D. Other reporting conventions: locational and consolidated statistics

D.1. Currency conversion

The BIS uses the US dollar as the numeraire in its international banking statistics. All positions in other currencies must therefore be converted into US dollars by the banks themselves, or by the reporting central bank. For the sake of consistency and comparability, positions should be converted into US dollars at the exchange rate prevailing at the end of the relevant quarter.

D.2. Valuation principles

For the purpose of measuring banking business in a consistent and comparable way across reporting countries, assets and liabilities reported to the BIS should be valued as far as possible according to uniform valuation principles. In most cases, claims should be valued at market prices. The exception to this is the case of loans, which should be valued in accordance with the reporting country's accounting standards and in principle at nominal (or contractual) values. For liabilities, nominal (or contractual) values rather than market values are generally considered more appropriate. It is recognised that national accounting rules may require different valuation methods for particular positions.

Positions should in principle be reported on a gross basis, and not net of liabilities. In other words, claims and liabilities vis-à-vis the same counterparty should be reported separately and not netted against each other. An exception is made for some types of derivatives instruments.

Reporting of financial claims and liabilities resulting from derivatives instruments should in principle be consistent with the "replacement value", when compliant with accounting standards used to produce the balance sheet.[37] All derivatives instruments with a positive market value should be treated as claims and those with a negative market value as liabilities. The currency denomination should be the currency in which the derivatives are to be redeemed or settled (see the box "Reporting of derivatives by currency"). Reporting of "net positions" is allowed only if the national accounting practice allows netting of multiple matching swaps (by currency and maturity) with the same counterparty that are covered under a legally enforceable netting agreement.

For swaps, the *net* market/fair value of each contract, where here the "net" refers to the net present value of the "two legs" of a swap, should be reported. Financial derivatives other than swaps should be reported at *gross* market value.

The notional value of future commitments (eg contingent liabilities in the form of protection sold or guarantees extended) arising from derivatives instruments should not be reported in the LBS, but should be reported separately in the CBS/UR, at notional value (ie the maximum possible exposure).

In the specific case of short sales of securities, the reporting of financial assets can be made after netting with short selling positions, in accordance with the BPM6 methodology (see question 8 in Section E.1 and question 5 in Section in E.2.1). For some positions, this reporting practice can lead to negative outstanding assets.

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[37] "Replacement value" is also referred as net mark-to-market value. It can be either a gross positive, meaning the reporting bank expects to receive payment, or a gross negative, meaning the bank expects to make a payment.

Reporting of derivatives by currency

For derivatives instruments, the currency of denomination should be the one in which the net payment is to be settled. For example, consider an FX swap transaction in which USD 140 million is exchanged for EUR 100 million and the exchange rate is USD/EUR 1.5 on the reporting date. This gives a gross market value (net of "two legs") of USD –10 million (ie a liability of USD 10 million). How should the swap be reported with a currency breakdown in the locational banking statistics?

Method A (*not* recommended): Report –140 as a USD-denominated liability and +150 as a EUR-denominated liability.

Method B (*not* recommended): Report 140 as a USD-denominated claim and 150 as a EUR-denominated liability.

Method C (recommended): Report 10 as a EUR-denominated liability (net of the "two legs").

D.3. Arrears, provisions and write-offs

In order to obtain an accurate measure of bank lending, the following reporting procedures are recommended:

- *Arrears of interest and principal*. Until they are written off, arrears should be included in the claims and liabilities under the respective instruments, whenever it is possible.
- *Provisions*. Financial claims against which provisions have been made are normally reported as claims at their gross value. That is, provisions should not be netted from the claim positions.
- *Write-offs of claims and debt forgiveness*. Although an asset which has been written off may still be a legally enforceable claim, it is recommended that items which have been written off be excluded from the reported data. This is because the writing-off process can be seen as reflecting the judgment that the current or prospective value of the claim is zero.

D.4. Breaks-in-series

A break-in-series refers to a change in reporting methodology or reporting population in a given period. Pre- and post-break values (based on the previous and the new reporting methodology) are provided for this period. The value for an observation may change from one quarter to the next because of a change in the reporting methodology or a change in the reporting population. For example, a change in the country, sector or maturity breakdown, a change in the number of reporting institutions, or a change in accounting methodology, will have an impact on positions. In such cases, relevant observations should be transmitted for the same reporting date with two values, one for pre-break data (ie prior to the change in methodology) and one for post-break data (ie after the change in methodology). This is crucial for the correct calculation of changes in stocks (see Graph D1).

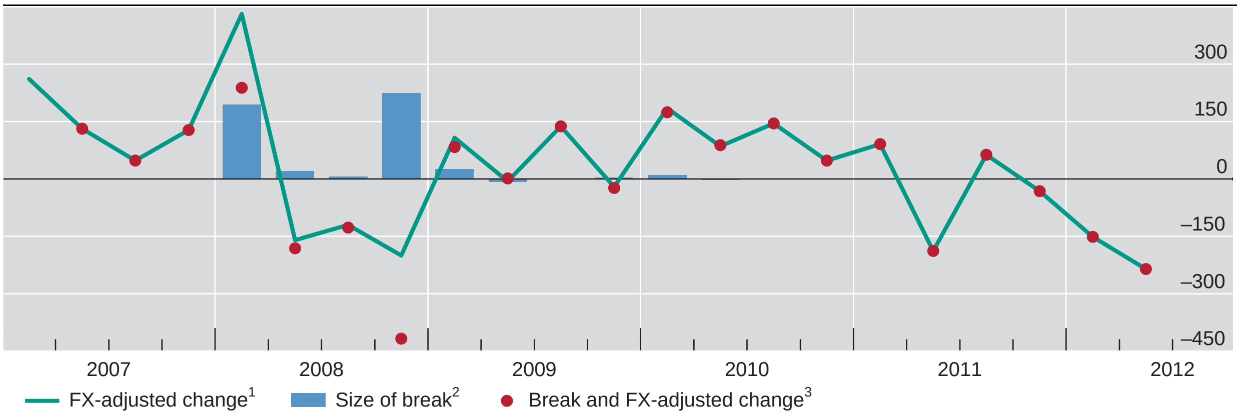
Pre- and post-break values become a permanent feature of the data for the relevant quarter. Therefore, if there is a need to revise the data of the affected quarter, even many periods later, the revised data must be reported with pre- and post-break values for each break-in-series observation being revised. Details on historical breaks by quarter and reporting country are available on the BIS website (www.bis.org/statistics/bankstats.htm).

D.5. Confidentiality

Observation-level confidentiality is reported for all BIS international banking statistics. The reporting countries provide, for each observation, one of the three confidentiality attributes: "Free", for publication; "Restricted", not for publication, for internal use of reporting central banks only; or "Confidential", for internal use at the BIS only.

Break-in-series and exchange rate adjustments

Claims of banks resident in the United States, in billions of US dollars



[1] Calculated by converting the relevant stocks on total cross-border claims into their original currency using end-of-period exchange rates and subsequently converting the changes in stocks into US dollar amounts using period average rates. [2] The break is the difference in amount outstanding (reported in USD dollar terms) between the observation collected under the previous-period methodology and the same observation under current (post-break) methodology. [3] Adjusted changes in stocks are calculated using the stocks of the current quarter in "previous-period methodology" and the stocks of the preceding quarter in "current-period (post-break) methodology". If no break occurs in a given period, the value stored under "previous-period methodology" is the same as that stored under "current-period methodology".

Source: Locational banking statistics by residence

If no confidentiality attribute is reported for a given observation, the BIS will set the default value as "Restricted". The attribute for observations not reported but estimated, aggregated or otherwise derived by the BIS is defined by the BIS, based on agreements with central banks and on business rules. The detailed technical guidelines/instructions are made available to reporting countries by the BIS.