

Ex w yk hoxponua
oXoyupo



EUROPEAN COMMISSION
EUROSTAT

Directorate C: National and European Accounts
Unit C-3: Public Finance



13 March 2008

Eurostat Guidance on accounting rules for EDP¹

Financial derivatives

Executive summary

This note examines the appropriate accounting treatment under the ESA 1995 and the excessive deficit procedure (EDP) of some specific financial derivatives transactions (swap cancellations, off-market swaps and interest rate based options), with the aim to ensure an appropriate measurement of the government deficit and debt, as well as an homogeneous treatment across Member States, in the light of the ESA 1995 principles and rules and of the exception for swaps and forward rate agreements, regulated by Regulation 2558/2001, foreseen for EDP to these ESA 1995 rules.

Lump sums paid or received by government on swap cancellations, corresponding to the discounted value of expected streams of payments, do not enter the EDP correction for the "streams of interest payments on swaps and forward rate agreements" at time of cancellation and are, thus, without impact on the government deficit/surplus at that time. Instead, these lump sums on early termination shall enter the EDP correction spread over the theoretical remaining life of the swap, with an impact on the government deficit/surplus, so to be consistent with the accounting impact of swap offsets.

Lump sums exchanged at inception on off-market swaps should be classified as loans (AF.4) under ESA 1995, with an impact on the Maastricht debt when the lump sum is received by government. Off-market swaps are to be partitioned in the ESA 1995 balance sheet into a loan component and a regular (at-the-money) swap component. Similarly to swap cancellation, the EDP correction line does not include the lump sum at inception on off-market swaps, but includes streams of interest payments on off-market swaps corrected for the amortization of the lump sum over the life of the contract.

These guidance apply for all swaps, hedging or non-hedging.

Premiums and settlements on swaptions and other interest rates options (e.g., caps, floors) should be considered as financial transactions for EDP purposes, without impact on the government deficit/surplus. Flows related to such swaptions, caps and floors should not lead to entries in the EDP correction line. This guidance does not concern the case of embedded options.

¹ This Guidance note is released under the responsibility of Eurostat. Member States have been consulted within the framework of the Financial Accounts Working Group (FAWG), where this Guidance note received broad support.