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Statistical Accounting Consequences of the Financial Turmoil  
European Statistical System Action Plan

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### **1. Background**

In response to the global financial turmoil and to its direct consequences on European banks, EU public authorities have taken, or been involved in, action and made plans to secure the financial system, which often involves supporting or rescuing banks.

On 12 October 2008, the Summit of euro area countries in Paris made a declaration on a concerted European Action Plan of the euro area countries, confirming the commitment of the euro area countries to act together in a decisive and comprehensive way in order to restore confidence and proper functioning of the financial system, and aiming at restoring appropriate and efficient financing conditions for the economy. The Summit also stressed, in the current exceptional circumstances, the need for the Commission to continue to act quickly and apply flexibility in state aid decisions, continuing to uphold the principles of the single market and of the state aid regime.

The European Action Plan has been endorsed by all EU Member States and several countries specified the details of the European Action Plan at national level.

Bank rescue operations were quite rare in Europe until mid-2007, being in general isolated to individual countries. Since late-2007 the situation worsened and precipitated to the present situation which is exceptional in that the number of rescue operations has increased dramatically and governments have been led to take general measures to preserve the stability of the financial system.

Some of the operations undertaken have been particularly complex in accounting terms and have reflected the institutional features involved (national legislation, characteristics of the financial institutions involved, the situation of the institutions – types of liabilities, etc). Such operations may involve the provision of capital injections, loans, guarantees, debt assumption/cancellation, financial defeasance through a new or existing structure, etc. or a combination of some of these elements.

When, in late-2007, Eurostat started to receive Member States' requests for methodological clarification on the treatment of bank rescues, it established a Task Force on the "accounting consequences for government of the recent financial crisis" with participants from several Member States, DG ECFIN and ECB. The Task Force concentrated initially on the substance of specific national cases and did not undertake a more global approach.

The recent exceptional evolution of the financial markets and its consequences require the European Statistical system (ESS) to deliver an urgent and coherent reaction that ensures consistency across time and across countries of the statistical treatment of these bank and other support operations in full respect of the European System of Accounts (ESA95) rules – an **ESS Action Plan on the accounting consequences of the financial turmoil**.

The Action Plan needs to safeguard the principles of the existing surveillance framework, taking into account, at the same time, the amplitude and the nature of the current turmoil. It is equally evident that the ESS has to ensure transparency in the application of the rules and effective communication. Yet if the existing rules are clear, they do not generally deal with specific cases and inevitably, due to the complexity of the operations undertaken, questions of interpretation have arisen and will continue to arise. This means that, following a general statement of the statistical principles to be followed, a case by case interpretation will have to be prepared, as well as adequate communication.

## **2. Principles**

The responses to the global financial turmoil in Europe are not the same in each country. Cases may vary and there are different national contexts - as a consequence, there cannot be uniform responses. Indeed, the rules on the internal market, on state aid and the Stability and Growth Pact (SGP) include provisions for this kind of situation.

There should be no doubt that the SGP is anchored in accounting terms in the national accounts framework. Statistical rules should continue to be applied as foreseen in the relevant regulations.

The operations undertaken will have to be assessed by the statistical authorities in Member States and Eurostat based on ESA95 rules.

### **2.1. Basic principles**

In the assessment phase, some basic principles have to be established:

- a. Similar cases are treated in a similar way.
- b. Transparency is provided on the argumentations - based on the ESA - underlying the accounting choices.
- c. The heightened uncertainty in the current context will call for particular caution in addressing valuation problems faced by statisticians, notably in relation to contingent liabilities, such as government guarantees.

- d. The co-operation between Eurostat and the national statistical authorities will need to be strengthened, especially for operations which involve more than one country.
- e. Member States on their part will need to ensure that reliable and complete information is provided to statistical authorities, and enhance their capacity to react.

## **2.2. *Operational principles***

The general principles will be operationally translated as follows:

1. National accounting rules, as legally defined in ESA95 and taking into account the ESA95 Manual on Government Deficit and Debt, will naturally continue to be applied. An appropriate interpretation of existing rules, particularly for new forms of rescue and other support operations, relevant for the implications of the present financial turmoil (such as for instance those for situations of financial defeasance), will be defined after a proposition of the TF ACGFC (which will become a CMFB Task Force chaired by Eurostat), with extended composition - particularly for affected countries - and mandate, and after consultation of the CMFB.
2. If a government makes a capital injection in fundamentally profitable private banks due simply to a temporary lack of liquidity, it is likely that Member States will classify this operation as financial, without impact on the government deficit. Eurostat will alert all national statistical offices to the fact that the consideration whether a transaction has taken place on a "fair" or "market" price basis needs to take into account heightened uncertainty over valuations due to the disruption in the current situation of financial market turmoil. Hence, given that it will take time before full stabilization is achieved, a number of quarters or even years will need to elapse before a final judgement on the impact of these capital injections on the deficit can be given, as was the case in the past with some other government capital injections.
3. Communication capacities at ESS level will be enhanced in order to put in place an appropriate communication flow between the Commission (Eurostat) and Member States (statistical authorities), as well as the ECB.
4. Communication with users (other Commission departments, ECOFIN, EFC, Ministries of Finance) will be enhanced.
5. Eurostat, in strict cooperation with NSIs, will take a pro-active role trying to anticipate statistical consequences of planned or announced actions, based on the information at its disposal.

6. The ordinary existing workflow between national statistical authorities and Eurostat will be strengthened. National statistical authorities will be called upon to enhance efforts to receive timely, reliable and relevant information on financial rescue operations from other national authorities to assist them in their work. NSIs will be encouraged to provide to Eurostat the necessary information to evaluate the accounting consequences of national cases, based on information from other national authorities, and direct bilateral relationships will be established between Eurostat and national statistical authorities in order to evaluate and discuss the accounting implications of individual operations.
7. Eurostat will take a central role in the definition of appropriate advice to national authorities on a continuous basis, throughout the process of definition and progressive implementation of such measures.
8. Appropriate coordination will be promoted by Eurostat in particular for cases which involve more than one country.

### **3. Response of the ESS**

The ESS needs to promptly set up an appropriate action plan that, starting from the general and operational principles, offers a road map towards addressing statistical issues related to the financial turmoil. This road map relies on a detailed action plan whose aim is to coordinate the response of the ESS to the accounting consequences of the financial turmoil.

#### **Action plan**

##### ***3.1. Coordination***

The coordination between the different ESS actors in the process has to be strengthened. In particular the coordination between:

- NSIs and other involved national statistical authorities;
- Eurostat and NSIs;
- Eurostat, other Commission services and ECB.

To reinforce these coordination aspects Eurostat will set up a dedicated "cell" to coordinate (in particular) methodological aspects. The support of the ECB and DG ECFIN will be sought.

### **3.2. Methodological aspects and procedures**

The assessment and treatment from a statistical accounting point of view of the cases that are observed during the financial turmoil will be based on the basic and operational principles described in section 2 in line with national accounting rules, as legally defined in ESA95.

#### a. Conceptual Approach

If a Member State needs ex-ante advice on a specific rescue operation, the **established administrative procedures** for the provision of advice by Eurostat on the methodological treatment of such operations (Eurostat's ex-ante advice on methodological issues) apply.

The methodological issues raised by specific cases will be discussed in the **CMFB Task Force** on the accounting consequences for government of the financial turmoil.

Based on the analysis of operations recently observed or planned in Member States and the analysis of the statistical accounting consequences of the European Action Plan, the CMFB Task Force will:

- i) identify, from a national accounts point of view, a typology of (actual and foreseen) bank and other market support operations by public authorities (recapitalisation; purchase/swap of assets; liquidity operations. guarantees; defeasance; ...) and provide a grouping of cases;
- ii) establish guidelines for the national accounts treatment of the identified typologies of operations including the classification of (new or existing) public institutional units implementing the operations – which are consistent with ESA95 and take into consideration the more detailed principles established in the Manual on Government Deficit and Debt.

National statistical authorities of Member States will be asked to participate actively in this task force, in particular those of concerned Member States.

The guidelines developed by the Task Force will be referred to a consultation of the CMFB.

The existing ex-ante advice procedure allows up to two months before Eurostat provides its preliminary view to a Member State. However many bank and other market support operations are undertaken at short notice. If a country needs **quick statistical advice** at very short notice, a shortened ex-ante procedure will be applied. Eurostat will provide a

preliminary quick advice on the basis of the available information, according to a prudent approach taking into consideration the current situation. In formulating such preliminary quick advice, Eurostat will as far as possible seek the support of the relevant Member State's statistical authorities, the ECB and DG ECFIN.

To support the formulation of this quick advice and the work of the CMFB Task Force, Eurostat will put together an ESS "**vademecum**" explaining the possible impact of operations carried out in the past by Member States and/or planned, which might be relevant in the context of the current financial turmoil. This will be brought to the attention of the different parties involved, including Member States. Possible accounting consequences and derived rules will be indicated. Case-types will be identified as far as possible, and updated according to their evolution.

b. Coordination of statistical treatment

Eurostat will intensify communication with Member States in order to create awareness of the importance of a proper communication between national authorities. In the case of ex-ante advice, National statistical authorities in Member States will be appropriately consulted whenever possible in order to evaluate accounting consequences of national rescue cases, and will be encouraged to provide all necessary information for Eurostat to evaluate consequences of planned or present actions by national governments.

Eurostat and NSIs will endeavour to provide jointly (whenever possible) an assessment of the case. In case of urgent need, ad-hoc meetings between Eurostat and concerned NSIs could be organised (either in Eurostat or in the Member State concerned) in order to exchange information, and possibly provide prompt advice or a first assessment of the operations planned/involved.

Following the implementation of a support operation by a Member State, the national statistical authorities will be asked to provide to Eurostat a first assessment of the statistical implications of the operation, together with the necessary background information.

This will allow an assessment of the case by methodological experts coordinated by Eurostat.

Eurostat will put in place a "**barometer**", to be updated constantly, providing a brief description of the existing operations undertaken by governments and the amounts involved.

c. Data reporting

The statistical accounting consequences of the support operations will be ultimately officially reflected in the EDP notifications sent by Member States to Eurostat twice a year. At that stage Eurostat will check that the agreed approach has been correctly implemented, using a specific questionnaire.

In case of uncertainties over details of the operations or of the accounting consequences, Eurostat will adopt a prudent attitude and to reflect the consequences of the operations in its press release on government deficit and debt. In such circumstances, footnotes or comments in the press release will be used in order to stress the situation of uncertainty.

**3.3. *Communication aspects***

Communication is paramount in the entire process.

Eurostat will intensify communication with all the main actors:

- with NSIs, in order to create awareness of the proposed process and action plan but also throughout the phases of the assessment of specific transactions. Particular attention will be devoted to communication aspects covering cross-national cases.
- with NSIs to coordinate a common communication in case of public release of information at national or European level.
- with Member States by promoting the creation of a network of contact points in NSIs.
- with the relevant statistical committees and groups (SPC, national and financial accounts working groups).
- with the CMFB.
- with other Commission departments and the ECB to strengthen and coordinate the approach among institutions, and by creating a depository of knowledge on specific cases.
- with political bodies (ECOFIN, EFC) to make them aware of the evolving situation and of the actions undertaken.
- with international organisations (IMF, OECD, UN).