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Frequently asked questions and answers concerning the triennial FX and derivatives survey in 2010

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A Risk categories

1. Foreign exchange transactions: the reporting of gold.

Q: Is gold to be included in the reporting of foreign exchange transactions?

A: The answer is different for the turnover and amounts outstanding parts of the survey. In the turnover part, which cover foreign exchange and interest rate derivatives, transactions in gold should not be included. The turnover template does therefore not include any particular cell for the reporting of gold. In contrast, in the amounts outstanding part of the survey which covers not only foreign exchange and interest rate derivatives but also equity, commodity, credit and other derivatives, transactions in gold should be included and reported as a special category of the foreign exchange segment: transactions "including gold".

B Instruments

1. Reporting of currency options strategies

Q: We would like to know if the following way of reporting of currency options strategies is correct. For instance bank X has bought a straddle with a principal amount USD 10 million. This option trading strategy involves buying simultaneously a call and a put option (with the same expiration date). We think that this strategy should be reported by bank X as options bought – USD 20 million (one call and one put - each option with principal USD 10 million). Are we right?

A: This is the correct method. Buying a put (right to sell) should be considered buying an option. On the second page of the guidelines we write: "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." The same should also apply to the simultaneous purchase or sale of calls and puts in connection with all other types of options strategies, such as straddles, strangles and butterflies. Each portion of an option should be reported separately.

2. Does the unsettled short leg of a foreign exchange swap transaction need reporting?

Q: The answer is different for the turnover and amounts outstanding parts of the survey. In the turnover part of the survey, any swaps, be they either spot/forward or forward/forward, should only be reported once. The basis for reporting should be the long leg of the swap. Therefore, it does not matter in the turnover part of the survey whether the short leg has been settled or not because it should not be reported under any circumstances.

A: In the amounts outstanding part of the survey, the reporting requirements are different. If the unsettled short leg of a foreign exchange swap transaction is supposed to be settled within two business days, there is no need to report data on the short leg. However, if the settlement of the short leg is due more than two business days later, we suggest to regard this transaction as a forward/forward swap and to report each leg separately if it has not yet been settled on the reporting date.

3. How should currency swaptions and interest rate swaptions be categorised?

Q: Should they be listed as currency swaps and interest rate swaps respectively?

A: No, please categorise them as currency options and interest rate options respectively.

4. Reporting of in/out swaps between CLS members

Q: Should in/out swaps between CLS members be included in the reporting?

A: So-called in/out swaps are exclusively used between CLS members in order to reduce pay-ins when settling FX transactions via the CLS system. As they are only carried out for liquidity management purposes in order to amend the settlement mechanism, their inclusion in the triennial survey would artificially boost the reported data and make any comparison with previous surveys difficult. It is therefore suggested to exclude these swaps from the reporting for the triennial survey.

5. Reporting of “cash/same day” transactions.

Q: Should Spot include “cash/same day” transactions?

A: Cash/same day transactions are spot transactions with same-day settlement and should be reported as Spot in the turnover part of the triennial survey.

C Counterparties

1. Are the “lists of reporting dealers” for both parts of the survey prepared under the same basis?

Q: Are they comparable? Why the list for the amounts outstanding part does not include all institutions participating in the second part of the survey?

A: Both lists are comparable in the sense that they have to be used to identify counterparties and therefore both have the main purpose of avoiding double counting. However, the list of reporting dealers for the turnover part include more than one thousand participating institutions located in 54 different countries, while the list of the so-called “reporting dealers” for the amounts outstanding part contains only the head offices (around 50) of those institutions from the G-10 countries that participate in the Semi-annual OTC derivatives survey conducted by the BIS every six months. In order to ensure consistency with this Semi-annual exercise and to limit the reporting burden, it has been agreed to keep the list of reporting dealers used in the Amounts Outstanding part of the Triennial Survey identical to the one for the Semi-annual exercise. In practical terms for the Amounts outstanding part, this means that any transaction with a financial entity not included in the G-10 list will have to be classified as “with other financial institutions”. We acknowledge that this makes difficult to eliminate double-counting of transaction between two non-regular reporters, however it is believed that the amounts involved are relatively small or could be partially estimated.

2. Who should be considered as counterparty in case of prime brokerage?

Q: Prime brokerage is a service or practice that enables a bank's customer to conduct foreign exchange transactions (spot, forwards, and options) in the name of the bank -- the prime broker. The prime broker sets up an arrangement between the customer and several dealers that permits the customer to trade directly with the dealers in the name of the prime broker. These counterparty dealers recognize the prime broker as the counterparty in these trades, not the customer. The customer "gives up" the original transaction and the prime broker enters into equal and opposite trades with the customer and the counterparty dealer. The question therefore arises how these deals should be reported by the prime broker.

A: In reporting on both the turnover and amounts outstanding parts of the survey and assuming that both the prime broker and the counterparty dealer are reporting dealers, the prime broker and the counterparty dealer should each report the trade with each other. If the counterparty is not a reporting dealer the prime broker should report the transaction as a deal with other financial institutions or non-financial customers as appropriate. In addition, the prime broker should also report the trade with its customer as such. The counterparty dealer, however, is not required to report a trade with the prime broker's customer as he will likely not have the relevant information. It is acknowledged that the recommended reporting procedure might lead to an overstatement of inter-dealer transactions in cases where the counterparty is a reporting dealer himself, but this approach seems to be the only practical way of reporting such transactions.

3. Who should be considered as counterparty in case of deals that are settled through central counterparties (CCPs)?

Q: We have recently been made aware that OTC derivatives transactions might be settled through clearing houses whereby the clearing house enters into separate contractual arrangements with both counterparties, in effect becoming buyer to one and seller to the other counterparty. This could have the consequence that a deal between two reporting dealers would be in fact converted into two separate transactions between a dealer on the one side and an "other financial institution", i.e. the clearing house on the other side. If it were reported as such, it would not only result in an overstatement of transactions but also in a substantial shift in the classification of deals by counterparties. The question arises which is the appropriate way of reporting such transactions when considering the objectives of the triennial survey?

A: To answer this question we need to distinguish between transactions on credit default swaps (CDSs), requested only in the amounts outstanding part of the survey, and transactions on any other derivative instrument.

1) Credit default swaps: Transactions between reporting dealers and CCPs should be allocated to the category “central counterparties”. This additional counterparty breakdown was introduced in the 2010 triennial survey in order to assess the relative importance of the CCPs and is only relevant for the transactions on credit default swaps requested in the amounts outstanding part of the survey.

2) Any other instrument: In any other case, it should be borne in mind that the main focus of the triennial survey is to collect information on the size and structure of OTC derivatives markets, in particular to know which type of counterparties are making active use of derivative instruments. For this reason, it is recommended that deals which at a later stage are transferred to a clearing house for settlement be always allocated to the original counterparty of the deal. Apart from the transactions on credit default swaps (see point 1 above), this principle applies to both the reporting for the turnover and amounts outstanding parts of the triennial survey. It is recognized that this recommended reporting procedure might contradict with the accounting practices of reporting agents when reporting data for the amounts outstanding part of the triennial survey. If it is too burdensome to reallocate outstanding deals with clearing houses to the original counterparties, reporting agents may report these transactions as deals outstanding with other reporting dealers on the assumption that the bulk of these deals were originally initiated with other reporting dealers.

D Currencies in the turnover template

1. Reporting of the columns “Other” and “residual” in the turnover part of the survey.

Q: What is the difference between currency column “other” and currency column “residual” in the turnover reporting template? How should totals and grand total be calculated?

A: Column “other” in the turnover template is to report the second currency of those currency pairs involving the local currency, the US dollar, the Euro or the Japanese Yen in one side of the deal, and a currency that is not explicitly listed in tables A1, A2, A3, A5, A6 or A7 in the other side. In contrast, column “residual” is to report those transactions which do not involve the local currency, the US dollar, the Euro or the Japanese Yen in any side of the contract. Totals should be calculated as the sum of listed currencies plus the column other. Grand total should be calculated as the sum of totals plus the column residual.

2. Table A4 and how it relates to the columns “other” and “residual” in reporting tables A1, A2 and A3.

Q: How should tables A4 and A8 in the turnover template be completed? How should transactions reported in columns “other” and “residual” in tables A1 A2 and A3 be reported in table A4?

A: Table A4 in the turnover template, should provide additional information on those currencies included in columns “other” and “residual” in tables A1, A2 ,A3. It is important to keep in mind that columns "other" and "residual" should be treated differently when being transferred to table A4.

For deals reported under column "other", given that the first currency of the transaction is already identified (as local currency, USD, Euro or JPY) only the second currency should be reported in table A4, i.e. the same amount reported in column "other" should be distributed in table A4. In contrast, for deals reported under column "residual", since both currencies are unknown, transactions should be allocated to two currencies in table A4. In other words, although the deal is reported once in column "residual", it should be reported twice in table A4, making up 200% of the deal. For example, in a Chilean peso/ Brazilian real transaction of US$ 100 reported by Argentina: US$ 100 should be reported in column “residual” and at the same time US$100 should be reported under CLP and another US$ 100 under BRL (making up 200% of the deal in table A4).

For those cases where neither currency involved in the deal is listed in table A4, the transaction should be included twice under column "other" of table A4 (making up 200% of the deal in the same column).

The same principle is applicable to tables A5, A6, A7 and A8.

E Maturities

1. How should the maturity of outright forward and foreign exchange swap transactions be calculated?

Q: We understand that for outright forward contracts the maturity of transaction in the turnover part of the triennial survey is the difference between the delivery date and the date of the initiation of the contract. We would like to make sure if for foreign exchange swaps the maturity is also the difference between the settlement date of the long leg and the date of the initiation of the contract or is it the difference between the date of settlement of the long leg and the date of settlement of the short leg of contract?

A: An FX swap is typically an outright forward plus a spot transaction (settled within t+2). Given that we are attempting to measure both outright forwards and foreign exchange swaps in terms of comparable maturities, it is preferable to measure the maturity of the foreign exchange swap on the same basis as that of outright forwards, i.e. the difference between the due date of the long leg and the date of the initiation of contract in the turnover part of the triennial survey and the difference between the due date of the long leg and the reporting date in the amounts outstanding part of the triennial survey.

2. How should the maturity of a forward/forward swaps be determined?

Q: How does the reporting differ for the turnover and amounts outstanding parts of the triennial survey?

A: As stated on page 2 of the guidelines for the turnover part of the survey, forward/forward swaps should only be reported once as one single deal. As the principle of maturity classification in this part of the survey is the original maturity of each deal, the maturity of these swaps should be determined as the difference between the date of initiation of the deal and the far-end or due date of the second leg of the deal.

As stated on page 2 of the guidelines for the amounts outstanding part of the triennial survey, for swaps executed on a forward/forward basis both forward parts of the transaction should be reported separately. As the principle of maturity classification in this part of the survey is the remaining maturity of each deal, the maturity of each leg (in case the first leg has not come due) should be determined as the difference between the reporting dates and the settlement or due dates, respectively, of the near- and far-end legs of the swap.

3. Should we calculate maturity in business days or calendar days?

Q: Does "seven days" mean seven business days or a calendar week?

A: A calendar week.

F Additional information requirements

1. Execution methods table.

Q: What is meant by “single bank” proprietary platforms for data on the role of electronic-based systems?

A: Single bank proprietary platforms are developed by a bank internally for both in-house use and normally available to other banks and non-bank clients on a 'white label'/prime brokerage basis. They differ from multi-bank dealing systems in that the primary liquidity provider is only that single bank. Reporters should include all prime brokerage business under the single-bank platform category. In contrast, multi-bank dealing systems may be thought of as 'Multi-dealer' systems in that various banks provide liquidity to the system.