MNB data compilation code: **D24**

GUIDELINES FOR COMPLETION

Central bank survey of the intensity of the foreign exchange market and the market of derivative instruments (turnover data)

I. General instructions

1. The MNB will inform the selected reporting institutions in writing about their reporting obligation.

2. The report should include contracts created in April 2007, regardless of the date when they will be concluded. Data on own account transactions and on transactions executed on behalf of other parties should also be reported (as a total).

3. Transactions completed with other units of the same corporation (e. g. offices, subsidiaries, ancillaries) should also be reported. Internal transactions with accounting or risk management purposes schould not be reported.

4. This survey is not intended to cover exchange-traded transactions.

5. Each transaction should be reported individually, **without netting** (i.e. without offsetting them against one another in any way). Therefore purchasing USD 1 million for EUR and selling USD 2 million for EUR means a turnover of USD 3 million.

6. Figures should be indicated in units of million USD, rounded, without decimals. Rounding should only be used when calculating monthly totals, not by transactions. Conversions to USD should be made at exchange rates prevailing on the date of the creation of the contract. If USD does not appear on any side of the transaction then the USD value of only one side should be determined preferably on the purchase side.

7. Use only the blank cells (cells without any colouring). (In the yellow cells the sums are generated automatically.)

8. All footnotes of the tables contain material information. It is essential to take them into consideration with a view to complete the questionnaires properly however, they will not offer any solution in a number of questions that may arise.

9. Compulsory links within tables can be found under paragraph 5 of annex 3 of the technical guideline of this decree, published on the website of the MNB.

II. Detailed information for filling in of tables and methods of compilation

1. Market units

- Reporting dealer: includes financial institutions, which are active participants of the domestic and international FX and derivative market. A detailed description will be provided under paragraph 18 of annex 3 of this decree.

- Other financial institutions are units (belonging to sectors B, C, D, E, F and L, e. g. credit institutions, central bank, funds, insurance companies, pension funds) that are not reporting dealers.

- Other non-financial partners: partners that do not belong to any of the above categories.

The definition of resident, non-resident sectors can be found under paragraph I.A.3. of annex 2 of the technical guideline of this decree.

2. Classification according to risk categories

In general, derivative transactions are to be categorised into the following two risk classes.

- Foreign exchange
- Single-currency interest rate

In practice, however, individual derivative transactions may straddle more than one risk category. In such cases, transactions that are simple combinations of exposures should be reported separately in terms of their individual components. Transactions that cannot be readily broken down into separable risk components should be reported in only one risk category. The allocation of such products with multiple exposures should be determined by the underlying risk component that is most significant.
In these cases the deals should be allocated according to the following order of precedence:

- Foreign exchange derivatives: all derivative transactions with exposure to more than one currency, wheter in interest rates or exchange rates.
- Single-currency interest rate derivatives: all derivative transactions in which there is exposure to only one currency's interest rate, including all fixed/floating and floating/floating single-currency interest rate contracts.

3. Types of the instruments (transactions)

a) Foreign exchange transactions

- Spot transactions: single outright transactions involving the exchange of two currencies at a rate agreed on the date of the contract, within two business days. The spot legs of swaps should not be included among spot transactions even when they are due for settlement within two business days. Spot transactions should be exclusive of e.g. overnight swaps and other "tomorrow/next day" swap transactions.

- Outright forward: the exchange of two currencies at a rate and at a future time (more than two business days later) agreed on the date of the contract.

- Foreign exchange swap: the exchange of two currencies on a specific date at a rate agreed at the time of the conclusion of the contract (the short leg), and a reverse exchange of the same currencies at a date further in the future at a rate (different from the rate applied to the short leg) agreed at the time of the contract (the long leg). Only the long leg of the swap transactions should be reported, short leg of the swaps are not part of this survey (neither as spot nor as

foreign exchange swap transactions). The long leg of the "tomorrow/next day" swaps should also be included in this category.

- Currency swap: the exchange of streams of interest payments in different currencies for an agreed period of time and exchange of principal amounts in different currencies at a preagreed exchange rate at maturity.

For the purposes of the classification used in this survey the principal difference between **FX-swap** and **currency-swap** is that in the case of FX-swap only the principal is exchanged (twice) commonly at a different price, whereas currency-swap also involves the exchange of streams of interest payments as well.

- Currency option: right/obligation to buy or sell a currency with another currency at a specified exchange rate during a specified period. Swaptions, ie options to enter into a swap contract, and contracts known as caps, floors, collars, corridors and other plain vanilla options should be reported as options. This category also includes exotic foreign exchange options such as average rate options and barrier options. Options such as call feature embedded in loans, securities and other on-balance-sheet assets are not to be reported unless they are a derivative instrument that must be treated separately under FAS 133 or IAS 39.

- Currency warrant: long-dated (over one year) OTC currency option.

b) Single-currency interest rate derivatives

- Forward rate agreement (FRA): contract in which the rate to be paid or received on a specific obligation for a set period of time, beginning at some time in the future, is determined at contract initiation.

- Interest rate swap: the exchange of periodic payments related to interest rates on a single currency; can be fixed for floating or floating for floating based on different indices. This group includes those swaps whose notional principal is amortised according to a fixed schedule independently of interest rates.

- Interest rate option: right/obligation to pay or receive a specific interest rate on a predetermined principal for the period of time fixed in the contract. Options such as call feature embedded in loans, securities and other on-balance-sheet assets are not to be reported unless they are a derivative instrument that must be treated separately under FAS 133 or IAS 39. The below mentioned options are part of the survey.

    - Interest rate cap: OTC option that pays the difference between a floating interest rate and the predetermined cap rate.

    - Interest rate floor: OTC option that pays the difference between a floating interest rate and the predetermined floor rate.

    - Interest rate collar: combination of cap and floor.

    - Interest rate corridor:
        - A combination of two caps: one is purchased by a borrower at a set strike and the other is sold by the borrower at a higher strike to, in effect, offset part of the premium of the first cap.
        - A collar on a swap created with two swaptions.

    - A digital knockout option with two barriers bracketing the current level of a long-term interest rate.

- Interest rate swaption: OTC option to enter into an interest rate swap contract for paying or receiving a fixed rate (against a floating rate).

- Interest rate warrant: long-dated (over one year) interest rate OTC option.

c) Other rules concerning the classification of instruments

- Forward transactions include both deliverable transactions and contracts where only the difference between the contracted forward outright rate and the prevailing spot rate is settled at maturity; and also other contracts for differences.

- Options:
    - Sold option: obligation of the reporting institution for compensation (such as a fee or premium). Also to be reported are data for written caps, floors and swaptions but for the written portion only of collars and corridors.
    - Bought option: acquired right of the reporting institution for a fee or premium. Also to be reported are data for purchased caps, floors and swaptions but for the purchased portion only of collars and corridors.

- OTC derivative transactions are in principle to be broken down into the following three types of plain vanilla instruments: forward, swap, option. If a transaction is composed of several plain vanilla components, each part should in principle be reported separately.

- Non plain vanilla products should in principle be separated into their plain vanilla components and all these plain vanilla components should be reported separately. If this separation is not feasible than all transactions with an embedded (foreign exchange or interest rate) option are reported as OTC options.

- Other products: derivative instruments where decomposition into individual plain vanilla instruments such as forwards, swaps or options is impractical or impossible.

4. Breakdown by maturity

- 7 days or less
- 8 days – 1 year
- more than 1 year

In case of forward transactions the time until maturity is the period between contract date and settlement date.
In case of FX swaps the time until maturity is the period between contract date and the settlement date of the long leg.

5. Miscellaneous

Transactions performed through an intermediary currency must be considered as two independent transactions against the intermediary currency therefore both must be included in the table. Direct currency transactions only need to be included once.

In case of transactions, where there are changes in the principal, the value applicable on the day of the contract should be reported.

Since table A1 includes figures for the HUF/USD and the HUF/EUR exchange rates, these should not to be reported in Tables A2 and A3. Data for USD/EUR in Table A2 may not be reported in Table A3. This approach should also be applied when filling in Tables A5, A6 and A7.

We would like to place special emphasis on the necessity of filling in cells M51 and M55 of Table A7 and cells AV38 and AV42 of Tables B2.

The original material prepared by BIS is contained (for information purposes only) in the technical guideline of paragraph 16. of annex III. of this decree, published on the website of MNB.

III. Rules applicable for the submission of the report

Method of submission: e-mail
Format of the report: Excel file
The report must be addressed to: MNB Statistics, Monetary Statistics. (STA_MSO@mnb.hu)