

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)

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CMFB Chairman

Lisboa, 26 July 2012