



**ACCOUNTING & REPORTING**

**GUIDANCE NOTES FOR BOARD  
MEMBERS**

**ACCOUNTING FOR REPACKAGING  
OF INVESTMENT FUNDS**

**WORKING GROUP | BEST PRACTICE  
ACCOUNTING & REPORTING**

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## INTRODUCTION

The typical structure for such a securitisation transaction is a Luxembourg Financial Vehicle Corporation (hereafter “FVC”) issuing Notes to its noteholders.

The proceeds received from the issuances of Notes are utilized by the FVC for investment into Funds, which is recognized as financial assets on the balance sheet of the FVC.

The FVC is entitled to receive dividend income, capital reimbursements from the Funds and proceeds from the sale of investments into the Fund. The Noteholders are entitled to interest payments or payments resulting from the redemption of Notes.

Parties involved in such transaction are the Fund, the Noteholders and the FVC.

A typical Repackage of investment fund is summarised in the following diagram:



In relation to the potential impact of ATAD interest limitation rules, we refer to the LuxCMA position paper “[TECHNICAL POSITION PAPER ON THE DEDUCTIBILITY OF PAYMENTS BY SECURITIZATION COMPANIES FINANCED BY DEBT](#)” dated October 2020.

*Disclaimer: While we believe the proposed accounting entries below are appropriate for a majority of repackaged investment funds securitisation transactions, the legal terms and conditions of those securitisation transactions may contain specific clauses that may require any other treatment, in this case the described treatments below may partially or in full not be relevant.*

## ACCOUNTING POLICY FOR FINANCIAL ASSETS (FAIR VALUE OPTION)

Fair Value Option<sup>1</sup>:

The [Law of 19 December 2002](#) (hereafter “**Accounting Law**”) in its Article 64bis, allows undertakings to use the Fair Value Option for the valuation of financial instruments, derivatives, and for certain categories of assets under Lux GAAP.

The Funds are initially recorded at purchase price, including the expenses incidental thereto. They are subsequently measured at Fair Value:

Fair Value corresponds to:

- The latest available market quote at valuation day for the financial instruments (or transferable securities) listed on a stock exchange or traded on another recognised market; or
- The estimations made by the Management bodies using the valuation models<sup>2</sup> or observable financial information (for ex. NAV Statements) existing at the balance sheet date.

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<sup>1</sup> This paper covers the accounting treatment for the cases where the fair value option is employed by the FVC. Alternatively, the cost less impairment method can be applied, which is not in the scope of this paper.

<sup>2</sup> Details on the significant underlying assumptions on the valuation models and techniques are to be disclosed.

## ACCOUNTING TREATMENT OF INITIAL NOTES ISSUANCE AND INVESTMENT INTO FUNDS

The FVC issues Notes at par value of 100 and in turn receives cash (the “Notes Issuance Proceeds”).

eCDF	Debit	Credit
D. IV. Cash	100	
C. 1. b. Non convertible loans		100

The FVC utilises the Notes Issuance Proceeds to acquire investments into Funds.

eCDF	Debit	Credit
C. III. 5. Investments held as fixed assets	100	
D. IV. Cash		100



## ACCOUNTING TREATMENT FOR DIVIDEND INCOME RECEIVED AND INTEREST PAYMENTS TO THE NOTEHOLDERS

The FVC receives dividend income of 5 on the investments held in the Funds.

eCDF	Debit	Credit
IV. Cash at bank and in hand	5	
10.b) Income from other investments and loans forming part of the fixed assets b) other income not included under a)		5

The FVC pays interest expenses (dividend income of 5 less external expenses of 1) on its debt instruments (typically notes):

eCDF	Debit	Credit
14.b) Interest payable and similar expenses b) other interest and similar expenses	4	
IV. Cash at bank and in hand		4

## ACCOUNTING TREATMENT FOR UNREALISED GAINS ON THE FUNDS

The FVC recognises value adjustments of 5 for the unrealised fair value gains on the financial assets.

eCDF	Debit	Credit
C.III.5. Financial assets - investments held as fixed assets (Accumulated value adjustments)	5	
13. Value adjustments in respect of financial assets and of investments held as current assets		5

The FVC recognises unrealised losses (equalisation provisions) of 5 from valuation of its Notes payables, the financial assets and notes payables are economically linked.

eCDF	Debit	Credit
8. Other operating expenses	5	
C.1.b Non convertible loans (Equalisation provision)		5

## ACCOUNTING TREATMENT FOR UNREALISED LOSSES ON THE FUNDS

The FVC recognises value adjustments of 5 for the unrealised fair value losses on the financial assets.

eCDF	Debit	Credit
13. Value adjustments in respect of financial assets and of investments held as current assets	5	
C.III.5. Financial assets - investments held as fixed assets (Accumulated value adjustments)		5

The FVC recognises unrealised gains (equalisation provisions) of 5 from valuation of its Notes payables, the financial assets and notes payables are economically linked.

eCDF	Debit	Credit
C.1.b Non convertible loans (Equalisation provision)	5	
4. Other operating income		5



## ACCOUNTING TREATMENT FOR REALISED GAINS / LOSSES UPON SALE OF FINANCIAL ASSETS

The FVC recognises realised gains of 10 and reversal of previously recorded fair value gains of 5 following sale of its financial assets for 115.

eCDF	Debit	Credit
IV. Cash at bank and in hand	115	
C.III.5. Financial assets - investments held as fixed assets		100
C.III.5. Financial assets - investments held as fixed assets (Accumulated value adjustments)		5
10.b) Income from other investments and loans forming part of the fixed assets b) other income not included under a)		10

The FVC recognises realised losses of 10 and reversal of previously recorded fair value losses of 5 following sale of its financial assets at 85.

eCDF	Debit	Credit
IV. Cash at bank and in hand	85	
14.b) Interest payable and similar expenses b) other interest and similar expenses	10	
C.III.5. Financial assets - investments held as fixed assets (Accumulated value adjustments)	5	
C.III.5. Financial assets - investments held as fixed assets		100

## ACCOUNTING TREATMENT FOR REALISED GAINS / LOSSES UPON REDEMPTION OF NOTES PAYABLES

The FVC recognises realised losses of 10 and reversal of previously recorded fair value losses (equalisation provisions) of 5 following redemption of the Notes payables for 115.

eCDF	Debit	Credit
C.1.b Non convertible loans	100	
C.1.b Non convertible loans (Equalisation provision)	5	
8. Other operating expenses	10	
IV. Cash at bank and in hand		115

The FVC recognises realised gains of 10 and reversal of previously recorded fair value gains (equalisation provisions) of 5 following redemption of the Notes payables for 85.

eCDF	Debit	Credit
C.1.b Non convertible loans	100	
C.1.b Non convertible loans (Equalisation provision)		5
IV. Cash at bank and in hand		85
4. Other operating income		10

## GLOSSARY AND ABBREVIATIONS

<b>A</b>	<b>ABCP</b>	means Asset Backed Commercial Paper
	<b>Accounting Law</b>	means the Law of 19 December 2002, as subsequently amended, which is setting up the Luxembourg accounting principles
	<b>AIFMs</b>	means Alternative Investment Fund Managers
	<b>ANNA</b>	means Association of National Numbering Agencies
	<b>ATAD 1</b>	means <a href="#">Council Directive (EU) 2016/1164 of 12 July 2016</a> laying down rules against tax avoidance practices that directly affect the functioning of the internal market
	<b>ATAD 2</b>	means <a href="#">Council Directive (EU) 2017/952 of 29 May 2017</a> amending Directive (EU) 2016/1164 (ATAD) regarding hybrid mismatches with third countries

<b>B</b>	<b>BCL</b>	means Banque Centrale du Luxembourg, acting as National Central Bank for Luxembourg
	<b>BdL</b>	means the Luxembourg Stock Exchange Bourse de Luxembourg listing segment, as European Regulated Market

<b>C</b>	<b>CBL</b>	means Clearstream Banking Luxembourg S.A.
	<b>Collection agent</b>	means a party that collects receivables on behalf of the FVC
	<b>CSSF</b>	means the Commission de Surveillance du Secteur Financier

<b>E</b>	<b>EBA</b>	means the European Banking Authority
	<b>EBA RTS</b>	means the Final Draft Regulatory Technical Standards on Assigning Risk Weights to Specialised Lending Exposures under Article 153(9) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR) published on 13 June 2016 by the European Banking Authority
	<b>ECB</b>	means the European Central Bank
	<b>EIR</b>	means Effective Interest Rate
	<b>ESMA</b>	means the European Securities and Markets Authority
	<b>Excluded Securitisations</b>	means compartments of an SSPE which do not qualify as securitisation under the definition of Article 2(1) of the European STS Regulation

<b>F</b>	<b>FT</b>	means Final Terms
	<b>FVC</b>	means Financial Vehicle Corporation as per ECB definition laid down in Regulation ECB/2013/40

<b>I</b>	<b>ICSD</b>	means International Central Securities Depository
	<b>IFRS</b>	means the International Financial Reporting Standards – the accounting standards issued by the IFRS Foundation and the International Accounting Standards Board
	<b>IPD</b>	means Interest Payment Date
	<b>IRR</b>	means Internal Rate of Return
	<b>ISIN</b>	means International Securities Identification Number

<b>L</b>	<b>LEI</b>	means Legal Entity Identifier
	<b>LGX</b>	means Luxembourg Green Exchange
	<b>LOU</b>	means Local Operating Unit
	<b>LuxCMA</b>	means the Luxembourg Capital Markets Association
	<b>Lux GAAP</b>	means Luxembourg Generally Accepted Accounting Principles
<b>M</b>	<b>Management</b>	means the Board of directors or the Board of managers of the FVC or its Management company
<b>N</b>	<b>NCA</b>	means National Competent Authority
	<b>Non-STS Securitisations</b>	means securitisations not meeting the criteria of the specific framework for simple, transparent and standardized securitisations as laid down in the Securitisation Regulation
	<b>NPL</b>	means non-performing loans
<b>O</b>	<b>Originator</b>	The party assigning assets to the FVC/SSPE in a securitisation transaction
	<b>OTC trade</b>	means Over The Counter (outside Stock Exchange) trade
<b>P</b>	<b>Publication</b>	means this document as well as the information contained herein

<b>R</b>	<b>RfP</b>	means Request for Proposal
	<b>RTS</b>	means Regulatory Technical Standards

<b>S</b>	<b>Securitisation Law</b>	means the Luxembourg Law of 22 March 2004 on securitisation, as amended
	<b>Securitisation Regulation</b>	means Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation
	<b>SIPs</b>	means Structured Investment Products
	<b>SSPE</b>	means a Securitisation Special Purpose Entity as defined under the Securitisation Regulation
	<b>STS</b>	means simple, transparent and standardised securitisations as defined by the Securitisation Regulation

<b>U</b>	<b>UCITS</b>	means Undertaking for Collective Investment in Transferable Securities
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## **About the LuxCMA – Luxembourg Capital Markets Association**

Created on 1 March 2019, the LuxCMA is a not-for-profit association (a.s.b.l.), registered at the RCSL (F12205), whose registered office is 6 rue Jean Monnet, L-2180 Luxembourg. The LuxCMA today represents memberships detailed on LuxCMA's website ([www.luxcma.com](http://www.luxcma.com)), which is composed by banks, law firms and services providers, amongst others.

## **Working Group – Best Practice**

The aim of this working group is to find practical solutions (or answers) to practical problems. Capital market participants are often confronted with varying practices among the numerous practitioners active in Luxembourg, including when it comes to compliance, accounting, presentation of the financial statements, clearing, reporting, or general legal questions, and the purpose of the group will be to identify any recurring problems or inconsistencies in such practices and to analyse whether it is possible to work out practical recommendations and good market standards which address such issues.

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