



EUROPÄISCHE ZENTRALBANK

13. November 2002

## **PRESSEMITTEILUNG**

# **ERLÄUTERUNGEN ZUR VERORDNUNG EZB/2001/13 ÜBER DIE MFI-BILANZSTATISTIK**

Die Europäische Zentralbank hat heute die Erläuterungen zur Verordnung EZB/2001/13 über die Bilanzstatistik der monetären Finanzinstitute (MFIs) veröffentlicht.

Die Verordnung EZB/2001/13 über die konsolidierte Bilanz der monetären Finanzinstitute („EZB-Verordnung“) tritt im Januar 2003 in Kraft und wird die Verordnung EZB/1998/16 ersetzen. Aus den Erläuterungen zur Verordnung EZB/2001/13 über die MFI-Bilanzstatistik („die Erläuterungen“) ergeben sich keine neuen gesetzlichen Anforderungen. Sie enthalten vielmehr eine Reihe von ausführlicheren Erklärungen und Beispielen, die eine einheitliche Umsetzung der statistischen Anforderungen in die jeweiligen nationalen Statistik-Erhebungssysteme ermöglichen sollen.

Zudem sind eine Reihe von Empfehlungen zu den bevorzugten statistischen Verfahren hinsichtlich der Rechnungslegungs- und Kompensationsvorschriften enthalten. Die Umsetzung dieser Empfehlungen soll soweit wie möglich dazu beitragen, die aus den Unterschieden in den Rechnungslegungs- und Kompensationsvorschriften resultierenden Auswirkungen auf die aggregierten Bilanzdaten zu minimieren und dadurch insgesamt die Homogenität der Aggregate des Euro-Währungsgebiets zu verbessern.

Diese Publikation ist auf der Website der EZB (<http://www.ecb.int>) abrufbar. Gedruckte Exemplare können schriftlich bei der EZB angefordert werden.

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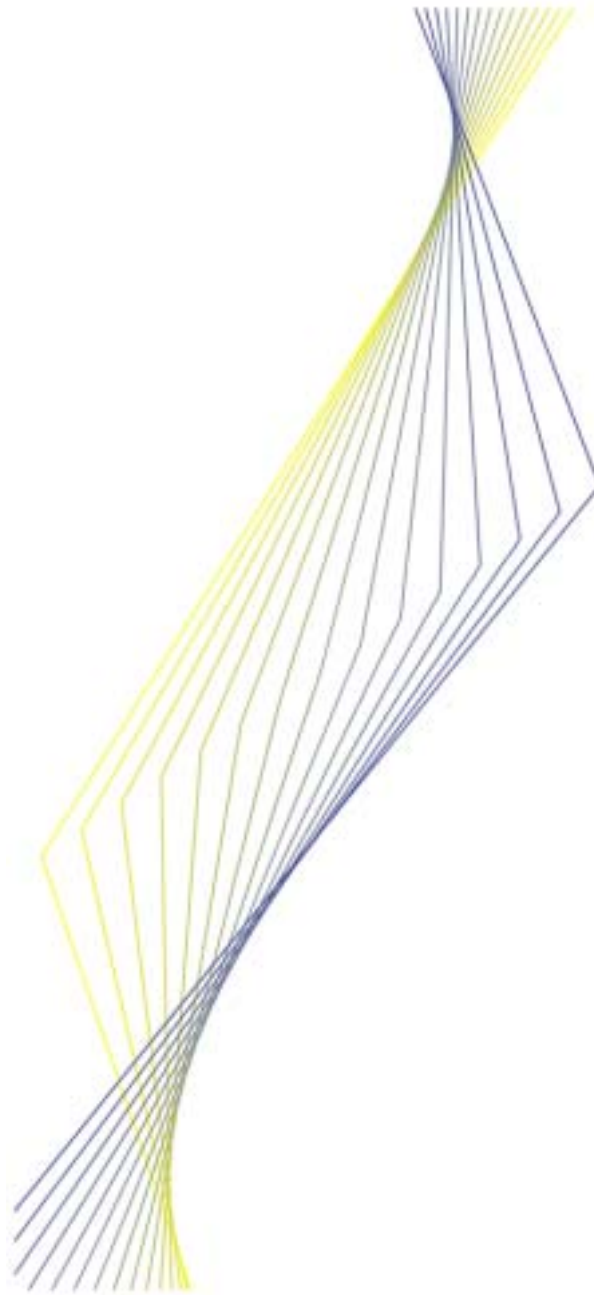


**GUIDANCE NOTES  
TO THE REGULATION  
ECB/2001/13  
ON THE MFI BALANCE  
SHEET STATISTICS**

**November 2002**



EUROPEAN CENTRAL BANK



**GUIDANCE NOTES TO THE  
MONETARY FINANCIAL INSTITUTIONS  
BALANCE SHEET REQUIREMENTS SET OUT  
IN THE REGULATION OF THE ECB OF  
22 NOVEMBER 2001 CONCERNING THE  
CONSOLIDATED BALANCE SHEET OF THE  
MONETARY FINANCIAL INSTITUTIONS SECTOR  
(ECB/2001/13)**

**November 2002**

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# Scope of the guidance notes

1. The European Central Bank (ECB) has recently published Regulation ECB/2001/13 of 22 November 2001 concerning the consolidated balance sheet of the monetary financial institutions sector<sup>1</sup> ('the Regulation'). The Regulation will come into force on 1 January 2003 replacing Regulation ECB/1998/16 of 1 December 1998<sup>2</sup> as amended by Regulation ECB/2000/8<sup>3</sup>. It establishes the ECB's statistical requirements and standards according to which reporting agents must report to the national central banks (NCBs) and the NCBs compile the statistical information received. Reporting according to the new Regulation begins with the monthly data for the reference period January 2003.

2. On the basis of the ECB's statistical requirements and standards, NCBs define the specific arrangements under which they need to receive the data from the reporting agents. These arrangements are stated in the national reporting returns and instructions that NCBs address to their reporting agents. The ECB Guideline<sup>4</sup>, in turn, describes in detail the formats and procedures in which NCBs report to the ECB the data that they collect from monetary financial institutions (MFIs), aggregated at a national level.

3. These Guidance Notes aim to ensure a better understanding of the requirements and standards in the Regulation; that is, to help the NCB statisticians collect and compile the aggregated information they transmit to the ECB. For this purpose, the Notes contain definitions, explanations and examples, and cross-references to the Regulation, other legal texts and ECB publications.

4. Another important objective of these Notes is to provide recommendations on the preferred statistical practices in respect of the accounting and netting rules. The recommendations seek to minimise the effect of any remaining differences in the accounting and netting rules in the aggregated balance sheet data, thus improving the homogeneity of the euro area aggregates.

5. The recommendations contained in the Notes are not binding, but NCBs are encouraged to follow them in their submissions to the ECB. As far as possible, the recommendations are based on international statistical standards, although they also recognise some specific needs arising from the compilation of the euro area monetary aggregates and their counterparts.

6. In accordance with the transparency policy pursued by the European System of Central Banks (ESCB), the ECB has decided that the above Guideline becomes a published ECB document, although it represents a legal instrument that binds only NCBs. The same transparency is evident in the publication of these non-binding Notes.

7. The Notes will be updated regularly, as conceptual or compilation issues arise and are resolved in implementing the Regulation, or to reflect other developments such as the implementation of harmonised international accounting standards in the EU.

<sup>1</sup> OJ L 333, 17.12.2001, p. 1, as corrected by Regulation ECB/2002/4 of 6 June 2002, OJ L 151, 11.6.2002, p. 11.

<sup>2</sup> OJ L 356, 30.12.1998, p. 7.

<sup>3</sup> OJ L 229, 9.9.2000, p. 34.

<sup>4</sup> Guideline of the European Central Bank concerning certain statistical reporting requirements of the European Central Bank and the procedures for reporting by the national central banks of statistical information in the field of money and banking statistics. Latest version available on the ECB's web site.

# Articles

## Article 1 - Definitions

8. *Participating Member State* is a Member State that has adopted the single currency in accordance with the Treaty establishing the European Community. For simplicity, 'euro area' is used in these Notes to mean 'participating Member States' even though, strictly, the euro area includes some territories or countries associated with participating Member States that have been authorised to adopt the euro as their legal currency and in which the single monetary policy of the ECB is conducted (as it is the case of Monaco and the French overseas territories of Saint-Pierre-et-Miquelon and Mayotte).

9. *Reporting agents* are the legal and natural persons resident in participating Member States that are subject to the ECB's statistical reporting requirements. They also include entities that, according to the national law of their Member State of residence, are neither a legal person nor a collection of natural persons, though they can be subject to rights and obligations. The reporting obligations of such entities are fulfilled by the persons legally representing them. For example, money market funds (MMFs) are reporting agents that may lack legal personality. Their reporting obligations must therefore be fulfilled by the entities legally representing them (usually management companies).

10. If an entity has a branch (an entity without legal personality) resident in another

participating Member State, the branch is a reporting agent in its own right, wherever its head office may be. A branch's reporting obligations are fulfilled by the persons legally representing it. The branches (of the same parent company) set up in the same participating Member State are regarded as a single office when they belong to the same sub-sector of the economy.

11. An entity is deemed to be a *resident of, or residing in*, a Member State when it has a centre of economic interest in the territory of that Member State, i.e. when it has engaged for a year or more in economic activity in that territory, or when it has registered or indicated an intention to operate permanently in that territory. An important borderline case in the determination of residence is the treatment of offshore financial centres<sup>5</sup>: entities operating in offshore financial centres are treated as residents of the territory in which the centres are located. Another important borderline case deals with the treatment of supranational and international organisations physically located in the euro area. For the purpose of compiling euro area money and banking statistics, these organisations are not deemed to be residents in the euro area but residents of the rest of the world (allocated to the sector 'General Government'). The exception is the ECB, which is treated as a central bank in the MFI sector of the euro area.

## Article 2 - Actual reporting population

12. For details on the selection of MFIs, see references in these Notes to MFIs in Annex I, Part I.

13. The *total MFI balance sheet in terms of stocks*, a concept used when selecting small MFIs that have a derogation from full reporting requirements, is calculated on a gross basis (i.e. inter-MFI positions are

presented gross). Inconsistencies across the EU in defining the balance sheet total, caused by differences in accounting principles, are not expected to be significant and are expected to diminish over time.

<sup>5</sup> Countries/territories with banking sectors dealing primarily with non-residents and/or in foreign currency on a scale out of proportion to the size of the host country.



### Article 3 - List of MFIs for statistical purposes

14. The list of MFIs for statistical purposes comprises all institutions referred to in the actual reporting population explained in Article 2 of the Regulation, including also small MFIs that have an NCB derogation from full reporting and individual MFIs belonging to a group of institutions carrying out consolidated statistical reporting.

15. The list covers the Member States of the EU. Therefore, the institutions in the list are all MFIs, whether or not the Member State in which they are located is a participating Member State. However, the actual reporting population for the purpose of this Regulation consists only of MFIs that are resident in the participating Member States. Also, in the data that these MFIs report for the purposes of euro area money and banking statistics, *positions towards MFIs located in EU non-participating Member States* are classified as positions towards the rest of the world.

16. As far as the policy to maintain the list of MFIs is concerned, there are ad hoc updates of the list of MFIs whenever there are changes in the MFI sector arising from joiners/leavers, changes in names, addresses, etc. and changes relating to mergers and divisions.

17. Institutions that become credit institutions according to Community law should be automatically classified as MFIs. Similarly, institutions that are no longer recognised as credit institutions according to Community law, and which do not otherwise meet the MFI definition, should be automatically declassified as MFIs. This means that credit institutions joining/leaving the MFI sector should be included in/removed from the list of MFIs after the competent supervisory authority has granted/cancelled their licence. In this respect, the following practices exist in the EU:

i. At the time a credit institution goes into liquidation, the supervisory authority may cancel its licence immediately or at the close of the liquidation process.

ii. Once a credit institution leaves the sector, the NCB may remove it from the balance sheet reporting regime and the list of MFIs when its removal has been legally approved (i.e. the supervisory authority cancels the licence) or when the act of leaving has been implemented in economic terms (i.e. the acquiring MFI has integrated the accounting systems of other involved MFIs).

iii. Once a credit institution joins the sector, the NCB may include it in the balance sheet reporting regime and the list of MFIs when the act of joining has been legally approved (i.e. the supervisory authority grants the licence) or when the act of joining has been implemented in economic terms (i.e. when the MFI economically begins to carry out financial operations).

18. As with credit institutions, the NCB is required to classify collective investment undertakings (CIUs) immediately as MFIs if they fall under a national legal definition that is fully in line with the MMF definition in the Regulation (in those cases where there is a national legislation identifying MMFs). Similarly, the NCB is required immediately to declassify CIUs as MFIs if they are no longer recognised as MMFs according to such a national legal definition.

19. When credit institutions and MMFs joining the MFI sector at the above ad hoc updates have been included in the list of MFIs, they should start reporting statistical information in accordance with the Regulation without undue delay.

20. The MFI definition could be met by financial institutions that are neither credit institutions according to Community law nor MMFs subject to an appropriate national legal definition. To identify such institutions, NCBs should check regularly whether financial institutions not in the list of MFIs meet the

statistical criteria for inclusion in it (these are usually institutions classified under the sector 'Other Financial Intermediaries'). They should also check regularly that financial institutions included in the list of MFIs (other than credit institutions and MMFs covered by an appropriate national legal definition) continue to meet the MFI definition. As the procedures may be complex, the ECB recognises that such a comprehensive check might only occur once a year. Financial institutions should be added to the list of MFIs as soon as they have been identified as meeting the MFI definition, and removed as soon as they are identified as no longer meeting the definition. These changes to the list should be made in accordance with the procedures for ad hoc updates of the list outlined above. When an institution is included in the list, it should start reporting according to the Regulation without undue delay.

21. There is a general update of the list of MFIs at the end of each year (termed the 'full update'). On this occasion, NCBs check the accuracy of the attributes reported to the ECB for the institutions included in the list of MFIs. NCBs also ensure that the information about their national MFI sectors (including specific information on foreign branches) is as comprehensive as possible and includes all identified MFIs.

22. An up-to-date list of MFIs is released on the ECB's web site at the end of each month, together with all changes since the previous month's update<sup>6</sup>. The list is also released on paper at the start of each calendar year, referring to the position at the end of the previous calendar year.

#### Article 4 - Statistical reporting requirements

23. The *end-of-month balance sheet data* reported to the ECB are to refer to the last day of the month, either to the last working day or to the last calendar day, depending on national practice. Where the last working day is used, if regional holidays fall at the end of the month, countries may adopt the last working day in the regions or the last common working day in the country. Where a calendar day is used, if it falls on a weekend, countries may allocate the business on that calendar day to the beginning of the first working day of the next month or to the previous working day. Reporting agents translate all asset and liability balance sheet positions denominated in foreign currencies into euro, using the market exchange rate prevailing on the day to which the data corresponds.

24. To compile euro area statistics also as *flows*, i.e. capturing actual financial transactions between the MFI sector and the other economic sectors during the reference period, the ECB removes from the stock data all developments other than transactions, i.e. those developments that do not imply a transfer of financing between sectors.

25. There are three classes of non-transactions<sup>7</sup>. Different bodies have responsibility for reporting these non-transactions:

- i. Reclassifications and other adjustments (e.g. changes in the composition of the statistical reporting population, changes in structure, changes in the sector classification of MFI counterparties, other changes arising from the reclassification of assets and liabilities, corrections of reporting errors). These adjustments are reported by the NCBs to the ECB. The Regulation does not deal with this requirement because the NCBs themselves collect these data using their various existing information sources.

<sup>6</sup> Monthly MFI updates are available on the ECB's website, [www.ecb.int](http://www.ecb.int) under the item 'MFIs and assets'.

<sup>7</sup> See also the Guideline of the European Central Bank concerning certain statistical reporting requirements of the European Central Bank and the procedures for reporting by the national central banks of statistical information in the field of money and banking statistics.

- ii. Exchange rate changes (e.g. changes in the value of assets and liabilities denominated in a foreign currency due to a change in the exchange rate between the euro and foreign currencies). The ECB calculates a standard adjustment using data already submitted to it according to Table 4 of Annex I, Part 2.
- iii. Price revaluations (e.g. changes in the valuation of negotiable instruments caused by a change in their price - except the effect of exchange rate changes) and loan write-offs/write-downs<sup>8</sup>. The Regulation obliges MFIs to report sufficient data to permit the NCBs to calculate and submit this adjustment to the ECB.

26. According to the Regulation, the reporting agents and the NCBs provide the ECB with data on revaluation adjustments. For more details about the reporting of data on revaluations, see Compilation of flow statistics in Annex I, Part I (section III) of these Notes. For more details about the data requirements on revaluations, see Table IA in Annex I, Part 2 of these Notes.

27. The derogation established in Article 4.7 is about the frequency of reporting price revaluations and the binding minimum standards established in the same article. The requirement for reporting agents to give the NCBs the relevant information on valuation practices (including approximate percentage of

their holdings of these instruments subject to different valuation methods) is aimed at enabling the NCBs to give more accurate estimations for the months that are not end-quarter months. This information is available at the NCBs in all countries applying the derogation and may be required by the ECB for checking purposes. The ECB also recommends that NCBs of countries not applying a derogation keep at least a rough indication of the aggregate percentages of the distribution of securities according to the portfolio (trading portfolio, investment portfolio, others) held by MFIs.

28. NCBs may grant derogations in respect of when and how often price revaluations of securities are reported, and may require these data every three months under the requirements of the Regulation. NCBs that grant such derogations may decide to divide the reporting population into two groups, where one group reports the price revaluations monthly and the other group reports the adjustments quarterly. Even though this particular interpretation is not explicit in the Regulation, it accords with the spirit of the derogation and does not contradict any other rule in the Regulation. NCBs ensure they transmit data of sufficiently high quality to the ECB, and therefore ensure that MFIs with a derogation meet the requirements of the Regulation. It would be desirable for the population in each of the two groups to remain stable over time.

## Article 5 - Use of the reported statistical information for the purposes of Regulation ECB/1998/15

29. Article 5 outlines how the statistics collected in accordance with this Regulation are used to calculate the reserve base of credit institutions.

30. The reserve base of a credit institution comprises the balance sheet items 'deposits' and 'debt securities issued' that represent liabilities vis-à-vis institutions other than:

- (i) other credit institutions subject to the ESCB's minimum reserve requirement (i.e. not listed as being exempt from the ESCB's minimum reserve system);

<sup>8</sup> Write-off is an accounting process whereby a loan considered to be a worthless asset is removed from the books, while in write-down the value of an asset in the balance sheet is reduced only in part.

(ii) the ECB;

(iii) the NCBs of the participating Member States.

31. Currently, while Regulation ECB/1998/16 remains in force, the balance sheet items 'money market paper' and 'debt securities issued' are separately included in the reserve

base of a credit institution that is subject to minimum reserve requirements. However, in accordance with Regulation ECB/2001/13, these items will be merged within the single balance sheet item 'debt securities issued', when reporting in the new format begins, starting with the monthly data for the reference period January 2003.

# Annexes

## Annex I - Statistical reporting requirements and classification principles

### Part I - MFIs and statistical reporting requirements

#### Introduction

32. The Regulation distinguishes between the group of institutions that forms the actual reporting population (institutions on the list of MFIs that are resident in the participating Member States) and the statistical information that these institutions are required to report. On the latter, the Regulation requires NCBs to collect this information according to national procedures, using the harmonised definitions and classifications in the Regulation. For this purpose, NCBs should ensure that their *reporting instructions and returns addressed to MFIs* are fully in line with the definitions and concepts in the Regulation. If NCBs are unsure about the correct interpretation of the Regulation, they should consult the ECB.

#### I. MFIs

33. The list of MFIs must be *sufficiently stable and transparent for statistical purposes, and be homogeneous throughout the euro area*.

#### **Classification principles between credit institutions (CIs) and 'other institutions'**

34. MFIs include resident CIs as defined in Community law. If a financial institution falls outside the CI category as defined in Community law, but is a CI according to national law, it may either fall within the category of 'other institutions' (classified as MFIs) or be excluded altogether from the MFI list.

35. The Regulation states that it applies to *exempted credit institutions* listed in the Banking Co-ordination Directive<sup>9</sup>, if they meet the MFI definition. These exempted institutions are assessed to see whether they meet the MFI definition. This assessment may lead to an

exempted institution being classified as a 'CI', an 'other MFI' or as a 'non-MFI'.

#### **Classification principles for money market funds (MMFs)**

36. Regarding the *documents used in the selection of MMFs*, the Regulation states that 'The criteria applied in order to identify MMFs shall be derived from the public prospectus as well as fund rules, instruments of incorporation, established statutes or by-laws, subscription documents or investment contracts, marketing documents, or any other statement with similar effects, of the CIUs'. This means that, in identifying MMFs (within the population of CIUs), when there is no legal framework defining MMFs in a way consistent with the Regulation, NCBs check all the relevant information in the quoted documents available.

37. The *operational criteria* defined in paragraph 6 of the Regulation are to be fulfilled in a non-exclusive manner. This paragraph says: 'MMFs are defined as those CIUs of which the units are, in terms of liquidity, close substitutes for deposits and which primarily invest in money market instruments and/or in MMF shares/units and/or in other transferable debt instruments with a residual maturity of up to and including one year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates of money market instruments'.

38. In practice these operational criteria mean that MMFs can invest, for example, less than 85% of their portfolio in the above liquid instruments, provided they pursue a rate of return that approaches the interest rates of

<sup>9</sup> Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions, OJ L 126, 26.5.2000, p. 1, applies to all credit institutions, with the exception of central banks, post giro institutions and a number of institutions listed in its Article 2, paragraph 3.

money market instruments (and provided their shares are liquid). Similarly, they need not always achieve a rate of return that approaches the interest rates of money market instruments, provided they invest at least 85% in the above liquid instruments. In both examples, the underlying assumption is that the degree of liquidity of the shares/units they issue is comparable to the liquidity of deposits or close substitutes for deposits (e.g. short-term debt securities).

39. NCBs include in the list of MFIs CIUs resident in the euro area if they invest in money market instruments or pursue a rate of return that approaches the interest rate of money market instruments, regardless of the denomination of these instruments. NCBs therefore include in the MFI list all resident CIUs *investing in money market instruments denominated in foreign currency* or pursuing a rate of return that approaches the interest rate on money market instruments denominated in foreign currency (therefore not aiming at the money market return prevailing on euro-denominated instruments). The MFI definition in the Regulation does not specify whether the money market rates pursued by MMFs must refer to the euro area interest rates on money market instruments. However, given that monetary instruments denominated in foreign currency are included in the monetary aggregates, NCBs include, for consistency, such MMFs in the list of MFIs, and their liabilities are included in the monetary aggregates.

40. NCBs include in the list of MFIs MMFs charging *high fees* to subscribers if these MMFs continue to aim for a rate of return that approaches the interest rates of money market instruments. Although paragraph 7 of the Regulation states that the liquidity of money market instruments is also measured in terms of low transaction costs, no threshold for 'low' can be given as a reference.

41. NCBs include in the MFI list also those MMFs incorporated in one participating Member State but *placing their shares/units only with non-euro area residents*, as the Regulation

does not refer to the case of MMF shares/units that are sold exclusively to non-euro area residents.

## II. Accounting rules

42. The accounting rules followed by MFIs in drawing up their accounts are expected to comply with the national transposition of the EU Bank Accounts Directive<sup>10</sup> (as may be amended from time to time), with any other international standards applicable and in accordance with the rules adopted specifically for the purpose of statistical reporting, without prejudice to the accounting practices and netting arrangements prevailing in the Member States.

43. To harmonise further the statistical standards applied in euro area money and banking statistics, this section makes several recommendations. They draw extensively on existing international statistical standards, mainly the European System of Accounts 1995 (ESA 95), while also recognising specific needs that arise from the compiling of monetary aggregates and their counterparts.

### a) *On-balance-sheet recognition of assets and liabilities*

44. In principle, MFIs should record on the balance sheet only financial instruments recognised as assets/liabilities and non-financial assets. Financial assets/liabilities are those financial claims/responsibilities that have demonstrable value. Other financial instruments should not be recorded on the balance sheet unless they amount to arrangements between two institutions involving unconditional requirements to make payments or provide other valuables or both. These other financial instruments are usually called contingencies, as they are contingent or conditional on the occurrence of uncertain

<sup>10</sup> Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, OJ L 372, 31.12.1986, p. 1.

future events. Examples of financial instruments not to be recorded on the balance sheet are guarantees, loan commitments, and administered loans and trust loans (also called 'fiduciary loans').

#### **b) Valuation of assets and liabilities**

45. Valuation is the accounting rule applied to the presentation of assets and liabilities in the MFIs' balance sheet statistics, and is usually specified at national level. For items denominated in non-euro currencies, the valuation criteria refer only to the method applied within the currency of denomination (they exclude the method used to convert items into euro).

46. MFIs should present asset and liability positions at current market values or use a close equivalent to market values (fair values) for statistical purposes<sup>11</sup>. However, an exception to this rule is needed in euro area monetary statistics to present balance sheet positions represented by 'currency in circulation', 'deposits', 'capital and reserves' and holdings of 'cash' and 'loans', at their nominal value. The ECB also expects finance leases to be valued in accordance with the general rules applying to loans repayable by instalment (such as mortgages) and not according to market values.

47. The ECB accepts that, in the statistical data submitted to NCBs, MFI reporting agents continue to use local commercial accounting rules that might require valuation methods other than current market values or fair values for some or all of their assets/liabilities, in particular for their holdings and issues of securities and positions in financial derivatives that are recorded on-balance.

48. Under normal circumstances, book values do not diverge significantly from market values if: i) fluctuations in market prices are modest; ii) there is a significant turnover of the securities held in the portfolio (in the case of securities holdings); and iii) the securities are nearing maturity (in the case of securities

issues). However, if MFI reporting agents use valuation methods other than the current market value or fair value, this could give rise to noticeable distortions where the reported book values differ substantially from market values. If this happens with policy-sensitive items, NCBs should consider the possibility of removing these distortions by using ex post adjustments, for instance by applying indices as a means of approaching market values. Furthermore, NCBs could use accounting data as a proxy for market valuations (e.g. in the case of securities issued, using the issue value or face value plus accrued interest, or the redemption value less interest to be accrued, as proxies for the current market values). NCBs should apply such alternative approaches on a case-by-case basis, in close consultation with the ECB.

49. So that the ECB can assess the significance of distortions arising from the use of valuation methods other than market values or fair values, consistency in the valuation of issues and holdings of MFI securities is particularly important; this enables accurate consolidated data to be compiled on the net issuance of such securities.

#### **c) Netting arrangements**

50. Without prejudice to the accounting and netting practices prevailing in the Member States, the ECB requires all financial assets and all financial liabilities to be reported on a gross basis for the purposes of euro area monetary statistics.

51. This principle of gross recording should be applied in particular to 'loans' and to 'deposits' in the MFI balance sheet. However, the ECB permits the presentation of loans/deposits as net asset/liability balances in these statistics, if

<sup>11</sup> Market values are based on prices quoted in the market (e.g. stock exchange quotations) or any prices that are intended to express the generality of prices for a class of similar or even identical financial assets and liabilities, whereas fair values correspond to an approximation to market prices, an estimate used for valuing assets and liabilities that are not traded in financial markets or that are traded only infrequently.

credit balances and the related debit balances on accounts with the same reporting MFI have identical features, in terms of the same customer<sup>12</sup>, the same currency and the same original maturity<sup>13</sup>. Furthermore, the right of set-off must be enforceable by law<sup>14</sup>. The netting of loans is not permitted in any other circumstances. If netting is applied, the criteria adopted in balance sheet statistics must remain consistent over time.

52. An exception to the rule of gross recording refers to the treatment of holdings of own instruments issued. For the purposes of euro area money and banking statistics, MFI balance sheets should treat on a net basis all holdings of own instruments issued (namely holdings of own shares and debt securities issued), in accordance with international statistical standards. However, gross recording of holdings of own instruments issued is permitted if required by local accounting rules. If gross recording is applied, holdings of own instruments should be classified to the relevant instrument category and not to the balance sheet item 'remaining assets'. Convergence towards the preferred statistical treatment might arise as and when Member States adopt international accounting standards (a forthcoming International Accounting Standards principle is expected to require net recording of holdings of own securities). As the ECB currently believes that the level of own holdings is low, negligible distortions are expected from different treatment among Member States.

#### **d) Provisions and loan write-offs/write-downs**

53. For the purposes of euro area money and banking statistics, MFI balance sheets should in principle record loans by MFIs at their nominal value gross of all related provisions, both general and specific, until the loans are written off or written down by the reporting institution; at that point, the loans are fully or partly removed from the balance sheet<sup>15</sup>.

54. Provisions represent internal funds of the reporting institution, accumulated from non-distributed profits, rather than current or future liabilities against third parties. They should therefore be classified under the liability item 'capital and reserves' (as should provisions covering securities and other types of assets). Provisions that represent current or future liabilities against third parties (covering taxes, pension obligations, dividends, etc.) should be classified under the liability item 'remaining liabilities'.

55. MFIs may fully or partly remove from the balance sheet (write down or write off) any doubtful loans that are recognised as having become partly or totally unrecoverable. Countries may record bad loans net of specific provisions, and hence as though they have already been written off. As the loans are, in effect, shown as having been written off sooner than they were to have been recorded gross of provisions, the distortion thereby created relates only to the timing of the removal of bad loans from the balance sheet. The timing of the removal of loans from the balance sheet depends on the accounting rules. For statistical purposes, the removal of the loan from the balance sheet should in principle occur when the loan is written down/written off. However, commercial accounting rules may require MFIs to record doubtful loans net of specific provisions, so those loans are effectively removed from the moment specific provisions are made. The ECB accepts this practice if it does not create significant distortions in the recording of loans.

<sup>12</sup> 'Same customer' refers to a single institutional unit located in the same national territorial area. Netting across national territorial borders is not permitted.

<sup>13</sup> The netting of loans against deposits of different original maturity is, however, allowed in circumstances where the netting agreement does not permit the deposit to be called while the loan remains outstanding.

<sup>14</sup> Enforceable by law means that the set-off arrangement would be enforceable in the relevant national jurisdiction in case of default, liquidation or bankruptcy of the customer as well as the liquidation or bankruptcy of the reporting institution.

<sup>15</sup> A loan is written off when it is considered to be a worthless asset and is removed from the books. The loan is written down when its value is reduced in the balance sheet.



#### **e) Interest arrears**

56. Interest arrears (i.e. interest receivable but overdue) are amounts that are receivable on the balance sheet reporting date, but which may only be received after the reporting date. In accordance with the principle of accruals accounting (see also *Accrued interest*), interest arrears should also be recorded on the balance sheet on a gross basis under 'remaining assets'. However, in accordance with local commercial accounting rules, MFIs may be required to exclude from the balance sheet scheduled interest payments that have been in arrears for a specified period.

57. For arrears of principal, see *Provisions and loan write-offs/write-downs*.

#### **f) Time of recording of transactions**

58. MFIs should record transactions in securities on the balance sheet at the settlement date (i.e. the date on which payment is made). The ECB accepts the recording of transactions in securities on the contract date (i.e. the date on which the deal is struck), if this does not create significant distortions in the reported figures.

59. If significant distortions would arise from using the contract date rather than the settlement date to record transactions, the NCB should develop suitable techniques in close consultation with the ECB to make the adjustments necessary to remove such distortions.

60. Recording transactions in securities on the contract date gives rise to amounts to be received and paid on the future settlement date if, as usually happens, the two events occur at different times. MFIs should record these receivable/payable amounts on a net basis under 'remaining assets' or 'remaining liabilities', according to their sign.

61. For statistical purposes, MFIs should record the exchange of deposits usually

associated with spot foreign exchange transactions (see also *Unsettled spot foreign exchange operations*) on the settlement date. Nevertheless, the ECB accepts that this exchange may be recorded on the contract date if this is the treatment in the accounting systems of MFIs.

#### **g) Accrued interest**

62. In accordance with the general principle of accruals accounting, accrued interest<sup>16</sup> should be subject to on-balance-sheet recording as it accrues (i.e. on an accruals basis), rather than when it is actually paid or received (i.e. on a cash basis). For this reason, the Regulation requires the interest accrued on deposits/loans to be classified on a gross basis under the categories 'remaining liabilities'/'remaining assets' (as appropriate) and excluded from the deposit/loan to which it relates (which MFIs should value at the nominal amount outstanding on the reporting date - see *Valuation of assets and liabilities*).

63. In the case of securities issued/held, MFIs should exclude accrued interest from the securities to which it relates and also classify it on a gross basis under the categories 'remaining liabilities'/'remaining assets', as appropriate. The exception is accrued interest that is intrinsic to the market price (e.g. on deep-discounted and zero-coupon bonds), which MFIs may include in the value of the securities recorded in the balance sheet.

### **III. Compilation of flow statistics**

#### **Write-off/write-down of loans**

64. The adjustment in respect of the *write-off/write-down* of loans seeks to remove from the flow statistics the effect of reductions in the recorded balance sheet value of loans caused

<sup>16</sup> *Accrued interest refers to interest that is receivable/payable on the balance sheet reporting date, but which is not due to be received/paid until a future date (i.e. until after that reporting date).*

by the application of loan loss provisions or the loan write-off/write-downs. MFIs also report the effect of write-offs recognised at the time the loan is sold, if such write-offs are identifiable.

65. The method used for the calculation of the adjustment depends on the valuation system applied to the item 'loans', specifically whether the loans are recorded gross or net of related provisions.

66. If loans are recorded gross of all related loan loss provisions (specific and general), MFIs report an adjustment at the time of the write-off or write-down and not when recording a provision, because this provision has no effect on the item 'loans' and is in principle included in 'capital and reserves'. MFIs report a monthly adjustment each time they write off loans. The adjustment should comprise both write-offs that are directly applied (with the counterpart in 'capital and reserves', i.e. either in the 'profit and loss' account or in 'capital and reserves', or in any special account included in 'remaining liabilities'); and write-offs where the loans were previously provisioned.

67. If loans are recorded net of specific provisions, both specific provisions and direct write-offs can affect the item 'loans' and, as a consequence, may need an adjustment. The adjustment would comprise the application of new provisions and direct write-offs minus provisions that are subsequently reversed. If the write-off had previously been fully covered by a specific provision and hence netted from the asset side, it would not affect the item 'loans' and no adjustment would be needed.

68. The *TECHNICAL APPENDIX* gives examples of the adjustment of write-offs/write-downs of loans depending on the grossing/netting of provisions.

#### **Price revaluation of securities**

69. Concerning *price revaluation of securities*, two issues are not fully explicit in the Regulation:

- (1) the method defining the content of the price revaluation adjustment;
- (2) the compilation system to be applied to the collection of data.

#### **1) Method defining the price revaluation adjustment**

70. Reporting agents and NCBs may follow two approaches when compiling the flow adjustment to be reported to the ECB: the 'balance sheet method' and the 'transaction method'. The balance sheet method defines the 'flow' as the sum of transactions during the current reference period that involve only assets recorded on the balance sheet at the end of (i) the previous reference period; and (ii) the current reporting period. The transaction method defines the 'flow' as the sum of the transactions that occur during the reference period, including assets that were recorded at the start and end of a reporting period and transactions where the purchase and sale occur entirely within the reference period (the latter is excluded from the balance sheet method).

71. The transaction method is attractive because it accords with international standards, guarantees full consistency across sectors and gives a clear meaning to the 'flow' by identifying it to the net total transaction measured at market value. In addition, when the ECB calculates growth rates, the transaction method - when applied in the context of stocks at market value - minimises (though without eliminating) possible inconsistency between valuation flows and stocks.

72. However, for practical reasons, the ECB favours the balance sheet method as the main way of applying the common approach to revaluation adjustment for the purpose of compiling 'flows' in money and banking statistics. The main reasons for adopting the balance sheet method are the lack of harmonisation of valuation rules across the euro area and the fact that different valuation

rules may be used to value different portfolios, even by the same reporting institution. Yet the transaction method should be applied if one of the following conditions is met:

- (i) market valuation should be the only, or at least the most commonly used, method of valuing holdings of securities;
- (ii) the transaction method proves to be less costly to implement than the balance sheet method.

73. Even so, the transaction method is applied only if it provides data of a sufficiently high quality and within the necessarily tight deadlines required for compiling monetary statistics.

74. Using the balance sheet method, the flow during the reference period is recorded under the same valuation rule as the securities in the amounts outstanding at the end of the previous reference period (securities sold) or the current reference period (securities purchased), whatever the actual (market) value at which securities are transacted. Hence, by implication, the valuation method for the flow is the same as for the end-period stocks - which can be market, cost, book or redemption value.

75. If MFIs record stocks at cost price (i.e. the value at the time the securities are purchased), they also record transactions (both purchases and sales) at the cost price, although the cost price of purchases can differ from the cost price of sales or from the price applied to the outstanding amount. If MFIs record stocks at market price, then they record:

- (i) purchases at the market value of the securities at the end of the reference period in which they are purchased; and
- (ii) sales at the market price at the end of the reference period before the period in which they are sold.

76. The implication is that the flow in respect of securities that are purchased and sold will

be calculated neither at the value at which the instruments were sold nor at the value at which the instruments were purchased (unless 'strictly cost price' is the valuation rule for stocks).

77. The central aim of the balance sheet method is to measure changes over time in the end-period stocks, excluding the effect on these stocks of non-transactional changes arising from revaluation of the stocks. These revaluations are the so-called holding gains and losses (unrealised revaluations) resulting from changes in the prices at which securities issued and held are recorded in the books of reporting agents. Hence, this method does not cover realised gains and losses that arise when securities are sold because, by definition, such revaluations have no effect on end-period stocks. In addition, fluctuations in exchange rates will also create revaluation effects in respect of those securities that are denominated in foreign currencies, but these are neutralised via the separate foreign exchange adjustment calculated by the ECB.

78. The ECB regards the transaction method as an alternative definition of the revaluation adjustment. As mentioned above, the transaction method defines the flow as the net transactions during the reference period including transactions in assets held at the start or end of a reporting period as well as transactions where both the purchase and sale occur entirely within the reference period.

79. Transactions are measured at the value at which assets are acquired/disposed of and/or liabilities are created, liquidated or exchanged. In other words, the transaction method requires the flow to be valued at the transaction value, which is normally the market value of the securities on the transaction day. Accordingly, the revaluation adjustment would include all (price) revaluations during the reference period, both realised and not-realised. In such a case, it is noteworthy that the adjustment will also include the difference between the value at which the securities are recorded at the end-of-month balance sheet and the purchase

price (for the securities that were bought during the reference period). In this, the transaction method differs from the balance sheet method.

## 2) **Compilation system to be applied to collection of data**

80. The Regulation allows flexibility in terms of the type of data needed to calculate the price revaluation of securities and the form in which these data should be collected and compiled. The decision on the method will be left to the NCBs, based on options in the ECB Guideline. The options so far identified that would be available to NCBs are the following:

- i. *MFIs to report adjustments.* MFIs would report the adjustments applicable to each item, reflecting the valuation changes due to change in prices. NCBs that have chosen this method would aggregate the adjustments reported by MFIs for the submission of data to the ECB.
- ii. *MFIs to report flows.* MFIs would accumulate flows during the month and transmit to the NCB the value of purchase and sale of securities. The compilation and submission to the NCB of net flows is perfectly acceptable. NCBs that receive transactions data will have to calculate the 'other revaluation adjustment' as a residual from the difference between the stocks and the transactions and other adjustment, and submit the revaluation adjustment to the ECB in accordance with the ECB Guideline.
- iii. *Security-by-security reporting.* MFIs would report to NCBs all relevant information on holdings of securities, such as the nominal (face) value, accounting (book) value, market value, sales and purchases, on a security-by-security basis. This information would permit NCBs to obtain accurate information on the 'other' revaluation adjustment to be

submitted to the ECB. This method is intended to accommodate NCBs that already follow such an approach in collecting data at a local level.

81. In principle, NCBs are restricted to the above methods. However, if other methods arise they could also be used, provided they were shown to be capable of delivering data of comparable quality.

82. The interaction of accounting rules and the reporting method is shown in the *TECHNICAL APPENDIX*, which also gives examples of the different treatments and the adjustment to be reported.

## **Part 2 - Required breakdowns**

83. All balance sheet positions that are to be classified by maturity refer to the *original maturity*.

### **Table 1 (stocks)**

84. This table requires loans to non-MFIs to be classified according to their original maturity. In cases where the repayment of the loan is overdue or the loan is otherwise identified as impaired, the ECB recommends that, for statistical purposes, the MFI retains the original maturity of the loan until the loan is repaid or written off. If overdue or impaired loans are not broken down by original maturity in the balance sheet but are instead identified as a single figure, the MFI estimates the maturity split or, if this is not possible, allocates the entire figure to the longest maturity band (in the case of loans to non-MFIs, this is the 'over-five-year' band); this is because the longer the life of the loan, the greater the risk of the debtor's financial condition deteriorating.

85. This table also requires loans to 'households' and 'non-profit institutions serving households' (NPISH) to be broken down by purpose (consumer credit/lending for house purchase/

other (residual)). These sub-sectors are fully merged in this table. NCBs are recommended to allocate all loans to households and NPISHs by purpose. NCBs are, however, allowed as an alternative to report all loans to NPISHs under the residual column 'Other', where national collection systems do not allow a breakdown of loans to NPISHs by purpose.

86. The ECB recommends that Member States that maintain the split between 'households' and NPISHs in MFI loan statistics after the Regulation is implemented continue to submit the amount of loans to NPISHs to the ECB as memorandum items and indicate whether they report loans to NPISHs as an aggregate under the column 'Other' or classify them by purpose. This will permit the ECB to monitor the development of loans to NPISH over time.

87. To enable information from the money and banking statistics to be used for balance of payments (BOP) purposes and so to reduce the burden on reporting agents, Table I includes the split of *deposits and loans with regard to the rest of the world by maturity* (up to one year/over one year). The use of a broadly consistent methodology for compiling the two sets of statistics ensures that data derived from money and banking statistics on deposits and loans vis-à-vis the rest of the world can also be used in the BOP statistics. More specifically, the inclusion of that additional maturity split in the information reported by MFIs facilitates the use of MFIs' balance sheet statistics for the collection of part of the BOP item 'other investment' for the MFI sector. In fact, MFI balance sheet statistics are already used as an input for BOP statistics in most participating Member States. Using a common framework for collecting this information could thus reduce the burden on reporting agents. In addition, it enhances the comparability between BOP and money and banking statistics. This is a prerequisite for the so-called monetary presentation of the BOP - regarded as a priority in statistics by the ECB Governing Council.

88. While the breakdown of total deposits vis-à-vis the rest of the world into 'up to one

year' and 'over one year' is straightforward in the case of overnight deposits (they all fall in the 'up to one year' band) and deposits with agreed maturity, it does not apply to deposits redeemable at notice and repurchase agreements (repos). The ECB recommends that Member States classify, as a proxy, all deposits redeemable at notice and repos in the maturity band 'up to one year'; this is because, in the case of deposits redeemable at notice, the notice period is a few days in most Member States, while repos are usually very short-term instruments (usually with a maturity of less than three months).

89. This table requires reporting agents to identify holdings of *shares/units issued by MMFs resident in the rest of the world*. However, the definition of MMFs in the Regulation does not apply outside the EU. Therefore, consistent classification of the holdings of shares/units issued by MMFs resident in the rest of the world (excluding Member States) cannot be ensured across the Member States. However, the ECB does not expect the distortions to be significant, as these figures are not very significant in most Member States.

90. For the reporting of the *new monthly cells on stock data* (deposits and loans by maturity, currency and sub-sector within the 'other resident sectors'; loans further broken down by purpose; and holdings of MMF shares/units with regard to the rest of the world), the ECB has granted a transitional period in respect of the timeliness for a period of twelve months starting as from the reference period of January 2003. NCBs may submit these series to the ECB with a time-lag of one month for the regular monthly transmission. NCBs decide when they need to receive data from reporting agents to meet this deadline. In the case of the new cells on the maturity breakdown of loans and deposits for the rest of the world needed for BOP purposes, each Member State will be able to define a timetable for using the MFI balance sheet statistics according to its own needs.

### Table 2

91. The list of MFIs covers the institutions resident in all the EU Member States. However, for the purpose of this Regulation, the actual reporting population consists only of MFIs resident in the participating Member States. Therefore, in the quarterly data reported under this table for the purposes of euro area money and banking statistics, positions towards MFIs located in EU non-participating Member States are classified under the rest of the world, and they are referred to as positions towards *banks* (rather than towards MFIs). It should be noted that the term 'MFIs' is, however, retained in Table 3 when referring to positions towards MFIs located in EU non-participating Member States (and when referring to positions towards banks located outside the EU).

92. See Annex I, Part 2, Table 1, for the treatment of cases where the repayment of the loan is overdue or the loan is otherwise identified as being impaired.

### Table 3

93. See Annex I, Part 2, Table 1, for the treatment of *shares/units issued by MMFs resident in the rest of the world*.

### Table IA (revaluation adjustment)

94. Table IA in the Regulation includes two types of cells, as follows:

- i. Cells containing the word '*minimum*'. The Regulation requires reporting agents to report as a minimum a limited set of data stated in this table as '*minimum*'. These correspond to asset items that are considered to have high policy relevance and that are expected to experience the most significant revaluation effects. Nevertheless, the Regulation leaves open to NCBs the possibility to collect more detailed data from MFIs.

- ii. Cells not containing the word '*minimum*'. The Regulation does not establish any requirement for reporting agents in respect of these cells, unless the NCB decides to extend the reporting requirement to these cells. Nevertheless, NCBs report the revaluation adjustment in respect of all cells in Table IA. For that reason, and to avoid or minimise estimations, the Regulation entitles NCBs to extend reporting agents' obligations to some or all of the cells in Table IA not marked '*minimum*'.

95. All cells referring to the revaluation adjustments have been granted a transitional period of twelve months in respect of the timeliness, starting as from the reference period of January 2003. These series may be submitted to the ECB with a time-lag of one month for regular monthly transmission. NCBs decide when they need to receive the data from reporting agents to meet this deadline.

96. From the data to be reported by MFIs in accordance with the Regulation, NCBs produce the full set of data to be reported to the ECB in accordance with requirements stated in the ECB Guideline.

### Part 3 - Definitions relating to the consolidated balance sheet to be submitted to the ECB - instrument categories of liabilities and assets

#### Definition of instrument categories

97. This section seeks to provide guidance on the recording of assets/liability positions that arise in respect of certain specific operations that MFIs might engage in.

#### a) Unsettled spot foreign exchange operations

98. For statistical purposes, the exchange of deposits usually associated with spot foreign

exchange transactions should be recorded on the settlement date. Nevertheless, the ECB accepts that this exchange may be recorded on the contract date if this is the current treatment in MFIs' accounting systems. See also *Time of recording of transactions*.

99. Reporting agents should enter foreign exchange receivable/payable arising between the contract and settlement dates into the balance sheet on the contract date. Foreign exchange receivable/payable does not meet the criteria for identification as financial assets and liabilities that can be classified within the existing categories (deposits/loans and securities), nor is it to be identified as financial derivatives. The aggregate of all these amounts receivable/payable should be recorded on a net basis at their market value, within 'remaining assets' or 'remaining liabilities', according to the sign. However, in view of the limited analytical content of these positions, the ECB accepts that these amounts receivable/payable may be treated as off-balance-sheet positions for the purposes of money and banking statistics, if this is the current treatment in MFIs' accounting systems.

100. The amounts receivable/payable may be indistinguishable from forwards with a residual maturity of 1-2 days within the accounting systems of banks. If forward positions are already recorded as financial derivatives on the balance sheet at market value (see *Financial derivatives*), the ECB accepts that for practical purposes the amounts receivable/payable arising from unsettled spot foreign exchange operations may also be classified as financial derivatives (which reporting agents nevertheless classify within 'remaining assets' and 'remaining liabilities').

#### **b) Operating profits and losses**

101. Operating profits/losses are defined as the costs/benefits that:

- (i) accumulate during the MFI's accounting/ financial reporting period (resulting from accumulated interest and commission

income and expenditure, results on financial transactions, etc); and

- (ii) are acknowledged for prudential reasons but which have not yet been formally recognised as profits/losses in the annual (or quarterly) accounts.

102. The profits/losses recognised on financial transactions in the accounting statement comprise gains/losses and possibly unrealised losses but generally not - on prudential grounds - unrealised gains (which remain in the revaluation accounts). As operating profits/losses do not represent a third-party claim, reporting agents should preferably enter them under 'capital and reserves' net of any provisions for future tax and dividend payments (which should instead be classified under 'remaining liabilities' - see treatment of *Provisions and loan write-offs/write-downs*). However, for the time being, NCBs are provided with the possibility to follow the supervisory/accounting approach, which requires them to enter profits/losses in 'remaining liabilities' and move them to 'capital and reserves' only after they have been formally recognised as such when the accounts for the financial reporting period have been closed.

#### **c) Bill-based lending operations**

103. A bill of exchange is a payment order whereby one party (the drawer) directs another (the drawee) to pay a certain amount of money at a future date. MFIs may be involved either as holders of bills drawn on non-MFIs (in the case of trade bills) or as the drawee (in the case of bank acceptances). The Regulation does not foresee any specific treatment for bill-based lending within MFI balance sheet statistics.

104. The classification of trade bills and bank acceptances held by or claimed on MFIs has two aspects: the sector classification of the lending counterparties and the instrument category into which these instruments should be classified.

105. As far as the first aspect is concerned, the ECB recommends that reporting agents classify holdings of trade bills drawn on non-MFIs as claims on the final debtor (the drawee principle). This reflects the fact that when a bill is sold, all the associated risks and rewards are transferred and the holder has a primary claim on the drawee, but only a contingent claim on the previous holders. This approach is consistent with ESA 95. Reporting agents should avoid the alternative of classifying trade bills as claims on the previous holder (the presenter principle).

106. The classification of bank acceptances can be seen as a variant of that of trade bills. Reporting agents should record trade bills under 'loans' or 'securities other than shares', as appropriate, depending on the degree of standardisation of these documents and on the structure of the secondary markets in which they are traded.

107. The treatment of bank acceptances is twofold:

- (i) The accepting bank should classify the original acceptance as a loan to the drawer (i.e. the party on whose behalf the acceptance was granted) and, if it goes into circulation, reporting agents should record the resultant liability under 'debt securities issued' (an alternative accounting treatment may be adopted, if it does not cause significant distortions).
- (ii) From the viewpoint of an MFI which is the holder of the bank acceptance, these instruments are classified in the same way as trade bills, i.e. according to the drawee principle (and thus as a liability of the bank accepting the paper, not of the original issuer).

#### **d) Short-term subordinated debt**

108. The instrument category 'deposits with agreed maturity up to one year' should normally not include subordinated debt. According to Community legislation<sup>17</sup>, banks

can use subordinated debt for the calculation of their own funds with a minimum maturity of five years to cover credit risk and of two years to cover market risk. Therefore, an original maturity of less than two years would not be recognised for prudential supervision purposes.

109. Subordinated debt (deposits or securities) normally bears an interest rate higher than prevailing market rates, as this instrument is riskier than standard obligations. The reason is that, in the case of liquidation of the issuer, subordinated debt is repaid only after all depositors and holders of standard debt securities have had their claims met. Therefore, investors are willing to purchase subordinated debt only if they receive an interest premium. As subordinated debt is quite expensive for the issuer, it is normally issued only when there is an advantage from a prudential supervision perspective, which applies normally only if the debt has a maturity of over two years. Some banks may issue short-term subordinated debt, but it is hard to see an economic reason for doing so.

#### **e) Securities lending without cash collateral**

110. Securities lending without cash collateral involves one party lending securities to another party with a firm commitment to the return of the same (or similar) securities on a specified future date. Contrary to repo-like operations (see the classification of repos and repo-like operations in the Regulation), there is no exchange of cash collateral - either the collateral takes the form of other assets or there is no collateral at all.

111. For the purposes of euro area money and banking statistics, securities lending operations without cash collateral should not give rise to any entries on the balance sheet (i.e. should be treated as off-balance-sheet operations). To

<sup>17</sup> Council Directive 89/299/EEC of 17 April 1989 on the own funds of credit institutions, OJ L 124, 5.5.1989, p. 16.



maintain consistency with the treatment of repo-type operations, securities lent out under securities lending operations should remain on the original owner's balance sheet (and are not to be transferred to the balance sheet of the temporary acquirer) where there is a firm commitment to reverse the operation (and not simply an option to do so). Furthermore, as cash (representing repayable collateral) has not been passed from the temporary acquirer to the original owner, no entries are to be made under 'deposits' or 'loans'.

112. If the temporary acquirer later sells the securities outright, this sale should be recorded as a transaction in securities and entered in the portfolio of the temporary acquirer as a negative position in securities.

113. It has been recognised that existing commercial accounting practices may in some countries require securities lending to be recorded as an on-balance-sheet operation; in other words, as a transfer of securities from the lender to the borrower for the period of the securities loan, with matching entries for the loan of the securities recorded under 'deposits'/loans' or as 'remaining assets'/remaining liabilities' (ie. as on-balance-sheet items). If the loan of securities is recorded under 'deposits'/loans', reporting agents should allocate these balances to 'remaining assets'/remaining liabilities', if possible on a net basis; and they should record the net figure to 'remaining assets' or 'remaining liabilities', according to sign.

#### **f) Gold swaps and gold loans/deposits**

114. Gold swaps represent the counterpart of cash (usually foreign exchange deposits) received as collateral by the MFIs (in most cases NCBs) in exchange for gold under a firm commitment to reverse the transaction at an agreed price and on a specific future date. The economic risks and benefits of ownership of the gold (such as the right to holding gains and losses) remain with the original owners. This is why the Regulation requires reporting agents to classify these transactions within the

reporting scheme under 'repurchase agreements'.

115. Gold loans/deposits represent the counterpart (but in this case, a non-cash counterpart, usually securities) received as collateral by the MFIs (also in most cases NCBs) in exchange for gold deposited with or lent to a financial institution or another party in the gold market, under a firm commitment to reverse the transaction at an agreed price and on a specific future date. The economic risks and benefits of owning the gold and the collateral (such as the right to holding gains and losses) also remain with the original owners. However, as cash is not provided as collateral, it should not give rise to any entries on the balance sheet (i.e. should be treated as 'off-balance-sheet' operations), so no entries are to be made under 'repurchase agreements' (as with the treatment of *Securities lending without cash collateral*).

116. Where the temporary acquirer of gold (under either a gold swap or a gold loan) later sells the gold outright, this sale should be recorded as a transaction in gold and entered in the balance sheet of the temporary acquirer as a negative position in gold.

#### **g) Financial derivatives**

117. In accordance with existing international statistical standards, financial derivative instruments that have a market value should be subject to on-balance-sheet recording when the data are available. Derivatives have a market value when they are traded on organised markets (exchanges) or in circumstances in which they can be regularly offset on non-organised over-the-counter markets. Financial derivatives that are recognised as on-balance-sheet items should be entered at their market value, which is the market price or a close equivalent (fair value).

118. Reporting agents should record derivatives on the balance sheet on a gross basis. They should record individual derivative contracts with gross positive market values on

the asset side of the balance sheet, and contracts with gross negative market values on the liability side. Notional amounts (representing the value of underlying assets used to calculate the gross future commitments arising from derivative contracts) should not be entered as on-balance-sheet items (see also the treatment of currency swaps).

119. The ECB recognises that commercial accounting rules in some countries require derivative positions to be recorded in a way that makes it impossible to follow this recommendation. In these cases, the ECB suggests that NCBs estimate the market value of MFI derivative positions, where the data from alternative sources are available, and that they provide aggregate values as memorandum items.

**h) [Of which] the treatment of currency swaps**

120. Currency swaps (sometimes called cross-currency interest rate swaps) are derivative contracts that commit two parties to a future exchange of payment streams related to fixed or floating interest rates in different currencies for an agreed period of time. These payments are based on notional amounts of principal, which are fixed at the initiation of the swap. The currency swap contract may also involve an exchange of these principal amounts.

121. In accordance with the statistical treatment applicable to all financial derivative instruments, MFI balance sheets should include at market value those currency swap contracts that have market value, which is the market price or a close equivalent (fair value). The recording should be on a gross basis, so that those contracts with gross positive market values are classified under 'remaining assets' and those with gross negative market values under 'remaining liabilities'.

122. No entries should be made on the balance sheet in respect to the outstanding

commitment to a future exchange of payment streams or real principal. However, if accounting conventions require currency swaps and other forward-type instruments to be recorded as on-balance-sheet items by entering those future commitments on a gross basis, then, for the purposes of compiling MFI consolidated balance sheet statistics, reporting agents could calculate the net value of these entries as a proxy for the current market value. This net value would then be allocated, according to the sign, to 'remaining assets' or 'remaining liabilities'. Reporting agents should exclude notional amounts (representing the value of underlying assets used to calculate the future commitment) from the balance sheet.

**i) Margin payments**

123. Reporting agents should classify margin payments (margins) made under derivatives contracts and reverse transactions as deposit liabilities where they represent cash collateral deposited with MFIs to protect against credit risk and where they remain in the ownership of the depositor and are repayable to the depositor when the derivative contract is closed out or when the transaction is reversed.

124. On the basis of current market practice, the ECB suggests that margins received by the reporting MFI should only be classified as deposit liabilities to the extent that the MFI is provided with funds that are freely available for on-lending (margins received by an MFI that are passed to a third party within a dedicated customer account do not appear on the balance sheet). If part of the margin received by the MFI has to be passed to another market participant (e.g. the clearing house in the case of financial derivatives), only that part which remains at the disposal of the MFI should in principle be classified as deposit liabilities.

125. The complexities of current market practice may make it difficult to identify margins that are truly repayable, because different types of margin are placed

indistinguishably within the same account, or those margins that provide the MFI with resources for on-lending. In these cases, it is acceptable to classify these margins under 'remaining liabilities' or as deposit liabilities, according to national practice.

#### **j) Transit and suspense items**

126. The Regulation defines transit items as funds (usually belonging to customers) that are in the course of being transmitted between MFIs. Credit items include credit transfers that have been debited from customers' accounts and other items for which the corresponding payment has not yet been made by the reporting MFI, while debit items include cheques and other forms of payment that have been sent for collection to other MFIs.

127. If some of the steps required for the transmission of funds between MFIs have yet to be completed as at the balance sheet reporting date, amounts payable and receivable in respect of items in transit that are due for settlement on a future date will feature on the balance sheet.

128. Reporting agents should record on a gross basis amounts receivable/payable in respect of transit items that are outstanding on the reporting date, classifying them under 'remaining assets'/'remaining liabilities', as appropriate.

129. Suspense items are defined in the Regulation as liability or asset balances held in the MFI balance sheet which are not booked in the name of customers but which nevertheless relate to customers' funds (e.g. funds that are awaiting investment, transfer or settlement).

130. As a general rule, reporting agents should present suspense items on the balance sheet on a gross basis. Suspense items that represent a liability for the reporting MFI (e.g. customer funds awaiting transfer) should be classified under 'remaining liabilities', while asset suspense items should be classified under 'remaining assets'.

131. There may be exceptions to this general rule. Where asset suspense balances are closely associated with the loans and deposits to which they relate, reporting agents could continue to record suspense balances indistinguishably within those loans/deposits, broken down by sector, residence, etc. Otherwise, the reallocation of the amount involved to the residual categories of 'remaining assets'/'remaining liabilities' would imply a loss of information.

#### **k) Gold and commemorative coin not in active circulation**

132. The Regulation defines currency in circulation as 'banknotes and coins in circulation that are commonly used to make payments'. Therefore, reporting agents should treat gold and commemorative coin not in active circulation as a non-financial asset and therefore record it under 'remaining assets' (holdings)/'remaining liabilities' (issues).

#### **l) Travellers' cheques**

133. Travellers' cheques issued by MFIs have similar properties to currency in circulation. The Regulation does not state how they should be classified within the reporting scheme, leaving Member States with flexibility on classification. Nevertheless, the ECB would expect travellers' cheques to receive similar treatment to prepaid monetary balances stored on technical devices (electronic money), i.e. to be classified as 'overnight deposits'.

## Annex IV - Minimum quality standards to be applied by the actual reporting population

134. This Annex defines the minimum standards that reporting agents shall fulfil to meet the ECB's statistical reporting requirements. The ECB may impose sanctions on a reporting agent that does not comply.

135. According to Article 7(2) of Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank<sup>18</sup>, the obligation to transmit certain statistical information to the ECB or the NCBs will be deemed to have been infringed if:

- i. no statistical information is received by the ECB or NCB by the established deadline; or
- ii. the statistical information is incorrect, incomplete or in a form not complying with the requirement.

136. Article 7(4) of Council Regulation (EC) No 2532/98 of 23 November 1998 concerning the powers of the European Central Bank to impose sanctions<sup>19</sup> specifies the levels of the sanctions that may be imposed by the ECB:

- in case i., a daily penalty payment not exceeding EUR 10 000, with the total fine not exceeding EUR 100 000,
- in case ii., a fine not exceeding EUR 200 000.

137. Also applicable are the principles and procedures set out in Regulation (EC) No 2532/98 and in European Central Bank Regulation (EC) No 2157/1999 of 23

September 1999 on the powers of the European Central Bank to impose sanctions<sup>20</sup>.

138. The decision on whether to impose a sanction on a reporting agent (including the appropriate level of the sanction) is taken by the ECB's Executive Board. This decision is subject to review by the Governing Council and finally by the Court of Justice. When taking this decision, the Executive Board shall be guided by the principle of proportionality and shall take into consideration, where relevant, the circumstances of the specific case, as defined in Article 2 of Regulation (EC) No 2532/98, such as: (a) on the one hand, the good faith and the degree of openness of the undertaking in the interpretation and fulfilment of the obligation arising from an ECB regulation or decision as well as the degree of diligence and co-operation shown by the undertaking or, on the other hand, any evidence of wilful deceit on the part of officials of the undertaking; (b) the seriousness of the effects of the infringement; (c) the repetition, frequency or duration of the infringement by that undertaking; (d) the profits obtained by the undertaking by reason of the infringement; (e) the economic size of the undertaking; and (f) prior sanctions imposed by other authorities on the same undertaking and based on the same facts.

139. The ECB and the NCBs have developed tools to provide the ECB's Executive Board with the necessary information on the non-compliance of reporting agents with the ECB's statistical reporting requirements for money and banking statistics.

## Annex V - Transitional provisions for the application of this Regulation

140. In respect of the *new monthly cells on stock data*, see Table 1 (stocks) in Annex I, Part 2 of these Notes.

141. In respect of the revaluation adjustments, see references in these Notes on *Table IA (revaluation adjustment)* of Annex I, Part 2.

<sup>18</sup> OJ L 318, 27.11.1998, p. 8.

<sup>19</sup> OJ L 318, 27.11.1998, p. 4.

<sup>20</sup> OJ L 264 12.10.1999, p. 21.

# Technical appendix to the guidance notes - compilation of flow statistics

## Loan loss write-offs/write-downs

### I. Accounting rules

The adjustment in respect of the write-off/write-downs seeks to remove from the flows the effect of reductions in the balance sheet value of loans caused by loan loss provisions or the write-off/write-down of loans<sup>21</sup>. For that reason, the method for calculating the adjustment depends on the valuation system applied to the item 'loans', specifically whether the loans are recorded gross or net of provisions.

#### Loans recorded gross of provisions

If loans are recorded gross of all loan loss (specific and general) provisions, MFIs report an adjustment only at the time a write-off or write-down takes place and not when a provision is recorded, because this provision has no effect on the item 'loans' and is included within 'capital and reserves'.

Therefore, MFIs have to report a monthly adjustment each time they write off loans. The adjustment comprises both:

- (i) the write-offs directly applied (with counterpart in 'capital and reserves' i.e. either in the 'profit and loss' account or in the reserves, or in any special account included in 'remaining liabilities'); and

- (ii) the write-offs that were previously provisioned, when the provision is applied to the loan.

#### Loans recorded net of provisions

Where loans are recorded net of specific provisions, both specific provisions and write-offs can affect the item 'loans', so they may need an adjustment. The adjustment comprises the settling of provisions (write-downs) and not-provisioned write-offs, minus the reversing of provisions. If the write-off was previously fully provisioned as a specific provision and netted from the asset side, this does not affect the item 'loans' and no adjustment is needed.

### II. Examples

For the sake of simplification, assume three loans in the MFI portfolio. Two of them are partially provisioned. One of them will be recovered later, while another loan will be completely written off. No transaction occurs.

<sup>21</sup> Write-offs recognised at the time the loan is sold should also be reported. This would be the case of write-offs attached to securitisation/loan sales. See Guideline of the European Central Bank concerning certain statistical reporting requirements of the ECB and the procedures for reporting by the NCBs of statistical information in the field of money and banking statistics, Annex on 'Manual of procedures for the compilation of flows statistics'.

Example		
	31 Jan	28 Feb
Loans		
Loan A	100	100
Loan B	100	100
Loan C	100	0
Provisions		
Loan A	0	30
Loan B	20	0
Loan C	40	0
Write-offs		
Loan A	0	0
Loan B	0	0
Loan C	0	100

### Gross reporting

Table 1 indicates outstanding amounts, flows and adjustments, loan by loan and total amounts.

If an MFI reports loans gross of provisions/write-downs, it reports an adjustment only if a write-off takes place. The adjustment will be reported by the total amount written off (-100) regardless of whether it was previously provisioned.

### Net reporting

Table 2 indicates outstanding amounts, flows and adjustments, loan by loan and total amount.

In case an MFI reports loans net of provisions, it reports an adjustment whenever a provision is created (-30), increased or reversed (+20). Only reversion of provisions has a positive sign in the adjustment. Also when a write-off is applied, an adjustment is reported; but in this case only for the part not previously provisioned (-60).

<b>Table 1</b>				
<b>Gross reporting</b>				
	Stock end-January	Flow for MBS adjustment	Other revaluation	Stock end-February
Loan A	100	0	0	100
Loan B	100	0	0	100
Loan C	100	0	-100	0
Total amounts	300	0	-100	200

<b>Table 2</b>				
<b>Net reporting</b>				
	Stock end-January	Flow for MBS adjustment	Other revaluation adjustment	Stock end-February
Loan A	100	0	-30	70
Loan B	80	0	+20	100
Loan C	60	0	-60	0
Total amounts	240	0	-70	170

## Price revaluations of securities

### I. Accounting rules

In respect of securities, the ECB calculates the transaction flow by applying a revaluation adjustment to the difference in stocks. The ECB is here intending to address a requirement for MFIs to provide such adjustments, but to leave it to NCBs to decide how MFIs [MCI] meet this requirement. Currently, the ECB envisages that MFIs could meet the requirement in three different ways, via direct reporting of the revaluation adjustment, reporting of the transactions, and reporting of security-by-security data. The method selected will also depend on the valuation method applied in each case to the related balance sheet stocks.

#### **Securities recorded at market value**

**Definition:** Securities are valued according to the market price at the last trading day of the reference period.

If MFIs directly report the revaluation adjustment to NCBs, the adjustment comprises only the holding gain/loss and not the realised gain/loss, using the balance sheet method; but under the transaction method, the adjustment comprises both realised and not-realised gains/losses. The holding gain/loss is calculated as the difference between the value of the security expressed on the balance sheet at the current end-month (month for which data are reported) and the value of the security on the balance sheet of the previous end-month. If an MFI sold a security during the current month, it does not include the realised gain/loss arising from the sale in the adjustment if it uses the balance sheet method; but it includes this if it was using the transaction method. NCBs aggregate the adjustments reported by the MFIs and transmit the aggregated total to the ECB without any further change. If an MFI is recording accrued interest separately from the

negotiable instrument and including it under 'remaining assets', accrued interest is excluded from the sale value in the above calculation.

If MFIs report transactions, they compile sales at the value at which they recorded the security in the previous stock balance sheet, under the balance sheet method. MFIs value securities bought during the period and remaining in the balance sheet at the same value as they are recorded in the end-period stock. Securities purchased and sold again within the same period are not considered under the balance sheet method. Under the transaction method, MFIs consider all transactions and report them at market value.

Under both methods, MFIs exclude accrued interest from the sale value if this is recorded separately under 'remaining assets'. If it is included for the stocks, MFIs also include it for the transactions. NCBs calculate the adjustment to be reported to the ECB by obtaining the difference between stocks (present - previous month) minus the transactions reported by the MFI and also minus the exchange rate adjustment, if applicable. For this purpose, NCBs calculate the exchange rate adjustment using the same procedure as the ECB, to avoid distortions in the ECB's final calculation of the flow statistics.

If NCBs collect security-by-security data, these comprise either the revaluation data or the adjustments involved. The adjustments involve the same procedures described above but on a security-by-security basis at each NCB.

Under the balance sheet method, sales are recorded at the value at which they were recorded in the balance sheet, purchases are valued at the value at which they are recorded at the end-period stock, and intra-period operations are not considered.

Under the transaction method, all transactions are considered and recorded at market value.

### **Securities recorded at the minimum of market value/cost**

Definition: Holdings of securities are valued at the price paid except if the current market price (at the last trading day of the reference period) is lower. If the current market price is below the cost price, the market price is used.

If MFIs directly report the revaluation adjustment to NCBs, and the market price is, and remains, above the cost price, then the valuation of the security will remain unchanged during the reference period and no revaluation adjustment will be recorded under the balance sheet method. Changes in the value of the security recorded in the balance sheet will only take place if the market value falls below cost price and for as long as it remains below the cost price. The holding gain/loss that arises if the security is sold is not reported as a revaluation adjustment under the balance sheet method.

Under the transaction method, both not-realised and realised gains/losses are included.

If MFIs report transactions to NCBs, they compile sales at the value at which the security was recorded in the previous stock balance sheet, under the balance sheet method. MFIs value securities purchased and remaining in the balance sheet at the end of the period at the same value as they are recorded in the end-period balance sheet. Securities purchased and sold again within the same period are not considered.

Under the transaction method, MFIs consider all transactions and record them at market value.

Under both methods accrued interest is excluded from the sale value if it is reported separately under 'remaining assets'. Changes in the value of the security recorded in the balance sheet will only take place if the market value falls below cost price and for as long as it remains below the cost price.

NCBs calculate the adjustment to be reported to the ECB by obtaining the difference between stocks (present - previous month) minus the transactions reported by the MFI and minus the exchange rate adjustment, if applicable. For this purpose, NCBs calculate the exchange rate adjustment using the same procedure as the ECB, to avoid distortions in the ECB's final calculation of the transactions.

If NCBs collect security-by-security data, these comprise the revaluation data or the adjustments. This involves the same procedures described above but on a security-by-security basis at each NCB. Under the balance sheet method, MFIs record sales at the value they were recorded in the previous balance sheet and purchases at the same value they are recorded in the end-month balance sheet; intra-period operations are not considered. Under the transaction method, all transactions are considered and market value used.

### **Securities recorded at cost value**

Definition: Holdings of securities are recorded at purchase (cost) price, i.e. market price at the time they were bought, without any further change in value.

If MFIs directly report the revaluation adjustment, the adjustment is obtained as the difference between the sale value and the value of the security as contained in the balance sheet of the previous month. While the security remains in the balance sheet, it does not give rise to any change in value, as it remains recorded at purchase price. Under the balance sheet method, a revaluation takes place for the accrued interest only if that interest is not recorded separately from the negotiable instrument but indistinguishably included in it - even if the security remains in the balance sheet. The transaction method also includes the revaluations attached to the sales and intra-period operations. As in the cases above, if the adjustment is directly reported, NCBs merely aggregate the adjustments reported and send them to the ECB without further change.



If MFIs report transactions to NCBs, they compile sales at the value at which the security was recorded in the previous balance sheet, under the balance sheet method. They value securities purchased and remaining in the balance sheet at the end of the period at the same value as they are recorded in the end-period balance sheet. Securities purchased and sold again within the same period are not considered.

Under the transaction method, all transactions are considered and market value used.

Under both methods, accrued interest is excluded if it is reported separately under 'remaining assets'. NCBs calculate the adjustment to be reported to the ECB by obtaining the difference between stocks (present - previous month) minus the transactions reported by the MFI and minus the exchange rate adjustment if applicable. For this purpose NCBs should calculate the exchange rate adjustment using the same procedure as the ECB to avoid distortions in the ECB's final calculation of the transactions. A revaluation takes place only if accrued interest is not recorded separately from the negotiable instrument but indistinguishably included in it.

If NCBs collect security-by-security data, these comprise the revaluation data or the adjustments involved. Under the 'balance sheet method', MFIs record sales at the same value as the securities were recorded in the previous balance sheet, while they record purchases at the same value as in the end-month balance sheet; intra-period operations are not considered. Under the transaction method all operations are considered.

### **Securities recorded at book value (only applicable to shares)**

Definition: Holdings of securities are valued according to the net asset value of the issuing company. Net asset value is usually calculated as total assets minus intangible assets and minus liabilities towards third parties<sup>22</sup>.

If MFIs directly report the revaluation adjustment to NCBs, then under the balance sheet method they calculate the adjustment as the difference between the value of the security as expressed on the balance sheet of the current month (month for which data are reported) and the value of the security as contained in the balance sheet of the previous month. In principle, changes in value will only take place if the book value changes. Nevertheless, if provisions take place and are recorded on the asset side, MFIs treat this change in value in the same way as securities recorded at the minimum of market value/cost. If a security is traded during the current month, then under the balance sheet method amounts exchanged in the purchase/sale are not considered and no adjustment is reported; but under the transaction method this revaluation is considered.

If MFIs report transactions to NCBs, then under the balance sheet method they compile sales at the value at which the security was recorded in the previous stock balance sheet. They value securities purchased and remaining in the balance sheet at the end of the period at the same value as they are recorded in the end-period balance sheet. Securities purchased and sold again within the same period is not considered. Under the 'transaction method', all operations are considered at market value.

NCBs calculate the adjustment to be reported to the ECB by obtaining the difference between stocks (present - previous month) minus the transactions reported by the MFI and minus the exchange rate adjustment if applicable. For this purpose each NCB calculates the exchange rate adjustment using the same procedure as the ECB to avoid distortions in the ECB's final calculation of the transactions. In principle, changes in value will only take place if the book value changes. Nevertheless, if provisions take place and are recorded on the asset side, this change in value is treated in the same way as in the case of

<sup>22</sup> Book value can also be defined as 'value at which an asset is carried on a balance sheet'. However this definition is not useful in this context.

securities recorded at the minimum of market value/cost.

If NCBs collect security-by-security data, these data comprise the revaluation data or the adjustments involved. Under the balance sheet method, sales are recorded at the value at which they were recorded in the balance sheet, and intra-period operations are not considered. Under the transaction method, all operations are considered at market value.

### **Securities recorded at redemption value**

**Definition:** Holdings of securities are recorded as the amount that will be paid on redemption.

If MFIs directly report the revaluation adjustment to NCBs, they calculate it as the difference between the value of the security as expressed on the balance sheet of the current month (month for which data are reported) and the value of the security as contained in the balance sheet of the previous month. If the security is sold during the current month, then according to the balance sheet method the amount exchanged are not considered, the flow is recorded at redemption value, and no revaluation adjustment is reported. However, under the transaction method, the realised revaluation is taken into account. If accrued interest is recorded separately from the negotiable instrument and included under 'remaining assets', MFIs exclude it from the value of the sale in the above calculation. Under the balance sheet method, a revaluation could take place only if accrued interest is not recorded separately from the negotiable instrument but indistinguishably included in it.

If MFIs report transactions to NCBs, they compile sales at the value at which the security was recorded in the previous balance sheet. They value securities purchased and remaining in the balance sheet at the end of the period at the same value as they are recorded in the end-period balance sheet. Securities purchased and sold again within the same period are not considered. The NCB has to calculate the adjustment to be reported to

the ECB by calculating the difference between stocks (present - previous month) minus the transactions reported by the MFI and minus the exchange rate adjustment if applicable. For this purpose the NCB calculates the exchange rate adjustment using the same procedure as the ECB to avoid distortions in the ECB's final calculation of the transactions. If accrued interest is recorded separately from the negotiable instrument and included under 'remaining assets', it is excluded from the transaction. Under the balance sheet method, a revaluation could take place only if accrued interest is not recorded separately from the negotiable instrument but indistinguishably included in it.

If NCBs collect security-by-security data, these comprise either the revaluation data or the adjustments involved. In the first two cases the adjustments involves the same procedures as described above but on a security-by-security basis at the NCB. Sales are recorded at the value they were recorded in the balance sheet and intra-period operations are not considered.

## **II. Examples**

For the sake of simplification, assume a portfolio in an MFI composed of four euro-denominated securities with the same features (A, B, C, D). They were acquired and disposed of at the date and price described in the table below. The market value at the beginning and end of the last period is also shown.

The following section describes the valuation of the securities at end-January and end-February and what amounts MFIs report in each case, under the balance sheet method and the transaction method. Under the balance sheet method, only not-realised revaluations and their corresponding flows are considered in these examples for the calculation of adjustments (marked in bold in the tables), for the compilation of flow statistics; and flows for money and banking statistics are calculated by considering sales at the previous end-month stock value and

### Example

	15 Jan	31 Jan	10 Feb	20 Feb	28 Feb
Market price	100	99	101	102	103
Operations	Buy A	—	—	—	—
	Buy B	—	—	Sale B	—
			Buy C	Sale C	
			Buy D	—	—

purchases at the current end-month stock value. Under the transaction method, realised revaluations are also considered in the revaluation adjustment, with revaluation related to transactions at market price. The additional adjustments according to the transaction method are also shown in the examples (marked with brackets in the tables).

### Market value

Table 3 indicates outstanding amounts, flows and adjustments, security-by-security and total amounts.

The amount to be directly reported as an adjustment by the MFI is +4 according to the balance sheet method and +10 according to the transaction method. In that case the NCB simply transmits this figure to the ECB.

If transactions are reported, the NCB calculates the adjustment as difference in stocks minus transactions. Under the balance sheet method, taking into account that intra-period transactions are not considered (security C) and that sales are considered at previous stock value (security B at 99, instead of 102), then the flow is +4 (103-99). The revaluation adjustment is  $(206 - 198) - (+4) = +4$ . Under the transaction method, all transactions are considered and all sales purchases are recorded at market (transaction) value, producing a flow of -2 (-102 [Security B] +101-102 [security C] +101[security D]), and accordingly the adjustment is +10. If a security-by-security system is implemented, the MFI sends the NCB complete information as presented in the table above. The NCB calculates transactions by using the procedure in 1 or 2 and submits a +4 as in the cases above.

**Table 3**

### Market value

	Stock end-January	Transactions (at market price) transaction period			Flows in the balance sheet method	Revaluation adjustment	Stock end-February
		1	2	Net			
Security A	99					+4	103
Security B	99	-102		-102	-99	(+3)	
Security C		+101	-102	-1		(+1)	
Security D		+101		+101	+103	(+2)	103
Total	198	+100	-102	-2	+4	+4 + (+6)	206

### Lower of market/purchase

Table 4 indicates outstanding amounts, flows and adjustments, security-by-security and total amounts.

The amount to be directly reported as an adjustment by the MFI is +1 according to the balance sheet method and +5 according to the transaction method. The NCB simply transmits the relevant figure to the ECB.

Under the balance sheet method, the flow is +2 (101-99). Security C is not considered while the sale of security B is considered at the previous month stock value (99 instead of 102). The NCB calculates the adjustment as a difference in stocks minus flow, i.e. (201-198) - (+2) = +1. Under the transaction method, all

transactions are taken into account using transaction value and the flow is -2 as in the case above. The NCB calculates the adjustment as a difference in stocks minus flow, i.e. (201-198) - (-2) = +5.

If a security-by-security system is implemented, the MFI sends the NCB complete information as presented in the table above. The NCB calculates transactions by using the procedure in 1 or 2 and submits a +1 (balance sheet method) or +5 (transaction method) as in the cases above.

### Purchase price (cost value)

Table 5 indicates outstanding amounts, flows and adjustments, security-by-security and total amounts.

<b>Table 4</b>							
<b>Lower of market/purchase</b>							
	Stock end-January	Transactions (at market price) transaction method			Flow in the balance sheet method	Revaluation adjustment	Stock end-February
		1	2	Net			
Security A	99					+1	100
Security B	99	-102		-102	-99	(+3)	
Security C		+101	-102	-1		(+1)	
Security D		+101		+101	+101		101
Total	198	+100	-102	-2	+2	+1 + (+4)	201

<b>Table 5</b>							
<b>Purchase price (cost value)</b>							
	Stock end-January	Transactions (at market value) transaction method			Flow in the balance sheet	Revaluation adjustment method	Stock end-February
		1	2	Net			
Security A	100						100
Security B	100	-102		-102		(+2)	
Security C		+101	-102	-1		(+1)	
Security D		+101		+101			101
Total	200	+100	-102	-2	+1	0 + (+3)	201

Under the balance sheet method, the adjustment that the MFI reports directly is zero; under the transaction method it is +3. Using the balance sheet method, the amount to be reported as a flow for money and banking statistics is +1 (101-100). The NCB calculates the adjustment as the difference in stocks minus the transaction, i.e. (201-200) - (1) = 0. However, using the transaction method, all transactions are taken into account at market value, and the flow is -2, as in the first example. The NCB calculates the adjustment as the difference in stocks minus transactions, i.e. (201-200) - (-2) = +3. Under a security-by-security system, the MFI sends the NCB complete information as presented in the table above. The NCB calculates transactions by using the procedure in 1 or 2 and submits a zero (balance sheet method) or +3 (transaction method) as in the cases above.

#### Book value

This is a special case, where information on book value is not related to market price but to different criteria. In the example below, suppose that the market value is 100 in January and 101 in February. Table 6 indicates outstanding amounts, flows and adjustments, security-by-security and total amounts.

The amount to be directly reported as an adjustment by the MFI is +1 (balance sheet method) or +4 (transaction method). The NCB simply transmits the relevant figure to the ECB.

As in previous cases, the amount that the MFI reports as a transaction is +1 under the balance sheet method and -2 under the transaction method. The NCB calculates the adjustment as the difference in stocks minus the transaction, i.e. (202-200) - (+1) = +1 using the balance sheet method, and (202 - 200) - (-2) = +4 using the transaction method.

Under a security-by-security system, the MFI sends to the NCB complete information as presented in the table above. The NCB calculates transactions by using the procedure in 1 or 2 and submit a +1 (balance sheet method) or a +4 (transaction method) as in the cases above.

#### Redemption value

This case is the same as the historical value case. The only difference is in the initial valuation of the security, which is the redemption value instead of the issuing/market price at that time.

<b>Table 6</b>							
<b>Book value</b>							
	Stock end-January	Transactions (at market value)			Flow in the balance sheet	Revaluation adjustment method	Stock end-February
		1	2	Net			
Security A	100					+1	101
Security B	100	-102		-102	-100	(+2)	
Security C		+101	-102	-1		(+1)	
Security D		+101		+101	+101		101
Total	200	+100	-102	-2	+1	+1+ (+3)	202

## Index of terms

The page numbers that appear in bold refer to the location of definitions and important references. The references to the Technical Appendix only indicate the first or main occurrence of the term.

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