


# Procedure file

Basic information	
COD - Ordinary legislative procedure (ex-codecision procedure) Regulation <a href="#">2000/0019(COD)</a>	Procedure completed
European system of national and regional accounts (ESA 95): reclassification of settlements under swaps arrangements and under forward rate agreements Amending Regulation (EC) No 2223/96 <a href="#">1994/0314(CNS)</a>	
Subject 5.10.01 Convergence of economic policies, public deficit, interest rates	

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	<b>ECON</b> Economic and Monetary Affairs		26/01/2000
		PPE-DE <a href="#">KAUPPI Pii-Noora</a>	
Council of the European Union	Council configuration	Meeting	Date
	Development	<a href="#">2383</a>	08/11/2001
European Commission	Commission DG	Commissioner	
	<a href="#">Eurostat</a>		

Key events			
10/01/2000	Legislative proposal published	COM(1999)0749	Summary
21/01/2000	Committee referral announced in Parliament, 1st reading		
27/02/2001	Vote in committee, 1st reading		Summary
27/02/2001	Committee report tabled for plenary, 1st reading	<a href="#">A5-0071/2001</a>	
14/03/2001	Debate in Parliament		
15/03/2001	Decision by Parliament, 1st reading	<a href="#">T5-0142/2001</a>	Summary
15/06/2001	Modified legislative proposal published	COM(2001)0328	Summary
08/11/2001	Act adopted by Council after Parliament's 1st reading		
03/12/2001	Final act signed		
03/12/2001	End of procedure in Parliament		
28/12/2001	Final act published in Official Journal		

Technical information	
Procedure reference	2000/0019(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Regulation
	Amending Regulation (EC) No 2223/96 <a href="#">1994/0314(CNS)</a>
Legal basis	EC Treaty (after Amsterdam) EC 285
Stage reached in procedure	Procedure completed

Documentation gateway					
Legislative proposal		<a href="#">COM(1999)0749</a> <a href="#">OJ C 116 26.04.2000, p. 0063 E</a>	10/01/2000	EC	Summary
Committee report tabled for plenary, 1st reading/single reading		<a href="#">A5-0071/2001</a>	27/02/2001	EP	
Document attached to the procedure		<a href="#">BCE(2001)0010</a> <a href="#">OJ C 103 03.04.2001, p. 0008</a>	02/03/2001	ECB	Summary
Text adopted by Parliament, 1st reading/single reading		<a href="#">T5-0142/2001</a> <a href="#">OJ C 343 05.12.2001, p. 0202-0256</a>	15/03/2001	EP	Summary
Modified legislative proposal		<a href="#">COM(2001)0328</a> <a href="#">OJ C 270 25.09.2001, p. 0082 E</a>	15/06/2001	EC	Summary

Additional information	
European Commission	<a href="#">EUR-Lex</a>

Final act
<a href="#">Regulation 2001/2558</a> <a href="#">OJ L 344 28.12.2001, p. 0001</a> Summary

## European system of national and regional accounts (ESA 95): reclassification of settlements under swaps arrangements and under forward rate agreements

**PURPOSE :** to amend the Council Regulation 2223/96/EC on the reclassification of settlements under swaps arrangements and under forward rate agreements. **CONTENTS :** This measure changes the classification of interest flows under swap contracts and forward rate agreements from income property to financial account transactions. The Commission considers it appropriate to record interest flows in financial transactions under the item financial derivatives, in order to bring this into line with other international standards. The main ground for the original classification was the cost of capital principle. This means that consideration must be given to both the interest flows exchanged under a swap contract and the interest paid/received on the underlying instrument, in order to get a fair measure of the exact cost of capital for a borrower. This treatment was viewed as raising conceptual problems from the beginning: - There is income flow but without provision of funds, thereby contradicting the definition of interest as the income receivable by the owner of a financial asset in return for providing funds. - Currently, the majority of swaps are purely speculative instruments. They may also be used in the framework of other financial derivatives operations. Several instruments can help manage interest risk and a comprehensive approach to all financial derivatives seems more consistent. - It was stressed that the argument concerning the cost of capital should not be confined to interest. Commodity futures, for example, may permit the reduction of the price paid by the buyer. - For reasons of consistency, it is also proposed that interest flows under cross-currency swaps (with an exchange of principal in two different currencies) be classified as financial account transactions.?

## European system of national and regional accounts (ESA 95): reclassification of settlements under swaps arrangements and under forward rate agreements

The committee adopted the report by Piia-Noora KAUPPI (EPP-ED, FIN) amending the proposal under the codecision procedure (1st reading). As the proposal would have the effect of excluding swaps and Forward Rate Arrangements (FRAs) from deficit calculations used in the excessive deficit procedure, the amendments sought to establish separate treatment for these two items, as recommended by the majority of national statistical offices. ?

## European system of national and regional accounts (ESA 95): reclassification of settlements under swaps arrangements and under forward rate agreements

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This document contains the opinion of the European Central Bank (ECB) at the request of the Council of the European Union concerning a proposal for a European Parliament and Council Regulation amending Council Regulation 2223/96/EC on the reclassification of settlements under swap arrangements and under forward rate agreements. On 27 March 2001, the ECB received a request from the Council of the European Union (EU) for an opinion on Commission proposal COM(1999) 749 final of 10 January 2000 for a European Parliament and Council Regulation amending Council Regulation 2223/96 of 25.06.1996 on the European system of national and regional accounts in the Community. The ECB welcomes the change in the European system of accounts (ESA) 95 methodology that would correct the asymmetric treatment of settlements under swap arrangements and forward rate agreements compared to the statistical treatment of other types of financial derivatives. This change would enhance the usefulness of ESA 95 statistics for macroeconomic analysis of the economy as a whole. While the ECB prefers to lay down in legal acts only one definition for important statistical indicators such as government net lending/net borrowing and government investment expenditure, the ECB accepts two definitions for government net lending/net borrowing and interest given the necessity of reflecting the cost of government borrowing in the EDP figures and at the same time remaining consistent with international standards. The ECB considers however, that it is important to monitor and to explain the differences in the data compiled and published according to each of the two definitions in order to provide transparency in the EDP.?

## European system of national and regional accounts (ESA 95): reclassification of settlements under swaps arrangements and under forward rate agreements

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The European Parliament approved with two amendments the report drafted by Mrs Piia-Noora KAUPPI (EPP/ED, FIN) which aims to update the European System of Accounts (ESA) relating to figures to be included for measuring government borrowing and amending as part of the excessive debt procedure. The proposal would have had the effect of excluding certain financial transactions i.e. "Swaps" and Forward Rate Arrangements (FRAs) from the calculations, hence the amendments are designed to ensure that these two amendments are included. ?

## European system of national and regional accounts (ESA 95): reclassification of settlements under swaps arrangements and under forward rate agreements

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In relation to the proposed amendments on the reclassification of settlements under swaps arrangements and under forward rate agreements, the European Commission has accepted the amendments presented by the European Parliament. They are: - to guarantee that the effects of settlements under swaps contracts and FRAs shall be effectively taken into account in the statistical data used for the Excessive deficit procedure. - a new Annex (V), in ESA95, specifying that the balancing item used for the definition of government deficit under the framework of the Excessive deficit procedure, shall take into account flows on interest exchanged under swap contracts and FRA's. ?

## European system of national and regional accounts (ESA 95): reclassification of settlements under swaps arrangements and under forward rate agreements

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PURPOSE: To reclassify settlements under swaps arrangements and under forward rate agreements. COMMUNITY MEASURE: Regulation 2558/2001/EC of the European Parliament and of the Council amending Council Regulation 2223/96/EC as regards the reclassification of settlements under swaps arrangements and under forward rate agreements. CONTENT: Council Regulation 2223/96/EC sets common standards and definitions for Member States to apply when preparing national accounts for the statistical requirements of the European Community. The purpose of this is to ensure comparable results between the EU Member States. The current accounting methodology relied on for the implementation of Regulation 2223/96 is "European System of Accounts" (ESA) 95. Under the original versions of ESA 95 swaps and forward rate agreements were deemed non-financial transactions, recorded in property income, under the item interest. In light of problems raised due to this classification new legislation has been enacted where by swaps and forward rate agreements will be classified under the item financial derivatives and included in ESA 95 under the title "Securities other than shares". In order to make the necessary changes, Annex A of Regulation 2223/96 has been amended. The most essential changes include the provision that: - No payment resulting from any kind of swap agreement is to be considered as interest and recorded under property income. All settlements are to be recorded in the financial account. - Transactions under forward rate agreements are not to be recorded as property income. Rather, they are to be recorded under the item financial derivatives. A new Annex (Annex V) has been introduced entitled "Definition of government deficit for the purpose of the excessive deficit procedure". This specifies that balancing items used for the definition of government deficit should take flows on interest exchanged under swap contracts and FRA's into account. ENTRY INTO FORCE: 28/12/01.?