

REPORTING OF ISSUES AND OFFERINGS OF FINANCIAL INSTRUMENTS

FREQUENTLY ASKED QUESTIONS

Below is a list of questions and answers on the provisions concerning the reporting of issues and offerings of financial instruments (129 Provisions). The answers are only meant to provide examples and offer assistance in sending reports.

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FAQs about the Provisions

A – Scope of application

- A.1. Are private placements (i.e., those placed without a public offering) and financial instruments issued and subscribed within the same group included within the scope of the provisions?

Yes, they are.

- A.2. Can puttable, callable or triggerable financial instruments with an exercise date within the 12th month of issue be considered as having expired before 12 months and therefore be excluded from the reporting requirements?

They are not excluded because they are considered structured financial instruments.

- A.3. Do the provisions refer only to placements on the primary market and not on the secondary market, including open market repos?

See Section 2.1 on the scope of the '129 Provisions'.

- A.4. Are UCITS placements on the primary market excluded from the reporting requirements?

UCITSs are excluded from the reporting requirements.

- A.5. Are options within the scope of the provisions?

No, they are not.

- A.6. Are convertible/exchangeable bonds within the scope of the provisions?

Yes, they are.

- A.7. Are share depository receipts within the scope of the provisions?

No, they are not.

- A.8. Are *Schuldscheine* within the scope of the provisions?

No, they are not.

- A.9. Are autocall instruments within the scope of the provisions?

Yes, they are.

- A.10. In securitizations, are the call options of the originator and the servicer included in the reporting requirements?

No, such call options are not included.

- A.11. Are stock options with cash settlements within the scope of the provisions?

No, they are not (see point 10 of Section 2.2 of the '129 Provisions').

- A.12. Is there a reporting obligation when the instruments, issued by foreign companies not belonging to the group, are placed in the Italian market through the group network?

Such instruments are within the scope of the provisions.

A.13. Is there a reporting obligation for financial instruments issued by reverse enquiry?

Financial instruments issued by reverse enquiry are exempt from the reporting requirements set forth in the '129 Provisions'. See section 1.2 in the '129 Provisions' for the definition of 'reverse enquiry'.

A.14. Is a placement with Italian branches of foreign investors and/or branches of Italian legal entities within the scope?

It is within the scope if the placement is in Italy with Italian residents.

A.15. Are financial instruments bought by private banks directly from the issuer for sale to wealthy clients included in the reporting requirements?

Such instruments are within the scope of the provisions. Moreover, their amount should be reported as placed with households if the goal is resident client placement.

A.16. Does the term 'direct listing' also refer to the admission to trading on the MTF with no prior subscription period?

Direct listing is a procedure whereby financial instruments - already issued - are listed directly with no prior offering period regardless of the 'market' in which they are listed.

A.17. Are contracts for difference within the scope?

No, they are outside the scope.

A.18. Must entities placing financial instruments on behalf of Italian issuers or supervised resident entities make sure that the issuers send reports or delegate third parties to do so?

For such instruments reports should be sent by the issuer or the resident parent company.

A.19. Since placement agents are only in charge of instruments of foreign entities (not belonging to supervised Italian banking groups), if a resident bank places securities of its non-resident parent company having a branch in Italy, who is responsible for the reporting?

The resident bank acting as 'placement agent' is responsible for the reporting.

A.20. Should the placement agent be identified according to Article 1(5)(c) and (c-bis) of the Consolidated Law on Finance? Or is the very activity of execution, reception and transmission of orders enough to identify the entity as 'placement agent'?

The placement agent should execute placement activities as defined by the Consolidated Law on Finance.

A.21. How should the reporting be sent if a financial instrument is placed by a syndicate?

In case of a syndicate composed by several Lead Managers (LM), all peers members, the following roles may occur:

LM1: he is Responsible for the settlement with the issuer (a formal role where LM1 also acts on behalf of the other syndicate members), i.e. he collects the total issued amount (also known as 'allotment', the sole proper ticket on the primary market) against payment;

LM2: he is responsible for the distribution to the investors (Lead Manager B&D);

LM3 / LM4: other syndicate members.

LM1 typically sells the total issued amount to LM2 with some exceptions: if LM2 has no direct relation with each single investor, then he can ask to other members of the syndicate (LM3/LM4) to settle the single selling ticket.

In order to determine which are the entities responsible for 129 reporting, it is necessary to assess how many members of the syndicate are actually placing the financial instrument in the Italian market (for further details see BOX 2 in '[Instructions for compiling messages](#)')

- a) when only one entity is placing in Italy (e.g. LM3), then it is the sole member of the syndicate responsible for the 129 reporting, irrespective of the features of the syndicate;
- b) when more entities are placing in Italy (e.g. LM3 and LM4) under a 'pot system' structure, then the entity responsible for B&D (LM2) is also responsible for the 129 reporting. If necessary, for instance in case all the data needed for 129 reporting are not available to LM2, it is still possible for LM3 and LM4 to complete LM2 reporting by adding their own exceptions (amounts placed in Italy not registered in the pot system) or to report their own total amount placed in Italy, depending on the agreements reached within the syndicate;
- c) when more entities are placing in Italy (e.g. LM3 and LM4) without a 'pot system' structure, then LM1 has to report the reference data, whereas LM3 and LM4 have to report their own placed amount (provided that LM1 is not a placement agent in Italy too, in which case he has also to report its own placed amount).

In case b), in order to determine the type of agreement reached for the reporting, in the 'Communication of amount placed (section 4)' the field 'Type of amount' has to be filled in with one of the following values:

- 1 – Total amount placed/offered in Italy registered in the pot-system;
- 2 – Total amount placed/offered in Italy by the reporting entity;
- 3 – Total amount placed/offered in Italy not registered in the pot-system (exceptions).

The amounts reported need to fulfill one of the following options:

- i. if the Lead Manager B&D reports 1, then all other placement agents have to report 3;
- ii. if the Lead Manager B&D reports 2, then all other placement agents have to report 2.

WARNING: for all the above, in case b) it is of paramount importance that before submitting the message the members of the syndicate have reached an agreement on how to report the information (choosing between i or ii).

For the sake of clarity, find below some possible scenarios and a summary table:

✓ Case 1 (Method of placement 2 or 5)

LM2: Lead Manager B&D who didn't place in Italy

LM3: placement agent in Italy

➔ There is only one placement agent in Italy. ➔

- Subcase a): LM2 knows the number of placement agents in Italy (one) ➔ Reporting has to be made by LM3 (Method of placement 2).

- Subcase b): at issue, LM2 does not know the number of placement agents in Italy ➔ LM2 can report sections 1 and 2-3, and LM3 reports his own amount placed in Italy ('Method of placement = 5' and 'Type of amount = 2')

✓ Case 2 (Method of placement 5)

LM2: Lead Manager B&D who placed in Italy

LM3: placement agent in Italy

→ There is more than one placement agent in Italy. → Reporting has to be made by LM2. However, as already mentioned, the placed amount of section 4 can be reported also by LM3. In this case, the members of the syndicate have to reach an agreement on how to report this information, taking into account that: if LM2 selects 'Type of amount = 1', then all other placement agents have to report 'Type of amount = 3' (exceptions), if LM2 selects 'Type of amount = 2', then all other placement agents have to report 'Type of amount = 2'.

✓ Case 3 (Method of placement 5)

LM2: Lead Manager B&D, irrespective of whether he placed in Italy or not

LM3: placement agent in Italy

LM4: placement agent in Italy

→ There is more than one placement agent in Italy. → Reporting must be made by LM2. However, as already mentioned, the placed amount of section 4 can be reported also by LM3 and LM4. In this case, the members of the syndicate have to reach an agreement on how to report this information, taking into account that: if LM2 selects 'Type of amount = 1', then all other placement agents have to report 'Type of amount = 3' (exceptions), if LM2 selects 'Type of amount = 2', then all other placement agents have to report 'Type of amount = 2'.

✓ Case 4 (Method of placement 6)

LM1: Responsible for the settlement with the issuer who didn't place in Italy

LM3: placement agent in Italy

LM4: placement agent in Italy

→ There are two placement agents in Italy. → Reference data have to be reported by LM1, whereas placed amount data have to be reported by LM3 and LM4.

✓ Case 5 (Method of placement 6)

LM1: Responsible for the settlement with the issuer who placed in Italy

LM3: placement agent in Italy

LM4: placement agent in Italy

→ There are three placement agents in Italy. → Reference data have to be reported by LM1, whereas the placed amount data have to be reported by LM1, LM3 and LM4.

WHO MUST REPORT EACH SECTION?								
	Non-Syndicated Placement	Syndicated Placement					Offer	
		1			>1 or unknown			
Number of placement agents in Italy?	-	1			>1 or unknown		-	
Is there a Pot System?	-	Yes	No		Yes	No	-	
Is there a responsible for the settlement with the issuer?	-	-	Yes	No	-	Yes	No	-
- SECTION 1								
- SECTIONS 2&3	All the entities who have placed in Italy.	The placement agent member of the syndicate who have actually placed in Italy has to report all the sections irrespective of the features of the syndicate.			The 'Lead Manager B&D' has to report <u>all</u> the sections. NOTE: section 4 has to include the total amount placed in Italy by all the members of the syndicate.	The responsible for the settlement with the issuer has to report sections 1, 2&3.	All the members of the syndicate who have placed in Italy.	All the entities who have offered in Italy.
- SECTION 4					Each member of the syndicate may report its section 4 in addition to/in place of the 'Lead Manager B&D' reporting of section 4.	All the members of the syndicate who have placed in Italy.		

A.22. Who should send the report if the intermediary is not a placement agent, because the placement agents, namely entities having a direct relation with the subscriber, are group distribution networks and/or distribution networks not part of the group?

Reporting should be made by entities placing in Italy according to note (3) of the '129 Provisions'. If the intermediary is not a placement agent within a syndicate, reporting is not due as it must be made by the entities belonging to the distribution networks.

- A.23. An intermediary underwrites securities neither on a firm nor on a standby commitment to the issuer and sells them to institutional investors, who are buying them as own holdings or for re-sale to other clients. Could this case be considered 'dealing on own account' with prior interest collection for the financial instrument and therefore not necessarily a placement, in a legal sense?

Such operations are within the scope. If the intermediary is not a placement agent according to the Consolidated Law on Finance, the reporting must be made by the issuer or by the offeror. Moreover, the amount must be reported as subscribed by clients (and not by the intermediary) if the ultimate goal is client placement (divided into sectors according to the rules in Section 4).

- A.24. If an entity sells a security to a non resident asset manager and this manager makes a placement to an Italian, who is responsible for the reporting?

The asset manager is responsible for the reporting, because it makes a placement in Italy.

- A.25. Is quarterly reporting due by intermediaries acting as placement agent according to the 129 Provisions?

Yes, quarterly reporting is due by placement agents only for the quarters in which the placement occurs.

- A.26. Is the entity responsible for reporting identified according to the number of placement agents in Italy?

Yes, it is. See the answer to question A.21.

- A.27. Is the 129 reporting due by the responsible for the placement when he does not actually place in Italy?

When there is more than one placement agent in Italy and the entity responsible for placement is also responsible for B&D or responsible for the settlement with the issuer, then he has to report as described in A.21).

- A.28. Securities issued by SSAs (supranationals, sovereigns/sub-sovereigns and agencies) are to be reported?

As reported in the Provisions the following rules apply:

- *supranationals*: they are excluded if the issuer is an international public organization made up by one or more EU member states, or if there is a guarantee of an EU state;
- *sovereigns*: they are excluded;
- *sub-sovereigns*: they are excluded only if there is a guarantee of an EU state;
- *agencies*: they are excluded only if there is a guarantee of an EU state.

- A.29. Are tap issues to be reported?

Yes if the original security was issued after 01/10/2016.

B – Reference data

- B.1. Where are data on the issuer's parent company, guarantor number and guarantor's parent company available? If the issuer is an SPV, whom should these data refer to?

For entities belonging to Italian banking groups information on the parent company is available in the application. For all other entities these data have to be provided within the reporting. For ABS and CDO such data are not present.

B.2. What must be reported in the 'guarantor' field if there is more than one guarantor?

Only one guarantor may be reported in the application. If one of the guarantors is also the parent company, the latter must be reported. In all other cases, the most representative one.

B.3. How is the entity ID code assigned?

A registration request for new entities can be created within the application.

B.4. What is the sub-group of economic activity for an SPV?

SPVs have specific codes for the sub-groups of economic activity, which are indicated in [Circ. 140](#) (only in Italian) and here listed for your convenience:

- i) 249 - resident SPVs;
- ii) 717 - Euro area SPVs;
- iii) 718 - Extra-Euro area SPVs.

B.5. What values may be entered in the field 'restrictions on sale'? In particular what are the corresponding values for the following cases: 'No restrictions', 'Restrictions only for primary market' and 'Restrictions also for secondary market' (cases: (1) private placement; (2) offering only for institutional investors, which after placement can also circulate among non-institutional investors being fully transferrable securities; (3) offering only for some countries (i.e., not US investors)?

In filling in the field, one should consider: the possible restrictions at the issue and at the placement, whether such restrictions are extended to the secondary market, and possible restrictions already in the national law of the countries where the instrument is offered/placed. In case (1) it depends on whether the securities are transferrable after placement, in case (2) 'Restrictions only for primary market' should be indicated, in case (3) it depends on whether restrictions are also extended to the secondary market.

B.6. Should all redemption priorities foreseen during the instrument's life be indicated or only the ones foreseen at the issue?

The field should be filled in only for the securitizations.

B.7. Should the issue price or offering price also be indicated for financial instruments issued by a resident and placed abroad?

Yes, the issue price or offering price should be indicated for such instruments as well.

B.8. If the maturity date is postponed and different from the one at the issue, should another report be sent?

In such cases an update should be sent.

B.9. Is an ISIN code available for base rates (e.g. Euribor)?

Yes, an ISIN code is available.

B.10. What should be reported in the case of a financial instrument linked to two or more underlying assets?

For such instruments see the following fields: 'principal and coupon indexation' and 'coupon indexation'.

B.11. Is the 'early redemption' field binary?

Yes, the field indicates whether the option is present or not.

B.12. Is the 'derivative component' field binary?

Yes, the field indicates whether the derivative component is present or not.

B.13. If the offer price is 100,10% of the nominal value including an underwriting/settlement fee equal to 0,10% of the nominal value, which value should be reported in the 'issue or offer price' field?

100,10 should be reported.

B.14. Why are some securities already registered in the Bank of Italy Security Database whereas some others are not? What has to be done in the latter case?

A security can be registered in the Security Database because: (1) the ISIN code has been provided by the Bank of Italy, (2) it was registered for reasons not related to the 129 reporting or (3) it was registered by another 129 reporting entity.

If a security is not in the Security Database, before submitting a 129 reporting, it must be registered through one of the following messages:

- 'Registration of ISIN with 129 reference attributes (Section 1)', when the user has to send section 1 and 2-3. This message permits to register the security and to send section 1 at the same time;
- 'Registration of ISIN for 129 reporting Section 4', when (1) the user has to send only section 4 and (2) he wants to register the ISIN without reporting section 1 because another entity is responsible for sections 1 and 2-3.

The message 'Registration of ISIN for 129 reporting Section 4' may be used in the following cases:

1. when 'Method of placement = 5' and the placement agent, who is not the Lead Manager B&D, wants to send section 4 but the security is not yet in the Security Database;
2. when 'Method of placement = 6' and the placement agent, who is not the Responsible for the settlement with the issuer, wants to send section 4 but the security is not yet in the Security Database.

C – Expected duration, yield, and cost of funding

C.1. Is the expected duration the duration of an instrument?

No, it is defined differently.

C.2. How should the expected duration be evaluated?

The expected duration is the weighted average of the principal repayments using the related redemption instalments as weights. For ABS products it is the expected life of the tranche estimated by the issuer. For further details see '[Instructions for compiling messages](#)'.

C.3. Should the possible exercise of the early redemption option by the issuer (e.g. for securitization or due to market disruption) be taken into account when computing the expected duration?

No, such options should not be taken into account, except for perpetual bonds

C.4. How should the expected duration be calculated in the case of a perpetual bond?

If there are no early redemption options, 999 should be reported. Otherwise the expected duration should be calculated supposing the option is exercised at the earliest possible exercise date.

- C.5. How is the cost of funding borne by the issuer calculated? What is the meaning of 'after fees and taking the cost of any hedging into account'? What is foreseen in the case of structured financial instruments, in which fees are partly paid through option selling? If fees (including placement fees) are deducted, it may result in a negative cost of funding.

The definition of this field comes from the definition of cost of funding as per Supervisory form 83. The field may contain a negative value (negative cost of funding). Fees sustained by the subscriber and paid to third parties other than the issuer should be deducted as they are not an issuer cost. Hedging, if any, should be taken into account. In some cases such cost is only theoretical as future cash flows and hedging itself might not be fully known at the issue. It should be noted that such cost can only be roughly estimated because, for example, the real hedging strategy may be at 'portfolio' rather than at 'deal' level.

- C.6. When estimating the cost of funding, should the fees from entities belonging to the issuer's group also be deducted?

The cost of funding should be computed at a consolidated level. Fees should therefore be distinguished between those paid to entities belonging to the group and those paid to entities not belonging to the group. Fees should be deducted from the net proceeds only if the recipient entity does not belong to the group. For example: all other characteristics being equal and assuming a placement fee greater than zero, an instrument placed by a group intermediary will have a lower cost of funding than a similar instrument placed by an intermediary not belonging to the group.

- C.7. How is the cost of funding evaluated in case of hedging?

If the hedging modifies the cash flows, for example back-to-back hedging or hedging of interest rate risk, then it should be included in the estimation, as it could affect the cost for the issuer.

- C.8. Should the 'cost of funding at issue' also be computed for instruments which, strictly speaking, are not funding instruments (e.g. certificates)? How should the field be filled in if the reporting entity is a lead manager?

The cost of funding should be evaluated for certificates, too. If the reporting entity acts as 'placement agent', the information should be provided by the issuer. Such value is estimated at issue, taking into account future cash flows, hedging and fees paid to third parties other than the issuer.

- C.9. How does the placement agent evaluate the issuer's cost of funding if the issuer does not provide him with the hedging costs (e.g. because it is commercially sensitive)?

In this particular case, the placement agent can evaluate the issuer's cost of funding by assuming that there are no hedging costs for the issuer.

- C.10. When the security is not denominated in Euro, how should the cost of funding be reported?

When the security is not denominated in Euro, the cost of funding must be computed by considering Euro as reference currency taking into account the reference cross-currency swap.

- C.11. How should the cost of funding be evaluated for mixed rate securities?

When the cost of funding is mainly based on a floating rate, once having taken into account the hedging strategies, one must select 'Evaluation basis for cost of funding = V'. The spread must be computed by converting all fixed-rate coupons into floating-rate spreads on the basis of proper market rates. The spread should be expressed with respect to the 3M Euribor.

When the cost of funding is mainly based on a fixed rate, once having taken into account the hedging strategies, one must select 'Evaluation basis for cost of funding = F'. The global percentage cost must be computed by converting all floating rate spreads into fixed-rate coupons spreads on the basis of proper market rates.

- C.12. As for information about the effective yield in Section 2, reference is made to the spread on the indexation parameter, as the guaranteed component of the yield. In the case of negative interest rates and without a floor equal to the spread, will the guaranteed component be equal to zero? Will the variable component also be zero, in the case of a negative reference parameter at issue?

Without a floor but with a spread, the guaranteed component is equal to the spread, whereas the variable component is equal to the value of the reference parameter, which may be negative. The sum of the two is equal to the effective yield calculated at issue.

- C.13. How should the effective yield at issue be reported in the case of variable rate securities?

Here are examples of reporting for effective yield at issue in the case of floating rate securities.

Case 1

floating rate security: 3M Euribor + 0.8% spread
Euribor on 13-06-2016 equal to -0.263%

The following figures should be reported:

guaranteed component: 0.8%.
variable component: -0.263%

Case 2

floating rate security: 3M Euribor + 0.8% spread and with a 0.3% floor.
Euribor on 13-06-2016: -0.263%

As $-0.263\% + 0.8\% = 0.537\% > 0.3\%$, the following figures should be reported:

guaranteed component: 0.8%.
variable component: -0.263%

Case 3

floating rate security: 3M Euribor + 0.4% spread with 0.3% floor.
Euribor on 13-06-2016: -0.263%

As $-0.263\% + 0.4\% = 0.137\% < 0.3\%$, the following figures should be reported:

guaranteed component: 0.3%.
variable component: 0%

- C.14. Should the effective yield at issue also be reported by the placement agents?

Yes, it should be reported by them, too.

- C.15. Should the cost of hedging, if any, be taken into account when determining the effective yield?

No, the cost of hedging should be taken into account when estimating the cost of funding.

C.16. How should the cost of funding be calculated?

Please note that:

- The cost of funding should be reported on annual basis
- The cost of funding should be expressed in percentage points (if it is equal to 1,5%, please report 1,5)

It should also be reminded that the cost of funding is an estimate because in some cases the future cash flows and the hedging strategy may not be known already at the issue. Moreover, the hedging strategy may be at a portfolio level (not at a single issue level).

Examples of cost of funding evaluations.

Example 1: reporting a cost of funding based on a fixed rate

Given a debt security with the following features:

- Nominal value: 100
- Issue price (net proceeds): 99
- Original maturity: 2 years
- Coupon frequency: half-yearly
- Yearly coupon rates: 2%
- Settlement date: 31/01/2018
- Fees paid by the issuer (placement, structuring, legal costs etc.): 3% at issue
- Estimated cost of hedging: 0%

Issue price subtracting fees and the cost of hedging: $99 - 3 - 0 = 96$

Cash flows:

- At issue: $96 = 99$ (net proceeds) - 3 (fees)
- Year 1, semester 1: $-1 = -1$ (coupon)
- Year 1, semester 2: -1
- Year 2, semester 1: -1
- Year 2, semester 2: $-101 = -1$ (coupon) -100 (redemption price)

Evaluate the effective yield to maturity. The effective yield to maturity is the rate such that the sum of the discounted cash flows is zero. In this example the cost of funding is $(1 + 2,05\%)^2 - 1 = 4,15\%$.

In fact the discounted cash flows with 2,05% rate:

- At issuance: +96
- Year 1, semester 1: $-0,9799 = -1 / (1+0,0205)$
- Year 1, semester 2: $-0,9602 = -1 / (1+0,0205)^2$
- Year 2, semester 1: $-0,9409 = -1 / (1+0,0205)^3$
- Year 2, semester 2: $-93,119 = -1 / (1+0,0205)^4$

Their sum is 0. The function to compute the internal rate of return is available in many financial software suites.

Example 2: reporting a cost of funding based on 3M Euribor

Given a bond with the following features:

- Nominal value: 100
- Issue price: 100
- Original maturity: 1 year
- Interest rate: 3M Euribor + 1%
- Coupon frequency: quarterly
- Settlement date: 31/01/2018

- Fees paid by the issuer: 0,5% at the issue
- Estimated cost of hedging: 0% (no hedging)
- Evaluation basis for cost of funding for the issuer: 3M Euribor
- Evaluation basis for cost of funding for the reporting: 3M Euribor

As the cost of funding is based on a variable rate the field should be compiled as a spread between the cost of funding and 3M Euribor.

Issue price subtracting fees and the cost of hedging: $100 - 0,5 - 0 = 99,5$

Cash flows:

- At issue: 99,5 (issue price – fees – cost of hedging)
- Quarter 1: -0,25 (spread, 3M Euribor is not considered because the evaluation basis is 3M Euribor itself)
- Quarter 2: -0,25
- Quarter 3: -0,25
- Quarter 4: -100,25 = -100 -0,25

Compute the effective yield to maturity: the rate such that the actualized value of the cash flows is zero. In this example we obtain 0,376% on a quarterly basis, therefore, compounding the rate on an annual basis, the cost of funding to be reported is 1,513% (yearly basis), because $(1 + 0,376\%)^4 - 1 = 1,513\%$.

The actualized cash flows are:

- At issue: +99,5
- Quarter 1: $-0,249 = -0,25 / (1 + 0,00376)$
- Quarter 2: $-0,248 = -0,25 / (1 + 0,00376)^2$
- Quarter 3: $-0,247 = -0,25 / (1 + 0,00376)^3$
- Quarter 4: $-98,756 = -100,25 / (1 + 0,00376)^4$

The sum of the actualized cash flows is 0.

Example 3: reporting a cost of funding based on a different rate from 3M Euribor

Given a bond with the following features:

- Nominal value: 100
- Issue price: 100
- Original maturity: 2 years
- Interest rate: 6M Euribor + 1%
- Coupon frequency: half-yearly
- Settlement date: 31/01/2018
- Fees paid by the issuer: 1% at the issue
- Estimated cost of hedging: 1,5% upfront
- Evaluation basis for cost of funding for the issuer: 6M Euribor
- Evaluation basis for cost of funding for the reporting: 3M Euribor

As the cost of funding is based on a variable rate the evaluation basis to be reported is 3M Euribor, the field should be compiled as a spread between the cost of funding and 3M Euribor. As the issuer's cost of funding is based on 6M Euribor, the difference between 6M Euribor and 3M Euribor should be evaluated at the settlement date. In this example this difference is equal to $-0,28\% - (-0,33\%) = 0,05\%$ (31/01/2018). Alternatively, the difference can be evaluated as the quantity that makes 0 the actual value of a basis swap 3M Euribor vs 6M Euribor with a 2 years maturity.

Issue price subtracting fees and the cost of hedging: $100 - 1 - 1,5 = 97,5$

Cash flows:

- At issue: 97,5 (issue price – fees – cost of hedging)

- Year 1 Half 1: $-0,525 = -0,5$ (spread) $-0,025(6M \text{ Euribor} - 3M \text{ Euribor})$
- Year 1 Half 2: $-0,525$
- Year 2 Half 1: $-0,525$
- Year 2 Half 2: $-100,525 = -100$ (redemption price) $-0,5$ (spread) $-0,025$ (6M Euribor - 3M Euribor)

Compute the effective yield to maturity: the rate such that the actualized value of the cash flows is zero. In this example we obtain 1,17% on a semi-annual basis, therefore, compounding the rate on an annual basis, the cost of funding to be reported is 2,4% (yearly basis), because $(1 + 1,17\%)^2 - 1 = 2,35\%$.

The actualized cash flows are:

- At issue: $+97,5$
- Year 1 Half 1: $-0,519 = -0,525 / (1 + 0.0117)$
- Year 1 Half 2: $-0,513 = -0,525 / (1 + 0.0117)^2$
- Year 2 Half 1: $-0,507 = -0,525 / (1 + 0.0117)^3$
- Year 2 Half 2: $-95,961 = -100,525 / (1 + 0.0117)^4$

The sum of the actualized cash flows is 0.

Example 4: reporting a cost of funding based on a variable basis for a fixed rate security

Given a bond with the following features:

- Nominal value: 100
- Issue price: 100
- Original maturity: 5 years
- Interest rate: 0,77% (0,47% IRS 5Y + 0,3% spread)
- Coupon frequency: yearly
- Settlement: 31/01/2018
- Fees paid by the issuer: 1% at the issue
- Estimated cost of hedging: 0%
- Hedging strategy: IRS where the issuer pays 6M Euribor and receives a fixed rate. Swap rate = 0,47%
- Evaluation basis for cost of funding for the issuer: 6M Euribor
- Evaluation basis for cost of funding for the reporting: 3M Euribor

Even if the security is a fixed interest rate instrument, the hedging strategy is such that the issuer cash flows are based on 6M Euribor. As the cost of funding is based on a variable rate, the evaluation basis to be reported is 3M Euribor and the field should be compiled as a spread between the cost of funding and 3M Euribor. As in example 3 the difference between 6M Euribor and 3M Euribor should be computed at the settlement date. In this example this difference is equal to $0,33\% - 0,28\% = 0,05\%$ (31/01/2018). Alternatively, the difference can be evaluated as the quantity that makes 0 the actual value of a basis swap 3M Euribor vs 6M Euribor with a 5 years maturity.

Issue price subtracting fees and the cost of hedging: $100 - 1 - 0 = 99$

Cash flows:

- At issue: 99 (issue price – fees – cost of hedging)
- Year 1: $-0,35 = -0,77$ (coupon) $+0,47$ (swap rate) $-0,05$ (6M Euribor -3M Euribor)
- Year 2: $-0,35$
- Year 3: $-0,35$
- Year 4: $-0,35$
- Year 5: $-100,35 = -100$ (redemption price) $-0,77$ (spread) $+0,47$ (swap rate) $-0,05$ (6M Euribor -3M Euribor)

Compute the effective yield to maturity: the rate such that the actualized value of the cash flows is zero. In this example we obtain 0,55% on a yearly basis.

The actualized cash flows are:

- At issue: 99
- Year 1: $-0,348 = -0,35 / (1 + 0,0055)$
- Year 2: $-0,346 = -0,35 / (1 + 0,0055)^2$
- Year 3: $-0,344 = -0,35 / (1 + 0,0055)^3$
- Year 4: $-0,342 = -0,35 / (1 + 0,0055)^4$
- Year 5: $-97,619 = -100,35 / (1 + 0,0055)^5$

The sum of the actualized cash flows is 0.

Example 5: reporting a cost of funding based on a fixed rate with a structured rate security with floor

Given a bond with the following features:

- Nominal value: 100
- Issue price: 99
- Original maturity: 5 years
- Coupon frequency: yearly
- Estimated interest rate (at issue): 2%
- Floor: 2%
- Settlement: 31/01/2018
- Fees paid by the issuer: 3% at the issue
- Estimated cost of hedging: 0,5% per year
- Coupon rates are linked to an equity index with a floor
- The issuer hedges its position against coupons rise with a specific hedging strategy. In this way the issuer fixes at the issue the future cash flows.

Then:

Issue price subtracting fees and the cost of hedging: $99 - 3 - 0,5 = 95,5$

Cash flows:

- At issue: 95,5 (issue price – fees – cost of hedging)
- Year 1: $-2,5 = -2$ (coupon) $-0,5$ (cost of hedging)
- Year 2: $-2,5$
- Year 3: $-2,5$
- Year 4: $-2,5$
- Year 5: $-102 = -100$ (redemption price) -2 (coupon)

Compute the effective yield to maturity: the rate such that the actualized value of the cash flows is zero. In this example we obtain 3,4%.

The actualized cash flows are:

- At issue: +95,5
- Year 1: $-2,418 = -2,5 / (1+0,034)$
- Year 2: $-2,338 = -2,5 / (1+0,034)^2$
- Year 3: $-2,261 = -2,5 / (1+0,034)^3$
- Year 4: $-2,187 = -2,5 / (1+0,034)^4$
- Year 5: $-86,296 = -102 / (1+0,034)^5$

The sum of the actualized cash flows is 0.

C.17. How should the cost of funding be computed in the case of a perpetual bond?

If there are early redemption options, the cost of funding should be computed by assuming that the option is exercised at the earliest possible exercise date. As an alternative, the cost of funding could be computed by estimating the probability of redemption at each possible exercise date.

- C.18. In the case of a perpetual bond, what should be reported in the field RE012 as 'spread application end date' of the last floating coupon calculation period (see 'Yield information' for 'Floating rate securities')?

The date 31/12/2099 should be reported.

- C.19. In the case of a perpetual bond, what should be reported as 'option exercise end date' of an early redemption option without a fixed exercise end date?

The date 31/12/2099 should be reported.

D – Structured financial instruments

- D.1. Please clarify what structured financial instruments are and list relevant cases.

Structured financial instruments are defined in the '129 Provisions'. Here is a non-exhaustive list:

Structured bonds
Commodity linked bonds
Equity linked bonds
Index linked bonds
Inflation linked bonds
Structured covered warrants
Investment certificates
Leverage certificates
ETCs
ETNs

- D.2. Are securitizations classified as 'structured financial instruments' according to the '129 Provisions'?

According to the '129 Provisions' securitizations, even synthetic ones, are not 'structured financial instruments'.

- D.3. How should the 'basic options' field be filled in? What should be reported in the case of certificates with two or more options?

The field foresees three possible values: (CALL, PUT, OTHER). The characteristics of the most complex option should be indicated.

- D.4. How should the 'type of exercise of option' field be filled in for certificates with two or more options?

The characteristics of the most complex option should be indicated.

- D.5. If the underlying is a basket of financial instruments, how should the 'number of underlying assets of a derivative component' field be filled in, U=one or N=two or more?

If the underlying is an index, enter U=one, if it is a basket, enter N=two or more.

- D.6. How should the 'path dependent derivative component' field be filled in with regard to annual pay-off with specific observation dates?

If the pay-offs of the derivatives inside the derivative component do not depend on the performance of the underlying during the life of the single derivatives, but only on the value of the underlying at maturity date, then the derivative component is not considered path dependent (e.g. the sum of more European options is not path dependent).

- D.7. Please clarify the 'leverage of security' field. If a security has guaranteed capital but its redemption price tracks a leveraged index, should the security be considered leveraged?

Leveraged instruments are those whose security price depends on the performance of the underlying multiplied by (a) number(s) greater than 1, in absolute value. Such values must be known at issue. Normally, not all structured instruments (certificates) are leveraged, according to the '129 Provisions'. Some examples of leveraged instruments are: leverage certificates, some ETCs and ETNs (e.g. 2x o - 2x). For all other non-leveraged instruments, the following values should be indicated: 'Minimum leverage= 1', 'Maximum leverage = 1' and 'Type of leverage= 3 - other' and 'Measure of leverage = A-Other'.

- D.8. As per Section 3, should the data be reported for asset-backed securities (ABSs) and commercial and residential mortgage backed securities (CMBs and RMBs)?

The data as per Section 3 should not be reported for ABSs, CMBs and RMBs.

E – Further quantitative data

- E.1. With reference to the data to be reported quarterly after the issue (e.g. number of certificates, trading price), since the request is burdensome, is it possible to request a waiver?

These data are required only for issued securities. For placed securities issued by third parties, data are requested only at the end of the quarter in which the placement occurred.

- E.2. As for the placed or subscribed amount, is it possible to simplify/aggregate the investor categories to (1) amount placed with retail (2) amount placed with central governments and institutional investors?

No, it is not possible to further aggregate the categories.

- E.3. How should the amount placed or subscribed be reported: as an amount expressed in units of original currency or as a percentage of the total issued amount?

For each type of investor the original currency amount should be reported.

- E.4. What does 'number of certificates in circulation' mean? Total issued amount or issued amount net of the amount in the trader's book?

If the reporting entity is a:

- resident issuer, it means the total issued amount, net of buybacks or unsold securities;
- non-resident issuer, it means the total issued amount, net of buybacks or unsold securities, only for the Italian market share;
- placement agent, it means the cumulated total amount issued in Italy until the end of the quarter.

- E.5. Is the 'number of certificates in circulation' the number of certificates placed by the agent or the total outstanding amount? Should reporting be quarterly for the whole life of the instruments? Should reporting also be extended to those certificates which were transferred to the bank from other companies together with clients?

For partners operating as 'issuer', reporting is due quarterly for the life of the instruments and refers to the total outstanding amount. For partners operating as 'placement agent', reporting is due only at the end of the quarter in which the listing occurred or, for unlisted securities, the end of the quarter in which the placement occurred. In the latter case reporting refers to the cumulated value of the own placed amount.

- E.6. Does 'trading price' mean closing price?

Yes, if available.

- E.7. In section 4 (multi-listed securities), what do you mean when you request the most significant trading price? What are the criteria to establish the main market? Security liquidity, bid-ask spread, trading volume, market maker numbers or simply the main listing market?

The main market is identified by the reporting agent taking into account, for example, the number of transactions, trading volume, market liquidity or the bid-ask spread.

- E.8. Data requests on the amount of early redemptions following buybacks by the issuer is very burdensome, especially in the case of redemptions through partial repurchase and not through public repurchase offerings. Is it possible to consider this request 'optional'?

The data are not required for 'placement agents'. Furthermore, resident banking entities are not required to send this reporting, as it is already available in the regular supervisory reporting (*Matrice dei Conti*).

- E.9. For bond direct listings, how should the amount placed or subscribed be split among the various types of investors?

If the type of investor is unknown the reporting entity may use the fields 'other' (one for Italy and one for abroad) that have been added to take into account possible residual cases. 'Other' may be used for: direct listings, the presence of so-called accounts 'X' (when the lead manager of a syndicate does not know the name and/or country of an investor introduced by another member of the syndicate) and other residual cases.

- E.10. How should the amount placed or subscribed be reported for partly-paid ABS?

For partly-paid ABS one must report the total amount subscribed by the investors starting from the first settlement date according to the criteria described in Section 4. Please note that the amount reported has to be cumulated from the first settlement date to the last passed settlement date.

- E.11. Resident banks have to report the amount placed referred to financial instruments other than covered warrants, certificates, ETCs and ETNs?

Resident banks, which already report their placement activity in fields 41403 and 41404 of '*Matrice dei conti*', are not due to report.

- E.12. How should the amount placed or subscribed be reported for securities having more than one placement period?

The amounts have to be reported **on a cumulated basis** (sum of amounts to date).

- E.13. Bond direct listing

If the reporting entity is a:

- resident issuer, it means the total issued amount, net of buybacks or unsold securities;
- non-resident issuer, it means the total issued amount, net of buybacks or unsold securities, only for the Italian market share;
- placement agent, it means the cumulated total amount issued in Italy until the end of the quarter.

One must report the total amount bought by the investors according to the criteria described in Section 4 (there is also the field 'OTHER' if one does not know the buyer).

Data on the amount placed or subscribed (broken down by type of subscriber) shall be reported by the end of the twentieth day of the month following the end of the placement or offering:

- if at this reporting date the total size purchased is zero, you must report zero.
- If after the first reporting date investors continue to buy on Borsa, it is needed to amend the data related to the total size purchased. Please note that the amount reported has to be cumulated from the first to the last reporting date. The amounts have to be reported on a cumulated basis (sum of amounts to date).

F – Timing

- F.1. For the *Quarterly report*, how should certificates with possible automatic early liquidation (if a pre-defined event takes place) be handled? Are they excluded from reporting or should the outstanding amount be reported as equal to 0?

0 should be reported at the end of the quarter in which early closeout occurs and no subsequent reporting is due.

- F.2. Is it possible to have the same reporting timing for all sections (i.e.: quarterly for all instruments)?

Reporting content and collection have been determined by taking into account that the Bank of Italy already receives data about financial instruments in its capacity of ISIN code numbering agency and by managing the Securities Database. Reference data is reported 'on event' basis. Quarterly reports are foreseen for some kinds of securities.

- F.3. When the provisions come into force, will data also be requested for placements prior to 1 October 2016?

Reporting is compulsory for all securities settled or issued after 30 September 2016. It is requested, for example, for a security placed in September, but settled on 1 October.

- F.4. As for the reference data in Section 1, should data be reported only when the security is issued, without subsequent updating? If the parent company changes, is it unnecessary to report the change subsequently?

The data for Section 1 should normally be sent when the security is issued, without subsequent updating. Nonetheless, it is possible to report corrections and/or changes.

- F.5. At present, when should data for issued certificates be reported for the first time? On 20 October 2016, directly on 20 January 2017 or after the end of the first quarter?

The provisions apply only to securities issued/settled after the date of entry into force (1 October 2016). It is specified that the reference information (Section 1) should be reported according to the instructions in paragraph 3 (report contents and procedures) of the '129 Provisions'.

- F.6. Can each entity decide to report on settlement or issue date?

Yes, each entity can choose either reporting date autonomously.

- F.7. What does 'delivery of the prospectus to the competent authority' mean?

The term 'prospectus' should be read as 'final terms'.

FAQs about sending reports

G – INFOSTAT and FE129 procedure

G.1. How can 129 data be sent?

129 reports should be sent using the FE129 procedure, an on-line application developed by the Bank of Italy which is available on the INFOSTAT platform.

G.2. How can the FE129 procedure be accessed?

In order to access the FE129 procedure, registration is necessary, as described in the [Instructions for accessing the ISIN code service and Art.129 reporting](#) on the Bank's website.

Please note that the companies that were already registered for the FEAT (*Front End Anagrafe Titoli*) procedure when the reports ex art. 129 of the Consolidated Law on Banking were launched, were also automatically registered for FE129 without any further request.

For those companies:

- FEAT **administrators** automatically became FE129 procedure administrators, too
- FEAT **operators**, on the contrary, should obtain a delegation from their administrators in order to operate with the new FE129 procedure.

G.3. What is FEAT? How is it different from FE129?

FEAT (Front End Anagrafe Titoli) is an on-line application, also available on the INFOSTAT platform, which is used for ISIN requests, ISIN registration and to communicate updates on securities issued by resident entities or deposited with the Italian Central Depository in accordance with ISO 6166. All these activities are part of the Financial Instruments ISIN Code Service provided by the Bank of Italy as National Numbering Agency (NNA).

FE129 (Front End 129) is used to send reports in compliance with Art. 129 of the Consolidated Law on Banking (henceforth, '129 Report') and can also be used for the same purposes as FEAT. In fact, the FE129 procedure was developed after FEAT and the two procedures share many features because oftentimes the '129 report' and the Financial Instruments ISIN Code Service share the same reporting requirements.

The two procedures form the ISIN code service and the reporting per Art. 129 of the Consolidated Law on Banking.

G.4. Is there a single registration form for both FEAT and FE129?

Yes, there is a single registration form for ISIN code service and reporting per Art. 129 of the Consolidated Law on Banking.

G.5. As a FEAT partner, should I register also for FE129?

No, FEAT partners are automatically FE129 procedure partners (see answer G.2 and G.4).

G.6. Can I register as a partner only for FE129?

No, there is a single registration process which is always valid for both procedures.

G.7. Is a FEAT administrator therefore also a F129 administrator?

Yes, each FEAT administrator is always also a FE129 administrator. This is NOT the case for operators who must obtain a different delegation for each application from their administrators.

- G.8. As a FEAT user, I can see FEAT but not FE129 among the available applications in the INFOSTAT menu. Why?

If you cannot find FE129 among the available applications, that means you are an **operator** and must obtain a delegation from an **administrator** to see the application.

- G.9. How can I check if I am an administrator or an operator?

Click on 'Authorization management -> Active authorization list' on the INFOSTAT platform. All partners and relevant roles are displayed.

- G.10. As a user, how can I know which administrators can operate on behalf of my partner?

Administrators can see all users (administrators and operators) of the partner in the INFOSTAT function 'Authorization management'. Both operators and not yet registered users send inquiries to rdvi.helpdesk@bancaditalia.it regarding their relevant administrators.

- G.11. Where can I find further information about FEAT/FE129 registration?

See the [Instructions](#) on the Bank's website.

- G.12. As 129 reports are collected on the INFOSTAT platform, are more registrations foreseen?

The INFOSTAT platform foresees a limited number of registrations for each partner. More registrations can be requested at the INFOSTAT helpdesk.

- G.13. Can data be automatically uploaded in FE129 windows?

Yes, the function 'Import' allows the upload of csv or xml files. For debt securities the imported data can only refer to **one** financial instrument. On the contrary, for certificates, ETCs, ETNs, covered warrants and leverage certificates it is possible to upload data relevant to several securities of the same kind.

- G.14. Is it possible to send data relevant to several securities in one single flow?

Yes, it is possible to send massive flows but only for data relevant to certificates, ETCs, ETNs, covered warrants and leverage certificates (see also answer G.13).

- G.15. Is it possible to insert data in INFOSTAT without manual data entry, for example by downloading data from files that banks would upload with an FTP procedure to a dedicated Bank of Italy server?

The A2A mode is not available. It is possible to send massive flows for certificates, ETCs, ETNs, covered warrants, and leverage certificates but through a U2A mode, that is, the FE129/FEAT application.

- G.16. Is there an operating manual for FE129?

As the two applications are very similar, FE129 and FEAT share the same operating manuals. In particular, the following documents can be found on the Bank's website:

- '[Instructions for compiling FEAT and FE129 messages](#)', describing the type and content of the messages, as well as how to send them to the Bank of Italy through the two applications;
- '[User Manual FEAT/FE129](#)', containing all the operating instructions for the use of the two applications.

H – Reporting entity

- H.1. If the offering in Italy is made through a non-resident bank which has branches in Italy, can reports be sent by foreign branches?

Yes, the application is also available in English.

- H.2. Can reports be sent on behalf of third parties?

The reporting entity must register as a partner in the FE129 application and can delegate other parties to send the reports. Please remember that the reporting entity is responsible for the accuracy and timing of the reports even if they are sent by third parties.

Miscellanea

- I.1. If the requested data are not available because they are not related to the specific activity of the entity, is the entry 'Not Applicable' acceptable?

In principle all the application fields should be filled in.

- I.2. Is it possible to have a list of contacts for the different sections of the requested data, as well as contacts for the operating activities?

Contacts:

For details about FE129 fields: FE129@bancaditalia.it

For details about FEAT fields: FEAT@bancaditalia.it