Circular letter

Changes to the explanatory notes on DRA reporting

Date
6 December 2016

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1 Introduction

This circular describes the changes to the explanatory notes on DRA reporting for the balance of payments, sectoral statistics and sectoral accounts. The changes were made due to changed statistical definitions and also to clarify how specific instruments or transactions need to be reported as a result of new developments or questions that were asked.[1]

The changes apply to all reporting profiles of which the forms in question are a part. The changes only involve the reporting instructions. The forms themselves have not been amended.

First, we will explain the implementation period for the changes, and how these changes must be reported in the transitional situation. Next, we will discuss the changes and clarifications in more detail. At a later stage, they will be incorporated in the explanatory notes that are part of the DRA reporting forms.

2 Implementation period and reporting in the transitional situation

2.1 When should the changes be implemented?

The changes and clarifications should **preferably** be processed in the reports for the periods starting from **1 January 2017**, i.e. in the monthly report on January 2017, the quarterly report on the first quarter of 2017 and the annual report on 2017.

The changes do not have to be implemented at the same time, as some of them may require a longer implementation period. In that case, the reports must be processed in the reports for the periods starting from **1 July 2017 at the latest**, i.e. in the monthly report on July 2017, the quarterly report on the third quarter of 2017 and the annual report on 2017.

2.2 Reporting in the transitional situation

Changes can lead to situations in which reports can no longer be reconciled, because the starting position in the report cannot be adjusted and must be equal to the closing position of the preceding period. In that case, the difference must be accounted for in the 'other changes' column.

3 Changes and clarifications

3.1 Valuation of loans at nominal value

<u>Current requirement</u>
The explanatory notes to the current requirement do not contain a specific requirement for the valuation of all other claims and liabilities in the AO and PO forms.

[1] Some of the instructions in this document have already been communicated to specific groups of reporters.

New requirement
All outstanding claims (including e.g. residential mortgage loans) and liabilities in the AO and PO subforms must be valued at nominal value. This also applies to transactions that create new claims or liabilities.

The consequences for reporting are the following:

PO and AO forms
The current nominal value of the instruments must be reported in the position columns.
Transactions that create new claims or liabilities must be valued at nominal value. Transactions in which existing claims are purchased from or sold to another unit must be reported at transaction value. If this differs from the nominal value, the difference must be accounted for as a price change. Any changes arising from exchange rate changes in foreign-currency loans must be reported as exchange rate changes.

3.2 Equity investment: participating interests ≥ 10% or cross-holdings

Current requirement
The objective of the participating interest (sustainable holding and control, i.e. considerable influence, long-term relationship) is the main indicator in establishing whether a participating interest qualifies as equity investment. Equity investment must be reported, broken down into the following categories:
- equity investment in or by your institution equalling or exceeding 10%[2];
- equity investment in or by your institution not exceeding 10%;
- cross-holdings, i.e. equity investment in your institution by your subsidiaries, or your equity investment in your subsidiaries.

As soon as a subsidiary's participating interest in its parent company equals or exceeds 10%, it is no longer considered a cross-holding but an independent equity investment.

New requirement
The relative size of a participating interest now determines whether it qualifies as an equity investment: it must equal or exceed 10%. In statistic terms, equity investment is classified as direct investment. Cross-holdings (by or in your subsidiaries) not exceeding 10% are also classified as direct investment and must therefore be accounted for in the equity investment form. (Once these cross-holdings equal or exceed 10%, they must be reported under equity investment equalling or exceeding 10%).

The consequences for reporting are the following:

PD-C (and PD-A) form
A participating interest qualifies as an equity investment if a non-resident enterprise – or a resident enterprise, if applicable – holds 10% or more of a Dutch reporting

[2] Some reporting profiles only require reporting on positions involving non-residents, whereas other profiles must also report on positions involving residents (with different forms for residents and non-residents). In the event of equity investment by non-residents, the working capital of legally dependent branches of foreign institutions in the Netherlands is also considered to be part of this participating interest. In the event of equity investment in non-residents, all legally dependent branches abroad that are part of the reporting institution and/or consolidated resident group entities are considered to be part of this participating interest.

institution's share capital. Consequently, it is no longer permitted to fill in the row "Participation in equity capital of your company by shareholders with less than 10% holding" in the PD-C subform. These data must be reported in the form on securities (with full reconciliation). (Please note that cross-holdings not exceeding 10% must still be reported here).

AD-C (and AD-A) form
A participating interest qualifies as an equity investment if the Dutch reporting institution holds 10% or more of the share capital of a non-resident enterprise – or a resident enterprise, if applicable. Consequently, it is no longer permitted to fill in the row "Your investments of less than 10% holding in companies" in the AD-C subform. These data must be reported in the form on securities (with full reconciliation). (Please note that cross-holdings not exceeding 10% must still be reported here).

3.3 Reporting the current value of capital market paper with a pool factor

Current requirement
The positions of capital market paper with an ISIN code must be reported at nominal value. The positions of capital market paper without an ISIN code must be reported based on the closing price of the last trading day of the relevant reporting period. There are no further instructions for capital market paper to which a pool factor applies.

New requirement
The pool factor must be taken into account in reporting on capital market paper to which this factor applies. With this type of debt paper, a partial repayment of the total principal amount outstanding does not lead to repayment of one or more individual bonds, but to a gradual proportional repayment of all outstanding bonds within that tranche. This repayment factor is also known as pool factor, bond factor or PDI factor. The current nominal value is then taken to be the original value multiplied by the pool factor at the moment of reporting. Examples include asset-backed securities, mortgage-backed securities, collateralised debt obligations and collateralised mortgage obligations.

The consequences for reporting are the following:
AEB-KGI and AEN-KGI forms (with ISIN code)
In the position columns, the current nominal values rather than the original nominal values must be reported. Repayments (as well as any purchases and sales) must be reported as transactions at transaction value.

AEB-K and AEN-K forms (without ISIN code)
In the position columns, the current nominal value must be converted into market value. Repayments (as well as any purchases and sales) must be reported as transactions at transaction value.

3.4 Index- and inflation-linked bonds: current value must be reported

Current requirement
The positions of capital market paper with an ISIN code must be reported at nominal value. The positions of capital market paper without an ISIN code must be reported based on the closing price of the last trading day of the reporting period to

be reported on. There are no further instructions for index- and inflation-linked bonds.

New requirement
For index-linked or inflation-linked bonds, the current nominal value must be reported rather than the original nominal value. This concerns debt paper for which the outstanding nominal value changes in accordance with the change of a predefined index. How an index factor or index component must be reported depends on whether it is reported with or without an ISIN code. This factor or component must be reported as a price change, and never as a transaction.

The consequences for reporting are the following:

AEB-KGI and AEN-KGI forms (without ISIN code)
The price change as a result of the index factor must only be included in the positions columns. It must not be reported in the other columns. Please note: once processed in DNB's system, this change will be shown as a price change.

AEB-K and AEN-K forms (without ISIN code)
In the position columns, the current nominal value must be converted into market value. Repayments (as well as any purchases and sales) must be reported as transactions at transaction value. The index component change must be reported as a price change.

3.5 Book profits and losses on participating interests must be reported as price changes

Current requirement
The sale of participating interests results in book profits or losses. Such sales must be reported as transactions at the sales price. If the sales price differs from the value of the initial position, for instance because the participating interest is valued at historic cost price, reconciliation must be reported in an "other changes" column.

New requirement
Book profits and losses resulting from the sale of participating interests must be reported as price changes.

Below is an example.

AD-C form (annual reporting)
Entity A has two participating interests, B and C. Both are on the balance sheet for EUR 100 million. In period 1, entity A sells participating interest B for EUR 150 million. As this participating interest was included on the books for EUR 100 million, its value must be increased to EUR 150 million by means of a EUR 50 million price change. Table 1 shows this change on the assets side.

Table 1: reporting book profit after the sale of a participating interest

AD-C subform							
Position at the beginning of the year	Changes during the year						Position at the end of the year
	Transactions			Revaluation		Other changes	
	Purchases	Sales	Dividends declared	Exchange rate changes	Price changes		
200,000	0	150,000	0	0	50,000	0	100,000

PD-C (annual) / PEN-A form
To ensure equilibrium, an equal price change must be reported for the sale of participating interests at the liabilities side, regardless of the use of the sale proceeds. The form in which this must be reported depends on the nature and liabilities of the institution.
If an institution reports participating interests in a parent company as part of its own funds, a similar price change must be reported in form PD-C. In this case, Table 2 shows the report once the proceeds of the sale are passed on to the parent company in the form of dividend or super dividend (which must be booked as capital withdrawal).
If an institution reports shares or participating interests (e.g. in a private equity fund or real estate fund) as part of its own funds, a similar price change must be reported in the PEN-A (without ISIN code) form. Table 2 then shows the report once the proceeds of the sale are paid out to the shareholders/participants. If the shares/participating interests are reported with an ISIN code (PEN-AI form), only the sale must be notified. Please note: once processed in DNB's system, this change will be shown as a price change.

Table 2: report at payment of the proceeds of the sale to the parent company or the shareholders/participants

PD-C / PEN-A subform							
Position at the beginning of the year	Changes during the year						Position at the end of the year
	Transactions			Revaluation		Other changes	
	Purchases	Sales	Dividends declared	Exchange rate changes	Price changes		
200,000	0	150,000	0	0	50,000	0	100,000

If the profits are not paid out but reinvested, the price change must still be reported in the PD-C or PEN-A form, but not the sale. Instead, a purchase for a certain instrument must be reported on the assets side.

3.6 Contra-entry of super dividend as a price change

Current requirement
The statistical definition of dividend only covers dividend from operational result. Dividend payments and receipts resulting from price changes and/or accumulated reserves (referred to as super dividend in statistical terms) must not be reported as dividend but as capital withdrawal or capital refund. Reporting institutions that do

not report at market value (but at historic cost price, for example) must compensate the effect of this capital withdrawal or refund, to ensure that the value of the participating interest remains unchanged. Currently, this compensation is booked under other changes.

New requirement

Super dividend payments (that must be reported as capital withdrawal) must have a price change contra-entry.

Below is an example.

AD-C form (annual reporting)

Entity A (the reporting institution) has a participating interest B, which is on the balance sheet for EUR 100 million. In period 1, entity B sells a participating interest at a book profit of EUR 50 million and pays out this book profit to entity A as dividend. As this dividend results from the sale of a participating interest, it is considered a super dividend and consequently reported as a capital withdrawal. The effect of this capital withdrawal from the value of participating interest B on entity A's balance sheet must be reported as a price change of EUR 50 million (Table 3).

Table 3: reporting of super dividend received.

AD-C subform							
Position at the beginning of the year	Changes during the year						Position at the end of the year
	Transactions			Revaluation		Other changes	
	Purchases	Sales	Dividends declared	Exchange rate changes	Price changes		
100,000	0	50,000	0	0	50,000	0	100,000

PD-C (annual) / PEN-A form

To ensure equilibrium, an equal price change must be reported for the super dividend received at the liabilities side, regardless of its use. The form in which this must be reported depends on the nature and liabilities of the institution.

If an institution reports participating interests in a parent company as part of its own funds, a similar price change must be reported in form PD-C. In this case, Table 4 shows the report once the proceeds of the super dividend are passed on to the parent company in the form of dividend or super dividend (which must be booked as capital refund).

If an institution reports shares or participating interests (e.g. in a private equity fund or real estate fund) as part of its own funds, a similar price change must be reported in the PEN-A (without ISIN code) form. Table 4 then shows the report once the proceeds of the super dividend are paid out to the shareholders/participants. If the shares/participating interests are reported with an ISIN code (PEN-AI form), only the sale must be notified. Please note: once processed in DNB's system, this change will be shown as a price change.

Table 4: report at payment of the proceeds of the super dividend to the parent company or the shareholders/participants

PD-C / PEN-A subform							
Position at the beginning of the year	Changes during the year						Position at the end of the year
	Transactions			Revaluation		Other changes	
	Purchases	Sales	Dividends declared	Exchange rate changes	Price changes		
100,000	0	50,000	0	0	50,000	0	100,000

If the super dividend is not paid out but reinvested, the price change must still be reported in the PD-C or PEN-A form, but not the sale. Instead, a purchase for a certain instrument must be reported on the assets side.

3.7 Reporting actual delivery of options as transactions

<u>Current requirement</u>
In the event of actual delivery of a purchased or written option (in contrast to cash settlement), the value at the expiry date can be reported under other changes.

<u>New requirement</u>
In the event of actual delivery of options, the value of the contract at the expiry date must be reported as a transaction.

The consequences for reporting are the following:

D-OK form
For the actual delivery of purchased options, the value must be reported under premiums received.

D-OS form
For the actual delivery of written options, the value must be reported under premiums paid.

3.8 Reporting closing transactions under the correct type of option

<u>Current requirement</u>
Insofar as it is possible to distinguish the type of option, premiums received at the closing sale of a purchased option must be reported as a receipt under purchased options and the premiums paid at the closing sale of a written option as a payment under written options.

<u>New requirement</u>
Closing transactions must be reported under the correct type of option.

The consequences for reporting are the following:

D-OK form
The closing transaction of a purchased option must be reported as premiums received under purchased options.

D-OS form
The closing transaction of a written option must be reported as premiums received under written options.

3.9 Reporting the delivery of securities resulting from the actual delivery of options at market value

Current requirement
Securities transactions must be reported at the prices agreed for the transaction (for debt securities: exclusive of interest accrued). There are no further instructions In the event of actual delivery of options or warrants, this means that the resulting delivery of securities that must be reported as the purchase or sale of securities must be reported at the pre-agreed price.

New requirement
In the event of actual delivery of options (including warrants), this means that the resulting delivery of securities in the form of a purchase or sale of securities must be reported at market value (in the securities form).

The consequences for reporting are the following:

AEB / AEN / PEN form
In the event of actual delivery of options, the resulting delivery of securities in the form of a purchase or sale of securities must be reported at market value.
(the difference between the market value and the pre-agreed price, i.e. the value of the option, must be reported on the D-OK or D-OS form under premiums received or paid, see section 3.7)

3.10 Counterparty sector for derivatives transactions through CCPs dependent on principal or agent model

Current requirement
For exchange-traded derivatives contracts, the country in which the exchange has its seat and the countersector other financial institutions (OFI) must be reported under country and sector of the counterparty. For OTC derivative contracts, the country and sector of the direct counterparty must be reported. Currently, there are no specific instructions for reporting the counterparty sector for derivatives contracts settled through a central counterparty (CCP).

New requirement
The country in which the exchange has its seat no longer needs to be reported under the country and sector of the counterparty.
With the European Market Infrastructure Regulation (EMIR) becoming effective, certain OTC contracts will become subject to a phased clearing obligation and must be settled through a CCP. This means that in reporting the counterparty sector for derivatives contracts a new type of counterparty may have to be reported: the CCP. The question whether your financial intermediary acts as the principal party or as an agent for these contracts is important here. If your intermediary acts as the principal party, you conclude a contract with a clearing member, after which the clearing member concludes a back-to-back contract with the CCP. If your intermediary acts as an agent, the clearing member only functions as an

intermediary in concluding the contract between you and the CCP. If your intermediary acts as the principal party, the clearing member is your counterparty. If your intermediary acts as an agent, the CCP is your counterparty. The collateral, in the form of money held in margin accounts (initial margin and variation margin), must be reported in the AO-RC form, with the party where the collateral is being held as the counterparty.

The consequences for reporting are the following:

D form
For both OTC and exchange-traded contracts, the direct counterparty must be reported under the country and sector of the counterparty.
For derivative contracts settled through a CCP, the counterparty is either the clearing member (in the principal model) or the CCP (in the agent model). If the clearing member or CCP is a bank or monetary financial institution (MFI; see the ECB's website for a list of MFIs in the euro area), the countersector to be reported is MFI. In other cases, the correct countersector to be reported is OFI.

Below is a non-exhaustive list of countries and sectors for CCPs in Europe.

Central Counterparties (CCPs)		
Name	Country of registered office or home country (ISO)	Sector code
CCP Austria Abwicklungsstelle für Börsengeschäfte GmbH	AT	OFI
EUREX Clearing Aktiengesellschaft	DE	MFI
European Commodity Clearing AG	DE	OFI
BME Clearing	ES	OFI
Banque centrale de compensation (LCH.Clearnet SA)	FR	MFI
LCH Clearnet Group Ltd	GB	OFI
CME Clearing Europe Ltd	GB	OFI
LME Clear Ltd	GB	OFI
ICE Clear Europe Ltd	GB	OFI
Athens Exchange Clearing House (AthexClear)	GR	OFI
KELER KSZF	HU	OFI
CASSA DI COMPENSAZIONE E GARANZIA S.P.A.	IT	OFI
European Central Counterparty N.V. (EuroCCP)	NL	OFI
ICE Clear Netherlands B.V.	NL	OFI
KDPW CCP S.A.	PL	OFI
OMICLEAR, C.C. S.A.	PT	OFI
Nasdaq Clearing Aktiebolag	SE	OFI