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Punto 6 all' ODG

Stato di avanzamento delle attività associative sulla regolamentazione del factoring

ALLEGATO 6.2

**EUROSTAT - Decision of Eurostat on government deficit and debt
The statistical recording of some operations related to trade credits incurred by
government units**



EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics (GFS)



31 July 2012

Decision of Eurostat on government deficit and debt

The statistical recording of some operations related to trade credits incurred by government units

1. Context

In the context of verification of data used for the Excessive Deficit Procedure, and notably of the regular EDP dialogue visits carried out in Member States, Eurostat monitors operations concerning trade credits granted by suppliers of goods or services to government units, at different levels of government.¹

In particular, Eurostat has taken note of some heterogeneity between Member States in the treatment of certain operations involving trade credits. This constitutes a source of inconsistency across Member States for the recording of similar transactions, and it is a core task of Eurostat to ensure the full comparability of government debt and deficit data over European Union Member States.

In addition, in numerous countries, a significant increase in the outstanding amount of trade credits payable by government has been observed in recent years, such that the issues covered by this Decision cover increasingly important amounts, a change from the past.

Therefore, a specific Task Force, under the chair of Eurostat and with experts from various European countries, was established in order to examine several issues related to these trade credits and to propose a possible homogenous treatment of similar operations. This decision is consistent with the opinion of the Committee for Monetary, Financial and Balance of Payments statistics (CMFB) as described in annex.

Eurostat's decision concerns two specific types of operations involving trade credits.

¹ As a reminder, according to Regulation 479/2009, as amended, trade credits payable by government units are not part of the "Maastricht debt" used for EDP purposes. Nevertheless, government expenditure should be recorded in an accruals basis, which requires the availability of information on trade credits.

2. Refinancing without recourse of a claim on government held by one of its suppliers

This issue refers mainly to factoring operations, which have been observed recently in some EU Member States and may become increasingly common in the near future due to a tendency to homogeneity in firms financing procedures.

Suppliers of goods or services to government units may use the services of a factor, which ensures the management of invoices presented to customers but may also anticipate payments to the suppliers before the date agreed with the government unit.

In this context, the factor, classified as a financial institution and frequently part of a banking group, is acting as a refinancer of the claim held by the supplier. The factor provides funds but may retain a legal right ("recourse") to turn to the transferor of the claims (the supplier) if the transferee (here the government unit) would not be in a position to meet its payment obligations in due time.

On the contrary, the factor may abandon any right on the original holder of the claim, which is referred as to "factoring without recourse" or "non-recourse factoring". In this case, the obligations of the debtor are fully transferred to the factor, which records in its accounts a direct claim on the original debtor.

The decision of Eurostat deals with the case of refinancing of a trade credit without recourse upon the original holder, which covers the factoring case mentioned above, but also applies to any other refinancing operations which take place under the same conditions.

Eurostat has taken the following decision:

When a supplier of goods or services, holding a claim on a government unit, which is recorded as a trade credit (AF.71) in national accounts, transfers totally and irrevocably its claim to a financial institution (notably a unit engaged in factoring activity), the original liability of the government unit recorded as trade credit AF.71 has to be reclassified as a loan (AF.4), part of the EDP Maastricht debt, when the following two conditions are both met:

- 1) the government unit has no longer any payment obligation to its supplier, and
- 2) the financial institution has no direct or indirect recourse on the supplier (transferor of the claim) if the government unit does not meet its payment obligations in due time.

The rationale for this decision is that the financial institution established an unquestionable claim on a government unit, which, by consistency, must be fully reflected in the accounts of the latter. This new claim is no longer a simple time lag directly linked to the original commercial transaction and its payment.

The reclassification from trade credits to loans is implemented at the time the transfer of the claim takes place between the original holder and the financial institution.

3. Restructuring of trade credits

The restructuring of a trade credit refers to changes in the main features of a trade credit granted by a supplier of goods or services to a government unit and resulting from a new bilateral agreement between both parties. This does not include any unilateral decision by only one of the parties.

The change may cover notably a simple extension of the maturity, the creation of an amortisation schedule and/or the determination of a rate of interest over the remaining lifetime of the instrument.

In cases where a new agreement is established, Eurostat has taken the following decision:

If, in the context of renegotiations, both parties agree on new contractual provisions which change the main features of an original trade credit, covering the rate of interest charged to the debtor government unit and/or the timing of the repayment obligations, but which are not restricted only to a simple extension of the initial maturity, the original trade credit, which was recorded as such (AF.71) in the national accounts, should be reclassified as a loan (AF.4), part of the EDP Maastricht debt.

The rationale of this decision is that the new agreement between parties represents a change in the substance of the original financial relation between the government unit and its supplier, which can no longer be considered as just an issue of a time lag between a commercial transaction and the corresponding cash flows, but which shows the recognition by government of a new financing operation for its own benefit.

This reclassification is implemented at the time the new features of the repayment obligations enter into force.

Taking into account that some Member States will need to adjust their reporting systems to obtain the necessary information to implement this Decision, Eurostat has also decided that this new decision will be implemented by Member States only from the April 2013 EDP notification onwards, where the necessary source information are not yet be available.²

² As much as possible, the Member States would have to adjust all the years included in this notification, when relevant.

ANNEX



CMFB opinion

on the recording of some trade credits operations incurred by government units

1. Maastricht EDP debt is defined in Article 2 of Protocol (N° 12) of the Treaty on the Functioning of the European Union as "[...] total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government [...]". Regulation (EC) 479/2009 specifies the definition of Maastricht debt and deficit in statistical terms including the treatment of trade credits.
2. Trade credits are, in accordance with Regulation (EC) 479/2009, excluded from the definition of Maastricht debt. This raises occasionally questions related to their statistical treatment, and it has recently been observed that operations occurring during the lifetime of trade credits may not be fully harmonised among Member States.
3. At Eurostat's request, the CMFB Chairman with the assistance of the CMFB Executive Body asked CMFB members on 8 June 2012 to state their views on several issues related the treatment of trade credit liabilities for government units. The deadline for replies was 22 June 2012. Nineteen (19) national statistical institutes and twenty-one (21) national central banks from the EU Member States returned the questionnaire within the specified time. A total of forty-two (42) institutions, including the ECB and Statistics Norway, provided their views.

Refinancing

4. The first issue concerned the conditions under which a commercial claim held on a government unit could be (re-)classified as a loan when this claim is refinanced by a financial institution with no recourse. A majority of the CMFB agreed that it is sufficient that the payment obligations of the government unit have been transferred totally and irrevocably to the financial institutions, i.e. it is not required that new features (such as schedule of principal repayments, interest) should be agreed between the government unit and the financial unit.

The CMFB noted that the direct relationship between the supplier and the buyer for trade credit is broken and that the risks pass irrevocably to the financial institution due to the non-recourse clause. Since the original link has been broken, the nature has changed from being a trade credit with the supplier to being a loan with the financial institution.

Some members raised concerns about availability of reliable information.

5. Furthermore, for cases where there is evidence that the government unit agreed at the inception of a trade credit that an unconditional transfer of its payment obligations to a financial institution will take place at some future point in time, a majority of the CMFB agreed that a loan should be recorded at the time of the effective transfer of obligations.

Renegotiation/restructuring

6. Regarding trade credits granted by a supplier of goods or services to a government unit where the maturity of the initial/current trade credit is reset by mutual agreement in the context of renegotiation/restructuring while all other features of the trade credit remain unchanged, there was no clear recommendation of the CMFB about the treatment of such trade credits.

However, several CMFB members pointed out the difference between short-term and long-term trade payables and suggested reclassifying the payables into loans if the renegotiation/restructuring resulted in a final maturity of more than one year, consistent with the treatment of *long-term trade credits* (see below).

7. For trade credits granted by a supplier of goods or services to a government unit where a renegotiation/restructuring of the trade credit results in changes or new features to the instrument (such as a rescheduling of principal repayments, interest, etc.) and not only a change in its maturity, a majority of the CMFB agreed to the principle that the trade credit shall be replaced by a new financial instrument which will be treated as a loan.

Furthermore, a majority of CMFB members agreed that this principle shall apply without exception to all trade credits granted to government units.

Long-term trade credits

8. A majority of the CMFB agreed that the length of the original maturity shall be a criterion for treating a trade credit as a loan and not as a payable when the debtor is a government unit. A large majority of the CMFB agreed that, if the length of the original maturity would be a criterion for treating a trade credit as a loan and not as a payable, an original maturity of more than one year, being consistent with ESA95 definition of long term, would be the threshold for treating a trade credit as a loan.

It should be noted that the draft ESA-2010 (and 2008-SNA) explicitly recognizes long-term trade credits (maturity longer than one year) while this is not the case for ESA-95. Thus, the CMFB is cautious about guidance that may lead to potential inconsistencies with either ESA-95 or the future ESA-2010.

Trade credits not paid at maturity

9. Finally, a large majority of the CMFB agreed that government trade credits in payment arrears (i.e. not paid at the agreed maturity) shall not be classified as loans according to ESA-95 (5.125-d).

The CMFB considered that financial instruments in payment arrears, according to the general National Accounts rules, remain under the original instrument category and that, only when there is a deliberate action by the supplier or by government to refinance the trade credits, should they be reclassified into loans.

However, in situations in which systematic delays are observed, involving significant amounts, a reclassification could be considered. For that purpose, practical guidance should be developed and applied. For example, 2008-SNA suggests identifying of nonperforming loans as memorandum items and the same approach could be enlarged to other instruments such as trade credits.

General remarks

10. The view of several CMFB members is that trade credits conceptually are part of government liabilities, reflecting the economic substance, and it should be considered for

the forthcoming revision of Regulation (EC) 479/2009 to include trade credits in the detailed definition of Maastricht debt.

Finally, the CMFB considers it important that the same conceptual framework is applied for trade credits in all sectors of National Accounts.

11. The CMFB recommends that Eurostat take account of the specific remarks raised.
12. In addition to this opinion, all the anonymised answers from CMFB members have been transmitted to Eurostat and will be kept in the records of the CMFB secretariat.

(Signed)

João Cadete de Matos
CMFB Chairman

Lisboa, 26 July 2012