

MONTHLY CONSOLIDATED FOREIGN CURRENCY REPORT OF MAJOR MARKET PARTICIPANTS

TREASURY FOREIGN CURRENCY FORM FC-2

GENERAL INSTRUCTIONS

A. INTRODUCTION

This report collects monthly, consolidated data on foreign exchange contracts and foreign currency denominated assets and liabilities of major market participants. Data should be provided in millions of units of each specified currency. Filing is required by law (31 U.S.C. 5315; 31 C.F.R. 128, Subpart C). Failure to report can result in a civil penalty up to \$10,000 (31 U.S.C. 5321(a)(3), 31 C.F.R. 128.4(c)).

Reported data will be held in confidence by the Department of the Treasury and Federal Reserve Banks acting as fiscal agents of the Treasury. Data reported by individual banks and firms will not be published or otherwise publicly disclosed. Aggregate data may be published or disclosed in ways that will not reveal the amounts reported by any one institution. The data of individual reporters may be provided to other Federal agencies insofar as authorized by the Paperwork Reduction Act (44 U.S.C. 3501 et seq.).

Paperwork Reduction Act Notice: The estimated average burden associated with this collection of information is four hours per respondent. Comments concerning the accuracy of this estimate and suggestions for reducing the burden should be directed to the Office of Information Resources Management, Room 2110, 1425 New York Ave., NW, Washington, DC 20220, and the Office of Management and Budget, Paperwork Reduction Project (1505-0010), Washington, DC 20503.

B. WHO MUST REPORT

This report must be filed by each foreign exchange market participant that had more than \$50 billion equivalent in foreign exchange contracts on the last business day of any calendar quarter during the previous year (March, June, September, or December) calculated using then prevailing exchange rates. Such contracts include the amounts of foreign exchange spot contracts bought and sold, foreign exchange forward contracts bought and sold, foreign exchange futures bought and sold, plus one half of the notional amount of foreign exchange options (that is, foreign exchange options bought and sold divided by two).

Institutions required to report include banks, bank holding companies and depository institutions in the United States; the agencies, branches, and subsidiaries located in the United States of foreign banks and banking institutions; nonfinancial corporations; nonprofit institutions; brokers; dealers; mutual fund, foreign

exchange, and hedge fund managers; and other entities located in the United States, whether sole proprietorships, partnerships, groups, associations, syndicates, trusts, or corporations, including the U.S. branches and subsidiaries of foreign nonbanking concerns. Subsidiaries -- including banks, Edge Acts, and nonbanks -- should be consolidated with the parent.

The subsidiaries and branches in the United States of any foreign bank or foreign institution must report if their combined foreign exchange contracts as listed above exceed the exemption level. **However, U.S. subsidiaries of foreign entities should file only for offices located in the United States, not for their foreign parents.**

Except for foreign branches and agencies that have offices located in different Federal Reserve districts, only one report should be filed by any institution. Institutions may choose to report at the level of the bank unless the holding company's foreign currency commitments, including those of its subsidiary banks, exceed those of the bank or banks by more than 2 percent. If this is the case, the holding company must report.

C. FILING THE REPORTS

1. This report should be completed *as of* the last business day of each month and filed within ten (10) business days. The use of a facsimile machine is recommended.
2. The Federal Reserve acts as the collecting and processing agent for this report for the U.S. Department of the Treasury. Banking institutions including foreign branches and agencies and bank holding companies should submit this report to the Federal Reserve Bank in whose district they are located. Nonbanks should file with the Federal Reserve Bank of New York (FRBNY).
3. The report should be filed on a fully consolidated basis. Reporters whose top-tier parent is located in the United States should include data for all domestic and foreign offices.
4. All contracts should be reported on a gross basis. Contracts with the same customer, including those netted by bilateral or multilateral master netting agreements, are to be reported gross. Contracts with affiliates should be reported gross. However, exclude intra-office trades between desks or departments within the same reporter (e.g. transactions between two trading "desks" at the same location). Also exclude any off-market transactions between unconsolidated offices such as those used to transfer the management of foreign currency exposure from a sales office to a trading operation.
5. Include foreign exchange contracts used for hedging.
6. Report **both** sides of foreign exchange transactions involving the report's specified currencies. For example, for a trade involving the purchase of U.S. dollars against the sale of Euros, report the dollar side in row one and the Euros in row two.
7. Report all amounts in the indicated currency.
8. If the aggregate notional amount of options purchased and sold (*written*) in all currencies is in excess of U.S.\$500 million, you are required to complete the Options Addendum.
9. The reports are to be submitted on the forms provided by your Federal Reserve Bank. Reports must be clear and legible, typed or written in ink. Computer printouts in the same format as the form, including all

item and column captions, may be used if approved *in writing* by your Federal Reserve Bank.

D. REVIEW OF DATA

Data submitted on Form FC-2 are reviewed by Federal Reserve staff. A reporter may be called to explain changes in the data. In some cases, the reporter may be asked to submit revised reports. Reporters must maintain records for the current and prior year in order to be able to comply with such requests. Revised reports must be signed by an authorized officer.

E. DEFINITIONS

United States. The term "United States" means the States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, and the following: American Samoa, Guam, Johnston Atoll, Midway Island, the U.S. Virgin Islands, and Wake Island.

Specified currencies. "Specified currencies" are the six currencies heading columns on the front of Form FC-1: U.S. dollars, Euros, Swiss francs, U.K. pounds, Japanese yen, and Canadian dollars. Please note: every exchange contract involves two currencies. If one is a specified currency, it should be reported. If both are specified currencies, then the currency amounts should be included in both of the appropriate columns.

"Delta equivalent" value. For this report, this is an estimate of the relationship between an option's value and an equivalent currency hedge; that is, the "delta equivalent" is the amount of currency that will have the same gain or loss characteristics as the option over small movements in the exchange rate. The "delta equivalent" value represents the product of the first partial derivative of an option valuation formula (with respect to the price (rate) of the underlying currency) multiplied by the notional principal of the contract. The option valuation formula should provide unbiased estimates of the price of an option as a function of the price of the underlying asset. Report the valuation formula chosen, with estimation methodology, at the first submission of Form FC-1 and at any time it is changed thereafter. The same valuation formula should be used on both the FC-1 and FC-2.

F. ROUNDING

All entries should be rounded to the nearest million units; do not use decimals.

S P E C I F I C I N S T R U C T I O N S

1. **Foreign Exchange Contracts Purchased** (excluding futures contracts). Report in this row the outstanding amounts of foreign exchange that the reporter has contracted to receive. Report amounts due on unsettled spot, forward, and swap contracts. Report the principal amounts of swaps that are to be exchanged. Report the far leg and the near leg if it has not settled. Do not report the notional amount of swaps where there is not an exchange of principal.
2. **Foreign Exchange Contracts Sold** (excluding futures contracts). Report in this row the outstanding amounts of foreign exchange that the reporter has contracted to deliver. Include amounts due on unsettled spot, forward, and swap contracts. Report the principal amounts of swaps that are to be exchanged. See instructions for row 1 for details of reporting swaps.
3. **Foreign Exchange Futures Purchased.** Report in this row all purchases of contracts traded on organized exchanges calling for receipt of foreign currency at a fixed date. Identical futures (contracts for the same currencies for the same settlement date on the same exchange) should be reported net. For example, if you have contracts on the CME to buy 100 million in 30-day Japanese yen and sell 50 million in 30-day Japanese yen, include 50 million in Row 3.
4. **Foreign Exchange Futures Sold.** Report in this row all sales of contracts traded on organized exchanges calling for delivery of foreign currency at a fixed date. Identical futures (contracts for the same currencies for the same settlement date on the same exchange) should be reported net. For example, if you have contracts on the CME to buy 50 million in 30-day Swiss francs and sell 100 million in 30-day Swiss francs, include SFr 50 million in Row 4.
5. **Net Options Position, Delta Equivalent Value Long or (Short).** Reporters who buy and sell options report these values if the aggregate notional principal amount of options *purchased and sold* (written) by the reporter exceeds U.S.\$500 million equivalent. Report the net "delta equivalent" value of all currency option contracts, written and purchased, for each specified currency. Report a net short position in parentheses. Additionally, if you meet the reporting requirement you must complete the Options Addendum.
6. **Foreign Currency Denominated Assets.** Report in this row all assets denominated in the specified foreign currencies. Include currency, balances due from banks and other depository institutions; securities; loans; discounted notes; and other foreign currency-denominated assets. Exclude foreign exchange contracts for which delivery has not been taken included in items 1 – 4.
7. **Foreign Currency Denominated Liabilities.** Report in this row all liabilities denominated in the specified foreign currencies. Include, for example, borrowings; overdrafts; securities; acceptances outstanding; deferred payment letters of credit outstanding; balances due to banks; and other foreign currency-denominated liabilities. Exclude foreign exchange contracts for which delivery has not been made included in items 1 – 4.

The net foreign currency exposure on interest flows in each specified currency should be reported in row 6 or 7, depending whether it represents a net asset (receivable) or liability (payable) position. This

amount should include accrued foreign currency interest receivable or payable for deposits, loans and securities.

8. **Net Overall Position.** Report in this row the sum of amounts in rows 1 through 7, reporting a net liability or short position in parentheses.
9. **Memorandum - Net Reported Dealing Position Long or (Short).** Report in this row the net dealing position for each of the specified currencies as reported to senior management for internal risk management purposes. This figure should be taken from or derived from the reporter's internal risk management system. For reporters with a top-tier parent located in the United States, it should reflect all positioning *undertaken under the authority of the manager in charge of global foreign exchange operations*. For the U.S. affiliates of foreign institutions, report the net dealing position undertaken under the authority of the manager in charge of foreign exchange operations in the United States. However, if the reporter is an affiliate of a foreign institution whose foreign exchange operations are managed on a global basis and the internal risk management system does not provide a meaningful measure of positions for the U.S. based operations, contact the Federal Reserve Bank staff to discuss alternate arrangements. Also contact our staff if the internal risk management system does not calculate a position in the U.S. dollar. Provide a description of what is included in calculating the net reported dealing position with the first submission of Form FC-1 and at any time it is changed thereafter. Note that this amount is also reported weekly on line 3 of Form FC-1.

RELATING TO THE OPTIONS ADDENDUM

This addendum should be completed by those entities with an aggregate notional principal amount of options *purchased and sold (written)* in all currencies exceeding U.S. \$500 million. For rows 1 through 4, report the notional principal of options for that item.

Foreign currency options between specified currencies should be reported twice. For example, the currency amounts of a Japanese yen call option against the sale of U.S. dollars should be reported in columns 1 and 5. A Swiss franc put against the purchase of U.K. pounds should be included in columns 3 and 4.

1. **Put Options Written.** Report the notional value of the foreign currency position that the reporter is obligated to buy under option contracts at the option of the other party.
2. **Call Options Written.** Report the notional value of the foreign currency position that the reporter is obligated to sell under option contracts at the option of the other party.
3. **Call Options Purchased.** Report the notional value of the foreign currency position where the reporter has acquired an option to purchase and the other party to the contract is obligated to sell the instrument if the reporter exercises the option.
4. **Put Options Purchased.** Report the notional value of the foreign currency position where the reporter has acquired an option to sell and the other party to the contract is obligated to buy the instrument if the reporter exercises the option.