

In case of discrepancies between the French and the English text,
the French text shall prevail

Report S 1.4

«Information on valuation effects on the balance sheet of credit institutions»

Banque centrale du Luxembourg

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1 Introduction

1.1 Reporting population

The ECB regulation ECB/2008/32 concerning the consolidated balance sheet of the monetary financial institutions sector foresees the possibility to exempt small institutions from reporting obligations. The derogations shall be granted according to the credit institution's share in the aggregated balance sheet total of all resident credit institutions.

The selection of credit institutions subject to reporting requirements is done by the BCL that will grant derogations as long as the coverage of data collection will exceed 95% of the aggregated balance sheet total of all resident credit institutions.

Thus, report S 1.4 «Information on valuation effects on the balance sheet of credit institutions» has to be provided by a sample of credit institutions that is revised on an annual basis. The credit institutions that will have to submit report S 1.4 will be informed by mail.

1.2 Frequency and reporting deadlines

Report S 1.4 must be provided to BCL on a monthly basis no later than 10 working days after the end of the reference period.

The exact reporting dates for report S 1.4 are published on the website of the BCL (<http://www.bcl.lu>).

2 Flow statistics

2.1 Basic principles

The European Central Bank (ECB) compiles statistics on outstanding amounts at month-end as well as on transactions realised during the month in order to satisfy its analytical and research needs on developments in the field of monetary and financial statistics.

Financial transactions are identified as the difference between stock positions at end-month reporting dates, from which the effect of changes that arise due to influences other than transactions is removed. Effects that do not result from transactions take mainly three forms:

- exchange rate changes that may impact on the accounting value of assets and liabilities that are not denominated in the accounting currency
- price changes that may impact on the accounting value of assets and liabilities
- write offs / write downs of credits that only concern the credit items

The identification of these effects can be made by Banque centrale du Luxembourg (BCL) for most of the balance sheet items.

1. On the basis of information provided within the framework of the security by security reporting, BCL is in a position to estimate transactions for the securities portfolio.

The following balance sheet items are concerned:

- 1-030 «Securities other than shares»
- 1-050 «Shares»
- 1-060 «Participating interests»
- 2-030 «Debt securities issued»

2. In addition, for those items of the balance sheet for which adjustments that do not result from transactions are mainly, if not exclusively, due to exchange rate changes, BCL can estimate transactions by eliminating variations due to exchange rate changes.

The following balance sheet items are concerned:

- 1-020 «Credits»
- 1-021 «Consumer credits»
- 1-022 «Credits for house purchase»

- 1-023 «Other credits»
- 1-027 «Syndicated credits»
- 1-070 «Fixed assets»
- 1-080 «Remaining assets»
- 2-110 «Remaining liabilities»

3. However, BCL does not have the necessary basic information to estimate transactions and/or to neutralise the effects of adjustments that do not result from transactions for the following balance sheet items.

3.1. write-downs / write-offs of credits reported under the following items:

- 1-020 «Credits»
- 1-021 «Consumer credits»
- 1-022 «Credits for house purchase»
- 1-023 «Other credits»
- 1-027 «Syndicated credits»

3.2. valuation of instruments reported under the following items:

- 1-070 «Fixed assets»
- 1-090 «Financial derivatives»
- 2-120 «Financial derivatives»

In order to satisfy this need, report S 1.4 «Information on valuation effects on the balance sheet of credit institutions» must provide the information that BCL needs to compile transactions.

2.2 Objective of report S 1.4 «Information on valuation effects on the balance sheet of credit institutions»

The sole objective of data gathering on the basis of report S 1.4 «Information on valuation effects on the balance sheet of credit institutions» is to provide information on value adjustments for the three aforementioned balance sheet items.

Indeed, it should be mentioned that the information requested on the basis of report S 1.4 «Information on valuation effects on the balance sheet of credit institutions» does not concern all the items of the S 1.1 «Monthly statistical balance sheet of credit institutions» but exclusively those that present a particular interest for the analysis of monetary aggregates and their counterparts.

The following simplified example for item 1-070 «Fixed assets» demonstrates the objective of this report. It should however be noted that the reasoning also applies to financial derivatives.

	Stock as at 31.01.2010	Stock as at 28.02.2010
Fixed assets	100	200

Real flows for February 2002 are compiled on the basis of the following formula:

$$\text{Stock as at 28.02.2010} - \text{Stock as at 31.01.2010}$$

which corresponds to:

$$200 - 100 = 100$$

Hence, the real variation in stocks during February 2010 is 100.

This approach presents several drawbacks. Indeed, even without any transaction at all, the total amount of fixed assets may change simply because there had been a change of the

value of the assets and/or because the currency of these assets they are denominated in, had been subject to foreign exchange rate change. Hence, the variation of stocks between 31 January 2010 and 28 February 2010 is explained as follows:

$$\text{Stock as at 31.01.2010} + \text{Net transactions} + \text{Net valuation effects} = \text{Stock as at 28.02.2010}$$

Therefore, the compilation of flows must be made on the basis of the following formula:

$$\text{Net transactions} = \text{Stock as at 28.02.2010} - \text{Stock as at 31.01.2010} - \text{Net valuation effects}$$

Hence, BCL is not in a position to properly execute the compilation of flows by simple difference between stocks and it is therefore important that the concerned credit institution provides the BCL with information on the valuation effects that arose during the reference period.

It is precisely this valuation effect that the statistical report S 1.4 «Information on valuation effects on the balance sheet of credit institutions» is supposed to gather.

Referring once more our simplified example for item 1-070 «Fixed assets»

	Stock as at 31.01.2010	Stock as at 28.02.2010
Fixed assets	100	200

In this example the variation of 100 of the amount of fixed assets is broken down as follows:

- 50, hence the net balance of purchases and sales
- 50, hence the net valuation effect

Consequently, for February 2010 the amount to be reported on report S 1.4 is 50. This information allows to properly calculate the real flow:

$$200 - 100 - 50 = 50$$

The actual flow obtained in this example is 50 and not being overestimated at 100 as it would have been the case in the absence of additional information, gathered on the S1.4 reporting basis.

In order to calculate the real flows as precisely as possible, the effect of net valuation reported in report S 1.4 must provide, on an aggregate basis:

- information on the effects of write-downs / write-offs of credits reported under the following items:
 - 1-020 «Credits»
 - 1-021 «Consumer credits»
 - 1-022 «Credits for house purchase»
 - 1-023 «Other credits»
 - 1-027 «Syndicated credits»

- information on the impact of market valuation on assets and liabilities and on the impact of exchange rate variations on assets and liabilities for the following items:
 - 1-070 «Fixed assets»
 - 1-090 «Financial derivatives»
 - 2-120 «Financial derivatives»

3 Reporting of operations

As mentioned earlier, information on valuation effects must only be reported for the following items of the statistical balance sheet of credit institutions that are not due to transactions:

- 1-020 «Credits»
- 1-021 «Consumer credits»
- 1-022 «Credits for house purchase»
- 1-023 «Other credits»
- 1-027 «Syndicated credits»
- 1-070 «Fixed assets»
- 1-090 «Financial derivatives»
- 2-120 «Financial derivatives»

These adjustments are broken down into two types:

- write-downs / write-offs of credits that concern only the credit items:
 - 1-020 «Credits»
 - 1-021 «Consumer credits»
 - 1-022 «Credits for house purchase»
 - 1-023 «Other credits»
 - 1-027 «Syndicated credits»
- valuation of financial derivatives and fixed assets
 - 1-070 «Fixed assets»
 - 1-090 «Financial derivatives»
 - 2-120 «Financial derivatives»

3.1 Write- offs / write- downs of credits

The adjustment in respect of the write-offs/write-downs of loans is reported to allow the compilation of financial transactions from the stocks reported in two consecutive reporting periods. Thus, the method used to compile adjustments depends on the valuation method applied to the item «Credits» that are recorded either on a gross basis or net of value adjustments.

In this context, it should be noted that according to the instructions applicable for the statistical reporting, credit institutions must report credits at their nominal value under assets

whereas their corresponding value adjustments (item 2-090) have to be recorded separately under liabilities on the balance sheet.

If credits are recorded at their nominal respectively gross value under assets of the balance sheet, an adjustment must be reported only when the credit is subject to a write-down / write-off, or in other terms, credit institutions must report an adjustment in the event a credit is written-down or written-off.

In contrast to this, value adjustments are not to be reported since they haven't any impact on the item «Credits» reported under the assets, but on value adjustments (2-090).

The adjustment reported by credit institutions must include the write-down / write-off that has been made regardless of the fact whether a value adjustment has been made previously or not.

Write-offs/write-downs of loans recognised at the stage the loan is sold or transferred to a third party are also included, where identifiable.

3.2 Valuation of financial derivatives and fixed assets

These are adjustments in respect of the price revaluation of securities referring to fluctuations in the valuation of securities that arise because of price changes at which securities are recorded or traded. The adjustments include value changes that occur over time on outstanding amounts at end-period balance sheet. These are due to changes in the reference value at which securities are recorded, i.e. potential gains/losses. It may also contain valuation changes that arise from transactions in securities i.e. realised gains/losses.

Assets and/or liabilities are recorded at their market value of the day of establishing report S 1.1 «Monthly statistical balance sheet of credit institutions». Thus, assets and/or liabilities are reported at a value that may be higher or lower than the purchase price. Unrealised gains and losses on these securities are taken into consideration. Hence, any unrealised gain or loss is immediately added to the value of the asset and/or liability.

Therefore, for a given asset, the adjustment is identical to the unrealised gain and/or unrealised loss that is obtained when compiling the difference between the value at which

the asset is reported for the previous and the current reporting period. Thus, for each price change of a given asset an adjustment must be reported under asset and liabilities.

Report S 1.4 «Information on valuation effects on the balance sheet of credit institutions» allows to capture these adjustments. A net increase of an item following a revaluation must be recorded with a positive sign whereas a net decrease must be recorded with a negative sign.

The aforementioned information must only be provided for assets and liabilities that are recorded in the statistical balance sheet at the end of the month preceding the reference period as well as at the end of the reference period. Assets and/or liabilities that have been bought and sold during the reference month as well as the assets and/or liabilities that have been sold during the reference month must not be reported.

4 Types of breakdowns

Assets and liabilities must be broken down according to the following four criteria:

- country of the counterpart
- currency in which assets and liabilities are expressed
- economic sector of the counterpart
- and initial maturity

The nomenclature and codes to be used are detailed in the document «Definitions and concepts for the statistical reporting of credit institutions».

However, assets and liabilities must not always be broken down according to all of these breakdowns.

Hence, only those breakdowns requested in report S 1.4 attached to the present instructions must be reported to BCL.

4.1 Country

Assets and liabilities must be broken down according to the country of residency or the country of the registered office, i.e. the country where the centre of economic interest of a counterpart is located, using a two character ISO code.

It should be noted that only those country breakdowns requested in report S 1.4 «Information on valuation effects on the balance sheet of credit institutions» attached to the present instructions must be reported to BCL.

4.2 Currency

Assets and liabilities must be broken down according to the currency in which they are denominated, using a three character ISO code.

It should be noted that only those currency breakdowns requested in report S 1.4 «Information on valuation effects on the balance sheet of credit institutions» attached to the present instructions must be reported to BCL.

4.3 Economic sector

Assets and liabilities must be broken down according to the economic sector of the counterpart using a five character code from the list shown in the «Definitions and concepts for the statistical reporting of credit institutions».

It should be noted that only those economic sector breakdowns requested in report S 1.4 «Information on valuation effects on the balance sheet of credit institutions» attached to the present instructions must be reported to BCL.

4.4 Initial maturity

Amounts must be broken down according to initial maturity using a three character code from the list shown in the «Definitions and concepts for the statistical reporting of credit institutions».

It should be noted that only those maturity breakdowns requested in report S 1.4 «Information on valuation effects on the balance sheet of credit institutions» attached to the present instructions must be reported to BCL.