

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

Report S 1.6

Information on valuation effects on the balance sheet of investment funds

Banque centrale du Luxembourg

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1 Introduction

1.1 Reporting population

Report S 1.6 must be provided by non-monetary investment funds when the amounts reported for one of the requested items exceeds 5% of total assets.

The BCL is in a position to check whether the amounts exceed 5% by using the quarterly statistical reports.

1.2 Frequency and reporting deadlines

Report S 1.6 must be provided must be provided to BCL on a monthly basis at the latest 20 working days following the end of the period to which it relates.

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

2 Reporting of operations

Information on valuation effects must only be reported for the following items of the statistical balance sheet of investment funds:

- 1-006000 «Non-financial assets»
- 1-007000 «Financial derivatives»
- 2-011000 «Financial derivatives»

In addition, it is important to mention that the reporting of information on valuation effects must only be done if the amount reported for an item exceeds 5% in terms of total assets.

Example.

Suppose an investment fund or a compartment of an investment fund whose assets and liabilities for a given period are characterised as follows:

- the amount reported in item 1-006000 represents more than 5% of total assets
- the amount reported in item 1-007000 represents less than 5% of total assets

In this example the investment fund or the compartment of an investment fund must only report information the effects of valuation that affect item 1-006000.

3 Types of breakdowns

Assets and liabilities must not be split.

4 Flow statistics

4.1 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 two 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

The identification of these effects can be made by the 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:

- 1-003000 «Debts securities held»
- 1-005000 «Equity»
- 2-002050 «Borrowings - Short sales of securities»
- 2-003000 «Debt securities issued»
- 2-004000 «Shares / units 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:

- 1-002000 «Claims»
- 1-090010 «Remaining assets - Accrued interest»

- 1-090020 «Remaining assets - Assets for which the currency cannot be identified»
- 1-099999 «Remaining assets - Other»
- 2-002010 «Borrowings - Overnight borrowings»
- 2-002020 «Borrowings - With agreed maturity»
- 2-002030 «Borrowings - Redeemable at notice»
- 2-002040 «Borrowings - Repurchase agreements»
- 2-002050 «Borrowings - Short sales of securities»
- 2-090010 «Remaining liabilities - Accrued interest»
- 2-099999 «Remaining liabilities - Other»

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.

- 1-006000 «Non-financial assets »
- 1-007000 «Financial derivatives»
- 2-011000 «Financial derivatives»

In order to satisfy this need, report S 1.6 «Information on valuation effects on the balance sheet of IFs» must provide the information that BCL needs to compile transactions.

4.2 Objective of report S 1.6 «Information on valuation effects on the balance sheet of non-MMF investment funds»

The sole objective of data gathering on the basis of report S 1.6 is to provide information on value adjustments for the three aforementioned items of the statistical balance of non-MMF investments funds.

The following simplified example for item 1-006000 «Non-financial assets» demonstrates the objective of this report. It should however be noted that the reasoning also applies to financial derivatives.

	Stock as at 31.01.2014	Stock as at 28.02.2014
Non-financial assets	120	200

Real flows for February 2014 are compiled on the basis of the following formula:

$$\text{Stock as at 28.02.2014} - \text{Stock as at 31.01.2014}$$

which corresponds to:

$$200 - 120 = 80$$

Hence, the real variation in stocks during February 2014 is 80.

This approach presents several drawbacks. Indeed, even without any transaction at all, the total amount of fixed assets may change simply because there has been a change of the value of the assets and/or because the currency these assets are denominated in has been subject to exchange rate change. Hence, the variation of stocks between 31 January 2014 and 28 February 2014 is explained as follows:

$$\text{Stock as at 31.01.2014} + \text{Net transactions} + \text{Net valuation effects} = \text{Stock as at 28.02.2014}$$

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

$$\text{Net transactions} = \text{Stock as at 28.02.2014} - \text{Stock as at 31.01.2014} - \text{Net valuation effects}$$

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 investment funds or compartments of investment funds 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 1.6 «Information on valuation effects on the balance sheet of non-MMF investment funds» is supposed to gather.

Let's take again our simplified example for item 1-006000 «Non-financial assets»

	Stock as at 31.01.2014	Stock as at 28.02.2014
Non-financial assets	120	200

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

- 50, that is the net balance of purchase and sale
- 30, that is net valuation effect

Hence, for February 2014 the amount to be reported on report S 1.6 is 30. This information allows to properly calculate the real flow:

$$200 - 120 - 30 = 50$$

In order to calculate the real flows as precisely as possible, the effect of net valuation reported in report S 1.6 must provide, on an aggregate basis, information on the two following effects:

- the impact of market valuation on assets and liabilities
- the impact of exchange rate variations on assets and liabilities

4.3 Reporting of information on the effects of valuation changes

Gathering of data that is necessary for the compilation of transactions can be done according to two different methods that provide an identical result.

The two methods are:

- either identify specifically valuation effects, which may in certain cases prove difficult because it is necessary to identify the impact of price changes and/or exchange rate changes for each asset
- either identify transactions which may in certain cases prove to be more simple

The choice of the method is left to the assessment of the investment funds and or compartments of investment funds that may choose the method that fits better to their specific method.

However, regardless of the internal method chosen, it is important to report the effects of valuation changes that occurred during the reference period on report S 1.6 «Information on valuation effects on the balance sheet of non-MMF investment funds».