MNB data compilation code: **D25**

## GUIDELINES FOR COMPLETION

**to the questionnaire entitled "Central bank survey of the intensity of the foreign exchange market and the market of derivative instruments (open transactions)**

## I. General instructions

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

2. The transactions which are still open at the end of July 2007 should be reported in the survey, regardless of the date when they were concluded.

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

4. Figures should be indicated in units of million USD, rounded, without decimals, with translations conducted by the official MNB exchange rate in effect on 30 June 2007. The data suppliers may use their own exchange rates, in case these rates don't significantly differ from market exchange rates.

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

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

7. 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.

8. 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 instructions for filling out the table, procedures for the compilation of data

### 1. Market units

- Reporting dealer: includes financial institutions that participate in the semi-annual BIS survey on derivative markets and their centre can be found within one of the G10 countries also comprising their ancillaries and subsidiaries. A detailed description will be provided under paragraph 18 of annex 3 of this decree that will be published on the website of the Magyar Nemzeti Bank.

- 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.

2. Classification according to risk categories

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

- Foreign exchange, including gold
- Single-currency interest rate
- Equity, stock index
- Commodity
- Credit
- Other

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:

- Commodity derivatives: all derivative transactions involving a commodity or commodity index exposure, whether or not they involve a joint exposure in commodities and any other risk category. The contracts have a return linked to the price of, or to a price index of, a commodity such as a precious metal (other than gold), petroleum, lumber or agricultural products.
- Equity derivatives: with the exception of contracts with a joint exposure to commodities and equities, which are to be reported as commodities, all derivative transactions with a link to the performance of equities or equity indices, whether or not they involve a joint exposure in equities and any other risk category (except commodities).
- Foreign exchange derivatives: all derivative transactions (with the exception of the previous two classes) with exposure to more than one currency, whether in interest rates or exchange rates.
  Gold contracts include all deals involving exposure to that commodity.
- 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.
- Credit derivatives: contracts in which the payout is linked to some measure of the creditworthiness of a particular reference credit. The contracts specify an exchange of payments in which at least one of the two legs is determined by the performance of the reference credit.
- Other derivatives: any other derivative contracts, which do not involve an exposure to the abovementioned categories.

3. Classification according to instruments (transactions)

a) Foreign exchanges 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). ”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. This category also includes exotic foreign exchange options such as average rate options and barrier options.

- 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. 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) Equity and stock index derivatives

- Equity forward: contract to exchange an equity or equity basket at a set price at a future date.
- Equity swap: the exchange of one equity or equity index return for another, or the exchange of one equity or equity index return for a floating or fixed interest rate.
- Equity option: right / obligation to buy or sell a specific equity or equity basket at an agreed price at an agreed time in the future.
- Equity warrant: long-dated (over one year) interest rate OTC option.

d) Commodity derivatives

- Commodity forward: contract to exchange a commodity or commodity index at a set price at a future date.
- Commodity swap: the exchange of the return on one commodity or commodity index for another, or the exchange of the return on one commodity or commodity index for a floating or fixed interest rate
- Commodity option: right/obligation to buy or sell a specific commodity or commodity index at an agreed price at a set date in the future.

e) Credit derivatives

- Credit spread forward: the cash payments between the two partners depend on the difference between a spread (ie the difference in yields between two financial assets) agreed at contract initiation and that prevailing at settlement.
- Credit default swap: contract in which a partner (against fixed periodic fee) protects the other one from a potential fall in value of the underlying reference credit. These are contracts in which the protection buyer (risk shedder) pays a fixed periodic fee in return for a contingent payment by the protection seller (risk taker).
  The reference credit could be only one credit (single-name instruments) or a basket of difference credits (multi-name instruments).
- Total return swap: contract, which commits two counterparties to exchange the total economic performance of a financial asset (interest payments, fees, any appreciation or depreciation) for a floating rate payout based on a reference index.

- Credit spread option: right / obligation to receive or pay a cash payment if a spread, ie the difference in yields between two financial assets, widens beyond an agreed strike level during a specific period.

All the transactions which are still open at the reporting time shall be reported, regardless of their maturity.

f) Other rules concerning the classification of the 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 (eg. foreign exchange differences).

- 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. 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.

    - 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.

- Swaps: only the unsettled forward part(s) of the deal should be reported. If both the legs are unsettled then they should be reported separately.

- 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 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. Valuation principles

The volume of open transactions has to be indicated at nominal value and also at market value.

a) Nominal value

All transactions should be included separately without netting (or settling against each other in any way) therefore the following nettings are disallowed:

- Netting of selling and purchase obligation towards third party.
- Netting of written out and purchased option.
- Presenting bilateral net contracts at net value.

Principles to be followed for the calculation of nominal value:

- Forward transactions: is the nominal value of the contract and not the underlying instrument included in it.
- Swap agreement: nominal capital value / the value of the underlying instrument which is the basis for the determination of the interest payment, currency payment and other revenues and expenses.
- Derivative transactions in connection with shares and commodities: is the product of the unit price stipulated in contract multiplied by the quantity of the underlying instrument.
- Credit default swap: the nominal value of the reference loan which serves as basis for the derivative transaction.

If the derivative transaction contains a multiplier then this must be also be taken into consideration when calculating nominal value.

If nominal value changes in time then the value prevailing on the data of the data supply (30th June 2007) should be presented.

## b) Market value

The market value of a specific open transaction indicates the amount of profit or loss that would result if the transaction was to be settled at the market prices in effect on that day (on 30th June 2007).

If quoted market price is available for the given contract then this must be multiplied with the quantity of the underlying instrument stipulated in the contract. If this reference price is not available then this must be estimated by the data supplier. This may be done in the following way:

- With the help of the quoted market price of a similar contract
- With the use of secondary market prices,
- With the use of different estimation methods (e. g. using discounted cash flow method in case of swaps, or option pricing models in case of options)

Main criteria for the calculation of market value:

- Forward transactions, swaps: may be positive, zero or negative depending on the change of price of the underlying instrument stipulated in the contract after the creation of the contract and compared to the price in the contract
- Options: options have a market value at initiation, which is equal to the premium paid to the writer of the option Throughout their life option contracts can only have a positive market value for the buyer and a negative market value for the seller.

After determining the price of every single contract the contracts with losses and gains should be summed separately. These will be the gross positive and gross negative market values which should be presented in the tables.

The market values of profitable and losing transactions have to be summarized separately after the market value is determined for all transactions, where these shall comprise the gross positive or the gross negative market values.

When defining gross market values no netting is allowed. This means that the following nettings are disallowed:

- Netting of contracts with a positive and negative market value created with the same counterparty.
- Netting of contracts with a positive and negative market value created within the same instrument type.
- Netting of written and purchased options.

5. Units of currency

In general from the existing transactions open transactions should be broken down by the following currencies:

- USD, EUR, JPY, GBP, CHF and other currencies

If there is a relevant risk in currencies not mentioned above in connection with a given product data suppliers must also present this separately. A risk is considered to be relevant if in connection with a given product the volume of the open transactions exceeds 2% of the total transaction value.

In case of currency transactions (for more details see under II.3.a of the decree) both nominal, positive and negative market value has to be broken down by currency types. All transactions have to be presented at a double value in the proper table and currency column. Consequently the total for the breakdown by currencies must be equal to the double of the total of transactions.

Equity-linked derivatives should be categorized according to the issuer of the equity and not according to where the transaction takes place.

## 6. Miscellaneous

In Table 4 data for open transactions shall be indicated consistent with remaining maturity. If several settlement days can be connected to the transaction and if by 30 June 2007 not even the first one was liable, the duration between the next and the last legs shall be deemed as the remaining maturity.

The original material prepared by BIS is contained (for information purposes only) in the technical guideline of paragraph 17. of annex III. of this decree, published on the website of MNB. Information concerning the volume of open transactions referring to 30th June 2006 must be supplied only in the tables of D25.xls file.

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)