

Monetary reports – review of reporting instructions and forms as from July 2017

1. Introduction

During the meetings of the SE working group of 17 November 2016 and the Reporting Committee of 8 December 2016, we presented a number of amendments to the monetary reports. We also held a written consultation round, in which we asked all reporting monetary financial institutions (MFIs) whether they would be able to introduce the proposed amendments as from the June 2017/2017Q2 reporting period. Based on the meetings and the responses to our consultation round, we established that:

- 1) The new form set can be implemented as of July 2017 (June 2017/2017Q2 reporting period);
- 2) It is generally feasible to introduce all amendments with respect to the reporting instructions by October 2017¹, with the exception of "the time of recording"² requirement;
- 3) It is recommended that DNB and reporting institutions initiate an impact assessment for "the time of recording".

In the run-up period (June/July 2017 reporting period) we will accept accurate estimates from the reporting institutions, but as from the August reporting period we expect all new items to be reported correctly.

Partly in response to questions from the reporting institutions, we also agreed to work out the reporting instructions in further detail. This memorandum therefore addresses the instructions in more depth and will eventually serve as input for the SE manual.

2. Reporting instructions

The amendments to the reports and reporting instructions for monetary statistics below will become effective from July 2017. A transitional period then begins for accurately and correctly filling in the new cells and implementing the new instructions.

Netting of own holdings of debt securities (9001HK6 and 9007HK4)

Contrary to the usual gross reporting of positions in the BSI, own holdings of debt securities (domestic MFI consolidation scope) must be netted against total issuance³, i.e. they must be deducted from both assets and liabilities positions. This exception also applies to other own instruments issued, such as treasury shares. It

¹ In due course, we would also like to receive delta reports on those positions that are subject to change as a result of the implementation of the new instructions.

² The current instructions in the SE manual concerning the time of recording are aligned with those in the ECB Manual (pages 15-16) and the related section (5.51) in the ESA 2010. Loans must therefore be recorded when the payment is made to the borrower (disbursement date). This also applies to financial leases, which must be reported as loans.

The ECB seeks to apply the settlement date for the recording of securities transactions, but the guideline does not appear to be uniform across manuals and statistics. This is why we are currently looking into the possibility of harmonising this for all sectors (including insurers, pension funds and OFIs).

³ As the ECB wants to gain a better overview of the holdings of debt securities issued, the current position (total of debt instruments issued) must be broken down into own holdings and other parties' holdings of issued debt instruments. The 'of which' item under other liabilities (market-nominal valuation of debt instruments) only relates to debt instruments held by other parties.

is not permitted to net debt securities issued or held by entities outside the domestic consolidation circle, e.g. affiliated domestic SPVs or foreign MFI subsidiaries.

To gain a better overview of the volume of own holdings of debt instruments issued, item 05.090 - 0.000.0 *Of which: correction for own holdings of debt securities* has been added in form 9001HK2. The total market value of own holdings of debt instruments deducted from the item 05.000 - 0.000.0 *Debt securities held* must be recorded here. The own holdings of debt securities (the correction) must be recorded in positive numbers.

Example: **Bank A** (with an MFI subsidiary in the Netherlands) reports to DNB on behalf of the domestic consolidation circle.

Bank A issued EUR 500 million in debt securities, all of which are held by third parties. Its MFI subsidiary in the Netherlands (**bank B**) has issued EUR 250 million in debt securities, EUR 125 million of which is on **bank A**'s balance sheet. The market value of the debt securities issued by both banks is 4% higher than the nominal value.

Bank A and B together also hold EUR 1,000 million (market value) in debt securities issued by entities outside the domestic consolidation circle.

For the purpose of this example, this only relates to short term debt securities (<1 year) with an MFI counterparty.

The market value of the own holdings of debt securities is EUR 130 million (1.04 * EUR 125 million). This is the correction to be reported under item 05.090 - 0.000.0 *Of which: correction for own holdings of debt securities*. On the liabilities side, EUR 125 must be deducted from debt securities issued, as the nominal value must be applied here. The difference between the market value and the nominal terms of debt securities issued (non-held) is EUR 25 million and must be reported under *Of which: valuation of debt securities (market-nominal)*.

Debt securities reporting breaks down as follows.

Form 9001HK2

		Total	Credit institutions	
			within own group	outside own group
Country = Netherlands		1211 SPU	1213 SPU	1214 SPU
<u>Assets</u>				
05.000 - 0.000.0	Debt securities held	1000	0	1000
05.000 - 0.010.0	- maturity <= 1 year	1000	0	1000
05.090 - 0.000.0	- <i>Of which: correction for own holdings of debt securities</i>	130	130	

Form 9001HK6		Not allocated
<u>Liabilities</u>		9998 SPU
21.000 - 0.000.0	Debt instruments issued	625
21.000 - 0.010.0	- maturity <= 1 year	625
38.100 - 0.000.0	- Of which: valuation of debt securities (market-nominal)	25

Deposits with a bonus

Customers can earn a loyalty bonus (interest) on some deposits, i.e. term or notice deposits.

Example: **Customer A** has an internet savings account (notice deposit) with a loyalty bonus of 0.2% if a given amount is held in the account for at least two years. In the event of early withdrawal the bonus lapses, but the customer will still earn the regular interest rate (say 0.3%).

Irrespective of the loyalty bonus, all types of deposit must be classified in full by the type of deposit and their original maturity, in view of the customer's option to withdraw the funds without restrictions other than loss of the bonus. In the above example the deposit must be reported as a *notice deposit* and not as a *term (2 years) deposit*.

Identification of the other party in fiduciary deposits

In line with direct positions, the other parties to fiduciary deposits must also be identified and classified. This means that it is not possible to select non-financial enterprises by default.

Example: **Bank A (NL)** receives a fiduciary deposit from **Bank B (BE)** with a value of EUR 500 million on behalf of a German **factoring company** (other OFI)

Bank A reports this as a deposit against Other OFI (SPU 2273), residing in Germany and not as a deposit against an MFI in Belgium or a non-financial enterprise in Germany.

Hybrid instruments

As a rule, *deposits* and *debt securities with embedded derivatives* (hybrid instruments) must be broken down into two individual components and recorded separately as deposits/debt securities and derivatives. This applies equally to assets and liabilities positions, which results in a difference with respect to the assets positions under IFRS 9. If breakdown is impossible, the position may be recorded entirely as either deposits/debt securities or derivatives, based on the contract's main characteristics.

Preferred shares

To date, no guidance has been included in the BSI Regulation (ECB/2013/33) or the SE manual on preferred shares. The next edition of the BSI Manual will refer to the *IMF Handbook on Securities Statistics*. The main point to note here is that non-participating preferred shares⁴ must be recorded as debt instruments. Participating preferred shares do form part of the share capital.

⁴ Preferred shares that do not participate in the distribution of the residual value of a corporation on liquidation.

Dividends to be received and paid in form 9008HK1

In accordance with the ESA 2010 and form 9005HK1, the time of recording for dividends in form 9008HK is the date they are declared. The same applies to interim dividends: here too the time of recording is the date the dividends are declared (ex dividend date) and not the date they are paid out or the period to which they relate. Declared dividends on resident and non-resident participating interests must also be recorded as dividend income.

If there is no information about the declaration date, dividend income may be recorded at the time they are received.

Expansion of country list

Saint-Barthélemy and *Kosovo* have been added to the list as separate countries. For statistical purposes, Saint-Barthélemy is included in the euro area.

In accordance with reporting positions against the European Investment Bank (XF) and the European Stability Mechanism (XS), a separate country code (XR) has been added for the Single Resolution Board (SRB). The SRB is an institutional unit⁵ (S.13: Central Government) in the EU but not in the euro area. **More information about the positions (contributions/irrevocable payment commitments) to be reported will be provided in due course.**

Payments by banks to resolution funds

Effective from 1 January 2016, banks within the scope of application of the SRM Regulation must contribute to the Single Resolution Fund (SRF). Branch offices of banks registered outside the European Union must contribute to the National Resolution Fund (NRF). In form 9008HK1, monetary contributions and irrevocable payment commitments (IPC) contributions to the resolution funds must be recorded separately, in accordance with the existing breakdown of deposit guarantee scheme payments. IPC contributions must only be reported if they are actually charged to the profit and loss account.

Breakdown of capital and reserves (9001HK6 and 9007HK4)

Capital and reserves comprise the amounts arising from the issue of capital by the reporting institution to shareholders and other proprietors, representing for the holder property rights in the reporting institution and generally an entitlement to a share in its profits and to a share in its own funds in the event of liquidation. This item also includes the funds set aside by the reporting institution in anticipation of future payments and liabilities.

In forms 9001HK6 and 9007HK4 the items capital and reserves and equity (own funds) are broken down into:

- 1) Shares / units issued by money market funds (MMF)
- 2) Equity capital raised, including share premium;
- 3) Profits or losses as recorded in the profit and loss account;
- 4) Income and expenses directly recognised in equity;
- 5) Undistributed profits and funds, including general and specific reserves.
- 6) Provisions (already exists)

⁵ Unlike the SRB, the Single Resolution Fund (SRF) is not an independent institutional unit. Its contribution must be consolidated with the contribution to the SRB.

Shares / units issued by money market funds (only applicable to MMF!)

Under this component, money market funds should report the total value of shares and participations issued. Credit institutions should report their shares/participations issued under **Equity capital raised, including share premium**

Equity capital raised, including share premium

This component includes all instruments issued by the MFI (except MMF) that represent property rights for the holder. Generally, equity instruments entitle the holder to a share in the profits or, in the event of a loss, the obligation to cover this loss. The recorded value relates to all funds contributed by shareholders, from the initial contribution and all following issuances, and represents the total issued capital (including share premium). This includes ordinary shares, preferred shares, redeemable shares, non-voting shares and third-party rights to acquire a specified number of shares. Non-participating preferred shares, that do not entitle the holder to a share of the institution's residual value in the event of liquidation, are not regarded as equity (own funds). They must be recorded as debt securities. See also IAS32 (16) for more examples.

Profits or losses as reported in the profit and loss account;

This component includes all accumulated profits or losses from the start of the accounting period. The profits or losses result from net interest, commission and trading income, dividends/other income from holdings, wage costs and general administrative expenses. It also includes realised gains or losses on sales and unrealised gains or losses on financial assets held.

Once the accounting period is closed, the profits can be distributed to the shareholders as dividends⁶ or recorded as undistributed profits⁷.

Income and expenses directly recognised in equity;

This item refers to the net revaluations of assets and liabilities not recorded in the profit and loss account. It includes the exchange rate effects ensuing from the translation of functional currencies into presentation currencies and revaluation of pension liabilities. This involves the accumulated value of revaluations booked in the current year as well as the preceding years.

Undistributed profits and funds, including general and specific reserves.

This item includes all reserves and other moneys that are not distributed to the shareholders. Building up reserves may be a statutory requirement to protect the institution against potential losses on specific activities. Profits after taxes not distributed to the shareholders (retained profits) also accumulate under this component, usually on an annual or quarterly basis.

Provisions

This item includes general and specific provisions relating to loans, securities and other assets types. Provisions for potential future write-offs do not affect outstanding loans and therefore do not have an impact on the assets side. If a loan for which a provision was made is eventually written off, the written-off amount is

⁶ Dividends not yet paid must be recorded under other liabilities.

⁷ Such conversions may be effected on an annual or quarterly basis. Retained profits must be recorded under *undistributed profits and moneys, including general and specific reserves*.

deducted from the loans and deposits item. The counterpart for this item on the liabilities side is the item *Capital and reserves, of which: provisions*.

For *equity (own funds)*, the breakdown described above must be recorded in the **Total for all sectors (9000 APM)** column . Total equity (own funds) is taken from 9001HK1, which means that any provisions made must have been recorded there.

The column **Not allocated (9998 APM)** must be used for the accumulation of *capital and reserves*, as these components add up to the total.

Example: **Bank A** is a subsidiary of a foreign institution, fully funded by *equity (own funds)*. The funds are used to extend loans to public authorities and the private sector. A provision for EUR 5 million is made on the total loan portfolio, the undistributed profits for the current accounting period amount to EUR 90 million and since the bank's establishment, EUR 100 million in profits have not been distributed to the parent company. The income directly recognised in equity has accumulated to EUR 5 million in the same period. *Equity (own funds)* reporting breaks down as follows:

Bank A: Subsidiary (fully funded by equity (own funds))		MFIs	Public and private	Total	NNTR	Grand total
		1000 APM	2000 APM	9000 APM	9998 APM	9999 APM
<u>Assets</u>						
6.000	Loans and deposits	0	500	500		500
19.000	Total assets					500
<u>Liabilities</u>						
20.000	Capital and reserves				0	500
20.400	- Of which: equity (own funds)	500	0	500		500
20.500	- Of which: equity capital raised, including share premium			300		300
20.600	- Of which: income and expenses directly recognised in equity			5		5
	- Of which: profits or losses as recorded in the profit and loss account					
20.700				90		90
	- Of which: undistributed profits and funds, including general and specific reserves.					
20.800				100		100
20.900	- Of which: provisions			5		5
39.000	Total liabilities					500

Example: **Bank B** is a Dutch bank fully funded from capital and reserves. The funds are used to extend loans to public authorities and the private sector. A provision for EUR 5 million is made on the total loan portfolio, the undistributed profits for the current accounting period amount to EUR 90 million and since the bank's establishment, EUR 100 million in profits have not been distributed to the parent company. The income directly recognised in equity has accumulated to EUR 5 million in the same period. *Capital and reserves* reporting breaks down as follows:

Bank B: Independent enterprise (without equity (own funds))		MFIs	Public and private	Total	NNTR	Grand total
		1000 APM	2000 APM	9000 APM	9998 APM	9999 APM

<u>Assets</u>					
6.000	Loans and deposits	0	500	500	500
19.000	Total assets				500
<u>Liabilities</u>					
20.000	Capital and reserves			500	500
20.400	- Of which: equity (own funds)	0	0	0	0
20.600	- Of which: equity capital raised, including share premium			300	300
20.700	- Of which: income and expenses directly recognised in equity			5	5
20.800	- Of which: profits or losses as recorded in the profit and loss account			90	90
20.900	- Of which: undistributed profits and funds, including general and specific reserves			100	100
20.500	- Of which: provisions			5	5
39.000	Total liabilities				500

All positions in 9001HK6 must be reported at book value. The relationship between this breakdown and FINREP/IAS/IFRS is explained in the annex. All changes not resulting from purchases, sales, issuance or exchange rate movements must be accounted for in form 9007HK4. This includes for example revaluations and write-offs. Table 1 gives an overview of the transactions in capital and reserves.

Table 1: Transactions in capital and reserves

Capital and reserves component	Transactions
<i>Equity capital raised, including share premium</i>	* Net equity capital raised, including share premium
<i>Profits or losses as reported in the profit and loss account</i>	* Income and expenses resulting from regular business activities (e.g. interest and commission income, wage costs, etc.) * Distribution of dividends

Interest payable on securities

In response to requests made by banks, we have decided to provide an option to report *interest payable on securities issued* in form 9001HK6, which also records the positions and the valuation differences in respect of the instrument in question (issued debt securities). The description in the manual remains unchanged.

Amendment of form 8097 for determining the minimum reserve requirement

To determine the minimum reserve, an adjustment must be made for deposits received from credit institutions (in the euro area) that are exempted from the minimum reserve requirement. These positions must be recorded in form 8097, in column 1211 BEG. This column is already used to record debt securities held by other euro area credit institutions.

The ECB MFI data access website provides the most recent information on the minimum reserve requirements of euro area credit institutions (<https://mfi->

assets.ecb.int/resultMfi). It is possible to perform queries of 1) credit institutions 2) within the euro area 3) that are subject to the minimum reserve requirement 4) or that are exempted from this requirement.

Breakdown of notional cash pooling into currencies (form 9001HK1)

The "Of which" item *cash pooling* requires a breakdown into currencies. A previous inventory found that the euro and dollar positions are the only currencies of significant volume, together they account for more than 90%. The breakdown therefore only relates to these two currencies.

Annex: Overview of the link between the capital and reserves components and the definitions used in FINREP and IAS/IFRS (Source: ECB guidance, draft)

BSI item	FINREP item	Reference for the definition of the FINREP item	FINREP (Annex IV – nGAAP templates); table-row-column
Equity capital raised	Capital	IAS 1.54(r), BAD art. 22, IAS 1.78(e)	F01.03 010 010
	+ Share premium	IAS 1.78(e); CRR Article 4(124)	F01.03 040 010
	+ Equity instruments issued other than capital	FINREP Annex V. Part 2.18-19, IAS 32.28-29	F01.03 050 010
	+ Other equity	IFRS 2.10; FINREP Annex V.Part 2.20	F01.03 080 010
	- Treasury shares	IAS 1.79(a)(vi); IAS 32.33-34, AG 14, AG 36; FINREP Annex V.Part 2.30	F01.03 240 010
	- Share capital repayable on demand ⁸	IAS 32 IE 33; IFRIC 2; FINREP Annex V.Part 2.12	F01.02 270 010
Profit and loss accumulated in the accounting period	Profit or loss attributable to owners of the parent institution	IAS 1.81B (b)(ii)	F01.03 250 010
	- Interim dividends	IAS 32.35	F01.03 260 010
	- Fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)	IAS 39.89A(a); IFRS 9.6.5.8	F01.01 250 010
	+ Fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)	IAS 39.89A(b), IFRS 9.6.5.8	F01.02 160 010
Income and expenses recognised directly in equity	Accumulated other comprehensive income	CRR Article 4(100)	F01.03 090 010
Funds arising from income not distributed to shareholders	+ Retained earnings	CRR Article 4(123)	F01.03 190 010
	+ Revaluation reserves	IFRS 1.30, D5-D8; FINREP Annex V.Part 2.28	F01.03 200 010
	+ Other reserves	IAS 1.54; IAS 1.78(e)	F01.03 210 010
Specific and general provisions⁹	Loans and advances ¹⁰ - Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)	IFRS 9.5.5.5, FINREP Annex V.Part 1.32, 44(a)	F12.01 080_100 Also: see references to columns 20-90
	+ Loans and advances - Allowances for debt instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	IFRS 9.5.5.3, FINREP Annex V.Part 1.32, 44(a)	F12.01 250_100 Also: see references to columns 20-90
	+ Loans and advances - Allowances for credit-impaired debt instruments (Stage 3)	IFRS 9.5.5.1, 9. Appendix A, FINREP Annex V.Part 1.32, 44(a)	F12.01 430_100 Also: see references to columns 20-90
	+ Financial assets designated at fair value through profit or loss - Loans and advances - Accumulated negative changes in fair value due to credit risk on non-performing exposures	FINREP Annex V.Part 2.69, FINREP Annex V.Part 1.32, 44(a)	F04.02.01 110_020

⁸ The part for which significant restrictions do not apply is not considered equity in statistical terms and should thus be subtracted

⁹ Under IAS/IFRS this category only include allowances on loans, as for other instruments allowances are always deducted from the carrying amount on the accounting balance sheet. It should be noted that the principal amount of loans may differ from their carrying amount in IAS/IFRS due to effects other than provisions. For instance, "accrued interest" shall be recorded in remaining assets and counterbalanced by an entry in the statement of profit and loss. Other effects (e.g. fair value valuations of loans recorded at fair value etc.) shall be treated as statistical discrepancies in remaining assets or liabilities. This treatment represents a revision to the bridging discussed in the bridging the reporting requirements –methodological manual third edition (Table 7.3.3 page 146 – 148).

¹⁰ This FINREP item also covers instruments that are not classified as loans in statistical terms. The allowances relating to instruments that do not meet the statistical definition should thus be excluded.

