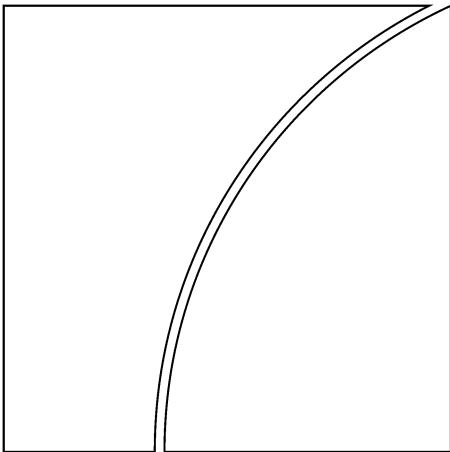




BANK FOR INTERNATIONAL SETTLEMENTS

Monetary and Economic  
Department

**Reporting guidelines for the  
turnover part of the triennial  
central bank survey of foreign  
exchange and derivatives market  
activity in April 2004**



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## A. Introduction

In the spring of 2003, the central banks of the Group of Ten (G-10) countries agreed to repeat in April and June 2004 the internationally coordinated survey of foreign exchange and derivatives markets, which was carried out last time in April and June 2001. Altogether, central banks and monetary authorities in approximately 50 countries have been asked to participate in the next survey. The objective of the reporting exercise is to obtain reasonably comprehensive and internationally consistent information on the size and structure of foreign exchange and over-the-counter (OTC) derivatives markets. The purpose of the statistics is to increase market transparency and thereby help central banks, other authorities and market participants to better monitor patterns of activity in the global financial system.

The reporting exercise will comprise the collection of market data on *turnover* in notional amounts of foreign exchange spot and foreign exchange and interest rate OTC derivatives transactions on the one hand, and notional amounts and gross market values *outstanding* of foreign exchange, interest rate, equity, commodity, credit and "other" OTC derivative instruments on the other.

These guidelines only deal with the *turnover* part of the survey as separate guidelines have been issued for the *amounts outstanding* part of the survey. In order to maintain consistency with the previous surveys, the *turnover* part of the survey will be conducted on a *locational* basis in April 2004 in a format similar to that of the previous surveys. Thus, the *turnover* part of the survey will include the same extended currency breakdown for spot transactions and OTC foreign exchange and interest rate derivatives as the previous survey. In order to limit the reporting burden, the *turnover* part of the survey only covers spot transactions and turnover in OTC foreign exchange and interest rate derivatives. No data are collected on turnover of exchange-traded derivative instruments, given that timely and comprehensive information on these products is available from commercial data sources.

However, in order to provide results that are analytically more meaningful and to improve the consistency and comparability of the data across countries, some of the definitions used in the survey have been clarified and revised. The main changes are the following:

- The reporting dealer concept has been clarified in order to better distinguish between interdealer and customer transactions.
- The definition of the location of deals has been clarified in order to provide consistent data that are comparable with previous surveys.
- The definition of related party (in-house) deals has been clarified in order to improve consistency of data reporting.

Reporting central banks will retain discretion to customise the list of currencies.

## B. Coverage

### 1. Risk categories

The survey collects data on foreign exchange transactions and OTC derivative products according to the following broad market classification:

- foreign exchange contracts (Tables A1 to A8)
- single-currency interest rate derivatives (Tables B1 and B2)

*Foreign exchange contracts.* Foreign exchange contracts cover both spot and all forward-type transactions.

*Single-currency interest rate derivatives.* Interest rate contracts are contracts related to an interest-bearing financial instrument whose cash flows are determined by referencing interest rates or another interest rate contract (e.g. an option on a futures contract to purchase a Treasury bill). Interest rate contracts include forward rate agreements, single-currency interest rate swaps and interest rate options, including caps, floors, collars and corridors.

This category is restricted to those deals where all the legs are exposed to only one currency's interest rate. Thus it excludes contracts involving the exchange of one or more foreign currencies (e.g. cross-currency swaps and currency options) and other contracts whose predominant risk characteristic is foreign exchange risk, which are to be reported as foreign exchange contracts.

## 2. Instrument types

The survey covers spot foreign exchange transactions and data on turnover of OTC derivatives. For OTC derivatives, in principle, the following instrument breakdown is requested:

- forwards
- swaps
- OTC options
  - sold
  - bought
- other products

*Spot transactions.* Spot transactions are single outright transactions involving the exchange of two currencies at a rate agreed on the date of the contract for value or delivery (cash settlement) within two business days. The spot legs of swaps should not be included among spot transactions but are to be reported as swap transactions even when they are due for settlement within two days (i.e. spot transactions should be exclusive of "tomorrow/next day" transactions).

*Forward contracts.* Forward contracts represent agreements for delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument or commodity at a specified price or yield. Forward contracts are generally not traded on organised exchanges and their contractual terms are not standardised. The reporting exercise should also include transactions where only the difference between the contracted forward outright rate and the prevailing spot rate is settled at maturity, such as non-deliverable forwards (i.e. forwards which do not require physical delivery of a non-convertible currency) and other contracts for differences.

*Swaps:* Swaps are transactions in which two parties agree to exchange payment streams based on a specified notional amount for a specified period. Forward-starting swap contracts should be reported as swaps.

For swaps executed on a forward/forward basis or as spot/forward transactions, both types of swaps should be reported only once.

*OTC options.* Option contracts convey either the right or the obligation, depending upon whether the reporting institution is the purchaser or the writer, respectively, to buy or sell a financial instrument or commodity at a specified price up to a specified future date. OTC option contracts include all option contracts not traded on an organised exchange. Swaptions, i.e. options to enter into a swap contract, and contracts known as caps, floors, collars, corridors and other plain vanilla contracts should be reported as options. Options such as call feature embedded in loans, securities and other on-balance-sheet assets do not fall within the scope of this survey and are therefore *not* to be reported unless they are a derivative instrument that must be treated separately under FAS 133 or IAS 39. These accounting standards require the bifurcation of derivatives that are not clearly and closely related to the host contract. Commitments to lend are not considered options for purposes of this reporting.

*Sold options.* Data are requested on the financial instruments or commodities that the reporting bank has, for compensation (such as a fee or premium), obligated itself to either purchase or sell under OTC option contracts. Also to be reported are data for written caps, floors and swaptions and for the *written portion only* of collars and corridors.

*Bought options.* Data are requested on the financial instruments or commodities for which the reporting bank has, for a fee or premium, acquired the right to either purchase or sell under OTC option contracts. Also to be reported are data for purchased caps, floors and swaptions and for the *purchased portion only* of collars and corridors.

*Other products.* Other derivative products are instruments where decomposition into individual plain vanilla instruments such as forwards, swaps or options is impractical or impossible. Examples of "other" products are swaps with underlying notional principal in one currency and fixed or floating

interest rate payments based on interest rates in currencies other than the notional (differential swaps or diff swaps) and instruments with leveraged payoffs and/or those whose notional principal varies as a function of interest rates, such as swaps based on LIBOR squared or index amortising rate swaps.

Further instrument definitions and reporting categorisations are provided in Section G below.

### 3. The types of data requested

To gauge the size of the foreign exchange and OTC derivatives markets, the survey will collect turnover data for both proprietary and commissioned business of the reporting institution. Commissioned business refers to reporting institutions' transactions as a result of deals as an agent or trustee in their own name, but on behalf of third parties, such as customers or other entities.

Turnover data provide a measure of market activity, and can also provide a rough proxy for market liquidity. Turnover is defined as the gross value of all new deals entered into during a given period, and is measured in terms of the nominal or notional amount of the contracts. In addition to spot foreign exchange transactions, turnover data are requested for foreign exchange and interest rate derivatives only.

No distinction should be made between sales and purchases (i.e. for example a purchase of \$5 million against sterling and a sale of \$7 million against sterling would amount to a gross turnover of \$12 million). Direct cross-currency transactions should be counted as single transactions; however, cross-currency transactions passing through a vehicle currency should be recorded as two separate deals against the vehicle currency (for example, take a bank that wants to sell dollars and obtain Swedish krona. If it sells \$ 5 million against euro first and then uses the euro to purchase krona, the reported turnover should be \$10 million). The gross amount of each transaction should be recorded once, and netting arrangements and offsets should be ignored. In this context, reporting institutions are reminded that CLS pay-in data is on a net basis, and so should not be used as a source for completing the survey, which is on a gross basis.

For turnover of transactions with variable nominal or notional principal amounts, the basis for reporting should be the nominal or notional principal amounts on the transaction date.

As in the previous triennial surveys of foreign exchange and derivatives market activity, turnover data should be collected over a one-month period in order to reduce the likelihood that very short-term variations in activity might distort the data. The data collected for the survey should reflect all transactions entered into during the calendar month of April 2004, regardless of whether delivery or settlement is made during that month.

### 4. Reporting basis

For turnover data, the basis for reporting should be, if possible, the location of the *sales desk* of any trade, even if deals entered into in different locations were booked in a central location. Thus, transactions concluded by offices located abroad should not be reported by the country of location of the head office, but by that of the office abroad (insofar as the latter is a reporting institution in one of the other reporting countries). Where no sales desk is involved in a deal, the *trading desk* should be used to determine the location of deals. Please note that the definition of the reporting basis has been clarified in order to provide more consistent data. Please also see the list of illustrative examples of how to report trades by location of deals in the Attachment to these guidelines.

Reporting institutions which are referred to as "reporting dealers" hereafter (see Section C for the definition of "reporting dealers") are asked to include trades with their own branches and subsidiaries and between affiliated firms in their reported aggregates, and to identify them as a separate "of which" memorandum item, under related party trades. However, trades that are conducted as back-to-back deals and trades to facilitate internal bookkeeping and internal risk management within a given institution, as well as trades between desks and offices of the reporting dealer located in the same country, should be excluded from the reporting. The reported trades with own branches and subsidiaries and between affiliated firms should be allocated to the category of reporting dealers or other financial institutions depending on whether the counterparty is a reporting dealer or not. Please note that the definition of so-called related party trades has been clarified as compared with the previous survey in order to improve consistency of data reporting.

Large financial groups operating in a range of centres should ensure that the agreed definitions of the guidelines are followed, as consistently as possible, by all their reporting units. The guiding principle should be that each trade is reported once, but only once.

Reporting dealers with global networks are allowed to report on behalf of their foreign branches or subsidiaries to the respective central bank, but only via the foreign office itself.

## 5. Currency of reporting and currency conversion

In general, transactions are to be reported in US dollar equivalents. Non-dollar amounts should be converted into US dollars using the exchange rates prevailing on the transaction date. However, if this is impractical or impossible, turnover data may be reported using average or end-of-period exchange rates.

When exchange rates other than those of the day of the transaction are used, the order of precedence of currencies' dollar exchange rates for purposes of conversion in deals which involve currencies other than the US dollar should be the same as listed in the foreign exchange turnover section of the survey forms (i.e. EUR, JPY, GBP, etc.). Reporting dealers who cannot provide data in terms of US dollars may alternatively report turnover data in the original currencies of transactions.

Transactions which involve the direct exchange of two currencies other than the US dollar should be measured by totalling the US dollar equivalent of only one side (preferably the purchase side) of the transaction.

## 6. Rounding

All data entered on the report form should be rounded to the nearest million US dollars (do not use decimals). Rounding should occur only when reporting the monthly totals for each category.

## 7. Reporting deadline

Reporting of data to national central banks should ideally be by end-May 2004, but in any event no later than 15 June.

## C. Counterparties

As in previous surveys, reporting dealers are requested to provide for each instrument in the foreign exchange and interest rate derivatives categories a breakdown of contracts by counterparty as follows: reporting dealers, other financial institutions and non-financial customers. In addition, reporting dealers are requested to provide separate information on local and cross-border transactions. The distinction between local and cross-border should be determined according to the location of the counterparty and not its nationality.

Please note that the definition of reporting dealers and other financial institutions has been changed as compared with the previous survey in order to better distinguish between interdealer and customer transactions as follows:

- Reporting dealers

Reporting dealers refer to financial institutions that actively participate in local and global foreign exchange and derivatives markets. These are mainly large commercial and investment banks and securities houses that (1) participate in the *interdealer* market and/or (2) have an active *business with large customers*, such as large corporate firms, governments and other non-reporting financial institutions; in other words, *reporting dealers* are institutions that are actively buying and selling currency and OTC derivatives both for their own account and/or in meeting customer demand. In practice, *reporting dealers* are often those institutions that actively or regularly deal through electronic platforms, such as EBS or Reuters dealing facilities. The category of *reporting dealers* also includes the branches and subsidiaries of institutions operating in multiple locations that do not have a trading

desk but do have a sales desk in those locations that conducts active business with large customers (the detailed list of names of reporting dealers will be provided in the Attachment to these guidelines).

- Other financial institutions

This category covers the financial institutions that are not classified as *reporting dealers*. Thus, it will mainly cover all other financial institutions, such as smaller commercial banks, investment banks and securities houses, and in addition mutual funds, pension funds, hedge funds, currency funds, money market funds, building societies, leasing companies, insurance companies, other financial subsidiaries of corporate firms and central banks.

- Non-financial customers

This category covers any counterparty other than those describe above, ie mainly non-financial *end-users*, such as corporates and governments.

*Elimination of double counting.* Double counting arises because transactions between two reporting entities are recorded by each of them, i.e. twice. In order to derive measures of overall market size, it is necessary to make adjustments for inter-dealer double counting. To adjust the data for double counting, reporters are asked to distinguish transactions contracted with "reporting dealers".

In order to allow the accurate elimination of double counting of inter-reporter transactions, reporting institutions should identify transactions with "reporting dealers" to the best of their ability. Two separate lists of "reporting dealers" for the turnover and amounts outstanding parts of the survey will be available to the reporting institutions for this purpose.

#### **D. Currency and other risk factor breakdowns**

In order to obtain consistent data on *turnover* in principal currency segments of the foreign exchange market, reporting institutions are asked to report turnover data on foreign exchange contracts in principle with the same breakdown by currency pairs as in the previous surveys. As a result, data should be provided separately for trading in domestic currency, US dollar and euro against each other and against the following individual currencies:

JPY: Japanese yen  
GBP: Pound sterling  
CHF: Swiss franc  
CAD: Canadian dollar  
AUD: Australian dollar  
Other currencies

Given the increasing interest in and importance of a number of other, in particular emerging market currencies, reporting dealers are requested as in the previous survey to provide supplementary information on total turnover for the following currencies, which also have to be included in the above columns for "other" currencies in the breakdown by currency pairs:

BRL: Brazilian real  
CNY: Chinese renmimbi  
CZK: Czech koruna  
DKK: Danish krone  
HKD: Hong Kong dollar  
HUF: Hungarian forint  
IDR: Indonesian rupiah  
INR: Indian rupee  
KRW: Korean won  
MXN: Mexican peso  
NOK: Norwegian krone  
NZD: New Zealand dollar  
PHP: Philippine peso

PLN: Polish zloty  
RUB: Russian rouble  
SEK: Swedish krona  
SGD: Singapore dollar  
THB: Thai baht  
TRL: Turkish lira  
TWD: new Taiwan dollar  
ZAR: South African rand

Participating central banks have discretion in adjusting the above list of additional currencies to their national needs.

For *turnover* of single-currency interest rate contracts the same expanded currency breakdown as in the previous survey is requested:

domestic currency, USD, EUR, JPY, GBP, CHF, CAD, AUD, DKK, HKD, IDR, MXN, NOK, NZD, SEK, SGD and THB.

Participating central banks have discretion in adjusting the above list of additional currencies to their national needs.

## **E. Maturities**

In the *turnover* part of the survey, transactions in outright forwards and foreign exchange swaps should be reported according to the following maturity bands:

- Seven days or less
- over seven days and up to one year
- over one year.

## **F. Categorisation of derivatives involving more than one risk category**

Individual derivatives transactions are to be categorised into two risk classes: foreign exchange and single-currency interest rate. In practice, however, individual derivatives transactions may straddle more than one risk category. In such cases, transactions that are simple combinations of exposures should be reported separately in terms of their individual components, as explained in Section G below. Transactions that cannot be readily broken down into separable risk components should be reported in only one risk category. The allocation of such products with multiple exposures should be determined by the underlying risk component that is most significant. However, if, for practical reasons, reporting institutions are in doubt about the correct classification of multi-exposure derivatives, they should allocate the deals according to the following order of precedence:

*Foreign exchange.* This category will include all derivatives transactions with exposure to more than one currency, be it in interest or exchange rates.

*Single-currency interest rate contracts.* This category will include derivatives transactions in which there is exposure to only one currency's interest rate. This category should include all fixed and/or floating single-currency interest rate contracts including forwards, swaps and options.

## G. Detailed instrument definitions and categorisation

In each risk category OTC derivatives are in principle to be broken down into three types of plain vanilla instrument (forwards, swaps and options). Plain vanilla instruments are those traded in generally liquid markets according to more or less standardised contracts and market conventions. If a transaction is composed of several plain vanilla components, each part should in principle be reported separately. Foreign exchange spot and OTC derivatives transactions should be defined and categorised as follows:

### 1. Foreign exchange transactions

Spot transaction:	Single outright transaction involving the exchange of two currencies at a rate agreed on the date of the contract for value or delivery (cash settlement) within two business days. The spot legs of swaps do not belong to spot transactions but are to be reported as swap transactions even when they are for settlement within two days (i.e. spot transactions should exclude “tomorrow/next day” transactions).
Outright forward:	Transaction involving the exchange of two currencies at a rate agreed on the date of the contract for value or delivery (cash settlement) at some time in the future (more than two business days later). This category also includes forward foreign exchange agreement transactions (FXA), non-deliverable forwards and other forward contracts for differences.
Foreign exchange swap:	Transaction, which involves the actual exchange of two currencies (principal amount only) on a specific date at a rate agreed at the time of the conclusion of the contract (the short leg), and a reverse exchange of the same two currencies at a date further in the future at a rate (generally different from the rate applied to the short leg) agreed at the time of the contract (the long leg). Both spot/forward and forward/forward swaps should be included. For <i>turnover</i> , only the forward leg should be reported as such. The spot leg should not be reported at all, i.e. neither as spot nor as foreign exchange swap transactions. Short-term swaps carried out as “tomorrow/next day” transactions should also be included in this category.
Currency swap:	Contract which commits two counterparties to exchange streams of interest payments in different currencies for an agreed period of time and to exchange principal amounts in different currencies at a pre-agreed exchange rate at maturity.
Currency option:	Option contract that gives the right to buy or sell a currency with another currency at a specified exchange rate during a specified period. This category also includes exotic foreign exchange options such as average rate options and barrier options.
Currency swaption:	OTC option to enter into a currency swap contract.
Currency warrant:	OTC option; long-dated (over one year) currency option.

Non-plain vanilla products should in principle be separated into their plain vanilla components. If this is not feasible, then the OTC options section takes precedence in the instrument classification, so that any foreign exchange derivative product with an embedded option is reported as an OTC option. All other OTC foreign exchange derivative products are reported in the forwards or swaps section.

## 2. Single-currency interest rate derivatives

Forward rate agreement (FRA):	Interest rate forward contract in which the rate to be paid or received on a specific obligation for a set period of time, beginning at some time in the future, is determined at contract initiation.
Interest rate swap:	Agreement to exchange periodic payments related to interest rates on a single currency; can be fixed for floating, or floating for floating based on different indices. This group includes those swaps whose notional principal is amortised according to a fixed schedule independent of interest rates.
Interest rate option:	Option contract that gives the right to pay or receive a specific interest rate on a predetermined principal for a set period of time.
Interest rate cap:	OTC option that pays the difference between a floating interest rate and the cap rate.
Interest rate floor:	OTC option that pays the difference between the floor rate and a floating interest rate.
Interest rate collar:	Combination of cap and floor.
Interest rate corridor:	1) A combination of two caps, one purchased by a borrower at a set strike and the other sold by the borrower at a higher strike to, in effect, offset part of the premium of the first cap. 2) A collar on a swap created with two swaptions - the structure and participation interval is determined by the strikes and types of the swaptions. 3) A digital knockout option with two barriers bracketing the current level of a long-term interest rate.
Interest rate swaption:	OTC option to enter into an interest rate swap contract, purchasing the right to pay or receive a certain fixed rate.
Interest rate warrant:	OTC option; long-dated (over one year) interest rate option.

Non-plain vanilla products should in principle be separated into their plain vanilla components. If this is not feasible, then the OTC options section takes precedence in the instrument classification, so that any interest rate derivative product with an embedded option is reported as an OTC option. All other OTC interest rate derivative products are reported in the forwards or swaps section.

### Illustrative examples of how to report trades by location of deals in the context of the next triennial survey

The basic principle for determining the location of trades is as follows: For turnover data, the basis for reporting should be, if possible, the location of the *sales desk* of any trade. Where no sales desk is involved in a deal, the *trading desk* should be used to determine the location of deals.

Consider the transactions carried out in three countries C, X and M by a banking group with its Head Office and *trading desk* located in country C. It has a sales team in its Head Office (*sales desk 1*) in country C, as well as a *sales desk 2* in country X. Both the offices in countries C & X are recognised as reporting dealers by the relevant central bank. The group has no representation in country M. Then the table below illustrates how trades should be reported:

Originator and function	Originator location	Counterparty location	Reported as	To Central Bank in
1. Sales desk 1	C	C	Local	C
2. Sales desk 1	C	M	Cross border	C
3. Sales desk 2	X	X	Local	X
4. Sales desk 2	X	M	Cross border	X
5. Trading desk	C	X	Cross border	C
6. Trading desk	C	C	Local	C
7. Trading desk	C	M	Cross border	C

*NB - Examples 5-7 do not involve a sales desk in the transaction.*

*It is assumed that sales desk 1 in country C will not deal with clients in country X (sales desk 2 would transact such business). Equally, it is assumed that sales desk 2 in country X will not deal with customers in country C (the Head Office - sales desk 1 - would be expected to transact such business). If such trades did occur, they would be reported as in Examples 2 & 4, respectively. But, it is possible that the trading desk in country C could deal directly with another trading desk located in country X, even though there is a sales desk located there (Example 5).*

Take the above example, but assume under this scenario that the institution also has a third *sales desk* in country Y, but is not recognised in that country as a reporting dealer. It is assumed that if the sales desk is not recognised as a reporting dealer, its levels of business will be relatively low and will not be material in terms of the global results. Hence, trades through that sales desk should not be reported, and for completeness the matrix can be extended as shown below:

Originator and function	Originator location	Counterparty location	Reported as	To Central Bank in
8. Sales desk 3	Y	Y	Not reported	
9. Sales desk 3	Y	M	Not reported	

- a) Other Points of clarification: Trades conducted by sales offices in countries that do not participate in the survey, or by offices that are not recognised as reporting dealers by their host central bank, should not be reported. (Examples 8 & 9)
- b) Any trades by trading desk C with third parties, to cover or offset positions arising from the activities of its sales desks, should be reported in the normal manner (Examples 5-7 above).
- c) A "leave" order is considered as a trade, regardless of location or timing of ultimate execution. The office accepting the order should report the trade, assuming that it is recognised by its host central bank as a reporting dealer (any of Examples 1-7).
- d) Both parties should report trades between two reporting dealers, as trades with other reporting dealers, regardless of whether they are considered as sales or trading desks (any of Examples 1-7). This is essential to permit accurate elimination of double counting during

the production of the final data. The only exception to this rule is internal trades between desks where, as noted in Section B.4 of the Guidelines, neither party should report the trade.