BANQUE CENTRALE DU LUXEMBOURG

EUROSYSTÈME

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

Report S 1.4 L3

Valuation effects on the statistical balance sheet of credit institutions

Reporting instructions

February 2021

Contents

1 Introduction

1.1 Reporting population

Report S 1.4 must be provided by all resident credit institutions regardless of their legal status.

1.2 Frequency and reporting deadlines

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

The BCL establishes and publishes, on its website, a calendar with the remittance dates for statistical reports.

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 («flows») 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 the accounting value of assets and liabilities that are not denominated in the accounting currency
- Price changes that may impact the accounting value of assets and liabilities
- Write-offs/write-downs of loans that only concern the items relating to loans

In principle and to the extent possible, the ECB compiles valuation effects arising from exchange rate changes.

The identification of price effects as well as write-downs and write-offs of loans must be carried out by the Banque centrale du Luxembourg (BCL).

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

The following balance sheet items are concerned:

- 1-003000 Debt securities held
- 1-005000 Equity
- 2-002050 Short sales of securities
- 2-003000 Debt securities issued

However, the BCL does not have the necessary basic information to estimate transactions and/or to neutralise the effects of adjustments that are due to:

- Write-offs/write-downs of loans that are only applicable to the items relating to loans, namely the items listed in section 3.1 below
- The valuation of financial derivatives and non-financial assets, that is to say, the items listed in section 3.1 below

In order to meet these needs, report S 1.4 «Valuation effects on the statistical balance sheet of credit institutions» shall provide the information that allows the ECB to compile transactions.

2.2 Objective of report S 1.4 «Valuation effects on the statistical balance sheet of credit institutions»

It is important to emphasise that report S 1.4 does not require reporting agents to provide information on the differences in outstanding amounts between two consecutive months, but on the valuation effects that are included in the differences in outstanding amounts between two consecutive months. Indeed, the differences in outstanding amounts between two consecutive months can easily be calculated by the BCL based on information available in the report S 1.1 «Monthly statistical balance sheet of credit institutions»; however, the BCL cannot isolate the impact of valuation effects. Thus, the information provided in report S 1.4 enables the BCL to compile the share of differences in outstanding amounts between two consecutive months resulting from actual transactions and the one resulting from valuation effects.

The sole objective of data gathering on the basis of report S 1.4 «Valuation effects on the statistical balance sheet of credit institutions» is to provide information on valuation adjustments for a number of balance sheet items. Indeed, it should be mentioned that the information requested on the basis of report S 1.4 «Valuation effects on the statistical balance sheet of credit institutions» does not concern all the items of report S 1.1 «Monthly statistical balance sheet of credit institutions» but exclusively those that represent a particular interest for the analysis of monetary aggregates and their counterparts.

The simplified example for item 1-002000 Loans below helps to illustrate the purpose of this report. However, it goes without saying that the same reasoning applies to other instruments.

Suppose a reporting agent reports a loan for a total volume of EUR 1 000 000 at the end of February 2014.

In March 2014, the following developments occur:

- A customer is facing repayment difficulties, so the reporting agent decides to make a value adjustment (item 2-009000) of EUR 50 000
- A customer goes bankrupt and the claim on that customer is irretrievably lost for a total amount of EUR 25 000
- Repayments on various loans amount to EUR 75 000
- The reporting agent also decides to grant new loans totalling EUR 500 000

The outstanding loans reported in report S 1.1 «Monthly statistical balance sheet of credit institutions» now stands at:

1 000 000 - 25 000 - 75 000 + 500 000 = 1 400 000

	Stock as at 28.02.2014	**Stock as at 31.03.2014**
Loans in EUR	1 000 000	1 400 000

The BCL is able to compile the difference in outstanding amounts during March 2014 using the following formula:

Stock as at 31.03.2014 – Stock as at 28.02.2014

which corresponds to:

1 400 000 – 1 000 000 = 400 000

Hence, the variation in stocks during March 2014 is 400 000.

Without having additional information collected within the framework of report S 1.4 «Valuation effects on the statistical balance sheet of credit institutions», the BCL may be led to conclude that the whole difference in outstanding amounts is a real flow or a «transaction».

As shown in the numerical example above, the total amount of loans (or any other asset or liability item) may change not only due to transactions during a month but also due to a valuation effect.

Hence, the variation of stocks between 28 February 2014 and 31 March 2014 is explained as follows:

Stock as at 28.02.2014 + Net transactions + Net valuation effects = Stock as at 31.03.2014

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

Net transactions = Stock as at 31.03.2014 – Stock as at 28.02.2014 – Net valuation effects

The BCL is therefore not in a position to properly calculate the compilation of flows by the simple difference in stocks and it is therefore important that reporting agents provide 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 «Valuation effects on the statistical balance sheet of credit institutions» is supposed to gather.

Let us refer once again to our simplified example for item 1-0020000 «Loans».

In this example the 400 000 EUR difference in loan stocks is broken down as follows:

- 425 000, that is the net balance of transactions (the new loans that have been granted for a total of 500 000 and the repayments for a total of 75 000)
- The withdrawal of a loan for a total of 25 000 euros following bankruptcy of the customer

It should be noted that the value adjustment of 50 000 does not impact the amount of loans on the asset side of the balance sheet.

Consequently, for March 2014 the amount to be reported on report S 1.4 is:

– 25 000

This information allows to properly calculate real transactions:

1 400 000 – 1 000 000 – (– 25 000) = 425 000

The actual amount of net transactions obtained, purged for net valuation effects, is 425 000 and is no longer underestimated at 400 000 as would have been the case in the absence of additional information, collected on report S 1.4. Indeed, in the example above, the loan of 25 000 has not been paid and the resulting variation in outstanding amounts is a valuation effect related to a write-down. If, however, the loan had been repaid by the non-financial company, there would not have been any reason to report a valuation effect in report S 1.4 since it would have been a real transaction.

The same reasoning applies to other items of report S 1.4. The whole set of information collected within the framework of this report is aimed at correcting the differences in outstanding amounts that are not due to real transactions.

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

- Information on the effects of write-downs / write-offs of loans reported for the items mentioned in section 3.1 below
- Information on the impact of market valuation for the items mentioned in section 3.2 below

3 Reporting of operations

As indicated above, reporting of information on valuation effects on the statistical balance sheet of credit institutions is limited to adjustments which do not result from transactions for the items listed in sections 3.1 and 3.2 below.

These adjustments are divided into two types:

- Write-offs/write-downs that are only applicable to the loan items listed in section 3.1 below
- The valuation effects referring to items listed in section 3.2 below

It is important to note that this 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 do not have to be reported.

3.1 Write-downs / write-offs of loans

The following items are considered:

- 1-002000 Loans
- 1-002010 Loans - Credit for consumption
- 1-002020 Loans - Lending for house purchase
- 1-RD2000 Loans - Revolving loans and overdrafts
- 1-CD2000 Loans - Convenience credit card credit
- 1-CP2000 Loans - Extended credit card credit
- 1-002999 Loans - Other
- 1-L02000 Loans - Loans to affiliated entities
- 1-P02000 Loans - Reverse repurchase agreements
- 1-S02000 Loans - Syndicated loans
- 1-NC2000 Loans - Notional cash pool positions

The adjustment in respect of the write-offs/write-downs of loans is reported in order to allow the ECB to compile financial transactions from the stocks reported in two consecutive reporting periods. The adjustment reflects any changes in the stock of loans reported, including the writing down of the full outstanding amount of a loan (write-off).

In this context, it should be noted that according to the instructions applicable for the statistical reporting, credit institutions must report loans on a gross basis, i.e. at the principal amount outstanding at the end of the month, whereas the related value adjustments (item 2-009000) are recorded on the liability side of the balance sheet.

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

In contrast to this, value adjustments are not reported since they do not have any impact on the item «Loans» reported on the asset side of the balance sheet; these adjustments are reported as value adjustments under item 2-009000.

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

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

3.2 Valuation effects

The following items are considered:

- 1-006010 Non-financial assets - Real estate
- 1-006999 Non-financial assets - Other
- 1-007000 Financial derivatives
- 1-090000 Remaining assets
- 2-005000 Capital
- 2-005010 Capital - Equity capital raised
- 2-005020 Capital - Income and expenses recognized directly in equity

- 2-008000 Provisions
- 2-009000 Value adjustments
- 2-010000 Results
- 2-010010 Results - Results of the accounting period
- 2-010999 Results - Other
- 2-011000 Financial derivatives
- 2-090000 Remaining liabilities

These are the adjustments relating to the sole valuation of assets and liabilities, excluding the actual operations. Indeed, the basic principle illustrated using the example of a loan write-down remains the same, the objective being to enable the BCL to distinguish between real transactions (for example, an increase in share capital or the acquisition of financial instruments) and fluctuations in the valuation of these assets / liabilities due to a change in the price at which assets / liabilities are recognised.

As indicated in the document «Definitions and concepts for the statistical reporting of credit institutions», the valuation rules of assets and liabilities follow those of prudential reporting. The valuation of assets / liabilities includes changes occurring over time in the value of the outstanding balance at the end of the period, which are due to changes in the reference value at which the assets / liabilities are recognised. Thus, only information on valuation effects that impinge on the accounting value of certain balance sheet items should be reported. Consequently, the difference in outstanding amounts resulting from actual operations should not be reported.

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.

4 Additional details on assets and liabilities

The cells of sub-tables «Assets - Details» provide additional information relating to the lines contained in the main sub-tables «Assets».

In this context, the following instructions relating to loans granted to non-financial corporations as well as households & non-profit institutions serving households must be observed.

4.1 Loans to households and non-profit institutions serving households

Write-downs and write-offs of loans to households and non-profit institutions serving households resident in Luxembourg and other euro area countries, reported on sub-table «Assets» under item 1-002000 with sector code 22000 must be broken down in the following items:

- 1-002010 Loans - Credit for consumption
- 1-002020 Loans - Lending for house purchase
- 1-002999 Loans - Other

In this context, it is also important to note that the amounts reported in the following items:

- 1-RD2000 Loans - Revolving loans and overdrafts
- 1-CD2000 Loans - Convenience credit card credit
- 1-CP2000 Loans - Extended credit card credit

are included in item 1-002010 taking into consideration the respective country and currency split.

5 Types of breakdowns

Reported amounts must be broken down according to the following four criteria:

- Country of the counterpart
- Currency in which they are denominated
- Economic sector of the counterpart
- Initial maturity

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

However, reported amounts do not always have to be broken down according to the complete set of available breakdowns listed in this document. Hence, only the 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 the BCL.

5.1 Country

Reported amounts must be broken down according to the country of residency or of the registered office of a counterpart with a two-character ISO code.

5.2 Currency

Reported amounts must be broken down according to the currency in which they are expressed using a three-character ISO code.

5.3 Economic sector

Assets and liabilities must be broken down according to the economic sector of the counterparty with a five-character code on the list of sectors in the document «Definitions and concepts for the statistical reporting of credit institutions».

5.4 Initial maturity

Reported amounts must be broken down according to their initial maturity with an eight-character code on the list included in the document «Definitions and concepts for the statistical reporting of credit institutions».