation) for the period 2015-2018. The note should highlight how the depreciation of assets is reflected in the calculation of the market/non-market test as well as how subsidies (type of subsidies and amounts involved) have been treated in the calculation of the market/non-market test. In addition, in case these companies benefited from EU grants, Eurostat asked SD to highlight how these EU grants were taken into account in the calculation of the market/non-market test.

Discussions

Eurostat welcomed the data and the analysis provided by SD regarding the Danish railways companies for 2014-2017 and invited SD to present the situation.

[25] A note was provided on this action point. Eurostat requested further clarification on several aspects such as the nature of the leasing revenue and the recording of the consumption of fixed capital on fixed assets under construction.

[26] A note was provided on this action point which is still under clarification.

SD noted that the infrastructure railway company is already classified inside general government and is included in the working balance of the central government. SD further informed that 12 companies classified in S.11 are active within railways transportation (cargo and passenger) in Denmark, out of which six being public. Their current sector classification and their share of the aggregated income among them, can be seen in the table below:

	Current sector classification		Per cent of the companies aggregated income in 2017
Company	**Public - S.11**	**Private - S.11**	
ARRIVA TOG A/S		X	3,8
CFL CARGO DANMARK ApS		X	0,1
DB Cargo DANMARK SERVICES A/S		X	1,1
DB Cargo SCANDINAVIA A/S		X	4,7
DSB	X		85,7
Lokaltog A/S	X		3,9
MIDTJYSKE JERNBANER A/S	X		0,0
MIDTJYSKE JERNBANER DRIFT A/S	X		0,2
NORDJYSKE JERNBANER A/S	X		0,5
SJ DANMARK A/S		X	0,0
TX LOGISTIK A/S		X	0,1
VESTBANEN A/S	X		0,0

SD performed the market/non-market tests for all 12 companies. Depreciation of assets is included in the production cost in the market/non-market test. Information on subsidies and EU-grants was only available in the business accounts for DSB. DSB constitutes more than 85% of the companies aggregated income. For the other companies no information on subsidies and EU-grants was available.

Eurostat observed that, for some of the public railway companies, the results of the market/non-market test were below the 50% threshold, such as for Midtjyske Jernbaner A/S and Vestbanen and recommended SD to classify these entities in the government sector. Furthermore, Eurostat asked SD to explain the reason for the zero value for depreciation for Nordjyske Jernbaner and Midtjyske Jernbaner and the very small amount recognised for Midtjyske Jernbaner Drift. SD undertook to verify the data and inform Eurostat.

In addition, Eurostat enquired about the DSB (passenger transport) market/non-market test. SD compiled three versions which essentially differed in the treatment of subsidies and depreciation. In the first two versions, subsidies were included or excluded from the total sales (turnover). In the third version both subsidies and extraordinary depreciation were excluded from the market/non-market test. DSB did not receive any EU grants according to its business accounts. The results of the second version were very close to the 50% threshold and even below it for the year 2016.

Eurostat referred to the PSO (public service obligation) contract mentioned in the 2018 DSB annual report and was of the opinion that the amounts paid under the PSO agreement could possibly be considered as subsidies on production (as the payments are made per train kilometres and not per passengers transported), which, according to ESA 10, have to be deducted from the sales revenue when calculating the 50% test. SD agreed with Eurostat that these subsidies should not be considered in the sales when applying the 50% test. In addition, Eurostat asked SD to explain the difference between voluntary depreciation and extraordinary depreciation existing in the accounts and whether and how these two positions affect the 50% market/non-market test for DSB. Regarding the PSO payments, Eurostat proposed to SD to classify them as subsidies on production and to reroute them to the rail infrastructure company (classified in S.13).

	DSB	2014	2015	2016	2017
Market test		**1,07**	**1,05**	**0,80**	**0,99**
Market test - without subsidies and EU-grants		**0,57**	**0,54**	**0,46**	**0,60**
Market test - without subsidies and EU-grants and extraordinary depreciations		**0,57**	**0,67**	**0,54**	**0,72**
Standardized code	**Income** (mill. DKK)	**10.513**	**10.104**	**10.443**	**10.900**
100	turnover	**9.593**	**9.390**	**9.716**	**10.238**
110	turnover - own account	**173**	**87**	**135**	**116**
300	Other income relate to ordinary operations	**747**	**627**	**592**	**546**
2400	Extraordinary income	**0**	**0**	**0**	**0**
	Of which subsidies and EU-grants	**4.894**	**4.883**	**4.394**	**4.286**
Standardized code	**Production costs** (mill. DKK)	**9.834**	**9.662**	**13.062**	**11.013**
510	raw materials	**0**	**0**	**0**	**0**
520	raw materials - own account	**1.224**	**1.034**	**721**	**1.179**
600	subcontracting	**0**	**300**	**285**	**368**
700	Rent	**5**	**6**	**4**	**5**
900	Repairs	**219**	**228**	**237**	**232**
1000	Services bought from employment agencies	**10**	**13**	**0**	**0**
1100	Operational lease	**229**	**234**	**201**	**195**
1200	Other expenses	**3.065**	**3.037**	**4.031**	**3.938**
1310	Salaries	**0**	**0**	**0**	**0**
1320	Salaries - own account	**1.987**	**1.987**	**2.240**	**2.303**
1400	Pension	**472**	**413**	**364**	**786**
1500	Other cost for social insurance	**33**	**23**	**26**	**26**
1600	Ordinary depreciations	**2.218**	**127**	**2.767**	**0**
1600	Extraordinary depreciations	**0**	**1.872**	**1.876**	**1.848**
1700	Other costs	**0**	**75**	**15**	**8**
2100	Interest income	**-15**	**-23**	**-16**	**-25**
2300	Interest cost	**387**	**336**	**310**	**150**

Findings and conclusions

Action point 20

(30) Similarly to Metroselskabet, the Danish State Railways (DSB) as well as other railway entities apply exceptional write-offs in a manner that, together with other accounting issues (subsidies, investments grants, etc.), creates uncertainty regarding the calculation/ result of the 50% test. Eurostat agreed with the view of SD that Public Service Obligation (PSO) payments are not to be considered as sales (since they are paid per 'train-kilometers' and not per passenger actually transported). On this basis, Eurostat invited SD to consider whether these PSO payments should not be rerouted to the Public Infrastructure Company (already reclassified into S.13) given the nature of such payments (aiming at reducing the cost of the use of tracks and only indirectly reducing the price per ticket), which would result in most railway operators to be clearly above the 50% test. In addition, this rerouting of PSO would ensure that the classification of the unit is independent from the way the PSO schemes are structured. *Deadline: December 2019*[27]

[27] Action point was implemented.

The Danish Green Investment Fund

Introduction

The Danish Green Investment Fund, a public fund, was founded in late 2014. The purpose was to co-finance projects that facilitate and support the sustainable development of the Danish society. The fund is solely owned by the government and under The Danish Green Investment Fund Act, the government can inject initial capital up to 200 mill DKK to set up the fund. So far, the government injected a total of 80 mill DKK (15 mill DKK in 2014, 25 mill DKK in 2015 and 40 mill DKK in 2016).

As regards the activities, in the legal act of The Danish Green Investment Fund it is stated that the fund seeks to bridge the gap between traditional bank financing and equity capital. The individual loans can be provided to all company types and sizes, non-profit housing associations and public corporations and institutions, who wish to implement green solutions. The loans can have a maximum maturity of 30 years, cover maximum 60% of the total costs associated with the given project and amount to a maximum of 100 mill DKK. The interest rate on the loans is determined by two components: 1) the fund's costs associated with financing the means of lending – i.e. funding and administration cost and 2) a risk premium.

The Fund's website explains that two basic criteria must be met in order to be eligible for a loan from the Danish Green Investment Fund. First, the project must contribute to the sustainable development of the society. It must be possible to measure a green impact, e.g. in terms of reduced CO_2 emission or reduced energy consumption. Second, the project must be economically viable. This means that it should be possible to repay the loan with an interest matching the underlying risk. The fund's investments must be structurally profitable, i.e., earning an overall adequate rate of return.

Apart from the government's start-up capital injections, the fund is financed by obtaining loans on the private market. The loans are guaranteed by the government up to 5 bn DKK. The main items are shown in the table below:

In mill. DKK	**2015**	**2016**	**2017**	**2018**
Funding cost	-0.1	-0.2	-1.2	-1.3
Result, loans	0.2	2.5	12.3	30.2
Administration cost	-10.4	-15.3	-15.4	-18.8
Result	-10.3	-13	-4.3	10.1

Based on the figures above it seems that the fund, after a not-profitable start-up period, is now profitable. The amounts of outstanding loans are shown in the table below:

In mill. DKK	**2015**	**2016**	**2017**	**2018**
Outstanding loans	18	109.6	663.3	1,111.6

Government control: the Minister of Industry, Business and Financial Affairs can set new criteria for loans regarding the maturity, the size of the lending portfolio and the share of the total costs associated with a given project which the fund could maximum finance.

The board of the fund consists of up to six members. The members are appointed by the Minister of Industry, Business and Financial Affairs for a period of up to three years. The members of the board can be reappointed only once. They must have knowledge within the credit and investment area and within the area of energy and resources as well. Currently, the board consists of six members. None of the members are part of the government or the parliament. The board decides the business and lending strategy of the fund based on the criteria specified in the legal act.

Autonomy of decision: the fund is entitled to make their own economic decisions, such as to buy and sell assets, to incur liabilities or to grant loans, and a complete set of accounts exists.

Classification: in the note sent prior to the visit, SD explained that the fund is classified in the financial corporation sector S.12.

Discussions

Eurostat welcomed the detailed note on the sector classification of the fund provided to Eurostat prior to the mission. Eurostat noticed that the fund is included in the questionnaire on government controlled entities and classified in S.12 (Danmarks Grønne Investeringsfond). Eurostat mentioned that there are some government constraints, in particular, on the liabilities of the Fund as they are covered by a government guarantee of up to 5 bill DKK. On the asset side, on the other hand, there are less constraints. The Fund can decide where to invest and it is responsible to set the investment criteria for individual cases. This includes the determination of up to what level it will participate in a project (i.e., it could lend up to 60% of the cost of the project) and the determination of the maximum amount it will invest in a project (i.e. up to 100 mill DKK per project). In addition, Eurostat pointed out that the composition of the management board should be carefully considered, in particular in the case of financial entities as the 50% test is generally not relevant for such entities. If the majority of management board of a financial entity consists of government officials it might put a question mark on the ability of the entity to undertake a market activity. However, taking all these elements together, Eurostat considered that they would not be sufficient to classify the Danish Green Investment Fund in the government sector.

Findings and conclusions

Eurostat confirmed the actual fund sector classification in S.12 as supported by SD and further asked SD to specify the appropriate subsector of S.12. SD stated that they will analyse in which subsector the Danish Green Investment Fund should be classified.

KommuneKredit

Introduction

Under this agenda point, Eurostat and SD reviewed the sector classification of the public corporation "KommuneKredit". KommuneKredit (KK) is an entity that is part of a kind of a municipal pooled financing mechanism, i.e., it gathers the borrowing needs of the

Danish municipalities and regions and raises the combined debt on the capital market. SD provided Eurostat with a comprehensive document on KK as part of the EDP dialogue visit, which, inter alia, described the structure of KK and addressed some specific aspects of the discussions held so far, at both bilateral and European levels, on the sector classification of such units. There are number of units in Europe with more or less similar characteristics to KommuneKredit. Thus, Eurostat initiated a discussion in the framework of a task force organized in March 2018 on the sector classification of such financial public entities that are mainly created to provide financing to local governments.

In the document provided, SD referred, inter alia, to the following characteristics of KK: (1) It operates under a special act[28] and is under the supervision of the Ministry of Economic Affairs and the Interior. (2) KK offers loans, loan-related consulting services, derivatives for hedging loans and financial leasing services for both municipalities and public corporations, and provides management services for the issued bonds. (3) The members of KK are jointly and liable for the liabilities of KK. (4) Although a membership in KK is voluntary, all municipalities and regions in Denmark are members of KK. A membership is required if a municipality/ region wants to receive out a loan from KK or has guaranteed other units' borrowing with KK. (5) KK is a non-profit organization, the fees are calculated in such a way as to cover administrative costs and to maintain a sufficient equity ratio. (6) It has a two-tier governance structure with a board of directors and a management board. (7) KK is included in the list of MFIs maintained by the European Central Bank. Based on these features, SD considered that KK has decision-making autonomy over credit limits and market operations in financing its activities, and was therefore classified as a financial corporation (S.12) controlled by entities classified in the local government sector.

Discussion

Eurostat thanked SD for the document provided on the sector classification of KK. Eurostat noted that the design and role of KK is very specific and that, although at a first glance KK had features of a financial intermediary, the issue had to be enquired further. Indeed, Eurostat pointed out that the ESA 2010 requirements for a financial intermediary are well specified and it is questionable whether KK fulfills them. KK acts as a kind of interface between the municipalities/ regions and their companies on the one hand and the financial markets on the other hand. It provides low-risk and cost-effective financing to municipalities/ regions or public entities guaranteed directly or indirectly by the local governments, which can be considered as a kind of centralization of management activities that are similar to a treasury department that would manage the debt of the municipalities/ regions. Even KK sees itself "*as debt office for local authorities in Denmark funding local public sector investments by issuing bonds together. This is fully consistent with the way in which the Danish state funds its capital expenditure.*" (Statement by the chair of KK, KommuneKredit, Annual Report 2018, page 4).

[28] Act no. 282 of 3 May 2006

Furthermore, the possibility of raising loans without immediate relending is subject to the regulation of the supervisory authority, the Ministry of Economic Affairs and the Interior. This might be assimilated to raising loans on behalf of government.

Eurostat further indicated that KK has a very strong similarity with ancillary entities mentioned in ESA 2010. The services provided by KK provide the necessary support for the main activities of its owners (the members of KK) and its subsidiaries. SD commented that, from their point of view, the definition of an ancillary unit in ESA 2010 is different from the situation prevailing at KK. Eurostat took note of this and pointed out that ESA 2010 paragraph 3.12 could support the view of SD, but that in this context ESA 2010 paragraph 20.24 is more important and that the concept of ancillary activity/ unit expands somewhat on the description of ancillary activity according to ESA 3.12. In this context, SD explained that if KK could only lend to municipalities/regions and municipalities/regions could only borrow from this unit, then the situation would be very similar to an ancillary activity and that, in such a case, KK would probably have to be allocated to the government sector. However, local governments/ regions could also borrow from other financial units and KK could lend to public corporations, itselfone must admit that, in the latter case, the credit risk of KK is ring-fenced by additional guarantees of the KK members.

Eurostat noted that SNA 2008 paragraph 5.44 recognizes the possibility that an ancillary entity might provide services outside the group; this would not preclude the unit from being classified as ancillary entity. In fact, in such a case the SNA recommends only that the part of the output sold outside the group should be treated as secondary rather than ancillary output. In this context, Eurostat also referred to the document "*Entities specifically designed for lending to local government: results of the questionnaire, analysis, conclusions and draft changes to the MGDD*", which has been presented to the EDPS WG in December 2018. In the document, the issue of ancillary activity/ ancillary unit was analyzed, and finally three types of ancillary units were identified: pure ancillary entities, quasi-ancillary entities and non-ancillary entities. Even if one should consider that KK meets not the conditions for being recognized as a pure ancillary entity (i.e. the entity serves solely its parent/ group) it seems to meet at least the conditions of a quasi-ancillary unit, i.e., at least 80% of its services are provided to members of the group.

Eurostat added that if KK is considered to be an ancillary entity, it should be classified in the central government and not in the local government subsector because of the joint membership of all municipalities/ regions in KK that has been established by an Act of the Danish Parliament. SD replied that there is *de facto* voluntary membership in KK. The point that membership is required if a municipality/ region wants to take up a loan is different from an unconditional compulsory membership. Eurostat wondered why, despite the alleged voluntary membership, all municipalities/ regions are indeed members of KK.

SD further explained that the municipalities are not obliged to borrow from KK, but can borrow from any credit institution, and that KK can also provide loans to entities owned by municipalities that are classified in the non-financial corporations sector. Eurostat took note of this and agreed that the ability to lend to other entities could be an important issue for the classification decision but noted that the case is very specific since lending to public corporations is only possibly under certain circumstances. Eurostat also stated that KK appears to have a very dominant position in the financing of Danish municipalities/regions, notably due to the particularly advantageous financing conditions compared to private entities.

In addition, Eurostat drew its attention to the fact that KKs lending is also subject to tight regulation as stipulated by KK's CEO: "*Local government borrowing and guarantees are subject to strict regulation by the Danish government and the Danish Ministry for Economic Affairs and the Interior. In connection with specific loan requests, KommuneKredit assesses both whether the purpose qualifies for a loan on the basis of municipal law and principles and whether the loan complies with the EU state aid rules.*" (KommuneKredit, Annual Report 2018, page 5). Eurostat wondered why KK considers state aid rules when it comes to granting loans. This might bring KK into the range of a public authority. SD explained that KK receives government support via guarantees and is therefore subject to state aid rules, what means that is has to be proved that KK is only acting in areas that are of general economic interest, otherwise the activity could be considered as state aid. Eurostat thought that this might be the reason why KK considers itself as a kind of public authority and of the strong government support in the form of the specific guarantee arrangement, which raises also doubts about the current classification of KK.

SD referred to ESA 2010 paragraph 2.76 that points to cooperative credit banks and credit unions and, in particular, to ESA 2010 paragraph 2.77 which is mentioning municipal credit institutions. SD thought that the latter paragraph also seems to reduce the formal requirements for an entity to be considered as a financial intermediary as regards the need to receive deposits and/or close substitutes for deposits. In their view, ESA 2010 paragraph 2.77 could provide that an entity receiving repayable funds in a form other than deposits, including long-term debt securities, should be classified as a deposit-taking financial intermediary. Eurostat replied that KK looks, at first glance, very similar to cases of mutualistic lending (i.e. cooperative credit banks, credit institutions or municipal credit institutions) that is to be classified in the deposit-taking corporations sector. However, KK is different from mutualistic lending entities, in particular regarding the fact, that KK is lending only to members and their subsidiaries, and more crucially, that the municipality/ regions group is jointly and severely liable for KK obligations. Such a framework is very different from the arrangements usually found with mutualistic lending. The apparent exemption that ESA 2010 paragraph 2.77 seems to provide for mortgage banks and municipal credit institutions is mainly a technical exemption and does not override the economic importance of the existence of deposits for financial intermediaries. This exception allows such entities to have access to the financing capabilities of the central bank, which is usually limited to deposit-taking entities and not to entities that are mainly funded through long-term bonds (such entities are not exposed to the risk of short-term cash outflows).

Eurostat, incidentally, noted that the joint liability together with the fact that municipalities/ regions cannot go bankrupt explains also the excellent credit rating of KK, which enable it to offer financing at such favorable conditions (i.e., primarily dictated by promotional principle and not by a profit motive). On this basis, Eurostat considered that the fact that KK has no deposits or close substitutes for deposits is an essential feature to be taken into account in the classification of KK. In particular, long-term bonds cannot be regarded as a substitute for deposits as they are not available to their owners in the short term and they are typically subject to a higher interest rate risk than investments in shorter-maturing financial instruments (i.e., more prone to market fluctuations). The reference to ESA 2010 paragraph 2.77 is inappropriate in the view of Eurostat because it is a precisely specified exception, and because several features occur at the same time at KK (a wholesale funded entity with closed participation and a large mutual guarantee agreement). All these reasons would give rise to strong doubts that KK should be considered as financial intermediary.

Moreover, ESA 2010 paragraph 2.62 could be interpreted as meaning that municipal credit institutions are entities in which the municipalities are the sponsors but not the members or at least not the sole members, for example, a municipality act as sponsor in order to offer a credit union membership to their employees. Subsequently ESA 2010 paragraph 2.62 provides "*Examples are municipal credit and saving banks which rely on the municipality involved …*", which seems also to take the view that municipal credit institutions are usually only sponsored by one municipality but that clearly not all municipalities would act as sponsor. This would also be more in line with the original idea that led to the creation of such units (i.e., the activities are limited to small local/ regional areas and do not encompass the whole country).

It is also questionable how the independence from the municipalities in lending required by ESA 2010 paragraph 2.62 can be assured, as all municipalities/ regions are members of KK. In this context, Eurostat particularly pointed to the governance structure of KK, which shows that the Board of Directors handle the overall management of the business. The Board of Directors has nine members: six of whom are elected directly by the municipalities, two by the regions and one (who shall be independent and qualified in accounting and auditing) by the Board of Directors itself. Eight members of the Board of Directors are currently mayors themselves. There is also a management board consisting of two people that is managing the day-to-day business. However, there is also a very specific signature regime for legal transactions entered into by the KK, which shows a great influence of the Board of Directors in the day-to-day management.[29] In view of this, the question could also arise on whether KK has decision-making autonomy in relation to its shareholders. SD pointed out that KK could decide whether and to which municipality/ region it can grant a loan and is not obliged to grant a loan to a subsidiary

[29] Section 25 of KK's Articles of Association, dated 6 March 2015, provides that "The association should be bound by the joint signatures of the chairman or the vice-chairman of the board of directors and a member of the board of management, or by the joint signatures of the two members of the board of management."

of the municipalities/ regions. This would be an indicator that KK has decision-making autonomy. Moreover, the guarantee agreement has never been used and KK is profitable. SD thought that allocating a profitable entity to government, which leads to an improvement of B.9, would be a strange outcome. Eurostat replied that a possible improvement of B.9 would not be a reason against reclassifying KK. Profitability does not mean that an entity cannot be a government entity, the decisive factor being whether the entity has autonomy of decision and, if yes, whether it is a market or non-market producer.

Findings and conclusion

<u>*Action point 21*</u>

(31) Regarding KommuneKredit (KK), Eurostat took note of the statements (2018 annual report of KK) of the KK chairman that the entity is "acting as debt office for local authorities" and of the KK CEO on the amendment of the Danish Heat Supply Act in December 2017, the latter seemingly implying that KK can lend to public companies (and only with local government guarantees) only in the context of a specific ‘public promotional tasks’. In addition, the governance of KK seems to be in the hands of majors or other government representatives. Taking into account these aspects as well as all those discussed during the meeting regarding KommuneKredit (KK) and presented by SD in its notes, SD is invited to reassess the sector classification of KK and to provide to Eurostat the related analysis possibly in a form of a formal request such as an advice letter. In this context, SD will report to Eurostat the ways how KK activities can be reflected in government accounts, including a possible change in sectorisation, rerouting of assets and liabilities, in the short run as well as in the longer term, also taking into consideration constraints due to current revision policy of SD. *Deadline: February 2020*[30]

4.2. Implementation of the accrual principle

4.2.1. Accrual taxes. Ordinary and extraordinary write-offs of tax arrears

4.2.2. Valuation of the stocks of arrears for taxes

Introduction

Approximatively ninety different taxes contributed to the revenue of the Danish government. The largest revenue results from the personal income tax, which contributes with approximately 40 per cent to the total revenue. SD records taxes on accrual basis in the year in which they accrue. All reimbursements, refunds and final settlements are recorded in the year in which the taxes accrue. The assessment method is used for the calculation of taxes. The assessed amounts are recorded entirely as revenue, the amount of taxes unlikely to be collected is recorded as capital transfers.

[30] It was agreed that KK keeps the current classification in S.12 until further discussions on the classification of such units take place at European level.

In the last years, there were significant revisions related to taxes between EDP notifications. Eurostat discussed this problematic aspect on several occasions with SD. SD explained many times that the main reason for the revisions is the difference between the recording of taxes in the public accounts and in the government accounts. In some years the amounts registered in the public accounts are higher than for taxes in the government accounts, and some years it is lower. The difference is due to different registration principles between the public accounts (liability and voluntary payment) government accounts (accrual). Prior to the mission, SD sent a note and a 10 year time series of the taxes as recorded in public accounts and government accounts.

In the context of the April 2019 EDP notification, SD informed Eurostat about the implementation of a new method for the recording of corporate income tax in the March 2019 transmission of the GFS data. According to the new method, an estimate is used based on the companies' monthly payments during the tax-year to the Danish Tax Agency. The sum of the ongoing payments is then corrected with a weighted average of the model error for the last two years, where assessed data are available.

Considering the significant revisions in taxes due to method used to calculate accrual data, Eurostat suggested in the past, several times, a change in method, including the use of time adjusted cash data. However, SD claimed that the method used was in principle in line with ESA requirements and therefore not changed. However, Eurostat pointed out that the last time where accrual and time adjusted cash data were compared was part of a document presented to the EDP Working Group in December 2010. Taxes and duties that accrue in Denmark are not considered to be final until three years after the year of accrual, and there can be relatively large corrections in between. New statements of taxes and duties for any year of accrual are published seven times over a period of five calendar years. The first two statements are based on budget versions where the source is information from the Ministry of Finance. The following five revisions are based on information from SKAT (Tax Authorities), which continuously adjusts the statement after the final evaluation of self-assessments has taken place, and the statements of duties and other taxes are finished. The disadvantage of this specific procedure/ method for generating accrual data is the large number of revisions until final data is available. Nevertheless, SD considers that the method best reflects the economic reality and is a safe and correct approach. On the contrary, the advantage of the time-adjusted cash method is that it quickly generates final figures for taxes and duties in the national accounts.

Discussions

Firstly, Eurostat asked SD to update the description of taxes (EDP and GFS) included in several parts of the EDP Inventory. For example, it is not clear whether and which deadlines and information mentioned in chapter 6.1 with regard to data sources for taxes are still valid for the April and October Notification. *"**EDP notification April 1st (t+1):** In March (t+1) the first national account calculation of ordinary income taxes based on account data is carried out. The source is the tax base from the Danish Ministry of Taxation. Formerly we have used reported prepaid taxes from SKAT and for 2012 we* *used preliminary assessments from the tax authorities (SKAT). The current source achieves a better compilation closer to the final level.* ***EDP notification October 1st (t+1):*** *In June (t+1) the national account calculation is still based on the tax base.* ***EDP notification April 1st (t+2):*** *The compilation of the ordinary income taxes in November (t+1) is based on final assessments grossed up to 100 per cent (based on approximately 99 per cent of the total number of assessments). The compilation of ordinary income taxes is not based on the final tax statement until November (t+3). The final statement of taxes is published in November three years after the year of accrual (year t+3).”*Secondly, Eurostat requested SD to present the aforementioned 10 years tax reconciliation table between the public accounts and the government accounts (usually sent by SD together with each EDP notification for the last four years). Eurostat also asked SD to clarify the terms included in the related note, using the correct terminology according to ESA 2010, as previously discussed when analyzing the data sources and the F.8 reconciliation in EDP table 2A and EDP table 3B, including questionnaire tables 4 and 5: “*The table below shows the receivables on taxes from the national accounts (accrual taxes) and from the government accounts. The government accounts taxes are not on cash basis, rather the principle is that taxes are recorded when they are due or when they are paid voluntarily. In order to adjust them, the change in the government’s claims for taxes is deducted from the government account taxes. The point in doing that is that the financial transaction (the cash flow) is the difference between what is recorded in the government accounts and the change in the public debt related to taxes.”*

Receivables on taxes from the public accounts and government accounts

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	GA exclusive non-paid taxes	784,143	772,205	823,509	858,646	923,756	948,583	982,398	947,962	1,001,051	1,023,842
2	NA inclusive non-paid taxes	774,380	815,409	832,623	867,920	905,415	983,902	960,440	970,796	1,006,026	1,008,446
3	Non paid NA taxes	3,043	3,475	3,905	3,837	15,512	18,058	19,396	9,519	7,926	9,791
4=2-3	NA exclusive non-paid taxes	771,337	811,934	828,718	864,083	889,903	965,844	941,044	961,277	998,101	998,655
5=4-1	Difference between GA and NA taxes	-12,806	39,729	5,209	5,437	-33,853	17,261	-41,355	13,315	-2,951	-25,187
6	Change in the government claims for taxes	23,993	5,874	1,487	-4,760	1,082	660	-3,494	6,158	7,217	36,106
7=5+6	Reported in EDP Q5 F.89	11,187	45,603	6,696	678	-32,770	17,921	-44,849	19,473	4,266	10,919

During the discussions, Eurostat recommended SD to improve this reconciliation table, starting by using a better title according to ESA 2010 terminology, and not to name the national public accounting as government accounts. Eurostat asked SD to include a new line (0) for the “Gross Revenue” (as included in the working balance) to rename line (1) to “Gross Revenues minus Write offs”. Eurostat asked about the calculation of these write offs. SD explained that the write offs are provided by the MoF. Furthermore, Eurostat also suggested to rename line (2) to “Revenue from SKAT” to make clear that it concerns the revenue provided to SD (i.e., before any adjustments made by SD). Regarding line (3), Eurostat noticed that the amounts of non-paid taxes increased constantly over time and SD explained that the line includes write offs calculated as an average of the write offs from SKAT and the public accounts, taking into consideration three consecutive years starting with the concerned year. Line (4) provides the "B.9 impact" and line (5) the difference between the public accounts and the government accounts. Eurostat observed that the receivables recorded in public accounts over the last 10 years are much higher than the receivables recorded in government accounts (approx. 35 bill DKK more were recorded in public accounts). SD explained that the church tax and the extraordinary write offs (for 2013-2017) were not included in the SKAT data. Eurostat took note of this, but also considered that the data might not be consistent and requested SD to work with MoF and SKAT on the content and presentation of the table.

In order to justify the increase of non-paid taxes and the extraordinary write offs included in the EDP notification, SD presented shortly the history of the IT system for taxes, including the decision for a new IT system in 2005, its implementation in 2014, its shortcomings in 2017 (mistakes already observed by government lawyers in 2015 related to the fact that the new system could not follow the claims and the related cash collection and, as a result, the IT system started to calculate taxes no longer legally owned by government) and its complete change in 2018. SD added that a government commission is still investigating the issue that affected the 2013-2017 data. In addition, in 2015 a new method of calculating taxes was implemented by the Danish Tax Authorities, impacting the data from 2013 onwards on which SD was not informed. In the context of the new method, based on "milder evaluation principles", some taxes unlikely to be collected were reclassified to taxes likely to be collected, which caused a significant accumulation of unlikely to be collected receivables (so-called "extraordinary arrears") for 2013, 2014 and 2015. It was explained that, with the new IT system implemented in 2018, a new method for the calculation of tax write offs was implemented. The new method is based on the face value of the tax claims and uses a coefficient to determinate the extraordinary write offs. Therefore, forecasts are no longer needed.

Eurostat took note of these information and suggested to SD to invite MoF and SKAT to provide more details related to the reconciliation between public accounts and government accounts.

Thirdly, Eurostat enquired on the new method introduced for the calculation of write offs and in particular, if fewer revisions will be expected in the future due to the newly introduced method. SD explained that the new method for estimating write offs (taxes unlikely to be paid) was used in the April 2019 EDP notification (GFS data also) and, according to this, arrears are estimated as a certain percentage of their nominal value. According to the new method, the value of tax arrears will be the same in the public accounts and government accounts. Write offs of tax arrears in public accounts from 2018 and onwards are due to two different issues:

1) Depreciations/write-offs of tax arrears due to lack of enforceability (legal enforceability). The tax arrears deemed not to be enforceable are written off to zero. Depreciations due to 1) implies that these arrears cease to exist in the public accounts.

2) Depreciations/write-offs of tax arrears due to lack of ability to pay. The remaining stock of tax arrears is written down to market value using a model developed by PWC and the Ministry of Taxation. Depreciations due to 2) are calculated as the nominal value less the market value of tax arrears. According to this model, the market value of the tax arrears is estimated to a certain percentage of their nominal value and the correction used in the estimation model will be updated on a monthly basis. As stated also during the request for clarification of the April 2019 EDP notification, SD reconfirmed that the model includes all kind of taxes as in principle all taxes could become arrears. SD also confirmed that different corrections are applied for each category of tax arrears. In addition, SD categorized until 2017 write offs due to lack of enforceability as ordinary, and write offs due to lack of ability to pay as extraordinary. This distinction was made because the former were included in the public accounts while the latter were not. As previously mentioned, write-offs in the public accounts are due to both reasons from 2018 onwards. As a consequence of the fact that SD now, i.e. starting from 2018, exclusively uses the public accounts as a source for arrears and write-offs, there will be no more extraordinary write offs.

Regarding the Eurostat question on further expected revisions of write offs, SD explained that the figures in the public accounts are not subsequently revised. Thus, the decision to use the stock of arrears from the public accounts in the government accounts implies that write offs of arrears in March year t+1 are final. The write off of arrears in national accounts will not be affected by the forthcoming revision policy, as the figures are final in March year t+1 (see above). Eurostat welcomed the progress regarding the decrease of the number of revisions but was concerned about the fact that SD has no control on the amount and quality of tax arrears calculated by MoF. Eurostat asked about the existence of cases of cancellations of tax arrears by mutual agreement between the parties. SD replied that it is not aware of such cases.

Furthermore, Eurostat observed that write offs are only recorded for the central government and asked SD to clarify whether write offs occur at the local government level, taking into account that they also record tax revenue. SD explained that the tax collection is within the responsibility of the central government and that, by law, the local governments receive the assessed tax and not the paid tax. Any difference is covered by the central government (i.e., the assessed amounts are de facto guaranteed by the central government). At this point, Eurostat asked what taxes, and why are recorded in the local government accounts, when the central government assumes all the risks of collection.

SD clarified that taxes are recorded net in the central government subsector (gross tax revenue minus taxes passed on to local governments). The amounts to be paid to local governments are estimated at the same day of every month. SD argued that the local governments could change the tax rates within certain limits (if one local government decide to increase and another to decrease) such that, at aggregate level, figures would be unchanged. . SD further explained that local governments do not have full tax sovereignty but act differently in specific cases according to a system of levelling expenditure (elderly people, support for young, different cities, etc.). SD added that tax collection is guaranteed by the central government (see above), but the 'activation' of the guarantee is decided by the local governments. If a local government decides to call the guarantee it would have to adjust (increasing or decreasing) its tax rates. SD mentioned that different tax rates could be observed at local level in Denmark (the range is between 22%-27%). SD added that few taxes are left at the local level and that the only tax that could affect the revenues of the local governments is the land tax, for which the stock of receivable (at market value) is very small SD informed Eurostat that the tax model estimates the market value of land tax arrears at 100, therefore no write offs of land tax arrears are recorded in the government accounts. Eurostat took note of these explanations and asked SD to investigate the possibility to split the write offs between central and local governments also based on the bilateral discussions held in July 2017. At that time, the possibility was discussed to provide an approximate split of the tax write offs on the basis of the tax distribution rules, as the Danish tax system allocates the payments for each type of tax either to 100% to one of the subsectors or they are split according to a fixed distribution key (please see http://www.skm.dk/skattetal/statistik/provenuoversigter/skattedelingsregler-sektorfordeling). The question would be whether according to ESA 1.78, tax revenue and not D.73 should be recorded in the local government accounts. Eurostat therefore kept its recommendation unchanged.

Another issue discussed was related to the implementation of a new method for calculating the corporate income taxes (CIT) starting with the reporting year 2018. According to the new method, an estimate is used based on the companies' monthly payments to the Danish Tax Agency during the tax-year. The sum of the ongoing payments is then corrected with a weighted average of the model error for the last two years for which assessed data are available. According to the request for clarification of the April 2019 notification, the corresponding revenue is expected to be higher when using the new method than when applying the previous method.

Corporate income taxes

	2016	2017	2018
	millions DKK		
Current method	59,394	69,910	**65,207**
Old method	56,220	65,954	61,480
Assessed data	**60,192**	**71,928**	N/A

SD informed Eurostat in the meeting that this new method was chosen after a laborious analysis made by MoF on three different methods. The first method for estimating CIT uses voluntary monthly payments (including interest to be paid) from January to December for the last four or five years. The second method uses the voluntary payments from March of year t to February of year t+1 (considering therefore the due dates for paying CIT in March and November of year t) and the final payment that could happen in November year t+1. The third method, which was finally also the one chosen, is a mix of the second method and the average of the previous two years. For this method, 2014-2017 data was used to compare the MoF first estimates with the latest accrual data (final after three years). SD added that all three mentioned estimations were made at macro level and not at individual level. SD presented briefly a table on the tax collection steps prepared by the accounting department of the MoF.

Eurostat questioned the use of estimations from MoF for EDP reasons and asked SD to provide to Eurostat the tables (English version) presented concerning the analysis made by the MoF, and, in parallel, to prepare own estimations to minimize revisions. The analysis should include at least data for 2012-2017. The data for 2012-2015 could be considered final and a capital transfer for further revisions concerning cash inflows could be recorded in the year discovered. Moreover, only 2016-2017 data could be changed as the data are considered to be final after three years. Considering that the due date for the final payment for CIT is in November year t+1, the biggest revision might happen in November (t+2). Any further reimbursement related to a Court decision has to be recorded in government accounts in the year of the decision.

Eurostat suggested another method for calculating CIT using the information existing in the database for companies, the aggregated CIT data as extracted from the profit and loss account of all companies.

Findings and conclusions

<u>*Action point 22*</u>

(4) Eurostat has concerns on whether the current method used in Denmark for compiling the B.9 impact of taxes and social contributions is in line with the two methods foreseen by ESA 2010 (time adjusted cash or coefficient method), to the extent that SD *de facto* revises the amounts recorded in a given year for any event occurring in subsequent periods that reduces or increases the tax obligation of any tax payer (however up to t+3 years only, taking into account the national revision policy of ESA tables). Eurostat took note of SD statement that two new compilation techniques implemented by SD in April 2019 from year 2018 onwards (estimates for amounts not to be collected and estimated revenue for corporation income tax) are expected to considerably reduce the amplitude of revisions. Notwithstanding these expected improvements, Eurostat nevertheless recommends SD to reflect on the opportunity to adopt a compilation method for taxes and social contributions more aligned with ESA 2010 provisions, also taking into account the current approach followed by the own accounts of the State (working balance). *Deadline: Progress report January 2020*[31]

<u>*Action point 23*</u>

(9) The Statistical Authorities will provide to Eurostat the overview table presented by the accounting department on the five stages of the administrative collection procedure for taxes, in English with explanatory notes. *Deadline: December 2019*[32]

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[31] A note was provided by SD on this item.

[32] Action point implemented.

Action point 24

(10) SD will provide to Eurostat:

a) the underlying data that supported the evaluation of the new method for the calculation of the corporation income tax (CIT), based on the SKAT database (assessment as well as cash), covering a sufficient number of years (with 'final' data) so to allow justifying whether the forecast errors are expected to be substantially reduced with the new compilation technique, as well as an explanatory note.

b) SD will also explain how changes in assessment in the SKAT database after t+3 (when national accounts are closed in DK) are incorporated in the national accounts (e.g. systematically ignored in B.9, or recorded in the year of discovery).

c) SD will report the revisions in D2 and D.5 expected for the benchmark revision, based on the systematic inclusion of the last available SKAT information for the past years (1995-2018).

d) SD will provide Eurostat with monthly cash payments related to the Corporate Income Tax, with a breakdown of advance payments and the final November settlement in t+1.
Deadline: December 2019[33]

Action point 25

(11) SD will write a note on the justification for recording taxes collected by central government on behalf of local government as a tax revenue of local government rather than as a tax revenue of central government combined with a transfer expenditure to local government, taking into account that (1) local governments and central government negotiate annually the fiscal constraints to be taken into account when deciding on tax rates, so that local governments have clear limits in setting tax rates, (2) local taxes can be transferred to other local governments based on some specific criteria, (3) a guarantee mechanism exists that ensures a minimum collection of tax revenue for local government, with sharing of extra proceeds with the State, (4) central government assumes the risk for uncollectible taxes, (5) the own accounts of the state shows a tax revenue for the amounts in question (with a receivable) together with a negative entry in tax revenue to capture the transfer to local government. *Deadline: December 2019*[34]

[33] Action point implemented.

[34] Action point implemented.

4.2.3. Valuation of the stocks of arrears for land taxes

4.2.4. Recording of possible refunding of land taxes

Introduction

In June 2016, SD contacted Eurostat in order to discuss the recording of the possible refunding of the land tax as well as the valuation of land in order to establish the land tax in Denmark. The tax authorities were working at that time on a new system. The new method was still under discussion at that time. Nevertheless, it was expected that the value of land (and tax thereof) will be lower than the value calculated by using the current method and therefore taxpayers will get some reimbursement for the taxes paid between 2011-2019.

In the context of the September 2016 EDP mission, Eurostat explained that, before providing a view on the appropriate recording, additional information has to be provided by SD. Based on the information provided by SD in the meeting, Eurostat concluded that, due to the fact that there is no tax law or irrevocable commitment available which confirm the changes in the land tax scheme and due to the fact that there are neither reliable estimates on the impact of these changes, the impact of the new recording should be considered at the moment when an irrevocable commitment to refund will officially take place. In addition, due to the fact that it will be the central government which will be responsible for refunding the tax, the amounts should be recorded as capital transfer expenditure (D.99) in the central government accounts (S.1311) at the moment when the payments take place, and not as a reduction in tax revenue. Eurostat added that the case had some similarities with cases involving a Court decision, which may additionally justify that any possible refunding of the land tax should be recorded at the moment in which the official decision will be taken and the amounts for reimbursement will be determined. Netting of the amounts with future tax revenues is also not justified because the payments to be made by government do not have the nature of a (general) tax refund. SD agreed with the proposed recording and agreed to inform Eurostat about future developments.

During the 2016 EDP mission, it was agreed that SD will monitor the development in relation to potential changes to the land tax in Denmark and report to Eurostat. Eurostat and SD agreed that any possible refunding of the land tax will be recorded at the moment in which the official decision will be taken and the amounts for reimbursement will be determined.

Discussions

In this context, Eurostat enquired about new information related to land tax reimbursements. SD informed that the case is still open and that the decision was postponed for other two years as there are still discussions on the valuation of land and the method to be used for reimbursements. Following investigations, it was found that different valuation was applied to neighbors and lawyers concluded that the property tax was not working well. SD added that one option currently in discussion foresee an asymmetric solution to be applied by the government: if the taxpayer paid more, the government will reimburse the difference and if the taxpayer paid less, the taxpayer will not be asked to pay further amounts. According to this method, the estimated total amount to be reimbursed is DKK 15.5 bn, which is also the possible B.9 impact. SD explained that B.9 would be impacted in the year of the Court decision or when the figures become certain. Eurostat took note about this new information and concluded that B.9 should be impacted in the year when the method will formally be established and the amounts could be reliably established.

Findings and conclusions

Action point 26

(12) Regarding the foreseen refund of property tax expected to be carried out in the future, Eurostat and SD agreed that the amounts to be refunded to taxpayers will be recorded when the obligation is established, i.e. when the decision on the compilation method is taken, and not when the amounts are paid or when the amounts are merely administratively calculated. A note detailing this issue will be sent by SD to Eurostat. *Deadline: when information on refund of property tax will be available.*

4.2.5. "Mini One-Stop Shop" (MOSS) scheme

Introduction

Since January 2015, broadcasting, telecommunications and electronic services have been taxed in the country in which the customer is located. This means that, since that date, VAT revenue accrue to the member state where the goods or services are consumed and not where they are produced. This innovation in the VAT system leads to new cash flows between Member States, which must also be reflected in national accounts. In order to simplify the settlement mechanism for companies, the so-called Mini One Stop Shop (MOSS) scheme was introduced. The scheme allows domestic producers to declare their sales to other Member States (beneficiary Member States) and pay all related VAT to the MOSS (collecting member state), which will then forward the VAT to the beneficiary Member States for a corresponding service fee. In national accounts, the total amount of the VAT enters the accounts of the beneficiary Member States (not the collecting member state). At the beginning, however, there is a four-year transition period (2015 to 2018) during which the collecting Member States may keep a diminishing part of the collected amounts. Those amounts are to be recorded as D.74 expenditure in the accounts of the beneficiary member state and consequently as D.74 revenue in the accounts of the MOSS VAT collecting member state.

Based on the information provided in advance by SD, Eurostat has understood that the VAT from the MOSS is included in the GFS data for 2015 to 2018, but that the figures for the years 2015 to 2017 will be revised downwards at the first given opportunity. The service fee has so far only been recorded for the year 2018. The necessary correction for the years 2016 and 2017 is scheduled for November 2019 and for the year 2015 as part of the next benchmark revision. This means that the B9 of general government reported in the April 2019 EDP notification for the years 2015 and 2016 is currently too low (overestimation of revenue and lack of recognition of the service fee) and the general government surplus notified for the year 2017 is too high.

Discussion

Eurostat thanked SD for the document provided on the current recording and envisaged revisions regarding the MOSS VAT and the related service fee. In this context, Eurostat enquired on the recording of the MOSS VAT in the source data used for the compilation of the GFS/ EDP data (i.e., whether the corresponding amounts could be identified and how these amounts are recorded (e.g. gross/ net)). SD explained that all VAT collected from the Danish MOSS is recorded as a payable and it is therefore only recognized on the government balance sheet (and not in the profit and loss accounts). In contrast, the VAT received from other countries is recorded within the government own accounts (profit and loss accounts). The VAT received is a net inflow, i.e., the MOSS located in the collecting member state transfers the VAT less the amount retained to Denmark. This means that the working balance for the Danish central government is always correct with regard to the MOSS issue, but it is not possible to identify the MOSS related inflow individually. There is only an aggregated value available, which also contains the net inflow of the MOSS VAT.

In national accounts, SD uses data from the Danish Tax Agency (Skattestyrelsen - hereinafter referred to as 'SKAT') to record national accounts VAT and not data from the government own accounts. According to SD, both data should in principle be identical. The SKAT data also provide the information to carry out the necessary gross recording in national accounts for the MOSS VAT, i.e. to record the whole amount of the MOSS VAT in D.211 with a corresponding D.74 expenditure for the amount retained from the collecting member state. SD further explained that before SKAT data for the MOSS VAT were available, national accounts estimates were used. However, the SKAT data are also of a provisional nature, as the necessary data infrastructure is not fully in place. This is why the announced revisions are necessary. Eurostat asked whether it could be really assumed that the treatment of VAT collected and forwarded to the beneficiary Member States is the same in both systems, i.e., SKAT and the government own accounts. It must be ensured that the SKAT data do not contain the MOSS VAT collected in Denmark and transferred to the beneficiary Member States. SD was of the opinion that those amounts are not included in the SKAT data.

Eurostat asked whether its understanding of the figures for 2018 (presented in the document provided by SD) is correct, i.e. the gross MOSS VAT is DKK 1.357 mn, the amount withheld by the collecting Member States is DKK 170 mn and thus the impact on government net lending/net borrowing is DKK 1.187 mn. For 2015, the gross VAT MOSS currently recorded in national accounts is DKK 1.338 mn instead of DKK 827 mn and the amount withheld is zero instead of DKK 258 mn. Therefore, the actual impact on the net lending/ net borrowing is only DKK 569 mn and not DKK 1.338 mn as notified in the April 2019 EDP notification. SD confirmed that the understanding is correct and that the amounts will be corrected as described in the document submitted prior to the EDP dialogue visit. SD also explained that the working balance (EDP table 2 A) includes DKK 1.187 mn for 2018 and DKK 569 mn for 2015, which means that in 2015 around DKK 0.5 bn too much revenue was recorded. Similarly also in 2016.

In view of this amounts, Eurostat did not see any compelling justification for the intended revision timetable. In particular, SD's intention not to revise the data in the October 2019 EDP notification, knowing that the current MOSS data are not correct and updated figures are already available, but then only one month later (i.e., in November 2019) to correct the MOSS data in the context of the national accounts revision timetable, would be difficult to justify. Similarly, the delaying of the correction for the year 2015 to the benchmark revision in 2024 cannot be approved.

SD explained that this would be the last revision procedure according to the current revision policy, which means that the corrections to be made will only be made in the context of April 2020 EDP notification. This is necessary to ensure the consistency of national accounts data, i.e., in particular the sector accounts should be consistent but also ESA 2010 tables 2, 9, 11, 25, 27 and 28 should be consistent with the EDP tables The VAT is part of the whole system, which makes it not easy to change it. Even if the amounts are manageable overall, SD thought that it is a matter of principle not to change the B.9 without impacting D.211 – especially because VAT is an important element of the whole accounting system.

Eurostat took note of the position of SD but emphasized that according to the Council Regulation No 479/2009 on the application of the Protocol on the excessive deficit procedure, four years of notified data should be routinely opened for revision. Eurostat expects that for the October 2019 EDP notification, if correct data would be available by that time, the B.9 would be correctly recorded for the impact of the MOSS VAT for the whole EDP reporting period. In addition, it is also expected that the EDP data will be consistent with the underlying GFS data (i.e., identical B.9, but with flexibility in relation to the GFS transaction, which will be adapted for this purpose). However, if the necessary and correct MOSS data are not available for the October 2019 EDP notification, the correction should be implemented by the April 2020 EDP notification at the latest.

Findings and conclusions

Action points 27

13) SD agreed that government revenue is overestimated in relation to the Mini One-Stop Shop (MOSS) scheme, for the years 2015-2017. During the mission, Eurostat did not see any compelling justification for reporting, in the October 2019 EDP notification, data that are known to be incorrect by SD, if correct data would then be

published just one month later (years 2016-2017), or for delaying the correction for year 2015 to the benchmark revision in 2024. Taking into account the requirement that the four years of notified data should be routinely opened for revision according to the EDP regulation, Eurostat expects that for the October 2019 EDP notification, if correct data would be available by that time, the B.9 would be correctly recorded for the impact of the MOSS for the four years of the EDP reporting period and at the same time would be consistent with underlying GFS data (with flexibility with respect to the GFS transaction temporarily supporting the B.9 adjustments, having in mind revision policy constraints). Otherwise, should correct data not be available for the MOSS by the time of the October 2019 notification, they should be corrected at the latest in April 2020 (in case of need estimates could also be used).

Deadline: October 2019 notification (if information is available) or April 2020 notification[35]

4.2.6. Accrued Interest. Interest on swaps. Consolidation of interest. Financial derivatives.

Introduction

For the central government core entities interest revenue and expenditure are recorded on an accrual basis in the state accounts (i.e. own accounts/ budget accounts). Accordingly, no accrual adjustments in the row ‘Difference between interest paid/ accrued’ in EDP table 2A are required. The same applies for the social security, i.e., EDP table 2D. Danish local government do not issue bonds and hence there are no corrections regarding premiums and discounts to be made in EDP table 3D. Danish government bonds and index- linked bonds are issued via auctions followed by tap sales. Danish treasury bills (T-bills) are also issued via auctions. The government counterparties at auctions are the so called primary dealers, i.e., exclusively banks which have also the task to support liquidity by the continuous quotation of prices on the secondary market. The Danish government also buys back bonds directly on the market.

Discussion

Eurostat thanked the Statistical Authorities for the additional information provided for the EDP Dialogue Visit through its ad-hoc table on interest recording. In particular, for the breakdown of the stocks of coupons, the stock of discounts and premiums as well as the amortization of discounts and premiums.

Eurostat first clarified, that the intention of this table is to check the consistency of stocks and flows reported for coupons and premiums/ discounts and that a direct comparison with the data contained in EDP Table 3A/Table 3B concern two time series: "Difference between interest (D.41) accrued (-) and paid (+)" and "Issuances above(-)/below(+) nominal value". Eurostat then examined of the table and enquired about the coverage of

[35] Action point implemented.

the table on the recording of interest, i.e., which financial instruments and which government sub-sectors are represented by the figures provided in the table. SD clarified that the figures for the total stock of consolidated debt, both face value and nominal value, relate to the general government sector and include loan and security instruments (bonds, T-bills and indexed linked bonds).

The other figures in the interest table refer solely to the central government subsector. Bonds account for most of the central government debt (around three-quarters of the total debt). In 2018, the central government issued DKK 80 bn in bonds through auctions, tap sale[36] and switch operations[37]. With regard to the volume of bonds issued, Eurostat enquired on the low level of the amounts provided under the line coupons sold. The Statistical Authorities explained that the coupon payment date as well as repayment date of bonds is always the 15 November of a year (i.e., all coupons are paid and all bonds are redeemed at the same day). T-bills are redeemed on the first day of each quarter. The issuance of bonds is, in general, evenly distributed across the year and, in 2018, the sale volume per auction was around DKK 2.5 bn. In addition, T-bills with a maturity of three months are also issued. Eurostat then asked about the pricing of the bonds issued in 2018. It was explained that interest expenditure has declined significantly since 2008 and that interest rates on new issues in 2018 were very favourable for central government. The main issue volume was in the two-year and ten-year bond segment in 2018, both segments accounting for almost three quarters of the total issue volume of around DKK 80 bn. The interest rate for the two-year bonds was 0.25 per cent and that on ten-year bonds was 0.5 per cent. In view of these facts, Eurostat considered that this could explain why the amounts for coupons sold are so low despite the high amount of bonds issued. However, one aspect remains to be clarified and that is why no value for coupons sold was reported for 2015. It was explained that the year 2015 might have been influenced by the government's decision to suspend the issuance of government bonds – in response to the large inflow of foreign exchange into Denmark - from January 2015. However, the issuance of government bonds resumed in October 2015, so that at least some amounts should be reported for coupons sold. The statistical authorities stated that they will examine why no figures have been reported for 2015 and will correct the table if necessary.

As regards the premiums/discounts shown in the interest rate table, Eurostat questioned the very high amounts shown in the line 'repurchased premiums/discounts' (i.e. change in the stock of premiums/ discounts due to the repurchase of bonds) and asked the Statistical Authorities to explain more in detail the repurchase policy of the Treasury in more detail. The Statistical Authorities explained that the central government carries out repurchases (buy-backs) of bonds with the aim to smooth its redemption profile or to support the market. Buy-backs are regularly carried out (for certain bonds on a monthly

[36] A tap sale is an operation where a bond from a past issuance is sold, i.e., a particular bond is issued over an extended period. Each tap issued is fully fungible with the bond issued earlier, as they have the same maturity, coupon and face value.

[37] A switch operation is an operation where it is possible to purchase a selected bond with the sale of an existing bonds held by investors. The value of the existing bond plus the accrued interest constitute the payment for the new bond issued.

basis) either through auctions, switch auctions or through direct purchases in the secondary market. The buy-back of bonds without switch operations amounted to approximately DKK 30 bn in 2018, plus buy-backs of approximately DKK 15 bn related to switch operations. The aim of switch operations is to increase the liquidity of the newly issued bond series. Eurostat asked why the line ‘coupon bought back’ shows only an entry 2015 and not for the remaining years, since buy-backs seem to be part of the regular bond policy, and wondered whether it was possible that the corresponding amounts were wrongly allocated to the line ‘discounts/ premiums repurchased’. This should be avoided, as the ‘coupons bought back’ and ‘discounts/ premiums repurchased’ are different in nature. Eurostat also wondered why the line ‘discounts/ premiums repurchased’ is very different from the line ‘redemptions/ repurchase of debt above/ below nominal value’ in EDP table 3B. Eurostat acknowledged that the two lines show different issues, but even though a high stock adjustment in premiums is inserted in the interest table which could justify the size of the line "Discounts(-)/premium (+) repurchased" one would, nonetheless, expect significantly higher positive figures in the line ‘redemptions/ repurchase of debt above/ below nominal value’ in EDP table 3 B in view of a recent further decline in interest rates. Eurostat therefore requested a bridge table between the interest table and EDP table 3B.

Eurostat further noted the consistency of the line ‘changes in coupons and amortisation of discount/ premium’ of the ad hoc table and the line ‘difference between interest accrued and paid’ of EDP table 3B, whereas an inconsistency exists between the line ‘discounts/ premiums at issuance’ and the corresponding line ‘issuances above/ below nominal value’ in EDP table 3B. In the latter case, it seems that the data in EDP table 3B essentially correspond to the sum of the lines ‘discounts/ premiums at issuance’ and ‘discounts/ premiums repurchased’ in the interest table. In this context, Eurostat also pointed to the unusual pattern for the amortisation of premiums in the interest rate table showing an exceptional high amount for 2016 that is about twelve times higher than in the other years. The pattern for the amortisation of discounts gives the impression that this amount should probably recorded in this line (i.e., line 12b) instead of the line ‘premium’ (i.e., line 12a).

Eurostat also enquired about the treatment of repurchased premiums/ discounts, i.e. whether they are treated as interest expenditure (at the time of repurchase) over the remaining maturity of the outstanding bonds or as holding gains. The Statistical Authorities explained that the data for the interest come from the government’s own accounts and that they are not sure that the interest expenditure recorded is not impacted by repurchased premiums/ discounts. Eurostat requested the Statistical Authorities to verify this, as an incorrect recording would have a significant impact on the general government net lending/ net borrowing (e.g. if the repurchased premiums were included in interest expenditure, the current surplus would be significantly underestimated). Eurostat further noted that it is rather demanding to provide the figures for the line ‘discounts/ premiums at issuance’ if buy-backs are carried out very frequently (i.e., in extreme cases a treasury might carry out buy-backs (and reissuances) several times a day).

Finally, the recording of index-linked securities was briefly discussed. Eurostat asked what types of index-linked securities are issued by the Danish treasury and how the increase of the 'principal' owing to the index movement is recorded in national accounts. The Statistical Authorities clarified that the Danish treasury issues inflation-linked bonds and that the increase in the 'principal' is recorded as interest expenditure in the central government own accounts, which is the basis for the working balance reported in EDP table 2A.

Findings and conclusion

<u>*Action point 28*</u>

(18) SD will:

a) clarify how premiums/ discounts in the context of buyback transactions are recorded in the own accounts of the state (WB) and whether these are excluded from the ESA interest expenditure D.41 at time of buyback as well as later on (as discussed in the EDPS WG meeting of December 2017, see also Eurostat advice to Germany of March 2018). *Deadline: End-September*[38]

b) provide correct data on the above mentioned operations for the October 2019 notification Non adherence to the rule might imply a significant B.9 revision (downward revision of interest expenditure) given the size of buyback operations in DK. *Deadline: October 2019 notification*[39]

c) report the accounting entries (chart of accounts) used in the own accounts of the state concerning premiums and discounts (issued, amortized, and repurchased), coupons (paid, sold, and repurchased) and adjustments related to index-linked bonds. In addition, The Statistical Authorities will report the typical treasury practice in relation to buybacks: buyback of bonds against cash, switch operations (old bonds exchanged against newly issued bonds), resale of repurchased securities if any, the amounts concerned, as well as the accounting differences that may exist (in the own accounts of the State as well in national accounts). *Deadline: December 2019*[40]

<u>*Action point 29*</u>

(19) The Statistical Authorities will:

a) adapt the table on interest recording according to the discussion in the meeting, in particular, reconciling the items discounts and premiums at issuance as well as discounts and premiums repurchased (see previous action point) with the related entries in EDP table 3B. This would presumably imply an upward revision of redemption of premiums/

[38] This part of the action point was implemented.

[39] For the October 2019 estimated amounts were provided. Final figures were provided for the April 2020 EDP notification.

[40] This part of the action point was implemented.

discounts repurchased in EDP table 3B. Eurostat recalled that the item discounts/ premiums repurchased of EDP tables (difference between face value and repurchase value, 'clean price' = net of coupon accrued) is different from discounts/ premiums repurchased to be provided in the interest table (difference between ESA nominal value and repurchased value, that is: the part of premiums/ discounts at issuance not yet accrued at time of repurchase).

b) check the data for amortization for 2016 and 2017, and the absence of data for coupons sold for 2015 and for coupons bought back for the years 2016 to 2018.

Deadline: October 2019 notification[41]

Financial derivatives

Introduction

Under this item, Eurostat and the Danish Statistical Authorities discussed the ad hoc table on the recording of financial derivatives, which requires detailed information on the market value of stocks and transactions in derivatives, broken down by type of derivatives and grouped in assets and liabilities. Other aspects such as the notional value in the derivative contracts concluded, the existence of off-market swaps and the hedging of debt were also discussed. In particular, the table contains the necessary information to check the consistency of stocks and flows in connection with financial derivatives, but also on the general use of derivatives, whether for hedging purposes or other reasons. The table was compiled by SD with the support of the Danish central bank.

Data on transactions in derivatives are netted and recorded on the asset side in the EDP notification (EDP tables 3A/ B). For the local government subsector (EDP table 3D) as well as for the social security subsector (EDP table 3E) no transactions in financial derivatives are reported.

Discussion

Eurostat wondered why the table on derivatives was compiled by SD and the central bank and not by the Treasury. SD explained that, in Denmark, the debt management tasks such as the sale of securities, buy-backs, swaps, settlements, bookkeeping and accounting had been transferred to the Danish central bank. The exact share of responsibilities is specified in an agreement between the central bank and the Ministry of Finance.

With regard to the table on derivatives, SD explained that the data on stock and flows of interest rate and currency swaps refer only to extra-budgetary entities, while the item ‘others’ includes all interest rate and currency swaps for the central government core unit. SD also stated that they would provide an updated table with the requested breakdown of the different type of swaps for the central government core unit, as well as

[41] The dead-line was postponed for September 2020 with an inter report to be provided in June.

add the missing information on the notional values for the swaps. The amounts reported under the item ‘other’ mainly relate to interest rate swaps. Currency swaps account only for a small proportion of the overall swaps.

Eurostat noted that the profile of the time series for the stock of currency swaps appears unexpectedly stable given that, if the stock had been valued at market value (as it should), one would expect stronger stock movements. Eurostat also asked why derivative transactions were netted in the EDP notification, especially as they appear to be separately identifiable. Eurostat recalled that netting should only be applied when the available source data do not allow for gross recording. It is also noticeable that the transaction data almost correspond to the stock movements, which is very unusual as there are usually significant other economic flows related to derivatives. This could create the impression that the stocks are not measured at market value but may represent an accumulation of cash flows (likely to be corrected for impairments). However, if the stock data are based on the International Financial Reporting Standards[42] (which measures stocks at market value) and the transactions are derived, then the transaction data might be incorrect. This would impact the statistical discrepancies in EDP table 3A/ 3B. Eurostat requested SD to verify the data as there appears to be a substantial problem with either the stock or the flow data in financial derivatives. SD noted that corporations included in government have a specific reporting obligation and that this includes information from cash flow statements as well as balance sheet information. Notwithstanding this, the data on derivative will be re-examined and corrected if necessary.

Eurostat further addressed the issue of off-market swaps and asked whether swaps were repurchased/ renegotiated/ novated and whether a collateral was received/ provided in relation to swap transactions. SD explained that they are not aware of off-market swaps, repurchases of swaps and renegotiations/ novations of swaps. As regards the provision of collateral it was indicated that the collateral was netted in the Maastricht debt. Eurostat recalled that in no case a collateral should be deducted from the Maastricht debt, whether received or provided. SD thought that the cash received leads to an entry in debt both in the government own accounts and in Maastricht debt, while cash provided is not included in the Maastricht debt. Eurostat requested a clarification of the statement.

Eurostat finally asked how the interest on a bond issued and swapped is recorded. SD explained that the recording of interest in national accounts follows, in principle, the recording of interest in the government own accounts. However, the interest data are corrected by SD, for national accounts purposes, since the interest figures in the own accounts are reported after swaps: i.e., all cash flows resulting from swaps arrangements are only recorded in the financial accounts. SD further stated that the last foreign currency bond was repaid in 2017 and the entry of DKK - 49 mn in the line

[42] International Financial Reporting Standards, usually called IFRS, are standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.

‘appreciation/ depreciation of foreign-currency debt’ in EDP tables 3A/ 3B is related to an extra-budgetary unit(s).

In this context, Eurostat recalled that swaps are cash instruments that are valued at market value, which means that the accrual is in the market value. This should be considered when the swap data for the financial accounts are taken from the central bank (which is probably on a cash basis) and the data for other accounts receivable/ payable are taken from the government own accounts. In this case, a statistical discrepancy could occur in EDP Table 3A/3B unless an appropriate correction is made, if necessary.

Findings and conclusion

Action point 30

(20) The Statistical Authorities will update the table on derivatives:

a) allocating the position 'other', which currently regroups the operations of the State (central government core unit) in derivatives (mostly IRS), under the appropriate lines;

b) providing the notional values;

c) reporting the gross positions on the assets and liabilities sides, rather than netting them;

d) filling also the other parts of the derivative table (off-market swap, interest flows, collateral, etc.).

Deadline: January 2020[43]

Action point 31

(21) The Statistical Authorities will investigate:

a) the reasons why the OEFs, reported in the table on derivatives, are very small (i.e. transactions are very close to change in stocks), which is extremely unusual, perhaps resulting from the use of the own accounts of the State to file this table. *Deadline: January 2020*[44]

b) report the chart of accounts codes used for derivative revenue, expense and balance sheets entries in the own accounts of the State, as well as the basis of reporting (e.g. value at cost after impairment in the balance sheet, rather than fair value). *Deadline: End September 2019*[45]

[43] The dead-line was postponed for September 2020 with an inter report to be provided in June.

[44] The dead-line was postponed for September 2020 with an inter report to be provided in June.
[45] This part of the action point was implemented.

Action point 32

(22) Eurostat recalled that streams of interest payments on swaps (entering F.2) are not meant to be recorded on an 'accrual basis', that is: F.7 is to be recorded on a cash basis (counterpart transaction of F.2), and, thus, no F.8 can exist on those streams of interest payments. No AF.8 exists, either, and the net worth of the swap holder is fully reported within AF.7 reported at market value. SD is invited:

a) to confirm that those rules are followed (and to adapt the EDP inventory accordingly).

b) to confirm that the swaps used for hedging local government debts are separately identified from the debt and are not integrated in the value of the ESA stock of debt and ESA debt transactions.

c) to clarify whether renegotiation/ restructuring of swaps has taken place in the past and whether the rules for recording off-market swaps have been applied in general as well as in these circumstances.

Deadline: January 2020[46]

Action point 33

(23) The Statistical Authorities will clarify how the received/ paid collaterals on swap operations are recorded in EDP table 3B (with a debt impact for collateral received or not). *Deadline: October 2019 notification*[47]

4.3. Recording of specific government transactions

4.3.1. Government operations relating to government intervention to support financial institutions

Introduction

Following Eurostat's decision of 15th of July 2009, Eurostat collects a set of supplementary data on government interventions to support financial institutions. The individual tables for EU Member States (where there were reportable interventions) are published twice per year as well as a summary table with the aggregated data for the EU28 and the euro area. The aim of the supplementary table is to show a complete picture of the actual and potential impacts on government deficit and debt due to government interventions directly relating to the support for financial institutions.

[46] This the action point was implemented.
[47] This the action point was implemented.

Discussion

Eurostat thanked SD for completing the supplementary table on government interventions to support financial institutions. In Denmark, there is no support to any financial institution, other than those related to the financial crisis. The revenue due to the interest received by government from the financial institutions benefiting from its support decreased significantly since 2015. SD explained that this is due to the fact that the scheme providing capital injections or government loans to banks or mortgage credit institutions is gradually phased out. Eurostat asked for more details on this specific government financing scheme, notably on interest rates and repayments conditions. In addition, Eurostat also proposed to SD to investigate the possibility to complete on a voluntary basis the part 3 of the supplementary table. This will allow reconciling the expenditure and revenue impact of financial rescues as well as the balance sheet impact of such operations.

Findings and conclusions

Action point 34

(35) SD will provide a note to Eurostat on the capital injections of hybrid capital scheme including extensive details on this specific financing scheme. The note will include information on the duration of this scheme, on the financial institutions benefitting from it, on interest rates and repayments conditions. *Deadline: October 2019 notification*[48]

Action point 35

(36) SD will investigate the possibility to complete on a voluntary basis the part 3 of the supplementary table for reporting government intervention to support financial institutions in order to assist reconciling the table 1 (expenditure and revenue impact of financial rescues) and table 2 (balance sheet impact of such rescues). *Deadline: April 2020 notification*[49]

4.3.2. Capital injections in public corporations

Introduction

Prior to the visit, the Danish statistical authorities provided an extensive list of all the capital injections recorded in Denmark between 2015 and 2018. The table included information on the largest capital injections by individual companies and by general government sub-sectors. The discussions focused on the information provided in the list, which was different than the data provided in the April 2019 EDP notification.

Discussion

SD clarified that the capital injections data provided before the mission included some updated source data compared with the data provided in the April 2019 EDP notification.

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[48] Action point implemented.

[49] Action point was postponed.

Eurostat mentioned that it could be noticed from the information provided that most of the capital injections recorded in 2018, at central government level, are recorded as non-financial transactions with impact on the deficit figures. Eurostat noted the only equity injection in 2018 into the Danish Neighbourhood Programme. There are only few capital injections recorded as financial transactions in 2015 and 2016. Most of the capital injections recorded as equity are undertaken into international organisations.

Regarding the capital injection test, Statistics Denmark informed Eurostat that the test, which allows to distinguish whether a government injection should be recorded as an expenditure or as a financial transaction without impact on the deficit, is performed individually on a regular basis, except for quasi corporations at local level.

Eurostat recalled that, in the context of the October 2018 notification, Eurostat recommended Statistics Denmark to cooperate with the Ministry of Finance in order to collect and analyse information on capital injections by individual entities. Statistics Denmark was also asked to provide a progress report to Eurostat by the end of February 2018. Eurostat understands that, according to the information included in the report, SD can identify the capital injections treated as transaction in equity, at central government level, entity by entity. This is due to the information included in the account data on the central government accounts from the Agency for Modernisation. However, SD is not able to perform the capital injection test in the March compilation of GFS. Consequently, SD uses the data sources of the central government accounts only in the October EDP notification. In the June compilation of GFS, SD performs the capital injection test using information from the financial reports of the corporations that have received capital injections from central government, as well as from the data provided by MoF. Therefore, having analyzed both data sources, SD can re-asses the recording of equity injections at the central government level, if necessary, for the October EDP notification. Statistics Denmark confirmed the flow and the availability of information included in the report, and recalled that, under normal circumstances, there is a preventive approach which is applied with regard the recording of capital injections. This imply that SD is informed early in the process by the MoF if there are plans to make a capital injection into a corporation which is facing financial troubles. As SD is informed at an early stage, they are able to apply the appropriate recording as a capital transfer for those transactions from the central government already in the March compilation of GFS and thereby also in the April EDP notification. Eurostat welcomed this preventive approach and the co-operation with the Ministry of Finance regarding the early detection of capital injections to be treated as non-financial transactions with impact on the deficit figures. SD mentioned that an example of this co-operation is the capital injection undertaken into “PostNord” in 2018 of total 1.3 bill. DKK. In the public accounts, 0.2 bill. DKK of this operation is treated as a transaction in equity and the remaining 1.1 bill DKK is treated as a capital transfer.. Nevertheless, in the government accounts, both transactions are recorded as capital transfer from central government to PostNord in the April EDP notification, as SD had already the information to apply the capital injection test. Eurostat mentioned that the corporation PostNord is an international company, divided in several subsidiaries, with a Swedish part and a Danish part. The group company (parent company) is 60% owned by the Swedish and 40% by the Danish government. The group company recorded losses in years 2016, 2017 and 2018. Nevertheless, according to the company's financial results for 2018 for each of its subsidiaries, it seems that only the Danish part recorded losses, therefore, Eurostat considered that recording the whole amount of the capital injection as an expenditure would be the correct way of recording this operation.

In addition, Eurostat pointed out that if the capital injection test is performed for all the central government corporations, entity by entity for the October notification, it would be very much appreciated if SD could provide in the EDP related questionnaire, in particular questionnaire table 2.1 on equity acquisition and table 10.2 on capital injections, more detailed information on the individual equity transactions even if the transactions are less than 0,05% of GDP each.

Regarding the capital injections at local government level, Eurostat mentioned that the amounts recorded as equity injections at local government level are more or less constant for all the years, 2015-2018, of around one bn DKK. SD explained that the capital injections at local level refers mainly to quasi corporations and the capital injection test is done on aggregate basis. Those capital injection made in profit making quasi corporations are recorded as equity in the government accounts and those made in deficit making quasi corporations are treated as capital transfer. SD informed that no changes was implemented since the 2016 EDP dialogue visit.

Findings and conclusions

Action point 36

(33) SD will provide to Eurostat updated questionnaire tables (tables 10.x) on capital injections in line with the more recent data provided in preparation of the dialogue visit. *Deadline: October 2019 notification*[50]

Action point 37

(34) SD will review and explain the adjustments carried out in ESA tables and in EDP tables 2A and 2C for quasi-corporations, currently distinguishing between loss making units and profit making units. SD will report the basis for distinguishing the profit making or loss making units (P&L statement, B.9, etc.). SD will report T-accounts to illustrate the adjustments currently made in ESA. In addition, SD will enquire on whether quasi-corporations can have own bank accounts or assets/ liabilities, and will examine the possibility to accordingly expand/ complete the correction made in national accounts for quasi-corporations to the financial side. On this basis, SD will also reflect on whether the recognition of quasi-corporations in DK is fully consistent with the rules. *Deadline: December 2019*[51]

4.3.3. Financial derivatives

The item was already discussed under point 4.2.6 *Accrued Interest. Interest on swaps. Consolidation of interest. Financial derivatives.* No other relevant aspects were discussed under this agenda point.

4.3.4. Guarantees

Introduction

[50] Action point implemented.

[51] Action point implemented.

Eurostat thanked SD for the additional information provided on guarantees prior to the mission. In Denmark, there are no guarantees on assets but only guarantees on borrowing. Most of the guarantees are provided by the Ministry of Finance to public corporations and some by the Ministry of Business to financial corporations. Since 2013, data on local government guarantees is also available.

Discussion

Eurostat asked detailed questions on the data on guarantees, notably on the data sources used as well as on the rules applied by SD while recording cash calls and capital expenditure. Eurostat took note that the guarantee calls are recorded in the same way in national accounts as in public accounts. In case a public or private unit is not able to repay its financial obligations (guaranteed by government), the government *de facto* assumes its debt through a guarantee call. In Denmark, a guarantee call results in a cash outflow (expense) in the public accounts and a government expenditure of the same amount in national accounts. There are only very rare cases in which a guarantee call leads to the recognition of a claim, which means that the cash outflow in the public accounts is not matched by a correspondent expenditure in national accounts. It was agreed, during the discussion, that SD will provide a note to Eurostat explaining in detail the conditions under which a claim is recognized in public and in national accounts, and how a write-off of a claim is recorded. In addition, SD was also requested to clarify the recording of repayments (including the repayment of claims) by the original debtor in national accounts and, based on this, to adapt the EDP questionnaire table 9.1 and table 9.3 if necessary. Eurostat mentioned that, in 2018, a negative amount was recorded in the line repayment of claims in the EDP questionnaire table 9.1 and asked SD to check the entry and correct it if necessary. If the entry turns out to be correct, a brief explanation of the background to the transaction is to be provided.

Eurostat asked additional questions on the data sources regarding local government guarantees and on the beneficiaries of guarantees provided by local government units. SD explained that there is currently no information available on the beneficiaries of guarantees given by local government units. Regarding the data sources, SD explained that this data is collected via an annual survey (questionnaire). However, due to the fact that the survey is voluntary, only about two thirds of the local units are providing data. In addition, SD is adjusting the data using estimates, based on the results of the annual survey. In this context, Eurostat invited SD to reflect on how a better response rate to the survey could be achieved and provide to Eurostat a note with its proposals. In addition, Eurostat noted that the cash payments related to guarantee calls are recorded in the local government's accounts in an accounting item which cover also other kind of expenses, making it impossible to separate the cash outflows due to guarantee calls. In this context, Eurostat asked whether SD could reflect on how to amend the survey/ questionnaire sent to the municipalities in order to collect additional information on the expenses related to guarantee cash calls incurred by local governments. In parallel to this, Eurostat requested a note describing the accounting item(s) of the local government's own accounts that contain the cash payments and repayments related to guarantee calls and specify the transaction under which the related expenditure/revenues are recorded in the ESA accounts. In addition, Eurostat noticed the substantial revisions of the data for the total amount of guarantees in 2016 and 2017. SD explained that Moderniseringsstyrelsen, the Danish Agency responsible for the central government book-keeping, is involved in the collection and analysis of the data collected via the surveys provided by the local municipalities. Nevertheless, in 2018, SD was also examining the replies provided by the local authorities. As a result of this exercise, data on local guarantees was significantly revised. Eurostat asked whether occasional investigations have more the character of a one-off exercise or whether SD intends to analyze the replies provided by the local authorities on a more systematic basis in the future. SD explained that this exercise was quite time consuming therefore they will consider whether it will become a systematic check in the future.

Eurostat pointed out during the discussions that, despite the progress made in collecting data on guarantees, Denmark is still only partially fulfilling the requirements of the Council Directive 2011/85 on publication of data on contingent liabilities. This is due to the fact that data for standardised guarantees issued by local government are still not available. Eurostat asked whether some progress could be expected in the collection of such data. SD explained that for the moment such data are not available and no progress is to be expected in this respect. Regarding the guarantees, Eurostat also mentioned that, during the April 2019 notification, SD explained in the framework of the request of clarification that there were some newly created guarantees schemes related to social housing and to mortgage bonds. Eurostat asked whether these new guarantee schemes concern one-off or rather standardised guarantees. SD agreed to further investigate the features of these new schemes in order to see whether these should be considered as standardised guarantees schemes. Eurostat mentioned that in such a case, the ESA 2010 rules for standardised guarantees should be applied and therefore provisions should be recorded in the government accounts (GFS data).

Findings and conclusions

Action point 38

(41) Eurostat took note of the explanation of SD that the recording of guarantee calls in national accounts corresponds to the treatment of guarantee calls in the central government own accounts. In general, a guarantee call results in the recognition of a cash payment recorded in the own accounts and ESA accounts as an expenditure, and only in very rare cases a guarantee call leads to the recognition of a claim both in the own accounts and the ESA accounts. SD will provide a note to Eurostat explaining the conditions under which a claim is recognized in the own accounts and accordingly in ESA accounts, and what is the recording in the case of claim write-off. *Deadline: January 2020*[52]

Action point 39

[52] Action point implemented.

(44) Eurostat understands that the collection of data on the stock of guarantees for the local government sector is based on a voluntary annual survey with a current response rate of around two thirds. Eurostat also notes that SD adjust the data on guarantees for previous years, through estimates, based on the results of the annual survey used by the Statistical Authorities to gather this information. Eurostat acknowledges the work done in order to improve the data on guarantees for the local government sector and encourages SD to collect the remaining data (e.g. increasing the response rate). SD will provide a note to Eurostat on the possible steps that can be taken in the short term to achieve an increase in the response rate. Moreover, SD will investigate whether it will be possible to amend the questionnaire collecting information from local government on guarantees, in order to request additional information from municipalities on expenditure incurred by local governments. *Deadline: Progress report in June 2020*

Action point 40

(45) In relation to guarantees, SD will clarify the recording of repayments by the original debtor in ESA accounts, i.e. recording a revenue (B.9 impact) or a repayment of claims and, based on this, will adapt EDP questionnaire table 9.1 and table 9.3 if required. In this context, SD will clarify whether the 2018 figure (negative amount) provided in the line repayment of claims (table 9.1) is justified. *Deadline: October 2019 notification*[53]

Action point 41

(46) Eurostat took note of the explanation of SD that the cash payments related to guarantee calls are recorded as expenditure, together with other expenditure, in the local government's own accounts, without a possibility to distinguish it from other expenditure. The related accounting item of the own accounts is recorded as an expenditure in ESA accounts, and therefore, the B.9 impact is properly reflected. SD will provide to Eurostat the accounting item(s) of the local government's own accounts that contains the cash payments and repayments related to guarantee calls and specify the transaction (the bridge) under which the related expenditure/revenues are recorded in the ESA accounts. *Deadline: September 2019*[54]

Action point 42

(48) SD will analyse whether the newly created guarantees schemes such as the ones related to social housing and to mortgage bonds can be considered as standardised guarantee schemes. In such a case, the rules of standardised guarantees should be applied. *Deadline: December 2019*[55]

[53] Action point implemented.

[54] Action point implemented.

[55] Action point implemented.

4.3.5. Debt assumptions, debt cancellations and debt write-off

Introduction

Prior to the mission, Eurostat requested a list of debt assumptions, debt cancellations and debt write-offs for the period 2015-2018 as well as a list of government claims, split by stocks and transactions, for the same period.

Discussion

Eurostat pointed out, that from the data provided, it seems that most of the write-offs relate to student loans and loans for housing. Eurostat asked whether there are also cases of debt cancellation or only write-offs[56]. SD explained that data on write-offs and debt cancellation are recorded in a general account without the possibility to distinguish whether a transaction is a write-off or a debt cancellation and therefore all the transactions are considered by default as being write-offs. Nonetheless, SD noted that some debt assumptions are recorded in the context of student loans. Eurostat further clarified with SD the general recording of write-offs and debt assumptions in national accounts and mentioned that the provisions recorded in relation to student loans are quite small. SD explained that the above mentioned transactions are in total quite small and concern only extra-budgetary units.

In addition, prior to the mission, SD provided also a note on the stocks as well as on transactions of central government claims for the period 2015-2018 by individual company or group of borrowers. The list of claims provided detailed information on claims on other government sub-sectors, claims against public corporations and foreign claims. Eurostat took note of the significant consolidation adjustments for loans to extra-budgetary units (EBU) which could mean on the one side that government is providing loans to extra-budgetary units and on the other side that EBUs are providing loans to other government entities. In this context, Eurostat asked for a complete list of EBUs in order to get an exact overview of these entities. In addition, Eurostat compared the data on claims provided for the EDP mission with the data on claims provided in the EDP questionnaire table 8. Eurostat asked whether the data provided in questionnaire table 8 is consolidated or not. It was explained that the data provided in the table is not consolidated. In addition, Eurostat further investigated the figures provided for the item "other change in volume" in the sections ‘other claims’ and ‘claims of guarantees’ in the same table for 2018 and in particular whether these amounts are related to a change in methodology in connection with the portfolio of student loans (as explained by SD in the April 2019 request for clarification) or whether there are other reasons, such as debt cancellations or guarantees cash calls.

[56] A write-off is a debt cancellation which incurs without any mutual agreement between the parties involved due to the death (in case of debt of a person) or disappearance of a unit which incurred debt. This is why a write-off cannot be considered a transaction, but should be recorded as other changes in the volume of assets.

Action point 43:

(43) In the light of the clarifications provided during the meeting, SD agreed to further investigate whether the amounts recorded in 2018 as "other change in volume" in the EDP related questionnaire table 8, under other claims (- 3258.5 mill DKK) as well as under claims of guarantees (-222.6 mill DKK), are related to the change in methodology in connection to the portfolio of student loans or also due to other reasons such as debt cancellation or guarantees cash calls. *Deadline: October 2019 notification*[57]

4.3.6. Dividends, Superdividend, Privatization.

Introduction

Prior to the EDP visit, Eurostat requested a note on the dividends paid by individual companies to government for the period 2015-2018 as well as on the superdividend test for 2018.

Discussion

Eurostat thanked SD for the list including all the dividends received by government and mentioned that, while providing the list on the superdividend test by individual company, SD did not provide the concrete amounts to be recorded as superdividend but only whether for a certain company a superdividend has been recognised or not. SD agreed to provide a complete list with the amounts recognised as superdividend for 2017 and 2018. It was explained, that for the central government units, the test is performed for each of the companies at individual basis. Eurostat noted that SD stated, in the information provided prior to the mission, that the superdividend test is not performed for dividends paid by local government units because they do not have information on which units are exactly paying the dividends. Therefore, only larger distributions, identified as peaks in the time series, are subject to the superdividend test. SD explained that, in Denmark, legal provisions stipulate that companies are not allowed to pay out dividends to government without a sufficient surplus and therefore superdividend payments are rather exceptional for the government sector. SD agreed to provide to Eurostat those legal provisions. In addition, Eurostat also proposed to SD to consider whether superdividend amounts could be estimated at the level of local government. SD agreed to investigate this option and possibly to calculate a coefficient which would take into account the average percentage of the superdividend amounts compared to the total amount of dividends paid by local government entities to local government.

Regarding the superdividend test for Nordsøfonden, SD informed Eurostat that,for 2018 the test was not performed because the company paid dividends in advance, thus the dividend for 2018 should have been calculated based on the financial report for 2018 which was at the time of the data provision not available. Eurostat mentioned that, already in the context of the 2016 EDP mission, it was noted that this public corporation paid advance dividends and recalled that, for such advance dividends, the MGDD rules

[57] Action point implemented.

for interim dividends have to be applied. SD explained that such advance dividend payments are decided each year in December and that, therefore, the dividends paid are essentially based on the operating income for the year. However, Eurostat found that the dividends paid by Nordsøfonden for the years 2011 to 2015 were higher than the respective operating income and asked SD to carefully analyse the dividend payments of the company. As a result, SD recorded backwards some superdividend payments for these years. In this context, SD agreed to carry out the superdividend test for Nordsøfonden for the years to 2015 to 2018 and additionally to re-analyze the advance dividend payments taking into account the MGDD provisions for interim dividend payments. Eurostat also requested that the dividend payments of the Danish State Railways (DSB) should be re-analyzed, since it seems that the company paid dividends to central government in 2016, recognized in full as dividend revenue, despite the fact that losses were recorded for this company in 2015. SD explained that the data provided in the EDP related questionnaire table 10.2, to which Eurostat referred, were not related to the same company. DSB has a complicated structure with subsidiaries and it is highly likely that the data in table 10.2 refer to a subsidiary (having largely the same name) instead of the parent company. Eurostat recalled that usually a subsidiary distributes its profits to the parent and the parent then distributes the dividends to its owner(s), in the present case the government, in the following year. The superdividend test should then be applied at the level of the parent entity. In this context, SD agreed to clarify which of the two entities distributed the dividend to government, whether it was the parent or the subsidiary and, in addition, to provide to Eurostat the superdividend test for this entity for the period 2015 to 2018.

At the end of discussions Eurostat recalled that during the 2016 EDP visit, the issue of reimbursed dividend taxes to non-residents was discussed. According to the latest information provided by SD, a total of DKK 12.3 billion has been wrongfully reimbursed to non-residents during 2012-2015. As a consequence, the calculated net taxes have been understated in national accounts for the years in question. In this context, Eurostat asked whether SD is informed about new development on this issue or whether the necessary correction was already implemented in the Danish accounts. SD informed Eurostat that the issue is still subject to legal proceedings and that it is therefore not clear how the outcome and the final figures will look like. Nevertheless, SD agreed to inform Eurostat on the ongoing court case and the impact of the final Court decision to be taken into account in national accounts, when available.

Findings and conclusions

Action point 44

(42) In relation to the incorrectly reimbursed dividend tax to non-residents during the period 2012-2015 (approx. 12.3 bn DKK tax on dividends), SD agreed to inform Eurostat on the on-going court decision results when the decision is available, in order to ensure

the appropriate recording of these amounts in government accounts. Deadline: *when information available*[58].

Action point 45

(49) Eurostat notes that superdividends for the central government sector are analyzed on case-by-case basis, allowing SD to carry out the appropriate recording in ESA accounts. For the local government sector, SD is currently only testing larger distributions identified as peaks in time series. In this context, SD explained that certain legal provisions prevent local governments to withdraw high irregular amounts from the accounts of their corporations and this is why superdividends are a rather exceptional issue for the local government sector. SD will provide those legal provisions to Eurostat. In addition, Eurostat invited SD to investigate whether superdividend amounts could be recorded in relation to local government units using a method which would apply the calculation of an empirical coefficient (periodically adjusted, if needed) in order to estimate the average percentage of a superdividend component to the total amount of dividends paid by local government entities. *Deadline: Report in June 2020*

Action point 46

(50) Eurostat invited SD to provide a complete list with the amounts of superdividends for 2017 and 2018. *Deadline: October 2019 notification*[59]

Action point 47

(51) Eurostat took note that Nordsøfonden, a public corporation, regularly pays advance dividends and recalled that, for such advance dividends, the MGDD rules for interim dividends have to be applied (i.e., existence of infra-annual reports and cross checking with the final annual accounts). SD explained that such advance dividend payments are decided each year in December and that it could be assumed that the necessary information on the operating profit of the entity is already available. SD will carry out the superdividend test (taking into account the MGDD provisions for interim payments) for Nordsøfonden and provide the outcome of the test to Eurostat for the years to 2015 to 2018. *Deadline: October 2019 notification*[60]

Action point 48

(52) Eurostat took note that, for the company DSB (Danish State Railways), dividend revenues were recorded in the central government accounts (EDP questionnaire table

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[58] Taking into account the information provided by SD at the end of January as well as on 2 of March 2020, Eurostat considered that the refunding of the incorrectly reimbursed dividend tax of 1,6 bill DKK should be recorded in 2019 due to the fact that the Danish Tax Agency made a settlement with the American pension funds in 2019. The recording should include the recording of a cash payment of 950 mill DKK as well as of other accounts receivables for the rest of the amount, notably 650 mill DKK. With regard to the other amounts which should be settled or decided by the Court in the future, they should be recorded at the moment the settlement will be made or will be established by the Court.

[59] Action point implemented.

[60] Action point implemented.

10.2), although losses were recorded for this company in the relevant reference period for the calculation of dividends. SD thought that the entries in table 10.2 are not related to the same company but that it is likely that one company is the parent and the other a subsidiary. Eurostat recalled that it is usually the case that the subsidiary distributes its profits to the parent and the parent then distributes the dividends to the owners (the government) the following year. The superdividend test should then be applied at the parent entity. SD will (1) clarify which of the two entities distributed the dividend to government (i.e., the parent or the subsidiary) and (2) provide the superdividend test for this entity to Eurostat for the period 2015 to 2018. *Deadline: October 2019 notification*[61].

4.3.7. Public Private Partnerships and concessions

Introduction

Prior to the mission, SD sent to Eurostat an updated list of all the PPP projects in Denmark. There were about 12 PPP projects which all relate to construction of public buildings such as public schools, city courts, police stations or office buildings. The contractual capital value of these projects is rather small, except for Kalvebod Brygge which relates to the construction of office buildings with a capital value of approx. DKK 1.900 million (around 0,1% GDP). All PPPs in Denmark are currently recorded off balance sheet. As a follow-up of the 2016 EDP mission, Eurostat requested an extensive analysis of the Kalvebod Brygge project, notably on the risk distribution between the public corporations (controlled by government) and the private partners. SD explained in their note that according to their analysis, most of the risks are borne by the private partner and therefore these projects are recorded off balance sheet. In Denmark, a standardised contract is used for all the PPPs, therefore the distribution of risks as well as other technical aspects are relatively similar in these kind of contracts.

Discussion

Eurostat asked whether new PPP projects were signed since the last EDP mission in 2016. SD stated that there were no new contracts signed other than those already analyzed in the context of the 2016 EDP mission. Eurostat mentioned that, in the light of the information provided as a follow-up of the 2016 EDP mission, the existing PPP projects could keep their current classification and remain recorded off balance sheet. Nevertheless, Eurostat pointed out that, for future PPP projects, the assessment should be based on the rules stipulated in the PPP guidance, published in September 2016. Therefore, all the PPP signed after the publication of this guide should be analysed according to the framework stipulated there. SD agreed to inform Eurostat in case new PPP projects will be signed and provide their analyses. Eurostat asked whether information on PPP projects realised at regional or local government could be easily identified. Eurostat mentioned that this is a problematic aspect in most of the Member States because the data collection systems used are often not designed to capture information on the existence of such contracts signed at the level of local authorities. SD

[61] Action point implemented.

explained that there is no systematic data collection on such projects and agreed to investigate the possibilities to capture such information.

In addition, Eurostat asked also about concession projects in Denmark. SD mentioned that there is only a bridge company involved in concession projects. The entity is currently classified in the non-financial corporation sector because the entity meets the 50% quantitative criterion (50% test). Eurostat asked whether the units benefit from government subsidies and whether this is reflected in the 50% test. SD confirmed that the company does not benefit of government subsidies. In addition, SD mentioned that they include in the test only the sales related to the fees received from users.

In addition, SD mentioned that a road allowing access to the concession asset, for example to a bridge, is recorded in national accounts on the balance sheet of the government and not on the balance sheet of the concession company. Nevertheless, it could happen that some companies are including these assets in their business balance sheets. Eurostat considered that recording these assets in government accounts is appropriate and agreed with this recording. SD further explained that, in Denmark, users do not pay fees for the roads but only for the use of bridges because providing access to roads is considered a government task. Regarding concessions, SD explained that there are also private companies which are involved in such projects, such as Arriva. This company receives subsidies from government which are classified as subsidies on product in national accounts. At the end, Eurostat invited SD to re-examine the sectorisation of all public concession companies and to provide a note on the outcome of this analyses.

Findings and conclusions

Action point 49

(39) SD will investigate the possibilities to capture information on possible PPP projects at local government level. *Deadline: Progress report in June 2020*

Action point 50

(53) Eurostat took note that all public concession companies meet the 50% quantitative criterion and are therefore classified in the non-financial corporations sector in Denmark. However, some of the assets of these companies are recorded in the general government accounts. SD mentioned, in particular, that a road allowing access to the concession asset in the narrower sense, for instance a bridge, is recorded on the balance sheet of the government and not on the balance sheet of the concession company, even if the treatment in the accounts of the concession company is different. Decisive in this respect is that the users do not have to pay for the use of the roads (only for the use of bridges) in Denmark and therefore the provision of roads is considered to be a government task/ responsibility. SD is invited to re-examine the sectorisation of all public concession

companies and will provide a note on the outcome of this analyses to Eurostat. *Deadline: February 2020*[62]

4.3.8. Disposals of non-financial assets by general government. Sale and leaseback operations. UMTS.

Regarding the universal mobile telecommunications system (UMTS) related to the third generation mobile cellular system for networks based on the GSM standards, Eurostat took note that SD still recognizes the sale of such licenses as a sale of a non-produced asset and therefore records the sale proceeds in full (one-off revenue) in the year in which the license was sold. Eurostat stressed that this recording is not in line with 2017 Guidance note which requires to recognize those sale proceeds as property income, more precisely rent income, and as such has to be spread over the years for which the license was sold. It was agreed that SD will revise the recording of UMTS revenues according to the Eurostat's guidance.

Action point 51

(38) Eurostat took note that Denmark, which kept recording for many years mobile phone licences as rent (spread over time), changed the recording in its benchmark revision of 2014. However, Eurostat published in March 2017 a guidance note (agreed through the DMES) prescribing the rent recording in all circumstances (the licence being transferable or not), thereby clarifying chapter 15 of ESA 2010. Accordingly, SD will revise the recording of UMTS revenues according to the 2017 guidance. Eurostat invites SD to consider the possibility to adapt the data clearly ahead of the benchmark revision planned for 2024, for instance by adjusting the GFS tables and ESA table 8 only. In addition, future UMTS operations will be recorded according to the guidance, notably as rent and not as an one-off revenue within acquisition less disposal of non-produced assets[63]. *Deadline: when applicable*

4.3.9. Re-routing of transactions, assets and liabilities through government accounts

SD confirmed that there were no re-routing of transactions, assets and liabilities through government accounts

4.3.10. Carbon trading rights

Introduction

Prior to the mission, SD sent to Eurostat an update of the ad-hoc table on emission permits for the period 2013-2018. The table provided data on several items such as all permits given for free, those sold, issued and surrendered. The table included also data on the amounts of cash received as well as on the auction price and average price.

[62] A note was provided on this action point.

Discussion

Eurostat thanked SD for the data provided and pointed out that, during the 2019 April EDP notification, SD filled the same table for the figures corresponding to 2018. Nevertheless, in the context of the request of clarification of April 2019, only data on cash received from sales (F.2) was provided. SD explained that the recording of carbon trading rights is implemented by SD only at the end of May or at the beginning of June each year due to availability of such data. Nevertheless, the estimated data used for the April EDP notification is recorded in the working balance and impacts B.9. The B.9 is revised when the source data necessary for the model becomes available, so in June for the GFS version.

Eurostat asked (1) whether the receipts from the sale of emission permits recorded in the working balance is recorded on a cash or on an accrual basis and why the cash figures for 2018 provided for the April notification were different from those provided in the updated table prior to the dialogue visit. SD agreed to investigate the issue since no other data sources were becoming available in the meantime. In addition, Eurostat asked which method is used by SD to determine the tax revenue to be recorded in the national accounts, i.e., whether the "first-in-first-out" method or the average price method is applied. SD agreed to provide more details on the method used in a note.

Finally, Eurostat pointed out that the average price of the permits decreased significantly in 2016 and 2017 compared to 2014 and 2015 and asked for the reasons for this decrease. SD agreed to look into the data and provide Eurostat detailed information on how the average price is calculated.

Findings and conclusions

<u>*Action point 52*</u>

(40) SD will provide to Eurostat a note with an extensive description of the method currently used for the calculation of emission permits revenues (ETS). The note should notably include information on how the amounts of permits surrendered as well the average price are calculated. SD will also investigate whether the emission permits revenues (D.29) are recorded on a cash or on another basis in the working balance. *Deadline: December 2019*[64]

4.3.11. Others: EU flows, military expenditure, securitisation and pension issues

No issue under discussion.

4.4. Important issues relevant for the October 2019 EDP Notification

SD informed Eurostat that they were not aware about relevant issues which could potentially impact the deficit and debt figures for the 2019 October EDP notification.

[64] Action point implemented.

5. Other issues

At the end of the discussions, Eurostat recalled that, during the 2016 EDP mission, it was agreed that SD will further investigate the existence of promotional banks[65] in Denmark[66]. As a follow-up of this action point, SD provided a note to Eurostat at the end of 2016 explaining that, to their knowledge, no national promotional banks exist in Denmark. From their perspective, Vækstfonden, the Danish Growth Fund, is the only unit that could act in a similar way as a promotional bank. Vækstfonden is an investment fund that contributes to the creation of new companies by providing capital and expertise and was founded in 1992. Vækstfonden invests equity and provides loans and guarantees for small and medium sized enterprises in collaboration with private partners and Danish financial institutions. Nevertheless, SD explained that, after further discussions with Vækstfonden, it seems that the entity does not have the feature of a promotional bank. In this context, Eurostat asked whether SD is aware about new developments related to promotional bank or promotional bank activities in Denmark (e.g. establishment of such entities). In addition, Eurostat invited SD to reconsider whether some of Vaeksfonden activities are not closely linked to promotional activities and therefore should be re-routed through government accounts.

Action point 53

(37) SD will investigate the activities of Vaeksfonden (the Danish Growth Fund) classified in S.12 in order to see whether some of its activities should possibly be re-routed through government accounts. *Deadline: April 2020 notification*

[65] National promotional banks are playing an important role in implementing EU financial instruments in the framework of the European Investment Plan but also beyond. In a number of Member States such banks were established with this purpose while in some other countries there are already established institutions which are fulfilling this purpose. The principal economic rationale for a promotional bank is that market failures may lead to less investment and that an institution with a public mandate is better placed than private operators to overcome these market failures.

[66] Action point 10 of the 2016 EDP mission.

Draft Agenda

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 and EDP processes

1.1.2. Upstream issues. Audit and internal control arrangements

1.1.3. Compliance with Council Directive 2011/85

1.2. Data sources and revision policy

1.2.1. Data sources for central (extra-budgetary accounts), local government and social security funds in the light of the forthcoming revision policy

1.2.2. Revision policy. Progress and implementation timetable

2. Follow-up of the EDP dialogue visit of 19-20 September 2016

Ørsted group

3.Follow-up of the April 2019 EDP reporting – analysis of EDP tables

3.1. EDP tables

3.2 Questionnaire related to the EDP tables

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. MGDD (2019 edition) - State of play

4.1.2. Practical implementation of the market/non-market test

4.1.3. Changes in sector classification since the September 2016 EDP visit

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

4.1.5. Discussion of specific cases

Metroselskabet

Railways companies

The Danish Green Investment Fund

Kommunekredit

4.2. Implementation of the accrual principle

4.2.1. Accrual taxes. Ordinary and extraordinary write-offs of tax arrears

4.2.2. Valuation of the stocks of arrears for taxes

4.2.3. Valuation of the stocks of arrears for land taxes

4.2.4. Recording of possible refunding of land taxes

4.2.5. "Mini One-Stop Shop" (MOSS) scheme

4.2.6. Accrued Interest. Interest on swaps. Consolidation of interest.

4.3. Recording of specific government transactions

4.3.1. Government transactions supporting financial institutions

4.3.2. Capital injections in public corporations. Capital injection test at central and local level.

4.3.3. Financial derivatives

4.3.4. Guarantees

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

4.3.6. Dividends, Super dividend, Privatization

4.3.7. Public Private Partnerships. Concessions and EPC's

4.3.8. Disposals of non-financial assets by general government. Sale and leaseback operations. UMTS

4.3.9. Re-routing of transactions, assets and liabilities through government accounts

4.3.10. Carbon trading rights

4.3.11. Others: EU flows, military expenditure, securitisation and pension issues

4.4. Important issues relevant for the October 2019 EDP Notification

5. Other issues

5.1. ESA2010 Transmission Programme relating to the GFS tables

5.2. Any other business

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