



CENTRAL BANK &
FINANCIAL SERVICES
AUTHORITY OF IRELAND

Financial Vehicle Corporations Return (FVC1) Notes on Compilation

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Table of contents

Section 1: Introduction	5
Statistical requirements of Financial Vehicle Corporations	5
General definitions.....	5
Valuation.....	5
Reporting currency	6
List of FVCs	6
Derogation on securitised loans data	6
The 'reduced reporting requirement' for smaller FVCs	7
Minimum standards and revisions policy.....	7
Section 2: Definitions of sectors	8
Monetary Financial Institutions (MFIs)	8
General government.....	8
Other financial intermediaries and financial auxiliaries (OFIs).....	8
Insurance corporations and pension funds (ICPFs).....	9
Non-financial corporations (NFCs)	9
Households and non-profit institutions serving households	9
Section 3: Definitions of counterparty residency	10
Domestic.....	10
Other Monetary Union Member States (OMUMs).....	10
Rest of World.....	10
Section 4: Definitions of instrument categories	11
ASSET CATEGORIES	11
1. Deposits and loan claims.....	11
2. Securitised loans	11
3. Securities other than shares.....	13
4. Other securitised assets	14
5. Shares and other equity	14
6. Financial derivatives.....	14

7. Fixed assets	15
8. Remaining assets	15
LIABILITY CATEGORIES.....	16
9. Loans and deposits received.....	16
10. Debt securities issued	16
11. Capital and reserves.....	17
12. Financial derivatives	17
13. Remaining liabilities.....	17
Section 5: Definition of financial transactions.....	19
Introduction	19
Reporting of financial transactions using cash flows.....	19
Financial transactions in asset and liability categories.....	20
Section 6: Structure of the return.....	22
Table 1: Outstanding amounts on balance sheets	22
Table 2a: Financial transactions.....	22
Table 2b: Write-offs/write-downs	23
Table 3a: Securities other than shares (security-by-security reporting of ISIN codes).....	23
Table 3b: Securities other than shares (without ISIN codes)	24
Table 4: ISIN codes of securities issued by the FVC	24
Table 5: Total Assets/Liabilities (FVC subject to reduced reporting requirements)	24

Section 1: Introduction

Statistical requirements of Financial Vehicle Corporations

The statistical requirements from Financial Vehicle Corporations (FVCs) are set out in *Regulation (EC) No 24/2009 of the European Central Bank of 19 December 2008 concerning statistics on the assets and liabilities of financial vehicle corporations engaged in securitisation transactions (ECB/2008/30)* – the ‘FVC Regulation’. The requirements will be met by FVCs resident in Ireland through the FVC1 return which must be transmitted to the Central Bank on a quarterly basis via the Online Reporting System.

This document sets out the instructions for compiling the FVC1 return for reporting agents. Details on transmitting the return via the Online Reporting System, and technical specifications for uploading data to the system in XML format, may be found in separate documents which on the Central Bank’s website: http://www.centralbank.ie/sta_fvc.asp.

General definitions

‘Reporting agent’ is the FVC itself, or the agent that has been nominated on its behalf to provide statistical information to the Central Bank of Ireland. The FVC is requested to provide the name of the organisation or institution which will act as reporting agent on behalf of the FVC. If the reporting agent of the FVC will change, the Central Bank should be notified as soon as possible.

‘Reference date’ is the end of the quarter. In line with Article 4.5, if available data (e.g. from investor reports) refer to any date within a quarter, reporting agents may report these quarterly data instead, if the data are comparable. If there have been significant transactions between this date and the end of the quarter these should be taken into account.

‘Deadline’ is the close of business of the 19th working day after the last working day of the reference quarter. (‘Working days’ exclude weekends and Irish public holidays.) A schedule of reporting deadlines for returns is available on the website of the Central Bank.

‘Maturity’ is the *original* maturity of an instrument, and not its *residual* maturity (time left to maturity) or *expected* maturity (if this is different to the original maturity). In all cases in the FVC1 return and these notes, ‘up to’ should be interpreted as ‘up to *and including*’ the relevant maturity.

Valuation

Assets and liabilities of FVCs should be reported in accordance with the reporting rules laid down in national accounting practices (Article 4.5). However, where mark-to-market prices for financial derivatives are not readily available, or are difficult or costly to establish, FVCs are exempted from mark-to-market reporting (Article 4.4) and may report the valuation used in investor reports or a similar source.

Reporting currency

All monetary values should be reported in thousands of euro. All foreign-currency assets and liabilities, attributable to domestic, other monetary union and rest of the world residents, should be valued at the exchange rates at the reference date and entered on the return as the euro equivalent of the amount outstanding on that date. The Central Bank and ECB websites provide a range of exchange rates on for use in statistical returns. If an exchange rate is not provided for a particular currency, institutions should use the same rate as that used in their own internal accounts.

Foreign-currency assets and liabilities which are provided in non-euro currencies in an investor report (subject to the criteria in the 'reference date' definition above) should be converted into euro using the end-quarter exchange rate. However, if foreign-currency assets and liabilities are provided on the investor report in euro only (converted at the reference date of the report), such that it would not be possible to establish the values of these assets and liabilities in euro at the end-quarter conversion rate, then the reporting agent may use the investor report value. This is without prejudice to the fact that significant transactions occurring between this date and the end of the quarter should be taken into account.

The Online Reporting System will accept integer values for monetary values only (i.e. with no decimal points). Amounts should be rounded to the nearest thousand, and validation of figures will be at the level of thousands.

List of FVCs

Article 3 of Regulation ECB/2008/30 states that all domestic entities falling under the definition of FVCs in Article 1, should be registered with the respective National Central Bank. The following variables should be provided on notification, through the form available on the Central Bank website:

- Address of the FVC
- Corporate Services Provider to the FVC
- Nature of securitisation
- ISIN codes of debt securities issued

ISIN codes will be collected quarterly through Table 4 of the FVC1 return in order to satisfy Article 3.1 of Regulation ECB/2008/30. If necessary, the FVC reporting agent should provide notification of changes to the other variables (e.g. corporate services provider, address) through the form available on the Central Bank website.

The FVC should notify the Central Bank of its existence when it has taken up business, as defined in Article 1.10. If an FVC is set up with the intention of commencing securitisation activity in the next six months, it should be added to the list. Regular reporting will be expected to commence at the end of the quarter in which the FVC was established.

Derogation on securitised loans data

Under Article 5.1(a) of the FVC Regulation, the Central Bank will grant a derogation to FVCs with respect to the maturity, sector and residency breakdowns of outstanding securitised loans on their balance sheets if these loans were originated and are being serviced by a euro-area Monetary Financial Institution (MFI) through a true-sale securitisation.

This derogation will be used in all applicable cases. The Central Bank, with help from colleagues in other National Central Banks, will confirm that the appropriate information is captured in banks' returns for those FVCs with a derogation.

The 'reduced reporting requirement' for smaller FVCs

Under Article 5.1(b) of the FVC Regulation, the Central Bank is implementing a 'reduced reporting requirement' for FVCs with balance sheets of less than €180 million. FVCs which qualify for this derogation will be requested to provide only one figure (total assets, equal to total liabilities) quarterly. They must also provide ISIN codes (where applicable) for debt securities issued.

This derogation may be applied under the Regulation by a National Central Bank provided that the aggregated assets of FVCs' subject to reduced reporting does not exceed 5% of the total FVC population's total assets. The Central Bank will review the threshold on an annual basis to ensure that this condition is met.

On registration, FVCs are requested to provide the size of the vehicles balance sheet (or expected size when the vehicle has fully taken up business). If this is under the threshold, the reduced reporting requirement will normally apply. Exceptions to the size derogation will apply if the derogation on securitised loans data (above) applies, i.e. in cases where the securitised loans breakdowns will be supplied from the servicing MFI through a National Central Bank.

FVCs which exceed this threshold – i.e. they do not qualify for the derogation – may not avail of it if or when their balance sheet falls below the threshold.

Minimum standards and revisions policy

The minimum standards which must be followed by the reporting population are set out in Annex III of Regulation ECB/2008/30.

Reporting agents who wish to revise data which has already been submitted should contact fvc.onlinereporting@centralbank.ie in order to request for the return to be unlocked for retransmission. Reporting agents should provide reasons for such revisions, unless it has been in response to, or at the request of, the Central Bank.

Section 2: Definitions of sectors

The European System of Accounts 1995 (ESA95) provides the standard for sector classification. Counterparties located in the euro area are identified by sector in accordance with the list of FVCs, investment funds and MFIs for statistical purposes and the guidance for the statistical classification of counterparties provided in the monetary financial institutions and markets statistics sector manual: *Guidance for the Statistical Classification of Customers by the European Central Bank*.

Monetary Financial Institutions (MFIs)

This sector comprises national central banks, credit institutions, credit unions, money market funds, and other financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than monetary financial institutions (MFIs), and, for their own account (at least in economic terms), to grant credits and/or to make investments in securities.

A list of monetary financial institutions is available from the Central Bank of Ireland, the European Central Bank and any other National Central Bank of the monetary union area.

General government

Institutional units which are principally engaged in the production of non-market goods and services, intended for individual and collective consumption and/or in the redistribution of national income and wealth. General government includes four sub-sectors: central government, state government, local government, and social security funds.

Other financial intermediaries and financial auxiliaries (OFIs)

Other financial intermediaries, except insurance corporations and pension funds, consists of all financial corporations and quasi-corporations principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from institutional units other than MFIs, or insurance technical reserves. Financial auxiliaries are financial corporations and quasi-corporations that are principally engaged in auxiliary financial activities, i.e. activities closely related to financial intermediation, but which are not financial intermediation themselves.

FVCs as defined in Regulation ECB/2008/30 and investment funds as defined in Regulation ECB/2007/8 are included in this sector. Lists of investment funds and FVCs for statistical purposes are available on the ECB website. Other financial corporations and quasi-corporations which are classified as OFIs include:

- Corporations engaged in financial leasing, factoring or hire purchase and the provision of personal or commercial finance
- Security and derivatives dealers (on own account)
- Specialised financial corporations such as venture and development capital companies, or import/export financing companies

- Holding corporations which only control and direct a group of subsidiaries principally engaged in financial intermediation and/or in auxiliary financial activities, but which are not financial corporations themselves.

Financial corporations and quasi-corporations which are classified as financial auxiliaries include:

- Loan brokers, securities brokers, investment advisers
- Flotation corporations that manage the issue of securities
- Corporations whose principal function is to guarantee, by endorsement, bills and similar instruments
- Corporations which arrange derivative and hedging instruments, such as swaps, options and futures (without issuing them)
- Corporations providing infrastructure for financial markets
- Insurance brokers, insurance and pension consultants
- Managers of pension funds, mutual funds, etc.
- Corporations providing stock exchange and insurance exchange

Insurance corporations and pension funds (ICPFs)

Financial corporations, which are principally engaged in financial intermediation as a consequence of the pooling of risks. This includes life and non-life insurance activity. Only pension schemes with autonomy of decision-making and with a complete set of accounts are included here. Other pension funds, which remain part of the entity which set them up, e.g., company pension funds, should not be included here.

Non-financial corporations (NFCs)

All private and public institutional units which are not classified as financial corporations but rather in the production of goods and non-financial services with the object of generating profit.

Households and non-profit institutions serving households

Individuals or groups of individuals acting as (i) consumers; (ii) producers of goods and non-financial services exclusively intended for their own final consumption and (iii) small-scale market producers (such as sole proprietorships and partnerships without independent legal status, usually drawing on their own labour and financial resources).

Non-profit institutions serving households (NPISHs) are defined as separate legal institutional units which are principally engaged in serving particular groups of households and the main resources of which derive from occasional sales, voluntary contributions, occasional financing by general government and property income.

Section 3: Definitions of counterparty residency

A geographic breakdown is required for many asset and liabilities categories according to residency of the customer or counterparty.

The distinction between residents should be based on the residency of the counterparty and not on the location of the branch in which the account is maintained. The residency classification is based on international statistical standards and does not correspond to tax residency.

Domestic

Domestic refers in all cases to Ireland, i.e. domestic with respect to the FVC which is resident in Ireland.

Other Monetary Union Member States (OMUMs)

This refers to residents of a member state of the euro area, other than Ireland, currently: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Italy, Luxembourg, Malta, The Netherlands, Portugal, Slovakia, Slovenia and Spain.

Rest of World

Rest of World refers to residents of states outside the euro area. It includes states in the EU which have not adopted the euro. No breakdowns with respect to sector (i.e. government, NFC, household, etc) are required for Rest of World residents.

Box 1: A bank resident in the euro area securitises mortgages made to customers both in Ireland and another euro-area country via an FVC resident in Ireland.

This FVC should report the securitised loans on its balance sheet as securitised loans, originated by an MFI in the euro area. Loans made to Irish customers should be reported in the Domestic household sector. Loans made to the home customers of the originating bank should be reported in the OMUMs household sector. (Note: if the originating MFI is also servicing these loans, then a derogation would apply.)

Section 4: Definitions of instrument categories

ASSET CATEGORIES

1. Deposits and loan claims

For the purposes of the reporting scheme, this consists of funds lent by FVCs to borrowers that are not evidenced by documents or are represented by a single document even if it has become negotiable.

It includes the following items:

- deposits placed with monetary financial institutions (MFIs)
- loans granted by the FVC to other entities
- claims under reverse repos or securities borrowing against cash collateral. Counterpart of cash paid out in exchange for securities purchased by FVCs, or securities borrowing against cash collateral (see category 9)

This item also includes holdings of euro and foreign currency banknotes and coins in circulation that are commonly used to make payments.

For deposits and loan claims, the values to be recorded are the amounts of principal that the debtors are contractually obliged to repay to the reporting FVC. For currency in circulation, the valuation is the nominal or face value of the currency (converted into euro, if necessary).

This item does not include accrued interest receivable on deposits and loans, which should be reported in 'remaining assets'.

2. Securitised loans

For the purposes of the reporting scheme, this consists of funds lent to borrowers and acquired by the FVC from the originator. These funds are not evidenced by documents or are represented by a single document even if it has become negotiable.

This also includes:

- financial leases granted to third parties: financial leases are contracts whereby the legal owner of a durable good (hereinafter the 'lessor') lends these assets to a third party (hereinafter the 'lessee') for most if not all of the economic lifetime of the assets, in exchange for instalments covering the costs of the good plus an imputed interest charge. The lessee is assumed to receive all the benefits derivable from the use of the good and to incur the costs and risks associated with ownership. For statistical purposes, financial leases are treated as loans from the lessor to the lessee enabling the lessee to purchase the durable good. Financial leases granted by an originator, acting as the lessor, are to be recorded under the asset item 'securitised loans'. The assets (durable goods) which have been lent to the lessee must not be recorded

- bad debt loans that have not yet been repaid or written-off: bad debt loans are considered to be loans in respect of which repayment is overdue or otherwise identified as being impaired
- holdings of non-negotiable securities: holdings of securities other than shares and other equity which are not negotiable and cannot be traded on secondary markets, see also ‘traded loans’
- traded loans: loans that have de facto become negotiable are to be classified under the asset item ‘securitised loans’ provided that they continue to be evidenced by a single document and are, as a general rule, only traded occasionally
- subordinated debt in the form of deposits or loans: subordinated debt instruments provide a subsidiary claim on the issuing institution that can only be exercised after all claims with a higher status e.g. deposits/loans have been satisfied, giving them some of the characteristics of ‘shares and other equity’. For statistical purposes, subordinated debt is to be treated according to the nature of the financial instrument, i.e. classified as either ‘securitised loans’ or ‘securities other than shares’ according to the nature of the instrument. Where FVC holdings of all forms of subordinated debt are currently identified as a single figure for statistical purposes, this figure is to be classified under the item ‘securities other than shares’, on the grounds that subordinated debt is predominantly constituted in the form of securities, rather than as loans

Securitised loans must be reported according to the following rules:

- a maturity breakdown is required for loans to non-financial corporations originated by euro area MFIs. It means maturity at the time the loan was granted, i.e. original maturity and refers to the fixed period in which the loan is due to be repaid
- loans must be reported at nominal value (net of write-offs/write-downs), even if purchased from the originator at a different price. The counterpart to the difference between the nominal value and the purchase price must be included under ‘remaining liabilities’. Any write-offs/write-downs should be netted from this counterpart rather than capital (as long as the counterpart remains)

This item includes securitised loans, irrespective of whether the prevailing accounting practice requires the recognition of the loans on the FVC's balance sheet.

This item does not include debt securities that are backed by securitised loans (e.g. MBS, CMBS, etc). These should be reported under ‘securities other than shares’.

Box 2: Treatment of originator for CLOs which purchase and manage syndicated loans

In the FVC Regulation, securitised loans should be recorded according to the originator of the loan (row), and the customer (column). There have been difficulties in making a determination of originator for CLOs which have syndicated loan assets. It has been decided to collect this information without the need to identify an originator. This will be accommodated through a short-term approach so that amendments to existing cells and of the return, XML schemas, etc. are not required.

Syndicated loans for which it is not possible to identify the originator of the loan may be reported as “non-allocated originator”. I.e. reporting agents may report total loans either under “euro-area MFI originator” with the geographic and sector breakdowns, or just the total under “non-euro area originator” without any breakdowns (according to their preference). This removes the need for reporting agents to allocate loans on the balance sheet between euro-area / non-euro area originators etc.

The Central Bank will identify vehicles affected by this issue through a survey and so be able to correct these figures for “non-allocated originators”.

Once this requirement is formalised we can adapt the FVC return appropriately. Due to the useful nature of the sector and geographic profile of the loans on these balance sheets, it may become a requirement to provide sector and geographic breakdowns for these loans from a future date. (This would only happen after at least a six month lead-in time.) This information is generally readily available to reporting agents on investor reports. Reporting agents may provide these breakdowns during the transitional phase if they wish, but there is no obligation to do so.

To summarise:

- For applicable vehicles, the identification of an originator is not required. It is preferred that the volumes are reported with the breakdowns required for securitised loans which are originated by euro-area MFIs. Alternatively, however, the total volume only may be reported in the cell for non-euro area originators.
- The Central Bank will compile volumes for “securitised loans with unallocated originator” through a once-off survey of affected vehicles.
- This transitional phase will continue until the collection of securitised loans with unallocated originators can be accommodated within the reporting scheme.

3. Securities other than shares

Holdings of securities other than ‘shares and other equity’ (category 5), which are negotiable and usually traded on secondary markets or can be offset on the market, and which do not grant the holder any ownership rights over the issuing institution

This item includes:

- holdings of securities, whether or not evidenced by documents, which give the holder the unconditional right to a fixed or contractually determined income in the form of coupon

payments and/or a stated fixed sum at a specific date or dates or starting from a date defined at the time of issue

- subordinated debt in the form of debt securities

Securities lent out under securities lending operations or sold under a repurchase agreement remain on the original owner's balance sheet and are not to be recorded on the temporary acquirer's balance sheet where there is a firm commitment to reverse the operation and not simply an option to do so (see also category 9). Where the temporary acquirer sells the securities received, this sale must be recorded as an outright transaction in securities and entered in the temporary acquirer's balance sheet as a negative position in the securities portfolio.

This item includes securities other than shares that have been securitised, irrespective of whether the prevailing accounting practice requires the recognition of the securities on the FVC's balance sheet.

This item does not include accrued interest receivable on securities, which should be reported in 'remaining assets'.

4. Other securitised assets

This item includes securitised assets other than those included under categories 2 and 3, such as trade receivables, tax receivables, operational leases, or commercial credits, irrespective of whether the prevailing accounting practice requires the recognition of the assets on the balance sheet of the FVC.

Other assets underlying a securitisation may include physical assets – such as land or property – which have been seized as collateral on defaulted loans. Such assets are distinguished from tangible fixed assets for investment in category 7.

Other securitised assets which have been originated by either a euro area NFC (e.g. trade receivables) or a euro area government (e.g. tax receivables) must be separately reported on the return.

5. Shares and other equity

Holdings of securities which represent property rights in corporations or quasi-corporations. These securities generally entitle the holders to a share in the profits of corporations or quasi-corporations and to a share in their own funds in the event of liquidation.

6. Financial derivatives

Under this item, all the following financial derivatives must be reported:

- options
- warrants
- futures
- swaps, in particular credit default swaps

Where mark-to-market prices for financial derivatives are not readily available, or are difficult or costly to establish, FVCs are exempted from mark-to-market reporting of this item, in line with Article 4.4 of Regulation ECB/2008/30. In such cases, reporting agents may report the valuation used in investor reports or a similar source.

This item does not include financial derivatives that are not subject to on-balance-sheet recording according to national rules. Gross future commitments arising from derivative contracts must not be entered as on-balance-sheet items.

The following are not to be regarded as derivatives:

- contingencies such as guarantees and letters of credit. These are not considered to be financial derivatives as their purpose is not to facilitate the trading of financial risk but rather to make payments under specified conditions.
- embedded derivative-like features of standard financial instruments that are an inseparable part of the underlying instrument are not considered to be financial derivatives for statistical purposes because the risk element cannot be traded separately.
- a fixed price contract is not a financial derivative if the main purpose is to deliver an underlying item in exchange for cash (or some other asset). For example, a commercial contract to deliver a commodity is not a derivative unless, like commodity futures, it is traded as a standardised contract on an exchange in a way that financial risk can be traded.

7. Fixed assets

This item includes investments in tangible fixed assets e.g. dwellings, other buildings and structures, and non-residential buildings.

8. Remaining assets

This is the residual item on the asset side of the balance sheet, defined as 'assets not included elsewhere'. This item may include:

- accrued interest receivable on deposits and loans
- accrued interest on securities other than shares
- accrued rent on fixed assets
- amounts receivable which do not relate to the FVC's main business

LIABILITY CATEGORIES

9. Loans and deposits received

Amounts owed to creditors by FVCs, other than those arising from the issue of negotiable securities. This item consists of:

- loans: loans granted to the reporting FVCs which are not evidenced by documents or are represented by a single document even if it has become negotiable
- non-negotiable debt instruments issued by FVCs: instruments may be referred to as being 'non-negotiable' in the sense that the transfer of legal ownership of the instrument is restricted, meaning that they cannot be marketed or, although technically negotiable, cannot be traded owing to the absence of an organised market. Non-negotiable instruments issued by FVCs that subsequently become negotiable and that can be traded on secondary markets should be reclassified as 'debt securities'
- repos: counterpart of cash received in exchange for securities sold by FVCs at a given price under a firm commitment to repurchase the same (or similar) securities at a fixed price on a specified future date. Amounts received by FVCs in exchange for securities transferred to a third party (temporary acquirer) are to be classified here where there is a firm commitment to reverse the operation and not merely an option to do so. This implies that the FVC retains all risks and rewards of the underlying securities during the operation. The following variants of repo-type operations are all classified here:
 - amounts received in exchange for securities temporarily transferred to a third party in the form of securities lending against cash collateral
 - amounts received in exchange for securities temporarily transferred to a third party in the form of a sale/buy-back agreement

The securities underlying repo-type operations are recorded following the rules in asset item 3 'Securities other than shares'. Operations involving the temporary transfer of gold against cash collateral are also included under this item.

This item does not include accrued interest payable on deposits and loans, which should be reported in 'remaining liabilities'.

10. Debt securities issued

Securities issued by FVCs, other than 'shares and other equity', which are instruments usually negotiable and traded on secondary markets or which can be offset on the market and which do not grant the holder any ownership rights over the issuing institution. It includes, *inter alia*, securities issued in the form of:

- asset-backed securities
- credit-linked notes

11. Capital and reserves

For the purposes of the reporting scheme, this category comprises the amounts arising from the issue of equity capital by FVCs to shareholders or other proprietors, representing for the holder property rights in the FVC and generally an entitlement to a share in its profits and to a share in its own funds in the event of liquidation. Funds arising from non-distributed benefits or funds set aside by FVCs in anticipation of likely future payments and obligations are also included. It includes:

- equity capital
- non-distributed benefits or funds
- specific and general provisions against loans, securities and other types of assets
- securitisation fund units

12. Financial derivatives

See category 6

13. Remaining liabilities

This is the residual item on the liabilities side of the balance sheet, defined as 'liabilities not included elsewhere' This item may include:

- accrued interest payable on loans and deposits
- amounts payable not related to the FVC's main business, i.e. amounts due to suppliers, tax, wages, social contributions, etc.
- provisions representing liabilities against third parties, i.e. pensions, dividends, etc.
- net positions arising from securities lending without cash collateral
- net amounts payable in respect of future settlements of transactions in securities
- counterparts to the valuation adjustment, i.e. nominal less purchase price, of loans.

Figure 1: Full list of asset and liability categories required, with breakdowns

ASSETS	Sector:	Residency:	Maturity:
Deposits and loan claims	MFIs FVCs Unallocated	Domestic OMUMs Unallocated	Unallocated
Securitised loans			
euro area MFI as originator	General Government Other Financial Intermediaries Insurance and Pension Funds Non-financial Corporations Households	Domestic OMUMs Unallocated	(NFC loans only) Up to 1 year 1 to 5 years Over 5 years
euro area General Government as originator	Unallocated	Unallocated	Unallocated
euro area OFI and ICPF as originator	Unallocated	Unallocated	Unallocated
euro area NFC as originator	Unallocated	Unallocated	Unallocated
non-euro area originator	Unallocated	Unallocated	Unallocated
Securities other than shares	MFIs Non-MFIs FVCs Unallocated	Domestic OMUMs Rest of World	Up to 1 year 1 to 2 years Over 2 years
Other securitised assets	Unallocated	Unallocated	Unallocated
<i>of which euro area General Government as originator</i>	Unallocated	Unallocated	Unallocated
<i>of which euro area NFC as originator</i>	Unallocated	Unallocated	Unallocated
Shares and other equity	FVCs Unallocated	Unallocated	Unallocated
Financial derivatives	FVCs Unallocated	Domestic OMUMs Unallocated	Unallocated
Fixed assets	Unallocated	Unallocated	Unallocated
Remaining assets	Unallocated	Unallocated	Unallocated
LIABILITIES	Sector:	Residency:	Maturity:
Loans and deposits received	FVCs Unallocated	Unallocated	Unallocated
Debt securities issued	Unallocated	Unallocated	Up to 1 year 1 to 2 years Over 2 years
Capital and reserves	Unallocated	Unallocated	Unallocated
Financial derivatives	Unallocated	Unallocated	Unallocated
Remaining liabilities	Unallocated	Unallocated	Unallocated
WRITE-OFFS/WRITE-DOWNS	Sector:	Residency:	Maturity:
Securitised mortgages	Unallocated	Unallocated	Unallocated

Section 5: Definition of financial transactions

Introduction

A financial transaction is an acquisition or disposal of an asset or an incurrence or disposal of a liability. For reporting purposes, a net acquisition (disposal) of an asset is recorded as a positive (negative) amount. A net incurrence (disposal) of a liability is recorded as a positive (negative) amount.

Financial transactions reported in Table 2a may not necessarily be the quarter on quarter movement in outstanding amounts¹ reported in Table 1 as transactions do not include the following elements:

- Write-downs/write-offs
- Revaluations due to fair valuing, etc
- Revaluations of assets or liabilities due to exchange rate movements
- Accruals in interest payable/receivable

The method of valuation for each transaction is to take the value at which assets are acquired/ disposed of and/or liabilities are created, liquidated or exchanged. I.e. financial transactions must be reported at the transaction value, irrespective of the valuation methodology used in Table 1. They can therefore be generally considered in terms of cash paid or received in respect to the asset or liability (unless there is an amount which is to be settled at a later date²). Financial transactions in an asset or liability exclude associated service charges, fees, taxes, commissions and similar payments for services provided in carrying out the transaction.

Reporting of financial transactions using cash flows

Financial transactions can often be calculated directly from the cash flows often provided in an investor, distribution report, or similar. For example, any amortisation of loans and asset-backed securities issued, as well as any purchase of loans or issuance of asset-backed securities, should be registered as financial transactions, with their counter-entry being a financial transaction in the item 'deposits and loan claims' for the amount of cash received or paid.

Financial transactions of the asset and liabilities categories in Section 4 should be reported with the appropriate sector, geographic and maturity breakdowns in table 2a. For the purposes of the FVC reporting requirement, the primary focus is on the main items: securitised loans and debt securities held on the asset side and debt securities issued on the liabilities side.

The sum of financial transactions in assets must be equal to the sum of transactions in liabilities.

¹ A comparison of quarterly movements and transactions may be done internally by the Central Bank with suitable thresholds to allow for valid differences between outstanding amounts and transactions. This is not a validation check performed by the Online Reporting System.

² If an amount arising from a transaction relating to the main business of the FVC is to be paid at a later date, it should be recorded as 'deposits and loan claims'. If an amount is to be paid by the FVC to a third party 'loans and deposits received'.

Financial transactions in asset and liability categories

Deposits and loan claims: net cash flows with respect to transactions would be recorded here. In many cases a vehicle's cash inflows are matched by outflows, which will mean a nil net position³.

Securitised loans: transactions in securitised loans may include paying down of principal by debtors (negative transaction) or loan purchases or sales (recorded at purchase/sale price). Interest from securitised loans is not recorded on this line as it does not represent an acquisition or disposal of an asset, but rather income. Write-downs/write-offs of securitised loans are not financial transactions.

Securities other than shares: total financial transactions in debt securities held should be reported in Table 2a. Financial transactions in Table 2a and Table 3b are reported in terms of net acquisitions (positive values) or net disposals (negative values). For security-by-security reporting of debt securities in Table 3a, acquisitions are reported in the 'Purchases' column, and disposals are recorded in the 'Sales' column. Note that principal repaid on a debt security should be recorded as a disposal in the 'Sales' column. (If the security has matured or been redeemed during the quarter, a disposal in the 'Sales' column would be recorded and would be no end-quarter position.) Total financial transactions in securities other than shares reported in Table 3a are found by summing the 'Purchases' across debt securities and subtracting all the 'Sales' (both are reported as positives). The total financial transactions of securities other than shares reported in Table 2a must be equal to the total financial transactions of securities other than shares reported in Table 3a (calculated as above) plus the total financial transactions reported in Table 3b.

Shares and other equity: recorded on the basis of net acquisitions at the purchase/sales price. Dividends are not to be included in financial transactions in shares.

Financial derivatives: net cashflows associated with derivatives recorded in Table 1.

Debt securities issued: financial transactions include paying of principal on issued notes, new issuances and redemptions. Interest paid on debt securities issued should not be recorded here.

Capital and reserves: transactions in capital would include, for example, new issuances or buybacks of equity. Movements in Table 1 relating to provisions against securitised loans are not financial transactions, as there is no acquisition or disposal of the asset. Capital and reserves may also be regarded as the counter-entry to interest paid or received, fees, or other transactions which impact on the

item in Table 2a. This reflects the impact of inflows exceeding outflows (or vice versa) through profit or loss⁴.

³ It may be useful to note that, assuming all transactions of the vehicle are taken into account and there are no revaluations in deposits (e.g. from deposits denominated in currencies other than euro), the financial transactions in deposits would be expected to equal the quarter on quarter movement in outstanding deposits.

⁴ Note again that this may not correspond to changes in the capital and reserves item in Table 1.

Box 3: Illustrative example of financial transactions in securitised loans

In Q1 a new FVC issues notes of face value 1000 and uses the proceeds to purchase impaired loans with nominal outstanding of 1100. Because the loans are impaired, the FVC purchases the portfolio of loans for 1000. It has shareholder capital of 40, on deposit at an MFI.

In Q2, the FVC determines that only a proportion of some loans will be recovered and so makes a write-down of 25. (This write-down in the nominal amount outstanding of securitised loans is recorded in Table 2b.) Also during the quarter the FVC earned interest of 10 on its loan portfolio. Principal repaid on the securitised loans amounted to 50. The FVC paid interest of 9 to noteholders. The FVC paid fees to various counterparties amounting to 1.

What are the financial transactions in this case in Q1 and Q2?

	Q1: Table 1	Q1: Table 2a	Q2: Table 1	Q2: Table 2a
ASSETS				
Deposits and loan claims	40	40	40	0
Securitised loans	1100	1000	1025	-50
LIABILITIES				
Debt securities issued	1000	1000	950	-50
Capital and reserves	40	40	40	0
Remaining liabilities	100	0	75	0

In Q1: The FVC has issued debt securities with a face value of 1000. These were sold at par, and so the financial transaction (cash received) was also 1000. The financial transaction in securitised loans is the amount actually paid for the loans – 1000. As there is a difference between the nominal amount outstanding of the securitised loans and the purchase price, the counterpart to this difference is recorded in remaining liabilities (see Section 4, category 2) in Table 1. This does not, however, constitute a transaction in Table 2a.

In Q2: The transactions in deposit and loan claims includes the principal repaid on the loans (+50), interest earned (+10), principal paid on issued securities (-50), interest paid to noteholders (-9) and fees paid (-1). The net impact on cash in this case is therefore 0.

The transactions in securitised loans includes the principal paid by the loan customers. Interest from securitised loans is not recorded on this line as it this does not represent an acquisition or disposal of an asset, but rather income. The write-down of 25 is not a transaction and so does not appear on Table 2a.

Financial transactions in debt securities issued includes only the principal paid by the FVC to its noteholders. Interest paid is not recorded on this line as it this does not represent an acquisition or disposal of a liability. Note that interest income and expenses are captured through the net impact on deposits above. The write-down of 25 is not a transaction.

The sum of the transactions in assets is equal to the sum of the transactions in liabilities, both amounting to -50.

Section 6: Structure of the return

Table 1: Outstanding amounts on balance sheets

Outstanding amounts of the asset and liabilities categories in Section 4 should be reported with the appropriate sector, geographic and maturity breakdowns. In addition, Total Assets should equal Total Liabilities.

A derogation applies to the maturity, sector, and geographic breakdowns for 'securitised loans originated by a euro-area MFI' where the loans continue to be serviced by the MFI. Instead, these breakdowns will be reported by the MFI directly to the Central Bank or another euro-area National Central Bank. If this is the case, only 'Total' securitised loans originated by a euro-area MFI should be reported, and the other breakdowns for these loans should not be reported.

Box 4: The FVC has securitised loans on its balance sheet which were originated by euro-area MFIs, but only a portion are serviced by the originating MFI.

The derogation applies only to the loans which continue to be serviced by the originating MFI. In this case, the 'Total' should include the serviced and unserviced loans. The maturity, sector and geographic breakdowns should only be supplied for those not serviced by the originating MFI.

Table 2a: Financial transactions

Financial transactions of the asset and liabilities categories in Section 4 should be reported with the appropriate sector, geographic and maturity breakdowns.

Financial transactions are defined as the net acquisition of financial assets or the net incurrence of liabilities for each type of financial instrument, i.e. the sum of all financial transactions that occur during the relevant reporting period. The method of valuation for each transaction is to take the value at which assets are acquired/disposed of and/or liabilities are created, liquidated or exchanged. The sum of financial transactions in assets should be equal to the sum of financial transactions in liabilities.

The transaction value does not include service charges, fees, taxes, commissions and similar payments for services provided in carrying out the transactions. Write-offs/write-downs and valuation changes do not represent financial transactions.

See Section 5 for more information on the reporting of financial transactions.

Table 2b: Write-offs/write-downs

Write-offs/write-downs are defined as the impact of changes in the value of loans recorded on the balance sheet that are caused by the application of write-offs/write-downs of loans. Write-offs/write-downs recognised at the time a loan is sold or transferred to a third party are also included, where identifiable.

Write-offs refer to events where the loan is considered to be a worthless asset and is removed from the balance sheet.

Write-downs refer to events where it is deemed that the loan will not be fully recovered, and the value of the loan is reduced in the balance sheet.

The nominal value of outstanding securitised loans in Table 1 should be reduced to reflect write-offs/write-downs in the quarter the write-down or write-off is applied.

Table 3a: Securities other than shares (security-by-security reporting of ISIN codes)

A maturity breakdown is required for holdings of securities other than shares. This means maturity at issue, i.e. original maturity and refers to the fixed period of life of a financial instrument before which it may not be redeemed. A sector and geographic breakdown is also required for holdings of securities other than shares. These will be computed by the Central Bank for holdings/transactions reported security-by-security (in Table 3a). If holdings/ transactions are not reported on a security-by-security basis, the breakdowns are to be reported by the reporting agent in Table 3b.

The following information should be provided in Table 3a for securities other than shares, for which there is an ISIN code:

- ISIN Code
- Position at start of quarter: The *nominal value* (converted, where necessary, to euro) of the debt securities held at the start of the quarter
- Transactions during the quarter: The *market value* at the purchase date and at the sales date
- Position at end of quarter: The *nominal value* (converted where necessary to euro) of the debt securities held at the end of the quarter
- Price of security: The end-quarter price relative to par value e.g. a security trading at 3% above par should be entered as 103.00. The valuation of the end-quarter position – calculated using the nominal end-quarter position and this price – should be consistent with the valuation used in Table 1 for this item. (For example, the end-quarter market price if securities other than shares are reported at mark-to-market, or the price which equates the end-quarter position with historical cost, as appropriate.)

Securities other than shares should either be reported in Table 3a or 3b – they cannot be reported in both tables. The total securities other than shares figure in Table 1 (outstanding amounts) and Table 2a (financial transactions) should be equal to the totals reported in Table 3a and 3b together.

Table 3b: Securities other than shares (without ISIN codes)

Total securities other than shares assets are to be reported in Table 1, and total transactions in Table 2a. For debt securities without ISIN codes, the necessary geographic, sector and maturity breakdowns must be reported in Table 3b for:

- Outstanding amounts
- Financial transactions (see Section 5)

Securities other than shares should be reported in Table 3a or 3b – they cannot be reported in both tables. The total securities other than shares figure in Table 1 (outstanding amounts) and Table 2a (financial transactions) should be equal to the totals reported in Table 3a and 3b together.

Table 4: ISIN codes of securities issued by the FVC

For the purposes of the List of FVCs, a list of ISIN codes of debt securities in issue at the reference date are required. Debt securities issued by the FVC which do not have ISIN codes, or have an alternative code (e.g. CUSIP or SEDOL codes), should not be listed here.

This list should include codes for *all* debt securities currently in issue, and not just those that have been issued in the reference quarter.

Table 5: Total Assets/Liabilities (FVC subject to reduced reporting requirements)

This will only be available to FVCs which qualify for reduced reporting requirement as they fall under the size derogation. The total assets of the vehicle should be reported in euro, consistent with the methodology which would be applied if the full reporting requirement applied.

As for full reporting, an investor report or similar source of information which has a reference date within the reporting quarter may be used to compile the end-quarter return, so long as significant differences are taken into account.

A vehicle may exceed the threshold slightly in a particular quarter due to, for example, the impact of exchange rate fluctuations on non-euro denominated assets/liabilities. The FVC will generally be allowed to continue to report the reduced requirement in these circumstances.

For more information on FVC reporting, visit the Central Bank website:

[Financial Vehicle Corporations](#)

Queries on registration, reporting requirements, etc should be directed to:

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