

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

Report S 2.19-L
**«Information on valuation effects on
the balance sheet of insurance
corporations – Luxembourg entity»**

Contents

1	Introduction.....	3
1.1	Reporting population	3
1.2	Frequency and reporting deadlines	3
2	Types of breakdowns.....	4
2.1	Country.....	4
2.2	Currency.....	5
2.3	Economic sector	6
2.4	Original maturity	7
3	Flow statistics	7
3.1	Basic principles.....	7
3.2	Objective of report S 2.19-L «Information on valuation effects on the balance sheet of insurance corporations – Luxembourg entity».....	9
3.3	Reporting of information on the effects of valuation changes	11

1 Introduction

1.1 Reporting population

Report S 2.19-L must be provided by all the insurance corporations regardless of their legal status.

Regulation (EU) n° 1374/2014 of the European Central Bank of 28 November 2014 on statistical reporting requirements for insurance corporations (ECB/2014/50) foresees the possibility to exempt the reporting agents of modest size from reporting obligations.

The selection of the insurance corporations subject to reporting obligations is done by the BCL that will grant derogations provided that the insurance corporations that contribute to the aggregated balance sheet account for at least 95 % of the total market share of insurance corporations in Luxembourg.

Thus, report S 2.19-L has to be provided by a sample of insurance corporations that is established by the BCL and revised on a yearly basis.

1.2 Frequency and reporting deadlines

Report S 2.19-L must be provided to BCL on a quarterly 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 deadlines for submitting the statistical reports.

2 Types of breakdowns

Valuation effects must be split according to the following criteria:

- country of the counterpart
- currency of the transaction
- economic sector of the counterpart
- original maturity

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

However, assets and liabilities must not always be split according to all of these breakdowns. Hence, only the breakdowns requested on the statistical report S 2.19-L attached to the present instructions must be reported to BCL.

2.1 Country

Regarding life insurance technical reserves - unit-linked, valuation effects must be split according to a two-character ISO code 3166.

In addition to the ISO 3166 country codes, the following specific country codes may be used:

Code	Definition
XA	European Central Bank (ECB)
XB	International institutions, except European institutions, located outside Luxembourg
XC	International institutions, except European institutions, located in Luxembourg
XD	European institutions located in Luxembourg
XE	European Investment Bank (EIB)
XG	European institutions located outside Luxembourg, except ECB
XI	European Stability Mechanism (ESM)
<u>XJ</u>	<u>European Financial Stability Facility (EFSF)</u>

Remark:

- If no counterpart country breakdown is requested, amounts must be reported as a total with country code XX «No breakdown».
Country code XX «No breakdown» is only accepted for those items mentioned on report S 2.19-L attached to the present instructions.

2.2 Currency

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

Remark:

- If no currency breakdown is requested, amounts must be reported as a total with currency code XXX «No breakdown».
Currency code XXX «No breakdown» is only accepted for those items mentioned on report S 2.19-L attached to the present instructions.

2.3 Economic sector

Reported amounts must be broken down according to the economic sector of the counterparty with a five-character code from the list below:

Code	Economic sector
11000	Central government
12100	State government
12200	Local government
12300	Social security funds
21000	Non-financial corporations
22110	Households – Sole proprietors
22120	Households – Physical persons
22200	Non-profit institutions serving households
31000	Central banks
32100	Deposit taking corporations – Credit institutions
32200	Deposit taking corporations – Other
33000	Money market funds
41000	Non-monetary investment funds
42100	Securitisation vehicles
42200	Central counterparties
42900	Other financial intermediaries
43000	Financial auxiliaries
44000	Captive financial institutions and money lenders
45000	Insurance corporations
46000	Pension funds

Remark:

- If no economic sector breakdown is requested, amounts must be reported as a total with currency code «90000» No breakdown.
Economic sector code «90000» No breakdown is only accepted for those items mentioned on report S 2.19-L attached to the present instructions.

2.4 Original maturity

Reported amounts must be broken down according to their initial maturity with an eight-character code from the list below:

Code	Original maturity
I000-01A	Up to 1 year
I01A-02A	Over 1 and up to 2 years
I02A-05A	Over 2 and up to 5 years
I05A-999	Over 5 years

Remark:

- If no original maturity breakdown is requested, amounts must be reported as a total with original maturity code «I999-999» No breakdown.
Original maturity code «I999-999» No breakdown is only accepted for those items mentioned on report S 2.19-L attached to the present instructions.

3 Flow statistics

3.1 Basic principles

The European Central Bank (ECB) compiles statistics on outstanding amounts at quarter-end as well as on transactions realised during the quarter 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 quarter end reporting dates, from which the effects of changes that are not due to 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 and investment fund shares/units held»
- 2-002050 «Loans - Short sales of securities»
- 2-003000 «Debt securities issued»
- 2-005000 « Capital (equity, shares and 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:

- 1-001000 «Currency and deposits»
- 1-001100 «Currency and deposits o/w transferable deposits»
- 1-002000 «Loans»
- 1-012000 «Non-life insurance technical reserves»
- 1-090000 «Other assets»
- 2-002060 «Loans - deposit guarantees in connection with reinsurance business»
- 2-002090 «Loans – other»
- 2-012120 «Life insurance technical reserves - Non–unit- linked life insurance technical reserves»
- 2-012131 to 2-012133 «Life insurance technical reserves - Pension entitlements»
- 2-012210 to 2-012300 «Non-life insurance technical reserves»
- 2-090000 «Other liabilities»

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»
- 2-012110 «Life insurance technical reserves - Unit- linked life insurance technical reserves»

In order to satisfy this need, report S 2.19-L «Information on valuation effects on the balance sheet of insurance corporations – Luxembourg Entity» must provide the information that BCL needs to compile transactions.

3.2 Objective of report S 2.19-L «Information on valuation effects on the balance sheet of insurance corporations – Luxembourg entity»

The sole objective of data gathering on the basis of report S 2.19-L is to provide information on value adjustments for the four aforementioned items of the statistical balance sheet of insurance corporations.

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 31.03.2015	Stock as at 30.06.2015
Non-financial assets	120	200

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

$$\text{Stock as at 30.06.2015} - \text{Stock as at 31.03.2015}$$

which corresponds to:

$$200 - 120 = 80$$

Hence, the real variation in stocks during the quarter is 80.

This approach presents several drawbacks. Indeed, even without any transaction at all, the total amount of non-financial assets may change simply because there has been a change of the value of the assets and/or because the currency in which these assets are denominated has been subject to exchange rate change. Hence, the variation of stocks between 31 March and 30 June 2015 is explained as follows:

$$\text{Stock as at 31.03.2015} + \text{Net transactions} + \text{Net valuation effects} = \text{Stock as at 30.06.2015}$$

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

$$\text{Net transactions} = \text{Stock as at 30.06.2015} - \text{Stock as at 31.03.2015} - \text{Net valuation effects}$$

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 insurance corporations 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 2.19-L « Information on valuation effects on the balance sheet of insurance corporations – Luxembourg entity » is supposed to gather.

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

	Stock as at 31.03.2015	Stock as at 30.06.2015
Non-financial assets	120	200

In this example the variation of 80 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 June 2015 the amount to be reported on report S 2.19-L is 30. This information allows to properly calculate the real flow:

$$200 - 120 - 30 = 50$$

The computed flow is then 50 and not an over estimated 80 as obtained in the absence of additional information provided by the report S 2.19-L.

In order to calculate the real flows as precisely as possible, the effect of net valuation reported in report S 2.19-L 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

3.3 Reporting of information on the effects of valuation changes

Gathering 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 identifying 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
- or identifying transactions which may in certain cases prove to be more simple

The choice of the method is left to the assessment of the insurance corporations that may choose the method that fits better their specific situation.

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 2.19-L « Information on valuation effects on the balance sheet of insurance corporations – Luxembourg entity ».