

2 July 2002

CMFB Opinion on the treatment of securitisation operations undertaken by general government

Eurostat consulted the CMFB on Friday 14 June on the above-mentioned subject. The deadline for returning the questionnaire was Wednesday 26 June 2002. Both the procedure and the content of the consultation were agreed by the CMFB Executive Body. All fifteen (15) national statistical institutes and thirteen (13) national central banks from the Member States returned the questionnaire. A total of twenty-eight (28) national institutions, from all Member States, thus participated in the consultation. The ECB also provided a response.

The result of the consultation was as follows:

- On question 1 ("*Classification of securitisation units, Special Purpose Vehicles (SPVs)*"), twenty-three (23) national institutions agreed with the rules stated in the task force draft new chapter (section 2.2) on "Securitisation operations undertaken by general government" annexed to the questionnaire. Among these national institutions, ten (10) agreed with some reservations which mainly concern the current drafting of the text. Four (4) were against the proposed treatment, and one (1) national institution abstained.
- On question 2 ("*Securitisation of future flows*"), twenty-one (21) national institutions agreed with the so-called "Option 1" annexed to the questionnaire (treatment as government borrowing). Six (6) national institutions favoured the treatment as a sale of a non-financial asset under restrictive conditions (otherwise treatment as government borrowing). One (1) national institution abstained.
- On question 3a ("*Transfer of risks, guarantees given to the SPV by government*"), twenty (20) national institutions considered that, in general, the existence of a guarantee implies an insufficient transfer of risk, as stated in the task force draft new chapter (sections 2.4.1 / 3.6) on "Securitisation operations undertaken by general government", and thus a recording of the transaction as government borrowing. Three (3) national institutions argued that another case should be added in which the existence of a guarantee does not imply an insufficient transfer of risks, and thus a recording of the transaction as sale of an asset. Three (3) national institutions proposed another treatment. One (1) national institution did not respond to this question, and one (1) abstained.
- On question 3b ("*Transfer of risks, difference between estimated market price and the selling price*") fourteen (14) national institutions considered that there is an

insufficient transfer of risks to the SPV when the difference between an estimated market price and the selling price is more than 15% (as stated in the task force draft new chapter (sections 2.4.1 / 3.6)). Two (2) national institutions favoured an upper limit of 50% for this difference. Eight (8) national institutions favoured another criterion or another percentage (although one of those stated that, if thresholds for this price difference were to be considered as a classification criterion, a maximum of 15% would be preferred). Three (3) national institutions did not respond to this question, and one (1) abstained.

- On question 4 ("Treatment of a deferred purchase price"), nineteen (19) national institutions considered that a sale from the government to the SPV should be recorded at the amount initially paid by the SPV to the government, as stated in the task force draft new chapter (sections 2.4.4, 2.4.5 / 3.6, 3.7), while the deferred purchase price is to be recorded as proposed in the draft new chapter (sections 2.5 / 3.7). Two (2) national institutions preferred to record this sale at the estimated market price, while treating the deferred purchase price as a reimbursement of a financial advance. Four (4) national institutions favoured another treatment. Two (2) national institutions did not respond to this question, and one (1) abstained.

Accordingly, the CMFB opinions are the following:

- 1. Concerning the classification of securitisation units (Special Purpose Vehicles, or SPVs), the general rules stated in the task force draft new chapter (section 2.2) on "Securitisation operations undertaken by general government" should be applied.*
- 2. Securitisation of future flows (not evidenced by an asset before the securitisation arrangement takes place) should always be treated as government borrowing.*
- 3. In general, the existence of a government guarantee implies an insufficient transfer of risks and in that case the transaction between the SPV and the government should be recorded as government borrowing (and not as the sale of an asset).*
- 4. If the difference between an estimated market price and the selling price is more than 15%, an insufficient transfer of risks between the government and the SPV has taken place and in that case the transaction between the SPV and the government should be recorded as government borrowing (and not as the sale of an asset).*
- 5. If the transaction between the government and the SPV is to be classified as the sale of an asset, it should be recorded at the amount initially paid by the SPV to government, while the deferred purchase price is to be recorded as proposed in the draft new chapter (sections 2.5 / 3.7) on "Securitisation operations undertaken by general government".*
- 6. A further clarification of these five opinions in the text of the draft new chapter on "Securitisation operations undertaken by the general government" is needed before this new chapter can be incorporated in the Manual on Government Deficit and Debt. In particular, this concerns the case in which securitisation operations are carried out by units other than SPVs and the role of a deferred purchase price when classifying the transactions involved in the securitisation operation. It is recommended that this new text is discussed in a meeting of the relevant working parties before it is submitted to the CMFB for final approval.*

In addition to this opinion, the following has been transmitted to Eurostat and will be kept in the records of the secretariat of the CMFB: a document putting together the answers of all the institutions; a summary of the vote; and the original replies of the institutions.

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Voorburg, 2 July 2002