

The new accounting legislation for credit institutions applicable from 1993, and its implications for the monthly balance sheet statistics

The entry into force of the new Accounting Regulation for Banks on February 15, 1992 marked the end of a prolonged legislative procedure involving several steps. German bank accounting law has thereby been adjusted to the relevant EC Council Directives. In a first step, the EC provisions on the annual accounts and consolidated accounts of enterprises had been incorporated into German commercial law through the adoption of the *Annual Accounts Directive Act* of 1985. This act also provides the framework for German credit institutions. On account of features specific to the banking industry, however, credit institutions are exempted from many of the general commercial accounting rules, and instead subjected to special provisions. Special standards were therefore set for credit institutions also at the EC level,¹ which were translated into German law through the adoption of the *Bank Accounts Directive Act* in 1990, and the aforementioned *Accounting Regulation* in 1992. In addition to the various Federal ministries, the Deutsche Bundesbank, the Federal Banking Supervisory Office and the banking associations were involved in the discussions of this legislation.

The Bank Accounts Directive Act defines those legislative areas in German commercial law which do not apply to credit institutions and are replaced by special provisions. In particular, the act encompasses provisions on the valuation of assets; it deals with the permissibility of undisclosed reserves, regulates the disclosure of sale and repurchase agreements, the translation of foreign currencies into Deutsche Mark and the breakdown of assets and liabilities by maturity. The Accounting Regulation contains specific details of major provisions on the contents of the credit institutions' annual accounts. In addition, the forms to be used for drawing up the balance sheet and the profit and loss account form part of the regulation.

The translation of the EC standards into national law brought an acceptable solution for the banks' accounting practices which, at the same time, is also satisfactory for users of the figures therein. The Deutsche Bundesbank and the Federal Banking Supervisory Office were interested, above all, in ensuring that the new legislation provided a still workable basis for the credit institutions' monthly balance sheet statistics which is in line with the accounting system and which is of key importance not only for macroeconomic analyses but also for prudential controls. Hence, the goal was, wherever possible, to avoid any discrepancies between the

¹ Council Directive 86/635/EEC of December 8, 1986 on the annual accounts and consolidated accounts of credit institutions and other financial institutions; Council Directive 89/117/EEC of February 13, 1989 on the obligations of branches established in a Member State of credit institutions and financial institutions having their head offices outside that Member State regarding the publication of annual accounting documents.

38 disclosure rules for the annual accounts and those for the monthly banking statistics.

The new rules are to be applied for the first time to the annual accounts for the financial year beginning after December 31, 1992, i.e. normally to the balance sheet for the end of December 1993. The credit institutions' accounting system will be affected by the changes as early as at the beginning of 1993, because the amounts to be disclosed in the considerably modified profit and loss account will accrue and have to be booked from the beginning of the year. Another major change will apply from 1998. As from then, the breakdown of assets and liabilities by maturity in the notes on the accounts will have to be based on the remaining maturity on the balance sheet date. From 1998 onwards, the EC Council will, as suggested by the Commission, moreover review all the national options provided for in the Council Directive in the light of the aims of greater transparency and harmonisation. Furthermore, it remains to be seen what implications the future European monetary union will have for the credit institutions' accounting. At all events, it must be presumed that the new accounting law for German credit institutions will not enjoy as long a period of validity as the present regulations, which have been in force virtually unchanged since 1968. The principal new accounting law provisions applying to credit institutions will be described below, followed by a discussion of how they will affect the credit institutions' reports for the monthly balance sheet statistics.

Common accounting law for all credit institutions

The adjustment of the German accounting rules for credit institutions to the provisions of the EC Council Directives was used completely to reorganise a hitherto very segmented legal area. The accounting rules for credit institutions, which are tailored specifically to their particular needs, are currently set out in the Banking Act, in a Forms Ordinance, in accounting guidelines issued by the Federal Banking Supervisory Office and in various Federal and Länder laws, special regulations and orders. In future, all relevant provisions will be contained, irrespective of the credit institutions' legal form and size, in the Third Book of the Commercial Code and in the Accounting Regulation. Special accounting rules for institutions of a particular legal form or business orientation have been abolished. In addi-

tion, the Disclosure Act will no longer be applied to private bankers in future, with the consequence that they will then no longer be exempted from publishing their profit and loss accounts and from drawing up the notes on the accounts and an annual report. Moreover, there will no longer be any special forms for mortgage banks and building and loan associations. The structural peculiarities of the business of these categories of credit institutions will be taken into account by modifying individual items of the balance sheet and of the profit and loss account. This will ensure that external balance sheet readers will continue to have an adequate insight into the business of these specialised credit institutions.

In principle, the new rules are also to be applied by the branches of foreign credit institutions. If their head office is located in another EC country, however, they are granted a substantial concession. They need then no longer prepare annual accounts covering their activities in Germany, but merely have to publish the annual accounting documents of the entire institution.² This does not, however, affect the reporting requirements of branches of foreign credit institutions within the scope of the collection of banking statistics which are of particular significance for the monetary analysis.

New definitions and concepts

A number of concepts have been redefined in the changed accounting laws for credit institutions. One of the most significant changes is probably the reformulation of the *concept of securities*. A main concern here was to make a clear distinction between assets and liabilities not evidenced by a certificate, on the one hand, and securities, on the other. This was difficult because the banks had developed a large variety of quasi-paper in recent years which could not be classified easily. Moreover, account had to be taken of the terminology of the Bank Accounts Directive, according to which only negotiable securities are deemed to be "debt securities including fixed-income securities" while "debts evidenced by certificates" comprise both debt securities and debts for which negotiable certificates have been issued.

The new concept of "securities" satisfies these conditions. A major feature defining securities is their negotiability. A useful basis for the more detailed definition of negotiability was previously already provided by the definition used in the monthly balance

² The same, incidentally, applies to bank branches in Germany whose head offices are domiciled outside the EC but whose annual accounts have been prepared and audited under legislation adjusted to, or equivalent to, the Bank Accounts Directive.

sheet statistics. According to that definition, bonds are deemed to be negotiable if the terms and conditions of all items of an issue are identical in respect of coupon, issue date and maturity. On the other hand, it was laid down that only such liabilities that are evidenced by unregistered negotiable certificates are to be listed as "debts evidenced by certificates". In future, claims not evidenced by certificates will include not only registered securities but also non-negotiable bearer securities, while debts not evidenced by certificates will include only registered securities.

Under the new legislation, securities portfolios will have to be broken down into three categories in line with their intended use, namely into securities included in trading portfolios, into securities held as financial fixed assets and into securities held as a liquidity reserve. This has very significant consequences for the valuation, for the level of undisclosed reserves and for the profit or loss. The banks are nevertheless largely free to choose the classification they actually prefer. The provisions are specific only for securities held as financial fixed assets. This category includes securities which are intended for use on a continuing basis in the normal course of an undertaking's activities. These securities are not only those which are not valued in accordance with the strict lower value principle but all securities for which a decision about the intended use as fixed assets has been placed on record by the competent body, irrespective of the valuation method chosen. There is no legal definition, by contrast, for securities included in a trading portfolio or for securities included in the liquidity reserve. The latitude provided for in this respect is thus considerable. However, the banks will probably be unable to dispense with adequate, plausible and verifiable in-house rules which take account of the commercial law ban on a discretionary regrouping.

Where the disclosure of *sale and repurchase transactions* is concerned, it is required in future merely to distinguish between genuine sale and repurchase transactions and sales with an option to repurchase; the current rules will continue to apply to both types of transactions. The special regulation governing what were known as "unechte echte Pensionsgeschäfte", i.e. agreements under which the assets were not counted towards the assets of the transferor even though the transferee undertook to return the assets, which was conceded by the Deutsche Bundesbank and the Federal Banking

Supervisory Office as part of the accounting guidelines adopted in 1968, has been abolished. Such transactions must now be classified, irrespective of their formal legal shape, as genuine sale and repurchase transactions simply because the transferee has undertaken to return the asset. In this respect, the previously very broad scope for shaping the balance sheet has been narrowed appropriately.

Where the *trust funds* administered by the banks are concerned, hitherto only "loans on a trust basis" had to be shown in the balance sheet. Such loans are to be understood as loans passed on by the bank in its own name but for account of a transferor. The range of trust business to be shown in the balance sheet has now been broadened, so that a balance sheet extension is likely to result in many cases. What will have to be included are all assets and debts which a credit institution administers in its own name but for the account of third parties, such as real estate, participating interests, securities and loans which are administered on a trust basis (the concept of "loans on a trust basis" is no longer used in the new accounting legislation). The total amount of such assets must match the total amount of such liabilities; both items have to be broken down in the notes on the accounts. This increases the transparency of the banks' business which does not involve any capital or liquidity risks.

Changes to the balance sheet format

Compared with the present form for incorporated banks the number of balance sheet items on the assets side of the new form has been reduced from 22 to 17 and that on the liabilities side from 15 to 12. The changes are nevertheless likely to enhance the overall information provided, if only because of the much more extensive details in the notes on the accounts. The main changes to the balance sheet format are shown in the table on page 40.

Undisclosed reserves

Credit institutions will continue to be able in future to accumulate undisclosed reserves in the form of taxed general value adjustments, but this is now possible in accordance with commercial law provisions, in respect of which the German side has taken full advantage of the member states' options under the Bank Accounts Directive, rather than with prudential provisions. The new legislation continues to provide scope for showing specific assets at a

Changes to the balance sheet format for credit institutions *

I. New balance sheet items and off-balance-sheet memo items

Designation of item	Explanatory note	Hitherto included in
Money market paper (sub-item of asset item "Debt securities including fixed-income securities")	Transferable Euro-notes, certificates of deposit, commercial paper and other rights evidenced by certificates	Loans and advances to banks/customers or securities
Intangible assets	Including EDP software acquired for valuable consideration and derivative goodwill	Other assets
Assets and liabilities which a credit institution administers in its own name but on behalf of third parties	Assets and liabilities which a credit institution administers in its own name but on behalf of third parties	Loans on a trust basis (hitherto other trust business has not been required to be shown in the balance sheet)
Debts evidenced by certificates	Debt securities and other debts for which negotiable unregistered certificates have been issued	Bonds, own acceptances and promissory notes in circulation
Subordinated liabilities	Liabilities which in the event of winding up or of bankruptcy of the credit institution are to be repaid only after the claims of all other creditors have been met	Liabilities to banks/other creditors or bonds
Fund for general banking risks	Disclosed taxed general value adjustments (prudential reserves)	—
Placing and underwriting commitments	Guarantees under which a credit institution undertakes to underwrite financial instruments or grant a loan if the paper cannot be placed in the market, e.g. "RUFs" and "NIFs"	Contingent liabilities arising from guarantees and other warranties
Irrevocable lending commitments	Every irrevocable commitment which could give rise to a risk	—

II. Balance sheet items and off-balance-sheet memo items no longer to be shown

Designation of item	Explanatory note	In future included in
Cheques, matured bonds, interest and dividend coupons, and items received for collection	Collection items now included in the item "Other assets"	Other assets
Bills	In future, bills not eligible for refinancing with central banks to be treated like loans not evidenced by certificates	Treasury bills and other bills eligible for refinancing with central banks (eligible bills) or loans and advances to credit institutions/customers (non-eligible bills)
Holdings of more than one-tenth of the shares of a corporation (sub-item of asset item "Securities not required to be included elsewhere")	Deleted without replacement	—
Loans on a trust basis	To be included in the broader item "Assets/liabilities which a credit institution administers in its own name but on behalf of third parties"	Assets/liabilities which a credit institution administers in its own name but on behalf of third parties of which loans which a credit institution administers in its own name but on behalf of third parties
Bank premises, furniture and equipment	Included in tangible assets	Tangible assets
Shares in a controlling company or a company holding a majority interest	In future shares in an affiliated undertaking have to be shown by banks and non-banks in the same item	Shares in affiliated undertakings
Value adjustments	In future set-off of value adjustments against the relevant assets mandatory for all items	—
Amounts due from affiliates	Hitherto off-balance-sheet memo item	Sub-items of the asset items in question or details to be provided in the notes on the accounts

* Pursuant to the Order concerning the accounting of credit institutions (Verordnung über die Rechnungslegung der Kreditinstitute (RechKredV))

of February 10, 1992, applicable for the first time to the annual accounts for the financial year beginning after December 31, 1992. BBK

lower value "to the extent that this is required in accordance with sound business judgement for the protection against the particular risks associated with banking". The retention of an accounting tradition of German banks, which has proven its worth over many years and which is intended to enable them, in view of the banking industry's particular sensitivity to changes in customers' confidence, to avoid disclosure of losses or drops in earnings, has thus been ensured, subject to a later review at the Community level, i.e. at least until the end of 1997. A look at the details, however, shows that the new provisions nevertheless place some restrictions on previous practices.

Hitherto, the creation of undisclosed reserves was permissible in respect of loans and advances to banks and customers and in respect of securities held as current assets; the amount of such undisclosed reserves was limited solely by "sound business judgement", and thus ultimately by the profitability of the credit institution concerned. In future, it will be possible likewise to form undisclosed reserves in respect of loans and advances to banks and customers, and, in addition, also in respect of securities held as current assets, provided that they are not included in a trading portfolio, i.e. in respect of securities held as a liquidity reserve. The idea behind this provision is that the distinction between loans not evidenced by certificates and securities will often be blurred in the case of universal banks because loans – viewed in economic terms – may also be granted in the form of purchases of debt securities. In universal banks, securities moreover also serve as a liquidity reserve. Consequently, those securities which are neither held as financial fixed assets nor included in a trading portfolio can be classified, in economic terms, as loans and advances, and can be included in the basis for the calculation of undisclosed prudential reserves. In future, the difference between the lower value and the value which would result from the application of general valuation rules must not exceed 4%. This ceiling is fairly high and should not prove to be a hindrance in practice. In addition, it is only the prudential reserves formed in accordance with the new legislation, and not existing undisclosed reserves, that will be counted towards this limit.

The instrument of undisclosed reserves will serve its purpose only if the balance sheet reader cannot identify the accounting policy objective – say, the absorption of a loss, the levelling of changes in per-

formance or the building up of reserves, i.e. it must be possible to accumulate, and release, such reserves unobtrusively without their showing up in the profit and loss account. This is why current law, contrary to the general ban on setting-off under commercial law, permits what is known as *cross-compensation*, i.e. compensation – across different lines of business – between specific expenses and receipts in the area of lending and securities. At present, the following items may be included in this set-off: write-offs, write-downs and write-ups of loans and advances as well as of securities, credits from the recovery of written-off loans and advances, price gains and losses on securities, loan loss provisions and gains from the downward adjustment of provisions for possible loan losses and from the release of undisclosed reserves. As from 1993, such cross-compensation will be possible to a limited extent only. Then only the trading and valuation profits or losses on securities held as a liquidity reserve rather than those on all securities may be included in the set-off; moreover, in contrast to previous practice, a partial set-off will no longer be permissible. Despite these restrictions, it will still be next to impossible correctly to interpret the net charges or net income shown, as a net charges item, for instance, does not show whether, and to what extent, it reflects necessary value adjustments and/or movements in undisclosed reserves. Basically, the net item shown merely indicates that a (full) set-off has been effected.

Prudential reserves can also be built up in the form of a published – and then unlimited – increase in the "Fund for general banking risks". If this option is used, any increases or decreases of this Fund have to be shown separately in the profit and loss account. In future, this item, which indisputably has the character of equity capital and does not differ from published reserves, will be counted towards the core capital for bank supervision purposes, whereas the hidden prudential reserves will be deemed to be merely supplementary capital because they are not disclosed. It seems doubtful whether this will encourage credit institutions – in line with Brussels' intentions – to disclose their provisioning against risks.

Currency translation

For the first time German accounting law contains a regulation governing currency translation. This regulation, which has been formulated on the basis of the Bank Accounts Directive and applies solely

42 to credit institutions, provides for the following in respect of the translation of items denominated in foreign currency and in respect of the valuation of uncompleted forward foreign exchange transactions:

- translation of the foreign currency assets which are held as financial fixed assets on the basis of the “temporal method”, which has hitherto been used predominantly in Germany, i.e. the application of the historical rates (the rates applicable on the dates of acquisition), unless these items are specifically covered either by liabilities or by forward transactions in the same currency;
- translation of all other foreign currency assets and liabilities on the basis of the Anglo-American “current rate method”, i.e. the application of the spot rates of exchange applicable on the balance sheet date;
- translation of uncompleted forward transactions at the forward rate applicable on the balance sheet date. According to the official substantiation, translation at the spot rate, with the swap rate (i.e. the difference between the spot and forward rate) being included on an accrual basis, would also be consistent;
- application of the imparity principle: negative translation differences must be included in the profit and loss account. Positive translation differences, by contrast, must be shown only if specific cover in the same currency is available for the relevant assets (“micro-hedge”), or may be shown only to the extent that income from transactions for which non-specific cover in the same currency is available (macro-hedge) offsets temporary expenditure in connection with the transactions serving as cover. The latter means that valuation gains may be included only to the extent that they offset valuation losses. Gains from open positions must not be included.

It is safe to assume that these rules have already been common practice among credit institutions for some time now, or that the methods hitherto used by the banks for the translation of currencies conform to these rules. In the past, the Deutsche Bundesbank had on various occasions advocated the use of conservative valuation methods for foreign exchange transactions which are geared strictly to the principles of the realisation, imparity and unit account

methods of valuation. It can now be said that the “modern” methods, which allow specific not yet realised gains from a closed forward position to be included in the accounts on the basis of separate valuation units, has been sanctioned by law.

Changes to the format for the profit and loss account

The probably most important changes result from the aforementioned classification of securities in accordance with the purpose they serve:

The trading and valuation profits and losses on securities included in the trading portfolio, together with the profits and losses on all other own account trading involving financial instruments, foreign exchange and precious metals, are shown in the new item “Net profit or net loss on financial operations”. The disclosure of the net profit or loss deriving from various lines of business (securities, financial instruments, foreign exchange, precious metals), which has hitherto been included under “Other receipts”, enables the external balance sheet reader to calculate the operating result more accurately than before, and thus markedly improves the informative value, but only if the securities included in the trading portfolio and the resulting profit or loss are appropriately separated.

The trading and valuation results arising in respect of the category “Securities held as financial fixed assets” are combined with those from participating interests and from shares in affiliated undertakings. What is new about this is that the trading and valuation results from financial fixed assets will be shown separately in future. Under current law, by contrast, solely amounts written off participating interests have to be shown in a separate item, while the relevant receipts are included in “Other receipts”. Another thing which is new in this area is that here, too, setting-off across the various lines of business (securities, participating interests, shares in affiliated undertakings) is permitted; a partial set-off is not permissible, however.

And finally, the trading and valuation results in respect of loans and advances as well as of securities held as a liquidity reserve are combined in additional items which can likewise be set off – in full – against one another. The banks will no doubt make use of this option. This will be the only area in future where undisclosed reserves will be formed and released.

The adjacent table shows the valuation and the items under which the results in respect of the various categories of securities will be shown.

In future, extraordinary charges and extraordinary income, too, will be shown as separate items in the profit and loss account. Although only those amounts are involved which accrue outside normal banking activities, or at irregular intervals, their disclosure again contributes to the desired more appropriate definition of the operating result.

Where the other changes to the profit and loss account are concerned, changes which are of lesser significance, only the fact must be mentioned here that commissions for guarantees are to be included under commissions rather than under interest, where they used to be shown. This revision which is prescribed by the EC Bank Accounts Directive seems sensible, especially as such commissions do not constitute any consideration for lending capital, and are thus not interest in the proper meaning of the term.

Extensive reporting required in the notes on the accounts

In future, all credit institutions, irrespective of their legal form and size, must draw up notes on their accounts, which are equal in status to both the balance sheet and the profit and loss account and which form a composite whole with them. At the same time, many exemptions from general commercial law disclosure and amplification requirements have been abolished. Compared with current law, the disclosure requirements have been extended substantially also as a consequence of the numerous specific reporting requirements prescribed for banks in the EC Bank Accounts Directive. The notes may therefore be quite voluminous in some cases. The insight into credit institutions' assets and liabilities, financial position and profit or loss will be substantially enhanced, however. Of the large number of new disclosure requirements, only a few of those that are most important need be mentioned here:

- disclosure of the accounting and valuation methods;
- disclosure and justification of deviations from the accounting and valuation methods, and description of their impact on the assets and liabilities, financial position and profit or loss;

Disclosure of trading and valuation results from securities in the profit and loss accounts of credit institutions

Securities category	Type of valuation	Item in the profit and loss account	
Securities included in the trading portfolio	Strict lower value principle	Net profit on financial operations Net loss on financial operations	Set-off mandatory (section 340 c (1) of the Commercial Code)
Securities held as financial fixed assets	Diluted lower value principle	Value readjustments in respect of participating interests, shares in affiliated undertakings and transferable securities held as financial fixed assets Value adjustments in respect of participating interests, shares in affiliated undertakings and transferable securities held as financial fixed assets	Set-off optional, partial set-off not permissible (section 340 c (2) of the Commercial Code)
Securities held as a liquidity reserve	Strict lower value principle Formation of undisclosed reserves permissible (section 340 f (1) of the Commercial Code)	Value readjustments in respect of loans and advances and specific securities and provisions for contingent liabilities and for commitments Value adjustments in respect of loans and advances and specific securities and provisions for contingent liabilities and for commitments	Set-off optional, partial set-off not permissible (section 340 f (3) of the Commercial Code)

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- breakdown of the operating income by geographic markets;
- disclosure of the range of principal services offered;
- report on calls under placing and underwriting commitments;
- disclosure of the basis for the translation of foreign exchange amounts;
- disclosure of the total Deutsche Mark amount of the assets and liabilities denominated in foreign currency;

- 44 – list of the types of uncompleted forward transactions and disclosure of the extent to which these contracts were concluded for purposes of hedging or speculation. In the light of not least the more liberal disclosure practices observed in many other countries, the Deutsche Bundesbank and the Federal Banking Supervisory Office had advocated – albeit unsuccessfully – a disclosure of also the volume of these transactions, which is growing steadily.

Adjustment of the monthly balance sheet statistics to the new accounting legislation

The monthly balance sheet statistics are the linchpin of the banking statistics which the Deutsche Bundesbank collects within the scope of its monetary policy powers. The statistics cover the assets and liabilities of credit institutions, broken down by type, maturity and sector of the economy, in each month. They supply the data which form the basis for the calculation of the money stock, and the monetary analysis derived from it; they are therefore an indispensable means of gathering information for the Bundesbank's monetary policy.

On account of some differences in valuation, in accruals and in some other accounting rules, the monthly balance sheet statistics are not fully identical with the balance sheets which credit institutions have to draw up every year. The Deutsche Bundesbank has always sought, wherever possible, to prevent a gap from arising between the annual accounts and the monthly returns so as to enable the credit institutions' accounting divisions, and standard chart of accounts, which are geared primarily to the drawing-up of the annual accounts, also to be used as a basis for the banking statistics. This makes it easier for the credit institutions to complete the reporting forms. Moreover, the link to always up to date accounting provides a maximum degree of certainty about the accuracy of the data provided.

The monthly balance sheet statistics were last fundamentally revised in 1968. The reason at the time was the introduction of a new layout for the annual accounts of domestic credit institutions. Although it is true that the reporting rules were subsequently modified several times, in particular to give due consideration to emerging innovations in banking business, the changes always remained fairly limited, all in all. The new accounting legislation necessitated another revision. After the banking associations had

been consulted, the Central Bank Council of the Deutsche Bundesbank approved the necessary changes to the monthly balance sheet statistics on April 23, 1992. December 31, 1993 was prescribed as the date of implementation. The credit institutions have thus been given sufficient time to effect the necessary changes to the reporting system in respect of both their organisational structures and their programmes.

Compared with the changes which have resulted from the incorporation of the provisions of the EC Bank Accounts Directive in German accounting law, its implications for the monthly balance sheet statistics are rather limited. The old catalogue of questions can largely be retained, so that continuity can be preserved almost in full in the statistical series. The principal changes are derived directly from the new accounting rules. The additional items prescribed in the new annual accounts format, for instance, have also been incorporated in the forms for the monthly reports. Specifically, money market paper, assets and liabilities administered by credit institutions in their own name but on behalf of others and subordinated liabilities have to be shown separately in future. The necessary breakdowns by type, maturity and sector have been provided for these additional items so as to allow them to be allocated to the statistical results in a form which is useful for the analysis.

In line with the new annual accounts some items have to be broken down somewhat further than before. Bills, for example, are no longer to be included in a single item, but rather in three sub-items. In accordance with the balance sheet layout, Treasury bills and Treasury discount paper, too, will be shown in two items in future – namely under paper eligible for refinancing with the central bank and as a sub-item of money market paper. The increased differentiation in the disclosure of assets and liabilities in respect of securities, as prescribed by the new accounting provisions, will make it possible in future to gain a more detailed insight into the securitisation of lending. From the end of 1993, the monthly balance sheet statistics will not, all in all, call for any basically new reporting requirements which go beyond what is demanded by the changed accounting provisions.

It seemed appropriate, however, to make initial preparations for the future already at this point. After the transition to the planned European monetary union, it will be necessary in the monthly balance

sheet statistics to subdivide the sector "Other countries" into countries participating in the EMU, and the remaining countries. For in future, in contrast to the current situation where the net external assets of domestic banks comprise all claims on parties outside Germany within the scope of the monetary analysis, only claims on business partners domiciled in non-EMU countries will be included in the "Net external assets" for the purposes of the consolidated balance sheet of the banking system in a European monetary union; German credit institutions' present external transactions with customers located in countries participating in EMU will then have to be re-classified and included in the aggregates "money stock", "monetary capital" and "loans to 'intra-European' non-banks" which will be calculated for the area of the monetary union, so that they will thus assume the quality of "extended" domestic assets or liabilities.

Such a breakdown of the external position – with data fields, which will remain blocked for the time being – has already been incorporated in the reporting form so as to enable the credit institutions to take it into account in their EDP programmes for later use. This does not rule out the possibility of further additions being required in the data collection programme in the wake of the harmonisation of European banking statistics in a few years' time in order to ensure that the German figures can be incorporated as fully comparable components into the consolidated balance sheet of the banking system of the countries participating in EMU. In this connection, particular attention will have to be paid to the need for harmonising the definition of the concept of a "credit institution" in Europe. "Intra-European" monetary analysis would be seriously hampered if some categories of institutions in individual countries which specialise in particular types of lending and deposit business (such as financing institutions which have been established for the sole purpose of issuing bonds) do not to report for the banking statistics solely because they are not deemed to be credit institutions subject to reporting requirements under the relevant national laws. Such an inaccurate distinction may be acceptable for the present – national – monetary analysis as the external position in the German consolidated balance sheet is not broken down by bank and non-bank sector. For a future analysis at the level of EMU, however, a correct sectoral classification at least of the debtors and creditors domiciled in the countries participating in EMU will be essential because these transactions –

as mentioned above – directly affect the "intra-European" monetary aggregates and their counterparts.

It is already clear today that the disclosure of assets and liabilities, broken down by maturity, in the monthly balance sheet statistics will have to be revised not later than 1998. The adoption of a new *maturity range* has been provided for from that date onwards; what will be new for German accounting practice is, in particular, the five-year maturity as the criterion for the definition of long-term items, instead of the current four-year maturity. This new definition will have to be incorporated in the maturity breakdown of the monthly balance sheet statistics in some manner yet to be determined.

As already mentioned, German banks will moreover be required from 1998 to base the information they provide on the maturities of assets and liabilities in the annual accounts – specifically, in the notes on the accounts – on the *remaining maturity* on the balance sheet date. The presentation of the maturity pattern in terms of remaining maturities will certainly provide a clearer idea of a credit institution's liquidity pattern than the breakdown by original maturities. There can therefore be no doubt that a European harmonisation of prudential liquidity rules (the prospects for which are not yet clear) will be based on remaining maturities. An effective management of the liquidity of an individual bank on the basis of remaining maturities is likely to be virtually impossible. On the other hand, a maturity pattern based on the remaining maturities on the balance sheet date merely provides a "snapshot" which will, as a rule, be long outdated at the time the annual accounts of a bank are presented to the general public. In addition, the listing of remaining maturities involves a great deal of extra work for the banks' accounting departments. The legislature has therefore taken advantage of the transitional period provided for in the Bank Accounts Directive for introducing the remaining maturity approach in order to postpone the extra work involved for the German banks in the change-over as long as possible.

Over the past few years the Deutsche Bundesbank has stressed on various occasions that it will insist on *original maturities* being given in the monthly balance sheet statistics even after the end of 1997. This was made quite clear in the official substantiation of the Bank Accounts Directive Act which states that credit institutions will continue to have to pro-

46 vide to the Deutsche Bundesbank for the latter's monetary analysis the information on agreed maturities or periods of notice as this information is essential for it to perform its functions. Original maturities provide the basis for the key variables needed for the key orientation and control-variables used for monetary policy. Dropping the agreed maturities basis in the statistical reports would have far-reaching implications. The money stock concepts of M1, M2 and M3 would have to be redefined, a fact which would also change the analytical approach. It would no longer be evident to what extent the banks engage in short and long-term business. The balance sheet picture of institutions which conduct predominantly long-term business would then approach that of the universal banks. It would then no longer be possible in the balance of payments statistics to distinguish between the short-term and the long-term capital transactions of banks. The time series of the assets and liabilities, broken down by maturity, would be difficult to interpret because the actual transactions – new business or redemptions – would be obscured by shifts caused by the gradual decrease in the residual maturities.

At an international level, too, originally agreed maturities are used to characterise the financial ties with the domestic sectors of the economy and with the rest of the world. The EC countries have been reporting on the money supply, as geared to shorter-term original maturities, to the Statistical Office of the European Community since as early as the beginning of the seventies.

Given the present standard of EDP technology, solutions will be found which will allow a dual system to be used for the breakdown of maturities in the credit institutions' accounting and which will make this seem acceptable in terms of the work-load involved in reporting.