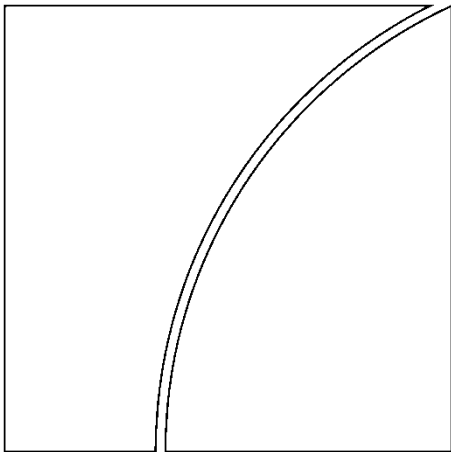




BANK FOR INTERNATIONAL SETTLEMENTS



Triennial Central Bank Survey of Foreign Exchange and OTC Derivatives Market Activity

Reporting guidelines for amounts
outstanding at end-June 2016 for
non-regular reporting institutions

Monetary and Economic Department

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A. Introduction

The eleventh internationally coordinated survey of foreign exchange and derivatives markets will take place in 2016. The aim is to obtain reasonably comprehensive and internationally consistent information on the size, structure and activity of foreign exchange and over-the-counter (OTC) derivatives markets. The purpose of the statistics is to increase market transparency and help central banks, other authorities and market participants to better monitor patterns of activity in the global financial system.

As in previous Triennial Surveys, in 2016 the reporting exercise will be organised in two parts: (i) collection of market data on turnover in notional amounts of foreign exchange transactions and single-currency interest rate derivatives transactions in April 2016 and (ii) collection of data on notional amounts and gross market values outstanding of foreign exchange, interest rate, equity, commodity, credit and “other” OTC derivative instruments in June 2016. These guidelines deal only with the *amounts outstanding* part of the survey; guidelines for the *turnover* part of the survey are available on the BIS website (www.bis.org/statistics/triennialrep/guidelines_cbanks.htm).

In order to create a benchmark for the collection of regular semiannual OTC derivatives market data, the format of the *amounts outstanding* part of the survey corresponds to the format of the semiannual OTC derivatives survey coordinated by the BIS. The data on derivatives outstanding will be collected on a *consolidated* basis at end-June 2016. In order to limit the reporting burden, only aggregate data will be requested on market values and no data are collected on amounts outstanding of exchange-traded derivative instruments, given that timely and comprehensive information on these products is available from commercial data sources.

The reporting population for the *amounts outstanding* part of the survey consists of two groups:

- Regular reporting dealers to the semiannual OTC derivatives market statistics, whose reported semiannual data for June 2016 will provide the main input to the outstanding positions captured in the survey.
- Non-regular reporting institutions, which participate only in the Triennial Survey, whose positions will be captured through the simplified reporting triennial template provided with this document for amounts outstanding.

Each central bank or monetary authority summarises the positions reported by reporting institutions whose head offices are located in its jurisdiction and transmits one set (in the case of jurisdictions where there is no regular reporting dealers to the semiannual OTC derivatives market statistics) or two sets (in the case of jurisdictions having both reporting dealers to the semiannual OTC derivatives market statistics and non-regular reporting institutions participating only in the Triennial Survey) of aggregated data to the BIS.

The structure of the amounts outstanding part of the Survey remains broadly unchanged from the 2013 Survey. The only change is to separately identify deals with central counterparties (CCPs) as an “of which” subsector under “other financial institutions” for the foreign exchange, interest rate, equity, credit and other derivatives.

B. Coverage

1. Risk categories

The survey collects data on OTC derivative products according to the following broad risk classification:

- foreign exchange and gold contracts (Tables O1 and O4)
- single-currency interest rate derivatives (Tables O2 and O4)
- equity, commodity, credit and “other” derivatives (Tables O3 and O4)
- credit default swaps (Table O5)

The amount of information to be provided on each of these risk categories reflects their relative importance for central banks. A greater degree of detail is therefore requested for foreign exchange and interest rate contracts.

| | |
|---|--|
| Foreign exchange and gold contracts | These contracts include those involving the exchange of currencies in the forward market. They therefore cover outright forwards, foreign exchange swaps, currency swaps (including cross-currency interest rate swaps) and currency options. Foreign exchange contracts include all deals involving exposure to more than one currency, whether in interest rates or exchange rates. Gold contracts include all deals involving exposure to that commodity. |
| 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 (eg 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 currencies (eg 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. |

| | |
|---|---|
| Equity, commodity, credit and “other” derivatives | <p>Equity derivative contracts are contracts that have a return, or a portion of their return, linked to the price of a particular equity or to an index of equity prices.</p> <p>Commodity contracts are contracts that have a return, or a portion of their return, linked to the price of, or to a price index of, a commodity such as a precious metal (other than gold), petroleum, lumber or agricultural products.</p> <p>Please note that contracts that have a return, or a portion of their return, linked to the price of precious metals (other than gold) should be reported separately from other commodity-linked contracts. Precious metals (other than gold) include silver, platinum, iridium, rhodium, ruthenium, osmium and palladium.</p> <p>Credit derivatives are contracts in which the payout is linked primarily to some measure of the creditworthiness of a particular reference credit. The contracts specify an exchange of payments in which at least one of the two legs is determined by the performance of the reference credit. Payouts can be triggered by a number of events, including a default, a rating downgrade or a stipulated change in the credit spread of the reference asset. Typical credit derivative instruments are CDS, credit-spread forwards and options, credit event or default swaps and total return swaps.</p> <p>“Other” derivatives are any other derivative contracts, which do not involve an exposure to foreign exchange, interest rate, equity, commodity or credit risk. “Other” derivatives include, for example, inflation-indexed derivatives, volatility derivatives, dividend derivatives, weather derivatives, property derivatives or freight derivatives as well as any derivatives with non-standard underlying which are developed for particular clients.</p> |
| Credit default swaps | <p>Credit default swaps (CDS) are bilateral financial contracts in which the protection buyer (risk-shedder) pays a fixed periodic fee in return for a contingent payment by the protection seller (risk-taker), triggered by a credit event on a reference entity. Credit events, which are specified in CDS contracts, may include bankruptcy, default or restructuring.</p> |

Table 1

2. Instrument types

For OTC derivatives, the following instrument breakdown is requested: forwards, swaps, OTC options sold, OTC options bought and other products.

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 (ie forwards which do not require physical delivery of a non-convertible currency) and other contracts for differences.

Those forward contracts are to be reported that have been entered into by the reporting bank and are outstanding (ie open contracts) as at the reporting date. Contracts are outstanding (ie open) until they have been cancelled by acquisition or delivery of the underlying financial instrument or commodity, or settled in cash. Such contracts can only be terminated, other than by receipt of the underlying asset, by agreement of both buyer and seller.

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, both forward parts of the transaction should be reported separately. In contrast, in the case of foreign exchange swaps, which are concluded as spot/forward transactions, only the unsettled forward part of the deal is to be reported.

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, ie options to enter into a swap contract, and contracts known as caps, floors, collars and corridors should be reported as options. Options such as call features 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.

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

3. Types of data requested

To gauge the size of the OTC derivatives markets, the survey will collect the data on outstandings in both nominal amounts and gross market values. Taken together, these measures provide a more meaningful indication of market size than either measure in isolation.

Nominal or notional amounts outstanding provide not only a measure of market size, but also a rough proxy of the potential transfer of price risk in derivatives markets. They are also comparable with measures of market size in related underlying cash markets and shed useful light on the relative size and growth of cash and derivatives markets.

Nominal or notional amounts outstanding are defined as the gross nominal or notional value of all deals concluded and not yet settled at the reporting date. The data should in principle be reported on a consolidated basis, ie inter-company deals should always be excluded, even if they relate to transactions with affiliates which are unconsolidated, based on ownership criteria, but are in effect controlled by the reporting institution. For contracts with *variable nominal or notional principal amounts*, the basis for reporting should be the nominal or notional principal amounts at the time of reporting.

The notional amount or par value to be reported for a derivative contract with a multiplier component is the contract effective notional amount or par value. For example, a swap contract with a stated notional amount of USD 1,000,000 whose terms call for quarterly settlement of the difference between 5% and LIBOR multiplied by 10 has an effective notional amount of USD 10,000,000.

Netting of contracts is not permitted for the purposes of this item. No netting, therefore, for: (1) obligations of the reporting bank to purchase from third parties against the bank's obligations to sell to third parties; (2) written options against purchased options; and (3) contracts subject to bilateral netting agreements.

Swaps: The notional amount of a swap is the underlying principal amount upon which the exchange of interest, foreign exchange or other income or expense is based.

Equity and commodity-linked contracts: The contract amount to be reported for an equity or commodity contract is the quantity, eg number of units, of the commodity or equity product contracted for purchase or sale multiplied by the contract price of a unit.

The notional amount to be reported for commodity contracts with multiple exchanges of principal is the contractual amount multiplied by the number of remaining exchanges of principal in the contract.

Credit derivatives: The contract amount to be reported for credit derivatives is the nominal value of the relevant reference credit. Credit-linked notes do not fall within the scope of this survey and are therefore *not* to be reported.

Another measure of the size of derivatives markets is provided by *outstandings in terms of gross market values*. Gross market values also supply information about the scale of gross transfer of price risks in the derivatives markets. Furthermore, gross market value at current market prices provides a measure of derivatives market size and economic significance that is readily comparable across markets and products.

Gross market values are defined as the sums of the absolute values of all open contracts, with either positive or negative mark-to-market value, evaluated at market prices prevailing on the last business day of June 2016. Replacement values stand for the price to be received or paid if the instrument were sold in the market at the time of reporting. Market values are the amounts at which a contract could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted price is available for a contract, the number of trading units should be multiplied by that market price. If a quoted market price is not available, the reporting institution should provide its best estimate of market value based on the quoted price of a similar contract or on valuation techniques such as discounted cash flows.

Gross market value is defined as the value of all open contracts before counterparty or any other netting. Thus, the gross positive market value of a firm's outstanding contracts is the sum of all positive replacement values of a firm's contracts. Similarly, the gross negative market value is the sum of all negative values of a firm's contracts.

The term gross is used to indicate that contracts with positive and negative replacement values with the same counterparty should not be netted. Nor should the sums of positive and negative contract values be set off against each other within a risk category such as foreign exchange, interest rate, equity, commodity, credit and "other".

In the case of forwards and swaps, the market (or replacement) value of outstanding contracts to which the reporter is a counterparty, is either positive, zero or negative, depending on how underlying prices have moved since the contract initiation. Annex 1 provides examples of how to calculate the market value of forwards and swaps.

Unlike forwards or swaps, OTC options have a market value at initiation, which is equal to the premium paid to the writer of the option. Throughout their life, option contracts can only have a positive market value for the buyer and a negative market value for the seller. If a quoted market price is available for a contract, the market value to be reported for that contract is the product of the number of trading units of the contract multiplied by that market price. If a quoted market price is not available, the market value of an outstanding option contract at the time of reporting can be determined on the basis of secondary market prices for options with the same strike prices and remaining maturities as the options being valued, or by using option pricing models. In an option pricing model, current quotes of forward prices for the underlying (spot prices for American options) and the implied volatility and

market interest rate relevant to the option maturity would normally be used to calculate the “market” values.

Gross positive market value would be the sum of the current market values of all purchased options, and gross negative market value would be the sum of the values of sold options. Options sold and purchased with the same counterparty should not be netted against each other, nor should offsetting bought and sold options on the same underlying.

All data on amounts outstanding should be reported as of the last business day of June 2016.

4. Consolidated reporting

The reporting of amounts outstanding data should be on a *consolidated basis*. This means that data from all branches and (majority-owned) subsidiaries worldwide of a given institution must be added together and reported by the parent institution only to the official monetary authority in the country where the parent institution has its head office. Deals between affiliates (ie branches and subsidiaries) of the same institution must not be reported.

Definitional rules regarding consolidation are left to national discretion. As far as possible, these definitions should be identical to those used in the *Common Minimum Information Framework* recommended by the Basel Committee on Banking Supervision and IOSCO.

5. Novation and central clearing

Positions should be reported on a post-novation basis. Novation refers to a process in which a bilateral contract between two market participants is replaced by two bilateral contracts between each of the market participants and a central counterparty (CCP). For example, a single derivatives contract between counterparties A and B is replaced by one contract between A and the CCP and a second contract between B and the CCP.

Contracts post-novation should be captured in the amounts outstanding part of the survey when reporting dealers clear through CCPs (the contract between A and CCP as well as the contract between B and CCP in the example above). The original transaction (the contract between A and B in the example above) should not be reported. In addition, positions of reporting dealers with CCPs should be recorded separately as an “of which” subsector under “other financial institutions”. A non-exhaustive list of CCPs is provided in Annex 2.

6. Currency of reporting and currency conversion

In general, amounts outstanding are to be reported in millions of US dollar equivalents. Contracts that are denominated in non-dollar currencies should be converted into US dollars by using the end-of-period exchange rates at the reporting date. Reporting institutions may use their internal (bookkeeping) exchange rates to convert amounts outstanding booked in non-dollar currencies, as long as these exchange rates correspond closely to market rates.

7. Rounding

When computing the statistics, reporting dealers as well as central banks are requested to avoid rounding and keep a minimum of six decimal positions (ie double-precision as computer number format) at each level of the process.

Example. The number USD 77,327,560 would be recorded as USD 77.327560 million in the reporting templates.

8. Reporting deadline

Reporting institutions are expected to submit their data to central banks no later than **31 August 2016**. Central banks should transmit the data to the BIS shortly afterwards, and at the latest by 30 September 2016.

C. Counterparties

As in previous surveys, reporting institutions are requested to provide for each instrument in the foreign exchange, interest rate, equity, credit and “other” derivatives risk categories a breakdown of contracts by counterparty as follows: reporting dealers, other financial institutions and non-financial customers. In addition, central counterparties should be identified separately as an “of which” subsector under “other financial institutions”.

Required counterparty breakdown is as follows:

| | |
|------------------------------|--|
| Reporting dealers | <p>“Reporting dealers” are defined as those institutions whose head office participates in the BIS’s semiannual OTC derivatives market statistics and located in one of the 13 reporting countries.¹ In addition, reporting dealers include all branches and subsidiaries of these entities worldwide; in the survey, “reporting dealers” will mainly be commercial and investment banks and securities houses, including their branches and subsidiaries and other entities which are active dealers.</p> <p>The reasons for not including <i>all</i> participating institutions in the category of “reporting dealers” in the survey are to ensure consistency with the BIS’s semiannual derivatives market statistics. While this approach will make it difficult to accurately eliminate double-counting of trades between non-regular reporters (see below), the amounts involved are believed to be small and can be estimated.</p> |
| Other financial institutions | <p>These cover all categories of financial institutions <i>not</i> classified as “reporting dealers”, including banks, CCPs, funds and non-bank financial institutions which may be considered as financial end users (eg mutual funds, pension funds, hedge funds, currency funds, money market funds, building societies, leasing companies, insurance companies, central banks).</p> |
| of which CCPs | <p>A central counterparty is an entity that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer (see Annex 2 for a non-exhaustive list of CCPs).</p> |
| Non-financial customers | <p>Any counterparty other than those described above, ie mainly non-financial end users, such as corporations, high net worth individuals, and non-financial government entities.</p> |

Table 2

Elimination of double-counting: Double-counting arises because transactions between two reporting entities are recorded by each of them, ie twice. In order to derive measures of overall market size, it is necessary to make adjustments for inter-dealer double-counting.

¹ Australia, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States.

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 are available to the reporting institutions for this purpose.

D. Currency and other risk factor breakdowns

For amounts outstanding of foreign exchange and interest rate contracts, the following currencies are subject to compulsory reporting:

USD, EUR, JPY, GBP, CHF, CAD, SEK and other currencies.

In addition, reporting institutions are asked to identify individual other currencies if they have a material amount of outstanding contracts in those currencies, when for example a notional amount outstanding in a currency for a given instrument is greater than 2% of the total notional amount outstanding for that instrument. Participating central banks have discretion in defining a “material” amount for reporting of individual other currencies.

Amounts outstanding of *foreign exchange contracts* are to be broken down on a single-currency basis. This means that the notional amount outstanding and the gross positive or negative market value of each contract will be reported twice, according to the currencies making up the two “legs” of the contract. The total of the amounts reported for individual currencies will thus be 200% of total amounts outstanding. For example, a reporting institution entering into a forward contract to purchase US dollars in exchange for euro with a notional principal amount of USD 100 million would report 100 million in the USD column and another 100 million in the EUR column.

Equity-linked contracts must be categorised according to whether they are related to US, Japanese, European (excluding countries in eastern Europe), Latin American, other Asian or other countries’ equity and stock indices. The contracts should be allocated according to the nationality of the issuer of the underlying rather than to the country where the instrument is being traded. For commodity, credit and “other” derivatives, no further breakdown by risk factor is required.

E. Maturities

For amounts outstanding of foreign exchange (including gold), interest rate and equity-linked contracts, a breakdown is requested by remaining maturity according to the following bands:

- one year or less
- over one year and up to five years
- over five years.

In the case of transactions where the first leg has not come due, the remaining maturity of each leg should be determined as the difference between the reporting date and the settlement or due date, respectively, of the near and far-end legs of the transaction.

F. Categorisation of derivatives involving more than one risk category

Individual derivatives transactions are to be categorised into six risk classes: foreign exchange, single-currency interest rate, equity, commodity, credit and “other”. 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:

Commodities: All derivatives transactions involving a commodity or commodity index exposure, whether or not they involve a joint exposure in commodities and any other risk category (ie foreign exchange, interest rate or equity), should be reported in this category.

Equities: With the exception of contracts with a joint exposure to commodities and equities, which are to be reported as commodities, all derivatives transactions with a link to the performance of equities or equity indices should be reported in the equity category. That is, equity deals with exposure to foreign exchange or interest rates should be included in this category. Quanto-type instruments are an example of deals with joint equity and foreign currency exposures that would be reported in this category.

Foreign exchange: This category will include all derivatives transactions (with the exception of those already reported in the commodity or equity categories) 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 rates. 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. OTC foreign exchange derivatives outstanding should be defined and categorised as follows:

1. Foreign exchange transactions

Foreign exchange transactions covered in the survey are defined and categorised as follows:

| | |
|-------------------|---|
| Outright forwards | 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. Outright forwards are generally not traded on organised exchanges and their contractual terms are not standardised. |
|-------------------|---|

| | |
|------------------------|---|
| Foreign exchange swaps | Transactions involving 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. Short-term swaps such as overnight swaps and spot next swaps, as well as other “tomorrow/next day” transactions should also be included in this category. |
| Currency swaps | Contract which commits two counterparties to exchange streams of interest payments in different currencies for an agreed period of time and/or to exchange principal amounts in different currencies at a pre-agreed exchange rate at maturity. |
| OTC options | 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. OTC options include: <ul style="list-style-type: none"> • Currency swaption: OTC option to enter into a currency swap contract. • Currency warrant: Long-dated (over one year) OTC currency option. |
| 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). |
| Table 3 | |

Foreign exchange 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.

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 agreements (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. |
| Swaps | 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. |

| | |
|----------------|--|
| OTC options | <p>Option contract that gives the right to pay or receive a specific interest rate on a predetermined principal for a set period of time.</p> <p>OTC options include:</p> <ul style="list-style-type: none"> • 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. |
| Other products | <p>Other derivative products are instruments where decomposition into individual plain vanilla instruments such as FRAs, swaps or options is impractical or impossible. An example of “other” products are 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.</p> |
| Table 4 | |

Single-currency interest rate derivatives are in principle to be broken down into three types of plain vanilla instrument (FRA, 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.

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 FRA or swaps section.

3. Equity and stock index derivatives

| | |
|-------------|---|
| Forwards | Contract to exchange an equity or equity basket at a set price at a future date. |
| Swaps | Contract in which one or both payments are linked to the performance of equities or an equity index (eg S&P 500). It involves the exchange of one equity or equity index return for another, or the exchange of an equity or equity index return for a floating or fixed interest rate. |
| OTC options | <p>Option contract that gives the right to deliver or receive a specific equity or equity basket at an agreed price at an agreed time in the future.</p> <p>OTC options include equity warrant, defined as long-dated (over one year) equity OTC option.</p> |
| Table 5 | |

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 equity derivative product with an embedded option is reported as an OTC option. All other OTC equity derivative products are reported in the forwards and swaps section.

4. Commodity derivatives

| | |
|-------------|---|
| Forwards | Forward contract to exchange a commodity or commodity index at a set price at a future date. |
| Swaps | Contract with one or both payments linked to the performance of a commodity price or a commodity index. It involves the exchange of the return on one commodity or commodity index for another, and the exchange of a commodity or commodity index for a floating or fixed interest rate. |
| OTC options | Option contract that gives the right to deliver or receive a specific commodity or commodity index at an agreed price at a set date in the future. |
| Table 6 | |

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 commodity derivative product with an embedded option is reported as an OTC option. All other OTC commodity derivative products are reported in the forwards and swaps section.

5. Credit derivatives

| | |
|-------------|--|
| Forwards | Agreement to pay or receive at some time in the future a cash payment that depends on the difference between a spread (ie the difference in yields between two financial assets) agreed at contract initiation and that prevailing at settlement. |
| Swaps | Credit derivatives swaps include: <ul style="list-style-type: none"> • Credit event/default swap: contract that commits two counterparties to exchange a periodic fee for a payment contingent on a default event or any other agreed change in the credit quality of a reference asset for an agreed period of time. Please note that additional information on CDS is requested. See further details in Section H. • Total return swap: contract that commits two counterparties to exchange the total economic performance of a financial asset (defined to include all interest payments, fees and any capital appreciation or depreciation) in exchange for a floating rate payout based on a reference index (usually LIBOR plus a spread reflecting the creditworthiness of the counterparty as well as the credit rating and liquidity of the underlying asset). |
| OTC options | OTC options include credit spread option, defined as an option contract that gives the right to receive a cash payment if a spread, ie the difference in yields between two financial assets, widens beyond an agreed strike level during a specific period. |
| Table 7 | |

H. Credit default swaps

1. Instrument types

The following instrument breakdown is requested:

- Single-name instruments
- Multi-name instruments

Single-name CDS: Credit derivatives where the reference entity is a single named entity, eg a corporation.

Multi-name CDS: CDS contracts referencing more than one name as in portfolio or basket credit default swaps or credit default swap indices.

A basket credit default swap is a CDS where the credit event is the default of some combination of the credits in a specified basket of credits. In the particular case of an nth-to-default basket, it is the nth credit in the basket of reference credits whose default triggers payments. Another common form of multi-name CDS is that of the “tranching” credit default swap. Variations operate under specifically tailored loss limits – these may include a “first loss” tranching CDS, a “mezzanine” tranching CDS, and a senior (also known as a “super-senior”) tranching CDS.

Exclusions: Credit-linked notes, options on CDS and total return swaps are not to be included as credit default swaps.

2. Types of data requested

In order to gauge the size and exposures stemming from CDS activities, the reporting breakdown covers the following types of data for both proprietary and commissioned business of the reporting institution:

- Outstanding notional amounts bought and sold.
- Gross market values, positive and negative.

Data reported should reflect both the trading and the banking book for reporters, where this distinction is relevant. Data reported should reflect positions as on the last business day of June 2016.

(a) ***Nominal or notional amounts outstanding bought and sold***

Notional amounts outstanding provide a measure of market size. They are comparable with measures of market size in related underlying cash markets and shed useful light on the relative size and growth of CDS markets.

Nominal or notional amounts outstanding are defined as the gross nominal or notional value of all deals concluded and not yet settled at the reporting date.

No netting of contracts is permitted for this item. It follows that:

1. protection sold by the reporting bank to third parties should not be netted against the reporting bank’s protection bought from third parties, and

2. contracts subject to bilateral netting agreements should not be netted for reporting purposes.

The notional value to be reported is that of the maximum default protection² specified in the contract itself and not the par value of financial instruments intended to be delivered.

(b) Gross market values

Reporting institutions are requested to provide information on gross positive and gross negative mark-to-market values arising from outstanding CDS contracts. For transactions linked to synthetic portfolio products such as CDS for a super-senior tranche, it might be difficult to calculate a market value. In these cases, the data might be partly estimated and should be reported on a best-efforts basis.

Collateralisation is not taken into account for the computation of notional amounts outstanding and gross market values.

3. Counterparties

Reporting institutions are requested to provide an extended counterparty breakdown for CDS

- Reporting dealers (see Section C).
- Other financial institutions: (see Section C). The other financial institutions should be further broken down as follows:
 - Central counterparties (CCPs, see Section C).
 - Banks and securities firms.
 - Insurance firms (including pension funds³), reinsurance and financial guarantee firms.
 - Special purpose vehicles, special purpose corporations and special purpose entities:⁴ legal entities that are established for the sole purpose of carrying out single transactions, such as in the context of asset securitisation through the issuance of asset-backed and mortgage-backed securities. These entities often lack any own employees.
 - Hedge funds: mainly unregulated investment funds that typically hold long or short positions in commodity and financial instruments in many different markets according to a predetermined investment strategy and that may be highly leveraged. In the absence of a comprehensive definition of hedge funds in these guidelines, reporting institutions may use the internal

² Please see also the 2003 ISDA Credit Derivatives Definitions, according to which the notional amount should be determined in case of cash settlements (Section 7.3) and physical settlements (Section 8.5) as follows: For cash settlements, the amount specified as such in the related confirmation or, if an amount is not specified, the greater of (a) (i) the Floating Rate Payer Calculation Amount multiplied by (ii) the Reference Price minus the final price and (b) zero. For physical settlements, the Floating Rate Payer Calculation Amount multiplied by the Reference Price.

³ As a general rule pension funds should be included under insurance firms. However, if they do not offer savings schemes involving an element of risk-sharing linked to life expectancy, they are more akin to mutual funds and should be included with the latter under “other” financial institutions. It is recognised that the recommended latter distinction might only be possible on a best-efforts basis.

⁴ See detailed definition in Annex 3.

definitions of hedge funds that are set by their own credit department for reporting purposes.

- Other financial institutions: these will cover all remaining financial institutions that are not listed above. In practice, they will mainly include mutual funds.
- *Non-financial customers*: all counterparties other than those described above.

For further details and definitions of these categories see Section C.

4. Sector

A breakdown is requested by economic sector of the obligor of the underlying reference obligation (reference entity) as follows:

- *Sovereigns*: in principle, only entities of a country's central, state or local government, excluding publicly owned firms and international organisations.
- *Non-sovereigns*: All entities not considered sovereigns, including publicly owned firms and international organisations.

Annex 1: Example of how to calculate the market value of forwards and swaps

For a forward, a contract to purchase USD against EUR at a forward rate of 1.00 when initiated has a positive market value if the EUR/USD forward rate at the time of reporting for the same settlement date is lower than 1.00. It has a negative market value if the forward rate at the time of reporting is higher than 1.00 and it has a zero market value if the forward rate at the time of reporting is still 1.00. As explained in Section D above, each positive or negative market value would have to be reported twice, consistent with the currencies making up the two “legs” of the contract.

For swaps that involve multiple (and sometimes two-way) payments, the market value is the net present value of the payments to be exchanged between the counterparties between the reporting date and the contract maturity, where the discount factor to be applied would normally reflect the market interest rate for the period of the contract’s remaining maturity. Thus, a fixed/floating swap which, at the interest rates prevailing at the reporting date, involves net annual receipts by the reporter of eg 2% of the notional principal amount for the next three years has a positive marked-to-market (or replacement) value equal to the sum of three net payments (each 2% of the notional amount), discounted by the market interest rate prevailing at the reporting date.

If the contract is not in the reporter’s favour (ie the reporter would have to make net annual payments), the contract has a negative net present value. Again, the “gross” in the sums of market (or replacement) values refers to the fact that all positive and negative-value contracts are to be summed separately; that is, gain and loss contracts with the same counterparty should not be netted before being summed, nor should eg positive-value swaps in a given currency be offset by negative-value contracts in the same currency.

For cross-currency swap contracts, there is usually an exchange of principals at maturity. The present value of all cash flows, including principal amounts, should be included in the computation of the gross market values. In a cross-currency swap, principal amounts are exchanged at maturity at the same exchange rate as they were swapped when the contract was launched. So, if the market exchange rate moves by the maturity date, the contracting parties will get back more/less units of their “home” currency. This would affect the market value of the contract at any point in time, which is what should be recorded.

For example, Macquarie enters a cross-currency swap with JP Morgan. On the signing date, Mac borrows USD 103 from JPM and lends AUD 100 to JPM (so the exchange rate in the CC swap is fixed at 1 AUD = 1.03 USD). If, at the reporting date, the forward exchange rate for the maturity date of the swap is 1 AUD = 1.05 USD, then Mac can expect to profit on the exchange of principals at maturity. In particular, Mac will return USD 103 to JPM and receive AUD 100 from JPM, but the AUD100 from JPM will be worth USD 105, so that the market value of the contract at the reporting date is USD 2 (ignoring any contribution from the interest payments, which should also be included if these have a non-zero market value). If Mac and JPM have also traded another derivative, eg an equity total return swap (TRS) that has a market value of +USD 1 to JPM (and hence –USD 1 to Mac), then we just need Mac to report a gross positive market value of USD 2 and a gross negative market value of USD 1.

Annex 2: Central counterparties (CCPs)

This list is not exhaustive.

| Name | Identification Code (LEI) | Country |
|--|---------------------------|---------|
| Argentina Clearing S.A. | | AR |
| Asigna Compensacion y Liquidacion | | MX |
| ASX Clear (Futures) Pty Limited | 549300ZD7BBOVZVHK49 | AU |
| ASX Clear Pty Limited | 549300JQL1BXTGCCGP11 | AU |
| Athens Exchange Clearing House (Athex Clear) | 213800IW53U9JMJ4QR40 | GR |
| BME Clearing | 5299009QA8BBE2O0B349 | ES |
| BMF Bovespa SA | | BR |
| Bursa Malaysia Derivatives Clearing Berhad (BMDC) | | MY |
| Canadian Derivatives Clearing Corporation | | CA |
| Cassa di Compensazione e Garanzia S.p.A. (CCG) | 8156006407E264D2C725 | IT |
| CCP Austria Abwicklungsstelle für Börsengeschäfte GmbH (CCP.A) | 29900QF6QY66QULSI15 | AT |
| CDS Clearing and Depository Services Inc. | | CA |
| Central Depository (Pte) Limited | 549300CMH3J8ASUM8N29 | SG |
| Chicago Mercantile Exchange Inc | | US |
| CME Clearing Europe Ltd | 6SI7IOVECKBHVYBTB459 | GB |
| Deutsche Börse | | DE |
| DTCC | | |
| Dubai Commodities Clearing Corporation DMCC | | AE |
| Eurex | | |
| Eurex Clearing AG | 529900LN3S50JPU47S06 | DE |
| Euroclear | | |
| European Central Counterparty N.V. | 724500937F740MHCX307 | NL |
| European Central Counterparty (EuroCCP) Ltd | | GB |
| Fixed Income Clearing Corporation | | US |
| Holland Clearing House B.V. | 245003TLNC4R9XFDX32 | NL |
| Hong Kong Exchanges and Clearing | | HK |
| HKFE Clearing Corporation Limited | 213800WPJUJBAXI5162 | HK |
| Hong Kong Securities Clearing Company Limited | 213800NM8ZN1F16ARD34 | HK |
| ICBPI | | IT |
| ICE Clear Canada Inc. | | CA |
| ICE Clear Credit LLC | | US |
| ICE Clear Europe Ltd | | GB |
| ICE Clear Singapore | | SG |

| Name | Identification Code (LEI) | Country |
|---|----------------------------------|----------------|
| ICE Clear U.S. Inc. | | US |
| Indian Clearing Corporation limited | | IN |
| Italian Stock Exchange | | IT |
| Japan Commodity Clearing House Co. | | JP |
| Japan Securities Clearing Corporation | 549300JHM7D8P3TS4S86 | JP |
| JSE Clear (Pty) Ltd (previously the Safex Clearing Company (Pty) Ltd) | | ZA |
| KDPW_CCP | 2594000K576D5CQXI987 | PL |
| Keler CCP | 529900MHIW6Z8OTOAH28 | HU |
| Korea Exchange Inc. | | KR |
| Korea Securities Depository | | KR |
| LCH.Clearnet LLC | | US |
| LCH.Clearnet Ltd | F226TOH6YD6XJB17KS62 | GB |
| LCH.Clearnet SA | R1IO4YJ0079SMWVCHB58 | FR |
| LME Clear Ltd | 213800L8AQD59D3JRW81 | GB |
| MAOF Clearing House Limited | | IL |
| MCX-SX Clearing Corporation Ltd. | | IN |
| Minneapolis Grain Exchange Inc. | | US |
| NASDAQ Dubai Limited | | AE |
| Nasdaq OMX Clearing AB | 54930002A8LR1AAUCU78 | SE |
| National Securities Clearing Corporation | | US |
| National Securities Clearing Corporation Limited | | IN |
| Natural Gas Exchange Inc. | | CA |
| New Zealand Clearing and Depository Ltd. | | NZ |
| NSE India | | IN |
| OMIClear - C.C., S.A. | 5299001PSXO7X2JX4W10 | PT |
| Options Clearing Corp | | US |
| Osaka Securities Exchange | | JP |
| OTC Clearing Hong Kong Limited | 213800CKBBZUAHHARH83 | HK |
| Singapore Exchange Derivatives Clearing | 549300ZLWT3FK3F0FW61 | SG |
| SIX x-clear Ltd. | | CH |
| Taiwan Futures Exchange Corporation | | TW |
| Tel-Aviv Stock Exchange Clearing House Limited | | IL |
| The Central Depository (Pte) Limited | | SG |
| The Clearing Corporation of India Ltd. | | IN |
| The Options Clearing Corporation | | US |
| The SEHK Options Clearing House Limited | 213800NAOHHKRD9IHE35 | HK |

| Name | Identification Code (LEI) | Country |
|--------------------------------|---------------------------|---------|
| TMX Group | | CA |
| Tokyo Exchange Grp | | JP |
| Tokyo Financial Exchange, Inc. | | JP |

Annex 3: Definition of technical terms

1. Financial Vehicle Corporations (FVC) & Special Purpose Entities (SPE)

US FED definition: A trust or other legal vehicle that meets *all* of the following conditions: a) it is distinct legal entity and b) its permitted activities are significantly limited and are entirely specified in the legal documents establishing the SPE.

ECB definition: “Financial vehicle corporations” (FVCs) are undertakings whose principal activity meets both of the following criteria: (1) to carry out securitisation transactions and which are insulated from the risk of bankruptcy or any other default of the originator; (2) to issue securities, securitisation fund units, other debt instruments and/or financial derivatives and/or to legally or economically own assets underlying the issue of securities, securitisation fund units, other debt instruments and/ or financial derivatives that are offered for sale to the public or sold on the basis of private placements

2. Assets Backed Securities (ABS)

ABS are debt instruments that are backed by a pool of ringfenced financial assets (fixed or revolving), that convert into cash within a finite time period. In addition, rights or other assets may exist that ensure the servicing or timely distribution of proceeds to the holders of the security. Generally, asset-backed securities are issued by a specially created investment vehicle which has acquired the pool of financial assets from the originator/seller. In this regard, payments on the asset-backed securities depend primarily on the cash flows generated by the assets in the underlying pool and other rights designed to assure timely payment, such as liquidity facilities, guarantees or other features generally known as credit enhancements.