



EUROPEAN COMMISSION



EUROSTAT

Directorate C: National and European Accounts

Luxembourg, 25 -07- 2007
ESTAT/C-3/LN/LA/RS/jy D(2007) 30201

Ms Alfonsina Caricchia
Istituto Nazionale di Statistica
Head of National Accounts
Via Cesare Balbo 16
IT - 00184 Roma

Subject: Securitisation operation undertaken by Ferrovie dello Stato in 2004
Your letter dated 30 May 2007

Dear Mrs Caricchia,

In reply to your letter of 30 May 2007 asking an advice on the statistical recording of a securitisation operation undertaken by Ferrovie dello Stato in 2004, I am in a position to inform you of Eurostat's preliminary observations.

The accounting issue for which a clarification is requested

The issue for which an opinion is being sought concerns the correct accounting treatment of certain aspects of a securitisation operation of tax rebate claims on the Italian tax administration, undertaken by Ferrovie dello Stato (FS). In particular, Eurostat's opinion is being sought on the question whether the securitisation should be considered as a transfer of a claim or the incurrence of a loan liability for the originator. Eurostat's opinion is also sought on whether the securitisation changes the nature of the government liability (the tax rebates) from the category "other accounts payable" (AF.79) into "loan" (AF.4).

Documentation provided

ISTAT's request for a clarification was accompanied by an analysis carried out by ISTAT and the Bank of Italy, as well as a copy of the Offering Circular for the issuance of the securities of the entity EUTERPE.

Description of the case

The relevant units and transactions are described on page 1 and 2 of the analysis provided by ISTAT.

FS held claims ("tax rebates") against the tax administration in respect of VAT tax refunds due for the years 1996 and 1997, as well as an excess ("undue") payment relating to the Net Worth Tax for the year 1992. By 31/12/2003, these claims were worth 857 million euro inclusive of accrued interest.

Ferrovie dello Stato was the originator of a securitisation in 2004 of tax rebates claims on the tax administration. The credit claims was transferred to a securitisation vehicle, Euterpe Finance, under conditions described in the provided documentation.

In order to fund the purchase of the claims, the SPV issued bonds with a maturity of 10 years for an aggregate nominal amount of 830.5 million euro. The source for interest on the notes to be paid by the SPV to bondholder seems to originate from a swap agreement between FS and the SPV. In addition, under a repurchase agreement, FS has an obligation to repurchase all the receivables that will be outstanding on the final maturity date and has a possibility to repurchase receivables on any payment day (call option). By 31/12/2006 the amount outstanding in bonds had been reduced to 300 million euro.

Methodological analysis and clarification by Eurostat

After an examination of the provided documentation, Eurostat has reached the following provisional views.

Applicable accounting rules

Council Regulation 2223/96 incorporates the national accounts concepts and definitions of the European System of Accounts (ESA 95) in Community Legislation. It is in its entirety directly applicable in all Member States. Of particular relevance in this case are the ESA95 Chapter 2 on *Units and grouping of units* and ESA95 Chapter 5 on *Financial transactions* as well as the rules fixed for the recording of taxes and social contributions in the amending Regulation 2516/2000.

The ESA95 Manual on government deficit and debt published by Eurostat provides further elements for interpreting the accounting rules of ESA95.

Availability of national accounting analysis

As mentioned above, ISTAT has provided an analysis of the case. This analysis does not reach any conclusion but sets out two options for the main questions.

Analysis

Eurostat notes, on the question of whether the securitisation should be deemed a sale of an asset or an incurrence of loan, that the operation contains a repurchase agreement and a swap agreement between FS and Euterpe. Already because of these circumstances, it would seem appropriate to record the transaction not as a sale of an asset, but as a loan.

Eurostat further notes that the documentation at hand does not allow to determine whether Euterpe should be considered an institutional unit in the sense of ESA95 chapters 2.12 - 2.16.

In the case where Euterpe would be considered an institutional unit, Eurostat notes that the documentation at hand does not allow to determine in which institutional sector the unit should be classified.

On the question of the nature of the government liability, Eurostat notes that the documentation at hand does not allow to determine whether these transactions were in fact originally recorded in the books of government as negative revenue or positive expenditure in the relevant years (1992-1996-1997) with an impact on the government deficit. Eurostat further notes that this issue should also be analysed in the light of the Italian EDP inventory which states that tax revenues are recorded on a time-adjusted cash basis.

Conclusion

On the basis of the above considerations, it is Eurostat's view that the most appropriate accounting treatment of the securitisation transaction would be to record it as a loan from Euterpe to FS.

It is Eurostat's view that further information is needed to clarify the question of the classification of the government liability or its existence (see below under 'open issues').

Open issues

Eurostat would appreciate to receive the following additional information:

- whether the tax rebates actually entered the books of government as negative revenue (positive expenditure) in 1992-1996-1997 with an impact on the government deficit, and if so under which ESA95 transaction.
- information and analysis allowing to determine whether Euterpe should be considered an institutional unit in national accounts.
- information and analysis allowing to determine the sector classification of Euterpe.

Procedure

We would like to remind you that Eurostat is committed to adopting a fully transparent framework for its decisions on debt and deficit matters in line with the amended Council Regulation 3605/93 and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat intends, therefore, to publish all future official methodological advice (ex-ante and ex-post) given to Member States, on the Eurostat web site. In case you have objections concerning this specific case, we would appreciate if you let us know. In any case (regardless of whether you have objections or not) we would like to receive an answer from you on the issue no later than 6 August 2007.

Yours sincerely,



Lours Nørlund
Director