



EUROPEAN MONETARY INSTITUTE

MONEY AND BANKING STATISTICS COMPILATION GUIDE

Guidance provided to NCBs for the compilation of
money and banking statistics for submission to the ECB

April 1998

© European Monetary Institute, 1998
Postfach 16 03 19, D-60066 Frankfurt am Main

ISBN 92-9166-070-1

All rights reserved. Photocopying for educational and non-commercial purposes permitted provided that the source is acknowledged

CONTENTS

Foreword

Part I Balance sheet categories

Asset categories

- 1 Cash
- 2 Loans
 - [2.1] Provisions
 - [2.2] Finance leases
 - [2.3] Bad debt - by maturity
 - [2.4] Loans granted on a trust basis
 - [2.5] Sector breakdown by type
 - [2.6] Netting arrangements
 - [2.7] Accrued interest on loans
- 3 Securities other than shares
 - [3.1] Traded loans
 - [3.2] Subordinated loans/securities
 - [3.3] Time of recording of securities transactions
 - [3.4] Valuation of holdings of securities
- 4 Money market paper
- 5 Shares and other equity
- 6 Fixed assets
- 7 Remaining assets
 - [7.1] Financial derivatives
 - [7.2] Transit items
 - [7.3] Suspense items
 - [7.4] Definition of the residual item

Liability categories

- 8 Currency in circulation
 - [8.1] Banknotes and coin in circulation
- 9 Deposits
 - [9.1] Classification by sub-category
 - [9.2] Margin payments
 - [9.3] Loans
 - [9.4] Currency swaps
 - [9.5] Repurchase agreements
 - [9.6] Securities lending without cash collateral
 - [9.7] Netting arrangements

- [9.8] Accrued interest on deposits
- 10 Money market fund shares / units
- [10.1] Identifying holders of units/shares issued by MMFs
- 11 Debt securities issued
- [11.1] Classification of non-marketable debt securities
- [11.2] Valuation of issues of securities
- 12 Money market paper
- [12.1] Definition of money market paper

- 13 Capital and reserves
- [13.1] Classification of subordinated debt
- 14 Remaining liabilities
- [14.1] Financial derivatives
- [14.2] Transit items
- [14.3] Suspense items
- [14.4] Definition of the residual item

Part II Other issues

- 15 Derivation of flows
- [15.1] General requirements
- [15.2] Identifying holders of negotiable paper
- [15.3] Adjustment for balances denominated in minor currencies
- [15.4] Responsibility for compiling exchange rate-adjusted flows
- 16 Procedures for reporting to the ECB
- [16.1] Rounding policy
- [16.2] Revisions policy
- [16.3] Joining and leaving (the MFI sector)
- 17 Cutting-off-the-tail
- [17.1] The total balance sheet concept
- [17.2] Grossing- up (for non-full reporters)
- 18 Other issues
- [18.1] Classification of the ECB

Annex

Memorandum items recommended in the Compilation Guide.

FOREWORD

Background

The statistical requirements for Stage Three of Monetary Union are set out in full in the Implementation Package report (July 1996). The report set out the statistical data that national central banks (NCBs) will be required to submit to the European Central Bank (ECB) and the harmonised conceptual framework within which these data should be compiled.

In accordance with the agreed approach to the compilation of euro area monetary aggregates and their counterparts, NCBs are required to submit aggregated balance sheet data covering the Monetary Financial Institution (MFI) sector, with separate data supplied for the NCB balance sheet and the aggregated balance sheet of the rest of the MFI sector. In addition, NCBs are required to submit to the ECB additional information that will enable the ECB to compile flows data.

The Implementation Package also envisages the development of a Compilation Guide ("Guide") to assist NCBs in the compilation of the data that they have to submit to the ECB.

Aim

The main purpose of the Guide is to minimise inconsistencies among NCBs in the implementation of the statistical requirements set out in the Implementation Package with the aim of improving the overall homogeneity of the euro-area aggregates. With this in mind, the recommendations in the Guide draw

extensively on existing international statistical standards, principally the ESA95, whilst also recognising specific needs arising from the compilation of the monetary aggregates and their counterparts.

It is expected that, at least in the short-term, that NCBs will implement the recommendations using available information or, where necessary, making estimates in consultation with the EMI/ECB. In the longer-term, consideration could be given to changes in statistical reporting systems affecting MFI reporting agents.

Structure

The Guide comprises fiches that outline the recommended practice for each issue covered in the Guide and, where relevant, offer advice on implementation. Part 1 of the Guide covers the issues in respect of the categories of assets and liabilities within the MFI balance sheet reporting scheme (Tables 1-5 in Annex 1 of the Implementation Package). These issues mostly concern accounting practices (eg. valuation of securities) and the recognition/classification of specific instruments or financial operations (such as financial derivatives or repos). Part 2 covers issues relating to the derivation of flows statistics; reporting procedures; reporting concessions for smaller MFIs; the classification of the ECB.

In certain cases, the Guide recommends that NCBs supply additional information outside of the framework of the Implementation Package as memorandum items, where information is already available. The additional information requested is set out in the annex.

The Guide is to be updated periodically.

PART 1 BALANCE SHEET CATEGORIES

ASSET CATEGORIES

1 CASH

2 LOANS

2.1 PROVISIONS

For statistical purposes, loans made by MFIs (reported under the asset item “loans”) should, in principle, be recorded gross of all related provisions, both general and specific, until the loans are written off by the reporting institution, at which point the loans are removed from the balance sheet.

Provisions represent internal funds of the reporting institution, accumulated from non-distributed profits, rather than current or future liabilities against third parties, and should, therefore, be classified under the liability item “capital and reserves” (as should provisions covering securities and other types of assets). Provisions that represent current or future liabilities against third parties (covering taxes, pension obligations, dividends, etc.) should be classified under the liability item “remaining liabilities”.

Countries may record bad loans net of specific provisions, and hence as though they have already written off. As the loans are, in effect, shown as having been written off sooner than if the loans were to have been recorded gross of provisions, the distortion thereby created relates only to the timing of the removal of bad

loans from the balance sheet, which in any case is not harmonised at the EU level (as there is no common standard for the timing of loan write-offs). This practice is accepted provided it does not create significant distortions in the recording of loans.

Separate data on these provisions should be supplied as memorandum items, where available.

2.2 FINANCE LEASES

Finance leases are contracts whereby the legal owner of a durable good ("lessor") lends these assets to a third party ("lessee") for most if not all of the economic lifetime of the assets, in exchange for instalments covering the costs of the good plus an imputed interest charge. The lessee is in fact assumed to receive all of the benefits to be derived from the use of the good and to incur the costs and risks associated with ownership. For these reasons, for statistical purposes, finance leases are treated as loans from the lessor to the lessee (enabling the lessee to purchase the durable good).

Finance leases granted by an MFI (acting as the lessor) should be recorded in the MFI balance sheet under the asset item "loans". The assets which have been lent to the lessee should not be recorded anywhere on the MFI's balance sheet.

Finance leases are expected to be valued in accordance with the general rules applicable to loans repayable by instalment (such as mortgages) and not according to other criteria (eg. market value, or residual value).

2.3 BAD DEBT- BY MATURITY

The Implementation Package requires loans to non-MFIs to be classified according to their original maturity on a quarterly basis. In cases where the repayment of the loan is overdue or the loan is otherwise identified as being impaired, it is recommended that, for statistical purposes, the original maturity of the loan should be retained until the loan is repaid or written off.

Where overdue or impaired loans are not broken down by original maturity in the balance sheet but are instead identified as a single figure, the maturity split should be estimated or, if this is not possible, the entire figure should be allocated to the longest maturity band (in the case of loans to non-MFIs this is the "over five year" band), on the grounds that the longer the life of the loan, the greater the risk that the financial condition of the debtor will deteriorate.

2.4 LOANS GRANTED ON A TRUST BASIS

Loans granted on a trust basis ("trust loans") are loans made in the name of one party ("the trustee") on behalf of a third party ("the beneficiary").

In principle, for statistical purposes, trust loans should not be recorded on the balance sheet of the trustee where the risks and rewards of ownership of the funds remain with the beneficiary. The risks and rewards of ownership remain with the beneficiary where: i) the beneficiary assumes the credit risk of the loan (i.e. the trustee is responsible only for the administrative management of the loan); or ii) the beneficiary's investment is guaranteed against loss, should the trustee go into liquidation (i.e. the trust loan is not part of the distributable assets of the trustee in the event of bankruptcy).

The exclusion of trust loans from the balance sheet of the trustee MFI may produce a distortion where an MFI acting in its own name, but on behalf of a customer, places funds with another MFI, owing to the fact that the MFI receiving the funds will not be aware that the MFI placing the funds is acting on behalf of a third party. In order to remove these distortions, it is necessary for those MFIs acting as trustees to provide the NCB with the necessary information on such loans.

In the case of the on-balance-sheet recording of trust loans, even though the criteria for off-balance-sheet recording are met, they should be broken down according to the relevant classification criteria (e.g. maturity bands,

currency and country). Trust loans between MFIs subject to on-balance-sheet recording by individual MFIs should be netted out at the consolidated level so that the result is the same as if these loans had been recorded off-balance-sheet.

2.5 SECTOR BREAKDOWN BY TYPE

The asset item "lending for house purchase" is defined in the Implementation Package as "credit extended for the purpose of investing in housing" (house building and home improvements included). This item should at least comprise loans secured on residential property that are used for the purposes of house purchases and, where possible, other loans for house purchases made on a personal basis or secured against other forms of assets.

2.6 NETTING ARRANGEMENTS

Loans/deposits should in principle be presented on a gross basis in the MFI balance sheet for statistical purposes.

The presentation of loans as net balances in these statistics is permitted, however, where credit balances and the related debit balances on accounts with the same reporting MFI have identical features, in terms of the same customer,¹ currency² and date of maturity.³ Furthermore, the right of set off must be enforceable by law. The netting of loans is not permitted in any other circumstances. Where netting is applied, the criteria adopted within balance sheet statistics must remain consistent over time.

Netting arrangements in respect of deposit liabilities are covered in Fiche 9.7.

¹ "Same customer" refers to a single institutional unit located in the same national territorial area. Netting across national territorial borders is not permitted.

² In the context of Monetary Union, the euro and the national denominations of the euro that will exist prior to completion of the change-over to the single currency should be treated as "the same currency" for statistical purposes.

³ The netting of loans against deposits of different maturities is, however, allowed in circumstances where the netting agreement does not permit the deposit to be called while the loan remains outstanding.

2.7 ACCRUED INTEREST ON LOANS

Accrued interest on loans refers to interest that is receivable on the balance sheet reporting date, but which is not due to be received until a future date (i.e. until after that reporting date).

In accordance with the general principle of accruals accounting, interest earned on loans should be recognised as an on-balance-sheet as it accrues (i.e. on an accruals basis), rather than when it is actually received or paid (i.e. on a cash basis).

Accrued interest on loans should be classified on a gross basis under the category "remaining assets". Accrued interest should be excluded from the loan to which it relates, which should be valued at the nominal amount outstanding on the reporting date.

The separate identification of accrued interest on loans as memorandum items is recommended, where data are available.

The treatment of accrued interest on deposit liabilities is covered in Fiche 9.8.

3 SECURITIES OTHER THAN SHARES

3.1 TRADED LOANS

Loans that have *de facto* become negotiable should be classified under the asset item "loans" as long as they are evidenced by a single document and are, as a general rule, only traded incidentally between one creditor and one debtor.

Negotiable loans that are restructured into a large number of identical documents and that are traded on organised (secondary) markets should be classified under the asset items "securities other than shares" or "money market paper", as appropriate.

The treatment of negotiable loans on the assets side of the balance sheet should in principle be consistent with the treatment of similar liability items (see Fiche 11.1).

3.2 SUBORDINATED LOANS / SECURITIES

Subordinated debt instruments provide a subsidiary claim on the issuing institution that can only be exercised after all claims with a higher status (e.g. deposits/loans) have been satisfied, giving them some of the characteristics of "shares and other equity". For statistical purposes, subordinated debt should be treated according to the nature of the financial instrument, i.e. classified as either "loans" or "securities other than shares" according to the nature of the instrument.

Where MFI holdings of all forms of subordinated debt are currently identified as a single figure for statistical purposes, this figure should be classified under the item "securities other than shares", on the grounds that subordinated debt is predominately constituted in the form of securities, rather than as loans.

The treatment of subordinated debt as a liability of MFIs is covered in fiche 13.1.

3.3 TIME OF RECORDING OF SECURITIES TRANSACTIONS

Transactions in securities should be recorded on the balance sheet at the settlement date (ie. the date on which payment is made).

The recording of transactions in securities on the contract date (i.e. the date on which the deal is struck) will be accepted, provided that this method of recording does not create significant distortions in the figures reported to the ECB. Where significant distortions would arise from the use of contract date recording, suitable techniques should be developed in consultation with the EMI/ECB to make the adjustments necessary to remove such distortions.

Recording transactions on the contract date will give rise to amounts receivable and payable in respect of the future settlement date, where, as is usually the case, there is a timing difference between the two events. These receivables/payables should be recorded on a net basis under "remaining assets" or "remaining liabilities", as appropriate.

3.4 VALUATION OF HOLDINGS OF SECURITIES

The valuation of issues of securities is covered in Fiche 11.2.

It is a widely accepted principle that asset and liability positions, including positions in securities, should be presented at current market values for statistical purposes. However, it is also accepted that in the statistical data submitted to NCBs, MFI reporting agents may continue to use alternative valuation methods for some, or all, of their holdings of securities, in accordance with local accounting rules.

Under normal circumstances, book values will not diverge significantly from market values provided that there is a significant turnover of securities within the portfolio and fluctuations in market prices are modest. However, the use by MFI reporting agents of valuation methods other than the market value could give rise to noticeable distortions where reported book values differ substantially from market values. Where this is the case for policy-sensitive items, NCBs should consider the possibility of removing these distortions by using *ex post* adjustments, for instance by applying indices, as a means of approaching market values. The use of such alternative approaches should be studied on an *ad hoc* basis, in close consultation with the EMI/ECB.

In assessing the significance of distortions arising from the use of valuation methods other than market values, particular importance is attached to the need for the consistent valuation of issues and holdings of MFI paper (debt securities and money market paper), in order to permit accurate data to be compiled on the net issuance of such paper.

4 MONEY MARKET PAPER**5 SHARES AND OTHER EQUITY****6 FIXED ASSETS****7 REMAINING ASSETS****7.1 FINANCIAL DERIVATIVES**

In accordance with existing international statistical standards, financial derivative instruments that have a market value should in principle be recognised as on-balance-sheet items. Derivatives have a market value when they are traded on organised markets (exchanges) or in circumstances in which they can be regularly offset on non-organised over-the-counter (OTC) markets.

Financial derivatives that are recognised as on-balance-sheet items should be entered at their market value, which is the market price or a close equivalent (fair value).

Derivatives should be recorded on the balance sheet on a gross basis. Individual derivative contracts with gross positive market values should be recorded on the asset side of the balance sheet and contracts with gross negative market values, on the liabilities side. Gross future commitments arising from derivative contracts should not be entered as on-balance-sheet items.⁴

Financial derivatives that have gross positive market values should be classified under the reporting scheme category "remaining assets". No further breakdowns (by sector, currency, etc.) are requested.

It is recommended that this financial derivative position should be reported on the balance sheet as a separate memorandum item, where suitable data are available. The separate identification of derivative positions on the balance sheet is in line with international statistical standards.

Where financial derivatives are recorded as on-balance-sheet items at their market value, counterpart entries representing the unrealised profit/loss arising from these positions are entered under the item "capital and reserves", on the liabilities side of the MFI balance sheet.

It is recognised that the commercial accounting rules in some countries require derivative positions to be recorded in such a way that it will not be possible to follow this recommendation. In these cases, it is suggested that NCBs should estimate the market value of MFI derivative positions with gross positive values, where the data from alternative sources are available to enable this to be done, and that the aggregate values should be provided as memorandum items.

The treatment of financial derivative positions with negative market values is covered in Fiche 14.1. The treatment of margin payments related to derivative contracts is covered in Fiche 9.2 and that of currency swaps in Fiche 9.4.

⁴ See also Fiche 9.4 on "currency swaps".

7.2 TRANSIT ITEMS

Transit items represent funds (usually belonging to customers) that are in the course of being transmitted between MFIs.⁵

In the event that some of the steps required for the transmission of funds between MFIs have yet to be completed as at the balance sheet reporting date, amounts payable and receivable in respect of items in transit that are due for settlement on a future date will feature on the balance sheet.

Amounts receivable in respect of transit items that are outstanding on the reporting date should be recorded on a gross basis, classified under the reporting scheme category "remaining assets".

It is recommended that separate data identifying the gross amounts receivable in respect of transit items be provided as memorandum items, where data are available.

The treatment of liability transit items is covered in Fiche 7.2.

7.3 SUSPENSE ITEMS

Suspense items are liability or asset balances held in the MFI balance sheet which are not booked in the name of customers but which nevertheless relate to customers' funds (e.g. funds that are awaiting investment, transfer or settlement).

As a general rule, suspense items should be presented on the balance sheet on a gross basis, with asset suspense items classified under the reporting scheme category "remaining assets", as appropriate.

There may be exceptions to this general rule. Where asset suspense balances are closely associated with the loans to which they relate, suspense balances could continue to be recorded indistinguishably within those loans, broken down by sector, residence etc. Otherwise, the reallocation of the amount involved to the residual categories of "remaining assets" would imply a loss of information.

Where suspense items are recorded under "remaining assets", the provision of separate data as memorandum items is recommended, where data are available.

The treatment of liability suspense items is covered in Fiche 14.3.

⁵ Credit items include credit transfers that have been debited from customers' accounts and other items for which the corresponding payment has not yet been made by the reporting MFI. Debit items include cheques and other forms of payment that have been sent for collection to other MFIs.

7.4 DEFINITION OF THE RESIDUAL ITEM

The item 'remaining assets' is regarded as the residual item on the asset side of the balance sheet, defined as "assets not included elsewhere".

This items may include: the asset counterpart to coin issued by the State (within the NCB balance sheet only); income not yet due (accrued interest receivable and other income); amounts receivable not related to the MFI's main business; asset balances arising from discontinuities in time (suspense/transit items); and financial derivatives with positive market values;.

This item may exclude: almost all financial instruments that take the form of financial assets (\Rightarrow included within the other balance sheet items), certain financial instruments that do not take the form of financial assets, such as non-marketable OTC derivatives, guarantees, commitments, administered and trust loans, and non-financial assets, such as land and commodities (\Rightarrow included within "fixed assets").

LIABILITY CATEGORIES

8 CURRENCY IN CIRCULATION

8.1 BANKNOTES AND COIN IN CIRCULATION

The liability category "currency in circulation" is defined as *banknotes and coin in circulation that are commonly used to make payments*. This category will automatically include banknotes issued by NCBs and, in certain special cases, banknotes issued by other MFIs. In addition, in those few cases where NCBs are the legal issuers of coin, the category "currency in circulation" will also include coin issued by NCBs.

Coin in circulation is not a liability of MFIs in most Member States, but a liability of the central government and part of the national accounts and balance sheet of that sector for ESA and balance of payments purposes. This is also the case for money and banking statistics. However, coin is part of the monetary aggregates and, for simplicity and convenience, NCBs should include this liability in transmitting the balance sheet of the NCB, entered under the category "currency in circulation". The counterpart to this liability should be included within "remaining assets".

Coin in circulation should be identified separately as a memorandum item within the data that NCBs submit to the ECB.

Arrangements for the submission of statistical data on banknotes in circulation may need to be reviewed following the completion of work on the organisation of the issuance and distribution of banknotes within the ESCB.

9 DEPOSITS

9.1. CLASSIFICATION BY SUB-CATEGORIES

'Deposits' (item 9) are broadly defined as: "amounts owed to creditors other than those arising from issuing securities". "Deposits" must be broken down by category according to their liquidity ("moneyness"), which is measured in terms of the following four criteria: transferability, convertibility, term to maturity and period of notice,⁶ such that deposits are

classified first by type and then by maturity or period of notice.

The following criteria have been selected and ranked to facilitate the examination of national financial products from a common perspective, thus producing a consistent EU-wide classification.

Overnight deposits include all balances, whether interest-bearing or not, which are immediately *convertible* into currency either on demand or by close of business on the day following that on which the deposit was made, or which are *transferable* by cheque, bankers' order, debit entry or the like, in both cases without any significant penalty or restriction.

'Deposits with agreed maturity' comprise balances that are placed with a fixed term to *maturity*. Where there are roll-over provisions, such financial products must be classified according to the earliest maturity. Although deposits with agreed maturity may feature the possibility of earlier redemption after prior notification, or may be redeemable on demand subject to certain penalties, these features are not considered to be relevant for classification purposes. However, where prior notification of withdrawal has been given, deposits are expected to be reclassified to the category "deposits redeemable at notice" and allocated either to the "up to three month" or "over three month" band according to the length of the original notification period. . Included within the "over two year band" are all deposits (regardless of maturity) in which the interest rates and/or terms and conditions are specified in national legislation and which are designed to be held for specific purposes (such as the

⁶ *Transferability*. The possibility of mobilising funds that are placed in a particular financial instrument to make payments. Transferability can be provided via a variety of payment facilities such as the use of cheques (or similar means), transfer orders or the acceptance of direct debits. In certain cases, payment facilities can be restricted by limiting the number of withdrawals, or by imposing fees, or other penalties, such as a loss of interest.

Convertibility. The possibility of converting instruments into currency or transferable deposits, having regard to the costs, such as the need for advance notification to withdraw the funds, delays, penalties or fees. The loss of fiscal benefits in the event of withdrawal may be considered as a kind of penalty that reduces the degree of liquidity.

[Original] maturity. The period of time between the contract date and the redemption date prior to which funds placed on deposit cannot easily be liquidated or converted into transferable deposits. Where it is possible to redeem a fixed-term deposit before the agreed maturity date, the withdrawal is usually subject to the payment of a penalty (e.g. additional fees and/or lower interest rates).

[Period of] notice. The time between the moment at which the holder gives notice of intention to redeem the instrument and the date on which the holder is allowed to convert that instrument into cash or transferable deposits without penalty. When a deposit at notice is redeemed without the required notification or before that period for notification has elapsed, redemption is usually subject to penalties (e.g. additional fees and/or lower interest rates).

financing of house purchases or pensions) occurring beyond the two year time horizon. It is assumed that such “savings” are “long-term” even if they are technically redeemable on demand.

‘Deposits redeemable at notice’ are balances that are placed without a fixed maturity and that can be withdrawn only subject to a pre-announcement. The possibility of redemption prior to the completion of the notice period or even on demand, is considered irrelevant for classification purposes where it is only possible with the payment of a penalty. Included in the “up to three month” band are non-transferable sight savings deposits and other types of retail deposits which, though they may be legally convertible on demand, would be subject to significant penalties or restrictions according to national practice.

9.2 MARGIN PAYMENTS

Margin payments (margins) made under derivatives contracts should be classified as “deposit liabilities” where they represent cash collateral deposited with MFIs to protect against credit risk, and where they remain in the ownership of the depositor and are repayable to the depositor when the contract is closed out.

On the basis of current market practice, it is also suggested that margins received by the reporting MFI should only be classified as “deposit liabilities” to the extent that the MFI is provided with funds that are freely available for on-lending. [Margins received by an MFI that are passed to a third party within a dedicated customer account do not appear on the balance sheet.] Where a part of the margin received by the MFI has to be passed to another derivatives market participant (e.g. the clearing house), only that part which remains at the disposal of the MFI should in principle be classified as “deposit liabilities”.

The complexities of current market practice may make it difficult to identify those margins that are truly repayable, because different types of margin are placed indistinguishably within the same account, or those margins that provide the MFI with resources for on-lending. In these cases, it is acceptable to classify these margins under “remaining liabilities” or as “deposit liabilities”, according to national practice.

9.3 LOANS

This fiche covers 'loans' as liabilities of MFIs. In conceptual terms, loans represent amounts received by MFIs that are not structured in the form of "deposits". The ESA 95 distinguishes between "loans" and "deposits" on the basis of the party that takes the initiative (if this is the borrower, then it constitutes a loan, but if this is the lender, then it constitutes a deposit), although in practice the relevance of this distinction will vary according to the national financial structure.

Within the reporting scheme, "loans" are not recognised as a separate category on the liabilities side of the balance sheet. Instead, balances that are considered as "loans" should be classified indistinguishably under the item 'deposit liabilities', unless they are represented by marketable instruments. This is in line with the definition of 'deposit liabilities' in the Implementation Package which includes "amounts owed to creditors by reporting MFIs, other than those arising from issuing securities".

Loans to MFIs that are classified as "deposit liabilities" should be broken down in accordance with the requirements of the Implementation Package reporting scheme (i.e. by sector, instrument and maturity).

9.4. CURRENCY SWAPS

Currency swaps (sometimes called cross-currency interest rate swaps) are contracts that commit two parties to a future exchange of payment streams related to fixed or floating interest rates in different currencies for an agreed period of time. These payments are based on notional amounts of principal which are fixed at the initiation of the swap. The currency swap contract may also involve an exchange of these principal amounts.

In accordance with the statistical treatment applicable to all financial derivative instruments (see Fiches 7.1 and 14.1), currency swap contracts that have market value should be included on the balance sheet at their market value or at the closest equivalent value, where suitable data are available. Recording should be on a gross basis, so that those contracts with gross positive market values are classified under "remaining assets" and with gross negative market values under "remaining liabilities".

No entries should be made in the balance sheet in respect to the outstanding commitment to a future exchange of payment streams or real principal. However, where accounting conventions require currency swaps and other forward-type instruments to be recorded as on-balance-sheet items by entering those future commitments on a gross basis (under "other assets and liabilities"), then, for the purposes of compiling MFI consolidated balance sheet statistics, the net value of these entries could be calculated as a proxy for the current market value. This net value would then be allocated, according to the sign, to "remaining assets" or "remaining liabilities".

Notional amounts (representing the value of underlying assets used to calculate the future commitment) should be excluded from the balance sheet.

9.5 REPURCHASE AGREEMENTS

The reporting scheme defines the liability sub-category "repurchase agreements" as the "counterpart of cash received [by the reporting MFI] in exchange for securities sold under a firm commitment to repurchase the same (or similar) securities at a fixed price and on a specific future date".

Amounts received by reporting MFIs in exchange for securities transferred to a third party ("temporary acquirer") should be classified under "repurchase agreements" where there is a firm commitment to reverse the operation and not merely an option to do so. This implies that reporting MFIs retain effective (economic) ownership of the underlying securities during the operation. In this respect, the transfer of legal ownership is not the relevant feature for determining the treatment of repo-like operations. Where the temporary acquirer sells on the securities received by way of a repo operation, this sale must be recorded as an outright transaction in securities and entered in the balance sheet of the temporary acquirer as a negative position in the securities portfolio.

The three variants of repo-type operations (repurchase agreements; bond lending against cash collateral and sell/buy-back agreements) are all structured in such a way as to satisfy the conditions necessary for treatment as collateralised loans. Hence amounts received by reporting MFIs (in exchange for securities temporarily transferred to a third party) should be classified under "repurchase agreements".

9.6 SECURITIES LENDING WITHOUT CASH COLLATERAL

Securities lending without cash collateral involves one party lending securities to another party with a firm commitment to the return of the same (or similar) securities on a specified future date. Contrary to repo-like operations (see Fiche 9.5), there is no exchange of cash collateral (either the collateral takes the form of other assets or there is no collateral at all).

For statistical purposes, securities lending operations should, in principle, not give rise to any entries on the balance sheet (i.e. should be treated as “off-balance-sheet” operations). In order to maintain consistency with the treatment of repo-type operations, securities lent out under securities lending operations should remain on the original owner’s balance sheet (and are not to be transferred to the balance sheet of the temporary acquirer) where there is a firm commitment to reverse the operation (and not simply an option to do so). Furthermore, as cash (representing repayable collateral) has not been passed from the temporary acquirer to the original owner, no entries are to be made under “deposit liabilities” or “loans”.

Where the temporary acquirer subsequently sells the securities outright, this sale should be recorded as a transaction in securities and entered by that institution as a negative position in the balance sheet.

It has been recognised that existing commercial accounting practices may in some countries require securities lending to be recorded as an “on-balance-sheet” operation,

in other words as a transfer of securities from the lender to the borrower for the period of the securities loan, with matching entries for the “loan of securities” recorded either under “deposit liabilities”/“loans” or as “remaining liabilities”/assets” (.ie. as “on-balance-sheet” items). Where the “loan of securities” is recorded under deposits/loans, these balances should be recorded under “remaining assets” or “remaining liabilities”, if possible on a net basis (and the net figure allocated according to sign to either “remaining assets” or “remaining liabilities”).

The treatment of ‘repurchase agreements’ is covered in Fiche 9.5.

9.7 NETTING ARRANGEMENTS

Deposits should, in principle, be presented on a gross basis in the MFI balance sheet for statistical purposes.

The presentation of deposits/loans as net balances in these statistics is permitted, however, where debit and credit balances on accounts with the same reporting MFI have identical features, in terms of the same customer,⁷ currency⁸ and date of maturity.⁹ Furthermore, the right of set-off must be enforceable by law. The netting of deposits against loans is not permitted in any other circumstances. Where netting is applied, the criteria adopted within balance sheet statistics must remain consistent over time.

The netting arrangements in respect of loans are covered in Fiche 2.6.

9.8 ACCRUED INTEREST ON DEPOSITS

Accrued interest on deposits refers to interest that is payable on the balance sheet reporting date but which is not due to be paid until a future date (i.e. until after that reporting date).

In accordance with the general principle of accruals accounting, interest paid on deposits should be subject to on-balance-sheet recording as it accrues (i.e. on an accruals basis) rather than when it is actually paid (i.e. on a cash basis).

Accrued interest on deposits should be classified on a gross basis under the category "remaining liabilities". Accrued interest should be excluded from the deposit category to which it relates, which should be valued at the nominal amount outstanding on the reporting date.

The separate identification of accrued interest on deposits as memorandum items is recommended, where data are available.

The treatment of accrued interest on loans is covered in Fiche 2.7.

⁷ "Same customer" refers to a single institutional unit located in the same national territorial area. Netting across national territorial borders is not permitted.

⁸ In the context of Monetary Union, the euro and the national denominations of the euro that will exist prior to completion of the change-over to the single currency should be treated as "the same currency" for statistical purposes.

⁹ The netting of loans against deposits of different maturities is allowed only where the netting agreement does not permit the deposit to be called while the loan remains outstanding.

10 MONEY MARKET FUND SHARES / UNITS

10.1 IDENTIFYING HOLDERS OF UNITS/SHARES ISSUED BY MONEY MARKET FUNDS

The separate identification of units/shares issued by Money Market Funds (MMFs) in aggregate without a further breakdown is already an integral part of the Implementation Package reporting scheme. However, in addition to this requirement, it is recommended that some provision be made for a simple sectoral breakdown of the holders of these units/shares, as follows: identifying holdings separately for "Domestic sectors", "Other MUMS sectors" and total holdings for the "Rest of the World". These data should be reported as memorandum items.

This minimum sub-categorisation should be provided where possible by using data already available in the booking system of the MMF managers or the MMFs' units/shares depository institutions. Where this information is not available from these primary sources, NCBs should attempt to derive estimates from alternative sources [where available], such as surveys or direct contacts with the main trading agents.

The identification of holders of negotiable paper (i.e. debt securities and money market paper) issued by MFIs is covered in Fiche 15.2.

11 DEBT SECURITIES ISSUED

11.1 CLASSIFICATION OF NON-MARKETABLE DEBT SECURITIES

Non-transferable debt instruments issued by reporting MFIs should be classified as "deposit liabilities". Instruments may be referred to as being non-marketable where they are "non-negotiable" in the sense that there are restrictions on the transfer of legal ownership of the instrument or, although negotiable, they cannot be traded owing to the absence of an organised market. Balances not evidenced by transferable documents but fully substitutable are subject to the same conditions as regards marketability.

Non-marketable instruments issued by reporting MFIs that subsequently become marketable should be reclassified as "debt securities" or "money market paper", as appropriate.

The treatment of "traded loans" on the assets side of the MFI balance sheet is covered in Fiche 3.1.

11.2 VALUATION OF SECURITIES ISSUES

A widely accepted principle is for balance sheet positions, including positions in securities, to be presented at current market values for statistical purposes. However, in the data submitted to NCBs, it is accepted that MFI reporting agents may continue to use alternative valuation methods for some, or all, of their securities issues, in accordance with commercial accounting rules.

In normal circumstances, the book value of securities issues will not diverge significantly from market values provided that the securities are near to maturity and fluctuations in market prices are modest. However, the use by MFI reporting agents of valuation methods other than the market values could give rise to noticeable distortions where the reported book values differ substantially from market values. Should this be the case in respect of policy-sensitive items, NCBs should consider the possibility of removing these distortions by using *ex post* adjustments, for instance by applying indices, as a means of approaching market values. The use of such alternative approaches should be studied on an *ad hoc* basis, in close consultation with the EMI/ECB.

Furthermore, accounting data could be used as a proxy for market valuations (as issue value or face value plus accrued interest, or redemption value less interest to be accrued).

In assessing the significance of distortions arising from the use of valuation methods other than market values, particular importance is attached to the need for the consistent

valuation of issues and holdings of MFI paper (debt securities and money market paper), in order to enable accurate data to be compiled for the net issuance of such paper.

The valuation of securities holdings is covered in Fiche 3.4.

12 MONEY MARKET PAPER

12.1 DEFINITION OF MONEY MARKET PAPER

The reporting scheme identifies the liability item “money market paper” as a separate category from “debt securities issued”. “Money market paper” is intended to cover marketable instruments issued by MFIs that have a high degree of liquidity because, according to the reporting scheme, “they are traded on liquid markets or (...) the issuer provides full liquidity [for them]”.

“Liquid markets” are defined as those (wholesale) money markets where liquidity is principally exchanged between MFIs and other financial institutions. This encompasses both the market for central bank money and markets in which financial institutions exchange liquidity amongst themselves. Turnover in such markets will be sufficiently high to provide the securities traded in these markets with the necessary liquidity to be considered as money market instruments.

Debt securities issued by MFIs that are intended to provide a significant means of exchanging liquidity between MFIs should be placed in the liability category “money market paper”, while other debt securities should be placed in the category “debt securities issued”. In order to ensure symmetry between the liabilities and assets side of the balance sheet, the same classification principles should be applied to MFI holdings of debt securities. In this regard, should there be any doubt as to whether marketable instruments issued by MFIs should be classified as “money market

paper” or as “debt securities issued”, it is general practice to record such instruments as “money market paper” if they are intended to be held by other MFIs and have an original maturity of one year or less.

In practical terms, MFI reporting agents will be in a position to identify those debt instruments issued within the domestic territory that are to be classified to the Implementation Package category “money market paper”. However, in Stage Three, MFI reporting agents may face difficulties in correctly classifying holdings of debt instruments that are issued in other EU Member States as “money market paper”. In order to assist MFI reporting agents in the identification of “money market paper”, the EMI/ECB will present in a single document the current national guidelines for the classification of debt instruments to the category “money market paper”. This will include information on the national financial markets in which money market paper is traded and the types of debt securities that are usually traded in those markets.

13 CAPITAL and RESERVES

13.1 CLASSIFICATION OF SUBORDINATED DEBT

Subordinated debt issued by MFIs should be treated in the same way as other debt incurred by MFIs for the purposes of money and banking statistics. Hence, subordinated debt issued in the form of securities should be classified as "debt securities issued", whereas subordinated debt issued by MFIs in the form of deposits or loans should be classified as "deposit liabilities". Where NCBs currently identify all subordinated debt issued by MFIs in a single item for statistical purposes, this figure should be classified under the item "debt securities issued", on the grounds that subordinated debt is predominately constituted in the form of securities rather than as loans. Subordinated debt should not be classified under the liability item "capital and reserves".

14 REMAINING LIABILITIES

14.1 FINANCIAL DERIVATIVES

For statistical purposes, financial derivative instruments that have a market value should be subject on-balance-sheet recording when the data are available. Derivatives have market value when they are traded on organised markets (exchanges) or in circumstances in which they can be regularly offset on non-organised (OTC) markets.

Financial derivatives that are subject to on-balance-sheet recording should be entered at their market value, which is the market price or close equivalent (fair value).

Derivatives should be recorded in the balance sheet on a gross basis. Individual derivative contracts with gross positive market values should be recorded on the asset side of the balance sheet and contracts with gross negative market values on the liabilities side. Gross future commitments arising from derivatives contracts should not be entered as on-balance-sheet items.¹⁰

Financial derivative instruments that have gross negative values should be entered under the category "remaining liabilities" at their market value (financial derivatives instruments with gross positive values should be entered under the category "remaining assets", see Fiche 7.1). No further breakdowns (by sector, currency, etc.) are requested.

It is recommended that the financial derivatives position recorded under "remaining liabilities"

¹⁰ See also Fiche 9.4 on "currency swaps".

should be reported as a separate memorandum item on the balance sheet, where suitable data are available.

Where financial derivative instruments that have a gross negative value are recorded as on-balance-sheet items at their market value, counterpart entries representing the unrealised loss arising from these positions should be entered under the item "capital and reserves", on the liabilities side of the MFI balance sheet.

It is recognised that the commercial accounting rules in some countries may require derivative positions to be recorded in such a way that it will not be possible to follow this recommendation. In these cases, it is suggested that NCBs should provide estimates of the market values of MFI derivative positions as memorandum items, where the necessary data are available from alternative sources.

The treatment of financial derivatives with gross negative values is covered in Fiche 7.1. The treatment of margin payments made in respect of derivative contracts is covered in Fiche 9.2 and the treatment of currency swaps, in Fiche 9.4.

14.2 TRANSIT ITEMS

Transit items represent funds (usually belonging to customers) that are in the process of being transmitted between MFIs.¹¹

In the event that some of the steps required for the transmission of funds between MFIs have yet to be completed as at the balance sheet reporting date, amounts payable and receivable in respect of items in transit that are due for settlement on a future date will feature on the balance sheet.

Amounts payable in respect of transit items that are outstanding on the reporting date should be recorded on a gross basis and classified under the reporting scheme category "remaining liabilities".

It is recommended that separate data identifying the gross amounts payable in respect of transit items should be provided as memorandum items, where data are available.

The treatment of asset transit items is covered in Fiche 7.2.

¹¹ Credit items include credit transfers that have been debited from customers' accounts and other items for which the corresponding payment has not yet been made by the reporting MFI. Debit items include cheques and other forms of payment that have been sent for collection to other MFIs.

14.3 SUSPENSE ITEMS

Suspense items are balances held in the MFI balance sheet which are not booked in the name of customers but which nevertheless relate to customers' funds (e.g. funds that are awaiting investment, transfer or settlement).

As a general rule, suspense items should be presented in the balance sheet on a gross basis. Suspense items that represent a liability for the reporting MFI (e.g. customer funds awaiting transfer) should be classified under the category "remaining liabilities".

There may be exceptions to this general rule. Liability suspense balances that are closely associated with deposits to which they relate could continue to be recorded indistinguishably within those deposits, broken down by sector, residence etc. Otherwise, the reallocation of the amount involved to the residual categories of 'remaining liabilities' would imply a loss of information.

Where suspense items are recorded under 'remaining liabilities', the provision of separate data as memorandum items is recommended, where data are available.

The treatment of asset suspense items is covered in fiche 7.3.

14.4 DEFINITION OF THE RESIDUAL ITEM

The category 'remaining liabilities' is regarded as the residual item of the liabilities side of the balance sheet, defined as "liabilities not included elsewhere".

This item may include: expenses not yet due (accrued interest payable and other expenses); dividends to be paid; amounts payable not related to the main MFI business (amounts due to suppliers, tax, wages, social contributions etc.); liability balances arising from discontinuities in time (suspense / transit items); financial derivative positions with negative market values; provisions representing liabilities against third parties (pensions, dividends etc.), margin payments (where appropriate).

This item may exclude: almost all financial instruments that take the form of financial liabilities (\Rightarrow included within the other balance sheet items); financial instruments that do not take the form of financial liabilities such as non-marketable OTC derivatives, guarantees, commitments, administered and trust loans, non-financial liabilities such as capital items on the liabilities side (\Rightarrow included within 'capital and reserves').

The definition of the residual item on the asset side of the balance sheet is covered in fiche 7.4.

PART II OTHER ISSUES

15 DERIVATION OF FLOWS

15.1 GENERAL REQUIREMENTS

The principle objective in the derivation of flows statistics is to calculate financial transactions in respect of the consolidated balance sheet. In accordance with the Implementation Package, NCBs are required to submit end-month MFI balance sheet stock data to the ECB to permit the compilation of the consolidated balance sheet of the MFI sector at the MU-level¹². Following the procedure developed by the EMI's Working Group on Statistics and endorsed by the Council of the EMI (July 1996), It is envisaged that monetary flows statistics will be derived by removing from the changes in end-month stocks the effect of "non-transactions" (comprising 'reclassifications and other adjustments' and 'revaluations'). In order to achieve this, NCBs must submit additional information on a monthly basis.

In order to permit the identification of the effect of "non-transactions", NCBs should supply to the ECB the following information for each item in the reporting scheme for end-month stock data, with the exception of inter-MFI positions:

'Reclassifications and other adjustments', adjustments will be made to exclude the effect of changes in the MFI sector (ie. joiners / leavers; banking mergers and acquisitions); changes in the sector classification of MFI counterparties; other changes arising from the

reclassification of assets and liabilities; corrections of reporting errors. NCBs should provide information on the effect of these changes, comprising the amounts by which each item should be adjusted and notes explaining the reason for the most significant adjustments.

'Revaluations'. Revaluations in balance sheet positions arise from 'exchange rate changes' and 'other revaluations':

i) *'Exchange rate changes'*: adjustments will be made to compensate for the effect of movements in exchange rates which otherwise would form a part of the monthly changes in stocks expressed in Euro terms. The standard adjustment for such changes will be calculated by the ECB using the stock data already available quarterly within the reporting scheme framework. Hence, NCBs will only be required to make an effort to supply information in those cases where NCBs or the ECB identify the need for *ad hoc* adjustments.

ii) *'Other revaluations'* include two elements. First, adjustments will be made to remove the effect of the write-off / write-down of loans. Where loans are recorded gross of provisions, reporting institutions should supply information on newly realised write-downs/write-offs. [In case provisions are deducted from loans NCBs should supply information on the amount of provisions newly deducted each month.] The second element is the effect of changes in the market price of securities. NCBs should supply information on the impact of these changes, either from the profit and loss accounts of MFIs, or, if this information is not available, by means of

¹² Table 1 in Annex 2 of the Implementation Package.

indices based on the price of securities, which will allow rough estimates to be made. In practice, the impact of these changes will depend on the valuation rules adopted.

It should be noted that the procedure outlined above for the calculation of flows from stocks sets out in more concrete terms the procedure proposed in the "derivation of flows" procedure agreed in July 1996. This procedure had left the option open for financial transactions to be calculated directly for MFI holdings of securities.

The information necessary to compile the MU-wide flows statistics on a monthly basis must be supplied to the ECB in full accordance with the user requirements, that is on the 15th working day following the end of the month to which the flows statistics relate. First priority should be given to 'reclassifications and other adjustments' in view of the potential importance of these adjustments in the calculation of flows for the monetary aggregates (revaluations affect mostly the counterparts to money). Whilst it is recognised that not all information needed will be available within this time frame, nevertheless efforts should be made to reduce the time lag in the provision of these data, in order to minimise the need for revisions to the monetary aggregates.

15.2 IDENTIFYING HOLDERS OF NEGOTIABLE PAPER

This issue concerns the identification of the holders of 'debt securities' and 'money market paper' issued by MFIs (the identification the holders of units / shares issued by Money Market Funds is covered in 10.1).

The separate identification of the liability items 'debt securities' and 'money market paper' without further breakdown is already required by the Implementation Package. Aggregate data on holdings by MU-MFIs are also available as asset items.

In addition to these requirements, some provision should be made, using estimates where necessary, for debt securities and money market paper to be broken down by holder, according to the following three-way split: domestic sectors / other MU sectors / rest of the world. This breakdown is required in order to permit the ECB to identify MFI paper held by non-MFIs in the MU, as such holdings could be included in a euro area wide monetary aggregate. Where data on holdings of debt securities are not available broken down by maturity, estimated proportions could be employed. These data should be reported as memorandum items.

To determine the need to provide these breakdowns, NCBs should first assess the likely significance of the data, in terms of size of issuance and distribution of holdings (between economic sectors and across territorial borders). Where there are sizeable holdings by non-residents, NCBs should look to existing banking statistics. Where these are

not adequate, data should be estimated using existing primary data sources (such as custodian surveys; registers etc) or by accumulating EMU-BoP flows data. Depending on local knowledge about the pattern of issuance and structure of holdings, use could also be made of rough working assumptions, (such as assuming that the initial subscriber is the current holder, currency of issue denotes country of holder).

15.3 ADJUSTING FOR BALANCES DENOMINATED IN MINOR CURRENCIES

The layered approach to the compilation of the monetary aggregates and their counterparts requires the calculation of flows data, identifying financial transactions. In order to identify financial transactions, it will be necessary to remove the impact of "non-transactions", including the effects of exchange rate movements on non-euro balances. In accordance with the Implementation Package, standard adjustments will be possible for balances denominated in remaining EU countries, the USD, JPY and SFR, using quarterly currency-by-currency data. However, no data are available to identify amounts denominated in other currencies individually.

Considering the lack of currency-by-currency data identifying the currency of denomination of the "other" currency balances and in view of the small size of these balances, a standard adjustment based on assumptions about the exchange rate path of these currencies will not be applied. However, provision will be made for ad-hoc adjustments should NCBs or the ECB identify significant movements within this residual block. Where this is the case, NCBs will be asked to make an effort to supply additional information to permit an *ad hoc* adjustment to be made.

The possibility is left open of investigating further the merits of introducing a standard adjustment for the unidentified currencies at a later stage, after the start of Stage Three.

15.4 RESPONSIBILITY FOR COMPILING EXCHANGE RATE ADJUSTED FLOWS

The ECB will have responsibility for the calculation and application of the standard exchange rate revaluation adjustments. This reflects the ECB's overall responsibility for the derivation of flows in accordance with the Layered Approach to the compilation of the euro-area monetary aggregates.

The ECB/NCBs will have joint responsibility for assessing the need to apply *ad hoc* adjustments, with NCBs drawing on local knowledge and additional information available at the local level about the currency composition of the balance sheets of their reporting agents and the ECB able to identify the euro-area wide implications of developments in exchange rates. Responsibility for the application of these adjustments should rest with the ECB.

16 REPORTING PROCEDURES TO ECB

16.1 ROUNDING POLICY

NCBs must report to the ECB end-month statistical data specified in the Implementation Package in Euro Millions.

16.2 REVISIONS POLICY

NCBs are committed to send the ECB monthly data within 15 working days of the end of the calendar month. NCBs are expected to collect and provide the ECB with high quality data. Nevertheless, in certain cases it may be necessary for NCBs to make revisions to these data. These revisions should conform with the following principles:

Each month, revisions to the previous month's data will be accepted as a matter of routine (in addition to revisions to the data for the current month). Furthermore, it is accepted that revisions to data for earlier periods may arise due to the application of the grossing-up procedure outlined in fiche 17.2. Significant revisions should be accompanied by an explanatory note.

Significant and systematic revisions to data for periods prior to the previous one are not expected to be frequent, however where they do occur such revisions should be reported to the ECB and accompanied by an explanatory note.

The timing of transmission of revisions to the ECB should take account of technical constraints on the transmission of data that may exist during critical periods.

16.3 JOINERS AND LEAVERS (TO / FROM THE MFI SECTOR)

The MFI sector comprises Credit Institutions according to Community Law and Other resident Financial Institutions that meet the MFI definition. Different procedures are envisaged for the inclusion of these institutions in the MFI sector. Institutions that become Credit Institutions according to Community Law are expected automatically to be classified as MFIs and, in principle, to commence reporting immediately. In the same way, institutions that are no longer recognised as Credit Institutions according to Community Law, and which do not otherwise meet the MFI definition, would be expected to be automatically declassified as MFIs and to stop reporting immediately.

In order to check whether they meet the criteria for inclusion in the MFI List, Other Financial Intermediaries (ie. institutions that are not classified as Credit Institutions) should be checked annually, on the basis of quarterly data to end-June. OFIs (excluding Collective Investment Institutions, which are dealt with separately¹³) that qualify for inclusion in the MFI List should be added to the List in the following January (the month possibly to be revised in the light of the needs of monetary targeting). Financial Institutions (other than Credit Institutions and MMFs) that are classified as MFIs will be subject to the same checking procedures, so that should the annual check reveal OFIs that no longer qualify as MFIs, they will be removed from the List of MFIs at the time of review of the List. NCBs should

¹³ The procedure for including MMFs within the MFI sector is currently under review.

submit to the ECB data on the effect of changes in the composition of the MFI sector so that the ECB can remove these effects from the flows data, in accordance with the procedure for the derivation of flows outlined in Fiche 15.

17 CUTTING-OFF-THE-TAIL

17.1 CONCEPT OF TOTAL BALANCE SHEET

The Implementation Package requires Member States to achieve a minimum 95% coverage of the total MFI balance sheet in the monthly statistical aggregates submitted to the ECB in Stage Three of Monetary Union.

NCBs that decide to relieve small MFIs of full reporting requirements should, as a minimum, collect data relating to the total balance sheet so that they can monitor the size of the reporting "tail". This balance sheet total should in principle be defined in the same way across the EU to ensure consistency in the application of the cutting-off-the tail principle (whilst recognising that the relevance of cross-border inconsistencies will be limited by the fact that the reporting threshold is calculated at the individual country level).

The concept of 'total balance sheet' should be calculated on a gross basis (ie. inter-MFI positions presented on a gross basis). Inconsistencies in the definition of the balance sheet total caused by differences in accounting principles are expected to diminish over time as the Compilation Guide recommendations are implemented into MFI reporting systems.

17.2 GROSSING UP (FOR NON-FULL REPORTERS)

In order to meet the statistical requirements for Stage Three of Monetary Union, NCBs are permitted to exempt small MFIs from full monthly reporting as long as a 95% minimum coverage of the total domestic balance sheet is achieved. With the aim of improving the quality of the national statistical aggregates submitted to the ECB, the NCBs should preferably gross up for the non-full reporters in the compilation of the monthly breakdowns and (where possible) the quarterly breakdowns.

The grossing-up procedure to be applied will comprise two elements. For missing breakdowns (ie. individual items of the balance sheet not reported by small MFIs), estimates should be derived by applying ratios based on the entire reporting population or on a sub-set that NCBs consider to be more representative of the "tail".

Where the breakdowns are available, but with a longer delay or at a lower frequency, reported data should be carried forward into the missing period(s). Should there be a high (positive / negative) trend growth rate that would result in the inclusion of new observations giving rise to a large (upward / downward) revision in the time series, then NCBs should give consideration to smoothing the data. This can be achieved either *ex ante* by applying the growth rate reported by some or all of the full monthly reporting population or *ex post* by revising back data for the missing period(s) as soon as a new observation is reported.

18 OTHER ISSUES

18.1 CLASSIFICATION OF THE ECB

According to international statistical standards, the ECB is an 'international organisation' that is not included in the economic territory of the country of location or considered resident in that economy. Therefore, in statistics compiled from the perspective of the participating Member States of the Monetary Union, the ECB will be classified as 'Rest-of-the-world' because it is not resident in any of these States. However, the ECB is a resident of the Monetary Union, which is the relevant territorial area for euro area wide monetary statistics in Stage Three. Hence, for the purposes of compiling statistics covering the territorial area of the Monetary Union, the ECB should be classified as a central bank within the MFI sector of the Monetary Union.

The reporting scheme for NCBs to submit aggregated MFI balance sheet data to the ECB requires a three-way split of positions between domestic residents / other MUMS residents / RoW to be supplied on a monthly basis and for positions vis-à-vis other MUMS to be broken down according to the individual member states on a quarterly basis. In order to accommodate MFI positions vis-à-vis the ECB within this scheme, national statistical compilers are requested to allocate such positions to the MFI sector of the country in which the ECB is physically located.

In accordance with this requirement, the Implementation Package reporting scheme tables should be completed as follows:

- Table 1: "Data required to compile the consolidated balance sheet". NCBs of participating Member States, except for the NCB of the Member State where the ECB is physically located, should ensure that all MFI positions vis-à-vis the ECB are entered in the column entitled "Other MUMS - o/w MFIs". The NCB of the Member State where the ECB is physically located should ensure that all such positions are entered in the column entitled "Domestic - o/w MFIs".
- Table 4: "Country Breakdown". NCBs of all participating Member States except the NCB of the Member State where the ECB is physically located should classify positions vis-à-vis the ECB in the same way as positions vis-à-vis other MFIs located in that Member State.

The above requirement relates only to the data required by the ECB for the purposes of compiling MU money and banking statistics are submitted by NCBs to the ECB. It has no effect on the final output, in terms of the presentation of MU monetary aggregates and their counterparts, nor on other statistical requirements. Furthermore, the requirement relates only to the data to be submitted by NCBs to the ECB. Data submitted by reporting agents to the NCBs may follow different criteria, provide that data required for this purpose are sent to the ECB in the agreed format.

Memo items recommended in the Compilation Guide
on Money and Banking Statistics

Where available, NCBs should submit data as memorandum items in respect of the following [fiche number shown in brackets]:	Aggregated balance sheet of:	
	NCB	'Other' MFIs
[2.1] provisions Specific provisions against loans that are classified to the liability item 'capital and reserves'.	--	√
[2.7] accrued interest on loans Gross amounts receivable.	√	√
[7.1] financial derivatives Aggregate figure for the market value of gross positive values of financial derivatives i) classified under 'remaining liabilities' and / or ii) recorded off-balance sheet.	--	√
[7.2] transit items Gross amount receivable in respect of transit items classified to 'remaining assets'.	√	√
[7.3] suspense items Gross amounts receivable in respect of suspense items classified to 'remaining assets'.	?	√
[8.1] Banknotes and coin in circulation Coin in circulation issued in the name of the State entered under 'currency in circulation'.	√	--
[9.8] Accrued interest on deposits. Gross amounts payable.	√	√
[10.1] identifying holders of units/shares issued by MMFs as follows: "Domestic sectors", "Other MUMS sectors" and total holdings for "Rest of the World".	--	√
[14.1] financial derivatives Aggregate figure for the market value of gross negative values of financial derivatives i) classified under 'remaining liabilities' and / or ii) recorded off-balance sheet.	--	√
[14.2] transit items Gross amount payable in respect of transit items classified to 'remaining liabilities'.	√	√
[14.3] suspense items Gross amounts payable in respect of suspense items classified to 'remaining liabilities'.	√	√
[15.2] identifying holders of negotiable paper Debt securities and money market paper issued by MFIs broken down by holder, as follows: "Domestic sectors" / "other MUMS sectors" / "Rest of the world".	--	√

-- = N/A

