

DRAFT

# **Instructions for the Central Bank Survey of Foreign Exchange and Derivatives Market Activity**

## **Turnover Survey April 2007**

**FR 3036**

**OMB No. 7100-0285**

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## A. Introduction

These instructions cover the *turnover* part of the survey. Separate instructions have been provided for the *amounts outstanding* part of the survey. The *turnover* part of the survey will be conducted on a *locational* basis. Turnover data should be collected over the entire month of April 2007. The data should reflect all transactions entered into during the month, regardless of whether delivery or settlement is made during that month.

In order to limit the reporting burden, the *turnover* part of the survey only covers spot transactions and turnover in OTC foreign exchange and interest rate derivatives. No data are collected on turnover of exchange-traded derivative instruments.

The Federal Reserve System treats information provided by each respondent as confidential. Aggregate totals will be published by the Federal Reserve Bank of New York and the Bank for International Settlements.

## B. Coverage

### 1. Reporters

Reporting dealers are financial institutions that actively participate in local and global foreign exchange and derivatives markets. These entities (1) participate in the *interdealer* market or (2) actively conduct *business with large customers*, such as large corporate firms, and other financial institutions. That is, *reporting dealers* are institutions that are actively buying and selling currency and entering into OTC derivatives for their own account or in meeting customer demand. *Reporting dealers* also include the U.S. branches and subsidiaries of foreign institutions that have trading desks or sales desks in the United States.

### 2. Risk categories

The survey collects data on foreign exchange transactions and OTC derivative products according to the following broad market classification:

- foreign exchange contracts (Tables A1 to A6)
- single-currency interest rate derivatives (Tables B1 and B2)

*Foreign exchange contracts.* Foreign exchange contracts cover both spot and forward transactions.

*Single-currency interest rate derivatives.* Interest rate contracts are contracts related to an interest-bearing financial instrument whose cash flows are determined by referencing interest rates or another interest rate contract (e.g., an option on a futures contract to purchase a Treasury bill). Interest rate contracts include forward rate agreements, single-currency interest rate swaps and interest rate options, including caps, floors, collars and corridors.

This category includes only those deals where all the legs are exposed to only one currency's interest rate. Thus it excludes contracts involving the exchange of currencies (e.g., cross-currency swaps and currency options) and other contracts whose predominant risk characteristic is foreign exchange risk, which are to be reported as foreign exchange contracts.

### 3. Instrument types

The survey covers spot foreign exchange transactions and data on turnover of OTC derivatives. For OTC derivatives, the following instrument breakdown is reported:

- forwards

- swaps
- OTC options
  - sold
  - bought
- other products

*Spot transactions.* Spot transactions are single outright transactions involving the exchange of two currencies at a rate agreed on the date of the contract for value or delivery (cash settlement) within two business days. The spot legs of swaps should not be reported even when they are due for settlement within two days (i.e., spot transactions should exclude of "tomorrow/next day" transactions).

*Forward contracts.* Forward contracts are agreements for delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument or commodity at a specified price or yield. Forward contracts are generally not traded on organised exchanges and their contractual terms are not standardised. Transactions where only the difference between the contracted forward outright rate and the prevailing spot rate is settled at maturity, such as non-deliverable forwards (i.e., forwards which do not require physical delivery of a non-convertible currency) and other contracts for differences, should be reported.

*Swaps:* Swaps are transactions in which two parties agree to exchange payment streams based on a specified notional amount for a specified period. Foreign exchange swaps involve the exchange of two currencies and the reverse exchange of the same currencies at a date further in the future. Forward-starting swap contracts should be reported as swaps.

For swaps executed on a forward/forward basis or as spot/forward transactions, both types of swaps should be reported only once. The unsettled portion of a foreign exchange swap transaction should be excluded as only the long leg of the swap is reportable.

*OTC options.* Option contracts convey either the right or the obligation, depending upon whether the reporting institution is the purchaser or the writer, respectively, to buy or sell a financial instrument or commodity at a specified price up to a specified future date. OTC option contracts include all option contracts not traded on an organised exchange. Swaptions, i.e., options to enter into a swap contract, and caps, floors, collars, corridors and other plain vanilla contracts should be reported as options. Options such as call feature embedded in loans, securities and other on-balance-sheet assets do not fall within the scope of this survey and are therefore *not* to be reported unless they are a derivative instrument that must be treated separately under FAS 133. (FAS 133 requires the bifurcation of derivatives that are not clearly and closely related to the host contract.)

*Sold options.* OTC options contracts in which the reporter has, for compensation (such as a fee or premium), obligated itself to either purchase or sell financial instruments or commodities. Also to be reported are data for written caps, floors and swaptions and for the *written portion only* of collars and corridors.

*Bought options.* OTC option contracts in which the reporter has, for a fee or premium, acquired the right to either purchase or sell financial instruments or commodities. Also report data for purchased caps, floors and swaptions and for the *purchased portion only* of collars and corridors.

*Other products.* Other derivative products are instruments where decomposition into individual plain vanilla instruments such as forwards, swaps or options is impractical. Examples of "other" products are swaps with underlying notional principal in one currency and fixed or floating interest rate payments based on interest rates in currencies other than the notional (differential swaps or diff swaps) and instruments with leveraged payoffs and/or those whose notional principal varies as a function of interest rates, such as swaps based on LIBOR squared or index amortising rate swaps.

Further instrument definitions and reporting categorisations are provided in Section G below.

#### 4. The types of data requested

To gauge the size of the foreign exchange and OTC derivatives markets, the survey collects turnover data for both proprietary and commissioned business of the reporting institution. Commissioned business refers to reporting institutions' transactions as a result of deals as an agent or trustee on behalf of third parties.

Turnover is defined as the gross value of all new deals entered into during a given period, and is measured in terms of the notional amount of the contracts. In addition to spot foreign exchange transactions, turnover data are requested for foreign exchange and interest rate derivatives only.

No distinction should be made between sales and purchases (for example, a purchase of \$5 million against sterling and a sale of \$7 million against sterling would amount to a gross turnover of \$12 million). Direct cross-currency transactions should be counted as single transactions; however, cross-currency transactions passing through a vehicle currency should be recorded as two separate deals against the vehicle currency (for example, if a bank sells \$5 million against euro and then uses the euro to purchase krona, the reported turnover should be \$10 million). The gross amount of each transaction should be recorded prior to netting or any offsets. In this context, reporting institutions are reminded that CLS payments are made on a net basis, and so should not be used as a source for completing the survey, which is on a gross basis.

For turnover of transactions with variable nominal or notional principal amounts, the basis for reporting should be the nominal or notional principal amounts on the transaction date.

#### 5. Reporting basis

For turnover data, the basis for reporting any trade should be the location of the *sales desk*, even if the trade was booked in another location. Transactions conducted by offices located in the United States should be reported to the Federal Reserve Bank of New York, even if these trades were booked at an office in another country. Where no sales desk is involved in a deal, the *trading desk* should be used to determine the location of deals. (Please see the list of illustrative examples of how to report trades by location of deals in the Attachment to these guidelines.)

*Internal and related party trades.* Reporting institutions should include trades between desks and offices, and trades with their own branches and subsidiaries and between affiliated firms, in their reported aggregates, and identify them as a separate "of which" memorandum item, under related party trades. These trades should be included regardless of whether the counterparty is resident in the same country as the reporting dealer or in another country. However, trades that are conducted as back-to-back deals and trades to facilitate internal bookkeeping and internal risk management within a reporting institution should be excluded from the survey. Trades between separate affiliated entities within the same organization should be reported regardless of location. The reported trades with own branches and subsidiaries and between affiliated firms should be allocated to the category of reporting dealers or other financial institutions depending on whether the counterparty is a reporting dealer or not. In the event of an inter-desk deal within the same reporting entity, that trade should be reported twice in the reporting dealer local category. If the trade was with an affiliate overseas, which is also a reporting dealer in that second country; the two reporting dealers should both report the transaction once in the reporting dealer cross-border category. The totals of such related party trades are reported separately as an *Of Which* memo item following Total Contracts (Table A5 and B2).

Large financial groups operating in a range of centers should ensure that the agreed definitions of the guidelines are followed, as consistently as possible, by all their reporting units. The guiding principle should be that each trade is reported once.

## 6. Currency of reporting and currency conversion

Transactions are to be reported in US dollar equivalents. Non-dollar amounts should be converted into US dollars using the exchange rates prevailing on the transaction date. However, if this is impractical, turnover data may be reported using average or end-of-period exchange rates.

When exchange rates other than those of the day of the transaction are used, the order of precedence of currencies' dollar exchange rates for purposes of conversion in deals which involve currencies other than the US dollar should be the same as listed in the foreign exchange turnover section of the survey forms (i.e., EUR, JPY, GBP, etc.).

Transactions which involve the direct exchange of two currencies other than the US dollar should be measured by totalling the US dollar equivalent of only one side (preferably the purchase side) of the transaction.

## 7. Rounding

All data entered on the report form should be rounded to the nearest million US dollars (do not use decimals). Rounding should occur only when reporting the monthly totals for each category.

## 8. Reporting deadline

The survey should be submitted to the Federal Reserve Bank of New York by May 31, 2007.

## C. Counterparties

Reporting dealers should provide for each instrument in the foreign exchange and interest rate derivatives categories a breakdown of contracts by counterparty as follows: reporting dealers, other financial institutions and non-financial customers. In addition, reporting dealers are requested to provide separate information on local and cross-border transactions. The distinction between local and cross-border should be determined according to the location of the counterparty and not the nationality of the reporter's parent.

Transactions conducted under prime brokerage arrangements should be reported by the executing dealer opposite the prime broker and not the customer. The executing dealer should classify the prime broker as "reporting dealer" or "other financial institution" as appropriate. Similarly, the prime broker, if a reporting dealer, should report two trades, one against the executing dealer and a second trade opposite the customer as either "other financial institution" or "non-financial customers."

Transactions that are subsequently novated to a clearinghouse for settlement (central counterparty clearing) should always be reported as a single transaction opposite the original counterparty to the deal.

- Reporting dealers

Reporting dealers are institutions throughout the world that are submitting this report to their local central bank. In order to allow the accurate elimination of double counting of inter-reporter transactions, reporting institutions should identify transactions with "reporting dealers" to the best of their ability.

- Other financial institutions

This category covers the financial institutions that are not classified as *reporting dealers*. It covers all non-reporting financial institutions, such as commercial banks, investment banks and securities firms, mutual funds, pension funds, hedge funds, currency funds, money market funds, thrifts, leasing companies, insurance companies, and financial subsidiaries of non-financial companies.

- Non-financial customers

This category covers any counterparty other than those describe above, i.e., mainly non-financial *end-users*, such as corporates and governments.

#### **D. Currency and other risk factor breakdowns**

In order to obtain consistent data on *turnover* in principal currency segments of the foreign exchange market, reporting institutions are asked to report turnover data on foreign exchange contracts by currency pairs. Data should be provided separately for trading in the US dollar against the following individual currencies:

EUR: Euro  
JPY: Japanese yen  
GBP: Pound sterling  
CHF: Swiss franc  
CAD: Canadian dollar  
AUD: Australian dollar  
SEK: Swedish Krona  
ARS: Arentine Peso  
BRL: Brazilean real  
CLP: Chilean Peso  
MXN: Mexican Peso  
Other currencies

Data should be provided separately for trading in the Euro against the following individual currencies:

JPY: Japanese yen  
GBP: Pound sterling  
CHF: Swiss franc  
CAD: Canadian dollar  
AUD: Australian dollar  
SEK: Swedish Krona  
Other currencies

For emerging market currencies, reporting dealers should provide supplementary information on total turnover for the following currencies, which also have to be included in the above columns for "other" currencies in the breakdown by currency pairs:

CNY: Chinese renmimbi  
CZK: Czech koruna  
DKK: Danish krone  
HKD: Hong Kong dollar  
HUF: Hungarian forint  
IDR: Indonesian rupiah  
INR: Indian rupee  
KRW: Korean won  
NOK: Norwegian krone  
NZD: New Zealand dollar  
PHP: Philippine peso  
PLN: Polish zloty  
RUB: Russian rouble  
SGD: Singapore dollar  
THB: Thai baht  
TRL: Turkish lira

TWD: new Taiwan dollar  
ZAR: South African rand

For *turnover* of single-currency interest rate contracts, include:

USD, EUR, JPY, GBP, CHF, CAD, AUD, ARS, BRL, CLP, DKK, HKD, IDR, MXN, NOK, NZD, SEK, SGD and THB.

## **E. Maturities**

In the *turnover* part of the survey, transactions in outright forwards and foreign exchange swaps should be reported according to the following (original) maturity bands:

- seven calendar days or less
- over seven calendar days and up to one year
- over one year.

The maturity of an outright forward contract is the difference between the delivery date and the date of initiation of the contract. The maturity of a foreign exchange swap contract is the difference between the due date of the long leg of the contract and the date of initiation of the contract. The maturity of a forward/forward swap is determined as the difference between the date of initiation of the deal and the due date of the second leg of the deal. A forward/forward swap should only be reported once as one single deal.

## **F. Categorization of derivatives involving more than one risk category**

Individual derivatives transactions are to be categorised into two risk classes: foreign exchange and single-currency interest rate. Transactions should be reported in only one risk category, the category of the predominant risk. The allocation of such products with multiple exposures should be determined by the underlying risk component that is most significant.

## **G. Detailed instrument definitions and categorization**

In each risk category OTC derivatives are in principle to be broken down into three types of plain vanilla instrument (forwards, swaps and options). Plain vanilla instruments are those traded in generally liquid markets using standardized contracts and market conventions. If a transaction is composed of several plain vanilla components, each part should in principle be reported separately. Foreign exchange spot and OTC derivatives transactions should be defined and categorized as follows:

### **1. Foreign exchange transactions**

Spot transaction:	Single outright transaction involving the exchange of two currencies at a rate agreed on the date of the contract for value or delivery (cash settlement) within two business days. The spot legs of swaps do not belong to spot transactions but are to be reported as swap transactions even when they are for settlement within two days (i.e. spot transactions should exclude "tomorrow/next day" transactions).
Outright forward:	Transaction involving the exchange of two currencies at a rate agreed on the date of the contract for value or delivery (cash settlement) at some time in the future (more than two business days later). This category also includes forward foreign exchange agreement transactions (FXA), non-deliverable forwards and other forward contracts for differences.



Foreign exchange swap:	Transaction which involves the actual exchange of two currencies (principal amount only) 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 two currencies at a date further in the future at a rate (generally different from the rate applied to the short leg) agreed at the time of the contract (the long leg). Both spot/forward and forward/forward swaps should be included. For <i>turnover</i> , only the forward leg should be reported as such. The spot leg should not be reported at all, i.e. neither as spot nor as foreign exchange swap transactions. Short-term swaps carried out as "tomorrow/next day" transactions should also be included in this category. CLS Bank "in/out swaps," used to facilitate settlement among CLS members should be excluded from the survey.
Currency swap:	Contract which commits two counterparties to exchange streams of interest payments in different currencies for an agreed period of time and to exchange principal amounts in different currencies at a pre-agreed exchange rate at maturity.
Currency option:	Option contract that gives the right 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. Each portion of an option strategy that involves the simultaneous purchase or sale of calls and puts, such as straddles, strangles, and butterflies should be reported separately.
Currency swaption:	OTC option to enter into a currency swap contract. Report under currency options.
Currency warrant:	OTC option; long-dated (over one year) currency option.

## 2. Single-currency interest rate derivatives

Forward rate agreement (FRA):	Interest rate forward 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:	Agreement to exchange 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 independent of interest rates.
Interest rate option:	Option contract that gives the right to pay or receive a specific interest rate on a predetermined principal for a set period of time.
Interest rate cap:	OTC option that pays the difference between a floating interest rate and the cap rate.
Interest rate floor:	OTC option that pays the difference between the floor rate and a floating interest rate.
Interest rate collar:	Combination of cap and floor.
Interest rate corridor:	1) A combination of two caps, one purchased by a borrower at a set strike and the other sold by the borrower at a higher strike to, in effect, offset part of the premium of the first cap. 2) A collar on a swap created with two swaptions – the structure and participation interval is determined by the strikes and types of the swaptions. 3) 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, purchasing the right to pay or receive a certain fixed rate. Report under interest rate options.

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

## H. Additional Information

*Trading activity trends.* Table C1 collects information whether dealers' foreign exchange turnover and other derivatives turnover were considered normal, below normal or above normal during the survey month of April 2007. Dealers should also report whether turnover in the six months preceding the survey month was steady, increasing, or decreasing.

*Forward contracts for differences (including non-deliverable forwards).* Data are collected on Table C1 on turnover of forward contracts where only the difference between the contracted forward outright rate and the prevailing spot rate is settled at maturity. Examples of these contracts are non-deliverable forwards (i.e., forward FX contracts which do not require physical delivery of a non-convertible currency) and other forward contracts for differences. The data should be reported with the following breakdown by currency groups: contracts that only involve

- G-10 currencies in both sides of the transactions; and
- contracts that involve G-10 currencies in only one side of the transaction or non-G-10 currencies in both sides of the transaction. Transactions involving Non G-10 currencies are further broken down for currencies in Asia, in Latin America, in Europe, and Other. Pacific basin currencies should be included under Asia. Caribbean currencies should be included under Latin America. African and Middle East currencies should be included under "Other."

## I. Execution Method

Table C2 collects additional information on the execution method in millions of US dollars (notional amounts) used to settle foreign exchange turnover transactions. The execution method has to be separately identified for foreign exchange spot, outright forwards, FX swaps, and options reported in Tables A1-A6. Please note that this part of the survey has been modified as compared to the previous survey in order to better distinguish between different execution methods. Categories should be identified and reported separately as follows:

Interbank Direct (inter-reporting dealer)	Trades executed between two dealers where both dealers participate in the triennial survey and are not intermediated by a third party. For example, a transaction executed between two reporting dealers via direct telephone communication or direct electronic dealing systems such as Reuters Conversational Dealing.
Customer Direct (inter-dealer-customer)	Trades executed between the reporting dealer and either a customer or a non-reporting dealer (transactions with reporting dealers should only be reported in Interbank Direct) that are not intermediated by a third party. For example, a transaction between a reporting dealer and a non-reporting dealer that is executed via direct telephone communication or direct electronic dealing systems such as Reuters Conversational Dealing.
Electronic Broking Systems	Trades executed via automated order matching system for foreign exchange dealers. Examples of such systems are EBS and Reuters Matching 2000/2.
Electronic Trading Systems	Trades executed via a single-bank proprietary platform or a multi-bank dealing system. These systems are generally geared toward customers. Examples of multi-bank systems include FXAll, Currenex, FXConnect, Globalink, and eSpeed.
Voice Broker	Transactions executed via telephone communication with a foreign exchange voice broker.
Total	Total of transactions reported in the 5 categories.

### Illustrative examples of how to report trades by location of deals in the context of the next triennial survey

The basic principle for determining the location of trades is as follows: For turnover data, the basis for reporting should be, if possible, the location of the *sales desk* of any trade. Where no sales desk is involved in a deal, the *trading desk* should be used to determine the location of deals.

Consider the transactions carried out in three countries C, X and M by a banking group with its Head Office and *trading desk* located in country C. It has a sales team in its Head Office (*sales desk 1*) in country C, as well as a *sales desk 2* in country X. Both the offices in countries C & X are recognised as reporting dealers by the relevant central bank. The group has no representation in country M. Then the table below illustrates how trades should be reported:

Originator and function	Originator location	Counterparty location	Reported as	To Central Bank in
1. Sales desk 1	C	C	Local	C
2. Sales desk 1	C	M	Cross border	C
3. Sales desk 2	X	X	Local	X
4. Sales desk 2	X	M	Cross border	X
5. Trading desk	C	X	Cross border	C
6. Trading desk	C	C	Local	C
7. Trading desk	C	M	Cross border	C

*Note: Examples 5-7 do not involve a sales desk in the transaction.*

*It is assumed that sales desk 1 in country C will not deal with clients in country X (sales desk 2 would transact such business). Equally, it is assumed that sales desk 2 in country X will not deal with customers in country C (the Head Office - sales desk 1 - would be expected to transact such business). If such trades did occur, they would be reported as in Examples 2 & 4, respectively. But, it is possible that the trading desk in country C could deal directly with another trading desk located in country X, even though there is a sales desk located there (Example 5).*

Take the above example, but assume under this scenario that the institution also has a third *sales desk* in country Y, but is not recognised in that country as a reporting dealer. It is assumed that if the sales desk is not recognised as a reporting dealer, its levels of business will be relatively low and will not be material in terms of the global results. Hence, trades through that sales desk should not be reported, and for completeness the matrix can be extended as shown below:

Originator and function	Originator location	Counterparty location	Reported as	To Central Bank in
8. Sales desk 3	Y	Y	Not reported	
9. Sales desk 3	Y	M	Not reported	

- a) Other Points of clarification: Trades conducted by sales offices in countries that do not participate in the survey, or by offices that are not recognised as reporting dealers by their host central bank, should not be reported. (Examples 8 & 9)
- b) Any trades by trading desk C with third parties, to cover or offset positions arising from the activities of its sales desks, should be reported in the normal manner (Examples 5-7 above).
- c) A "leave" order is considered as a trade, regardless of location or timing of ultimate execution. The office accepting the order should report the trade, assuming that it is recognised by its host central bank as a reporting dealer (any of Examples 1-7).
- d) Both parties should report trades between two reporting dealers, as trades with other reporting dealers, regardless of whether they are considered as sales or trading desks (any of Examples 1-7). This is essential to permit accurate elimination of double counting during the production of the final data. The only exception to this rule is internal trades between desks where, as noted in Section B.4 of the Guidelines, neither party should report the trade.