

Minutes of the CMFB Information session on the consultation for the update of the Manual on Government Deficit and Debt (MGDD)

11 November 2022

1 INTRODUCTORY REMARKS

- (1) The CMFB Chair welcomed participants to the CMFB information session dedicated for the upcoming update of the MGDD. He briefly outlined the foreseen purpose and structure of the Q&A session concerning 9 draft chapters being subject of the CMFB consultations (hereafter ‘Chapters’).
- (2) The Chair also reminded the participants that the consultation had been started on 8 November with a deadline of 21 November. Thereafter, the Chair with the consultation of the CMFB EB will prepare a summary record of the replies and draft the CMFB opinion reflecting the majority view of the CMFB Membership.
- (3) Mr. Luca Ascoli briefly outlined the approach to presenting the draft chapters. Eurostat’s presentation covered: for the new chapters – the motivation for drafting the chapter, for existing chapters – the motivation for updating the chapter and changes proposed. For all chapters possible controversial issues and the final opinion of the EDPS WG were also presented.

2 PRESENTATIONS AND Q&A ON THE CHAPTERS:

➤ 1.6.2 SPECIAL PURPOSE ENTITIES

- (4) Mr Philippe de Rougemont presented proposed changes to chapter 1.6.2 Special purpose entities.
- (5) Regarding chapter 1.6.2 (special purpose entities), ECB DG-S stressed the problematic nature of consolidating a non-resident SPE with government, which in its view is not in line with the statistical standards (ESA 2010 and BPM6) that require non-resident SPEs to be recorded as separate units. ECB DG-S also pointed out that cross-country comparability could be undermined by implementing this option, giving rise to heterogenous practices and asymmetries. Lastly, ECB DG-S also suggested that for the future MGDD updates, leveraging on the experience gained with the ongoing review of the standards, in which cross consultations were introduced and proved to be extremely useful, the relevant Eurostat and ESCB Working Groups (e.g. BoP WG and WG ES) are consulted beforehand for their input to the chapters with cross border implications, which would contribute to fine tuning the proposals before they are finalized and sent to the CMFB for consultation.
- (6) Eurostat recalled that they followed all the procedures agreed for the methodology underpinning EDP data and that numerous meetings and consultations took place to discuss all chapters to which Eurostat Directorate C participated. Improvements to these procedures can be considered for the future.
- (7) Eurostat further emphasized that the proposed option to consolidate, in consultation with BoP compilers, the government non-resident SPE remains just an optional choice, which was introduced for practical reasons. The proposed approach would help avoiding complex imputations and lead to better reflecting the activities of the government SPEs abroad within general government accounts. SPEs abroad created by governments are not numerous and often well identified so it is easier to develop a specific, consistent between domains, treatment for them.

➤ **3.6 IMPACT ON GOVERNMENT ACCOUNTS OF TRANSFER OF PENSION OBLIGATIONS**

- (8) Mr Floris Jansen presented proposed changes to chapter 3.6 Impact on government accounts of transfer of pension obligations.
- (9) No questions were raised.

➤ **4.5 GOVERNMENT INTERVENTIONS TO SUPPORT FINANCIAL INSTITUTIONS**

- (10) Mr Martim Assunção presented proposed changes to chapter 4.5 Government interventions to support financial institutions.
- (11) Regarding chapter 4.5 (Government interventions to support financial institutions), a Member raised concerns for the proposed recording of the “wind down” process and “delayed revenue approach” emphasising the need for further reflection. ECB DG-S stressed the great importance of the topic and highlighted the significant broadening of the scope that in its view goes beyond ESA, given that the chapter is expanded from the “defeasances and bailouts” definition, as described in ESA, to potentially all cases of government support to financial institutions. The necessity of such a comprehensive and substantial modification to the scope many years after the financial crisis and the new EU directive framework on banking recovery was questioned. In addition, the lack of consistency of the proposed recording rules for financial institutions with the recording of support operations for non-financial corporations was touched on.
- (12) Eurostat explained that in its view the scope of the draft chapter does not go beyond list of possible government interventions in the context of defeasances and bailouts as included in ESA par. 20.244. The revision is needed as there are inconsistencies in the recording among the MS that result from lack of specific guidance for example for recording of the losses during the wind down process. In Eurostat’s view, the proposed rules are in line with ESA, would ensure consistency among the countries and, following the preferences of the majority of the MS, would avoid numerous revisions of the initial estimate of the loss.

➤ **4.7.1 CAPITAL INCREASES IN MULTILATERAL DEVELOPMENT BANKS**

- (13) Mr Martim Assunção presented proposed changes to chapter 4.7.1.
- (14) No questions were raised.

➤ **6.5 EU EMISSION TRADING SYSTEM (ETS) ALLOWANCES/PERMITS**

- (15) Mr Vassil Georgiev presented proposed changes to chapter 6.5.
- (16) No questions were raised.

➤ **7.4 GOVERNMENT GUARANTEES**

- (17) Mr Luca Ascoli presented proposed changes regarding chapter 7.4.
- (18) Regarding chapter 7.4 (government guarantees), a Member questioned the possibility to apply harmonized approach to standardized guarantee schemes as their setup differs among the countries.
- (19) Eurostat explained that recording of all guarantee schemes that have features of standardized guarantees (independently of their setup) have to follow dedicated ESA rules. The proposed changes are aimed at eliminating heterogeneous treatment. Difficulties to estimate the provisions cannot be a reason for not following the recording required by ESA for standardized guarantees. This applies also to the guarantees granted / extended during the COVID-19 pandemic that have

features of standardised guarantees. Eurostat added that in fact, the schemes do not differ much between the countries.

➤ **3.5 CAPITAL INJECTIONS INTO A FOREIGN DIRECT INVESTMENT**

- (20) Ms Rasa Jurkoniene presented a new draft chapter 3.5.
- (21) Regarding chapter 3.5 (Capital injections into a foreign direct investment), a Member requested clarification regarding the enlargement of the capital injection test and recording the holding gains and losses that are normally revaluations and do not lead to deficit impact as non-financial transactions (capital transfer).
- (22) Eurostat explained that the proposed chapter 3.5 focuses on clarifying recording of capital injections in the FDI companies and does not propose any change to the capital injection test. The text does not refer to holding gains and losses but to ‘normal’ losses as the chapter on capital injections into public corporations does.

➤ **4.6 SECURITISATION OF NON-PERFORMING LOANS WITH GOVERNMENT GUARANTEES**

- (23) Mr Luca Ascoli presented a new draft chapter 4.6.
- (24) Regarding chapter 4.6 (Securitisation of NPLs with government guarantees), a Member stressed the need for clarifying the recording for new schemes and schemes with new features in a timely way and emphasized that a case-specific CMFB consultations would be more appropriate than a general MGDD chapter that might bring additional risks to consistency with other parts of the MGDD. Two members expressed concerns regarding a possible interference with non-statistical domains, including banking supervision, given that the chapter uses the methods developed by and used for prudential supervision, but in a different manner and possibly with different outcome. At the same time, one of those members, acknowledged the need to analyse risks. The application date of the new rules was also raised.
- (25) ECB DG-S asked clarifying questions on the methodological guidance: the rationale behind starting from the rules for defeasance and not the ESA 2010 and MGDD rules on guarantees, the use of the prudential supervision methods, but not in a way intended and specified in the prudential supervision framework, as well as calculation methods on private risk exposure.
- (26) Regarding chapter 4.6 Eurostat, acknowledged the option of case-by-case consultations and reminded on the possibility that CMFB members could also initiate CMFB consultations, not only Eurostat.
- (27) Eurostat recalled that four methods were proposed to assess the risks assumed by private investors and governments, and all of them need to point to government taking larger risk in order to record the senior debt on government balance sheet. This is asymmetrical in favour of government. Eurostat considers that if statisticians do not agree with use of some of the proposed risk assessment methods, they can use the other ones to prove that private investor takes larger risk.
- (28) Furthermore, Eurostat was of the view that the rules on guarantees cannot be used exclusively, and also the rules of financial defeasance need to be applied. Such approach was confirmed twice in dedicated methodological questionnaires by the EDPS WG members.
- (29) Regarding the application date of the new rules (principle of retroactivity), Eurostat needed further reflection, but expressed sympathy for not applying the rules retroactively, as this was also the case for the previous chapter on securitisation schemes of government. It was also recalled that the CMFB members should consider only if the chapter follows national accounts principles, and not take into consideration other issues, such as financial stability issues or prudential regulation. The statistical analysis starts after the transfer of the NPLs from the originating bank and after the losses are recorded on the bank’s balance sheet. Therefore, the securities retained by the bank and still recorded on the bank’s balance sheet cannot be considered in the private risk analyses.

➤ **4.8 RECORDING OF LOANS NOT EXPECTED TO BE FULLY REPAID**

- (30) Mr Philippe de Rougemont presented a new draft chapter 4.8
- (31) Regarding chapter 4.8 (Recording of loans not expected to be fully repaid) a Member asked for clarification why a prudential approach is chosen for these loans, applying a partitioning of the loans at inception, while in other cases, e.g. the court cases, it is acceptable to wait until the final outcome is known before recording in the government accounts.
- (32) Eurostat clarified that it sees the court cases recording very differently from the loans not being fully repaid. For the court cases there is a possibility that nothing will have to be paid by the government, but for these specific loans it is certain already at inception that there will be losses and prudent recording needs to be applied.

3 CLOSING REMARKS

- (33) The Chair thanked Eurostat for the presentations, as well as CMFB Members for their comments and questions. Members were reminded to submit their responses to the consultation by cob 21 November 2022.