September 5, 2003

Instructions for the

Central Bank Survey of Foreign Exchange and Derivatives Market Activity

Turnover Survey
April 2004

FR 3036
OMB No. 7100-0285

Approval expires September 30, 2004

This report is authorized by law [12 U.S.C. §§ 248(a), 353-359, and 461]. Your voluntary cooperation in submitting this report is needed to make the results comprehensive, accurate and timely. The Federal Reserve may not conduct or sponsor, and an organization is not required to respond to, a collection of information unless it displays a currently valid OMB control number. The Federal Reserve System regards the individual institution information provided by each respondent as confidential [5 U.S.C. § 552(b)(4)]. If it should be determined that any information collected on this form must be released, other than in the aggregate in ways that will not reveal the amounts reported by any one institution, respondents will be notified.

Public reporting burden for this collection of information is estimated to be 51 hours per response, including time to gather and maintain data in the proper form, to review instructions and to complete the information collection. Send comments regarding this burden estimate to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551; and to the Office of Management and Budget, Paperwork Reduction Project, (7100-0285), Washington, DC 20503.

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 2004. 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. In practice, *reporting dealers* are often those institutions that actively or regularly deal through electronic platforms, such as EBS or Reuters dealing facilities. *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.

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 nominal or 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 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. However, trades that are conducted as back-to-back deals and trades to facilitate internal bookkeeping and internal risk management within a reporting institution and trades between desks and offices of the reporting dealer located in the same country, should be excluded from the survey. However, 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. 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, 2004.

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.

- 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. Two separate lists of "reporting dealers" for the turnover and amounts outstanding parts of the survey are provided.

- 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 houses, 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 and euro against each other and against the following individual currencies:

JPY: Japanese yen
GBP: Pound sterling
CHF: Swiss franc
CAD: Canadian dollar
AUD: Australian dollar
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:

BRL: Brazilean real
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
MXN: Mexican peso
NOK: Norwegian krone
NZD: New Zealand dollar
PHP: Philippine peso
PLN: Polish zloty
RUB: Russian rouble
SEK: Swedish krona
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, 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 days or less
- over seven days and up to one year
- over one year.

F. Categorisation 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 categorisation

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 standardised 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 categorised 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 *turnover*, 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.
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.
Currency swaption:	OTC option to enter into a currency swap contract.
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.
Interest rate warrant:	OTC option; long-dated (over one year) interest rate option.

H. Additional information requirements

Tables C1 and C2 collect additional information on trends in trading activity, forward contracts for differences, and transactions through electronic-based systems.

Trading activity trends. Table C1 collects information whether participating dealers' foreign exchange turnover (spot, outright forwards and foreign exchange swaps) and other derivatives turnover were considered normal, below normal or above normal during the survey month of April. 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 G10 currencies on both sides of the transactions and contracts that involve G10 currencies on one side of the transaction or non-G-10 currencies on both sides. Transactions involving Non G10 currencies are further broken down for currencies in Asia, in Latin America, in Europe, and Other.

Role of electronic-based systems. Table C2 collects information in millions of US dollars on foreign exchange spot, foreign exchange derivatives, and interest rate derivatives transactions conducted through electronic-based systems. The data are collected according to the type of electronic system, whether the systems are used for interdealer trading or whether the systems are used by dealers to trade with customers. Trading through systems for dealers and systems for customers are each broken down further into two types as follows:

A. Systems for dealers

1. Automated order matching systems
Examples of such systems are EBS and Reuters 2000/2 for foreign exchange transactions. Blackbird and Swapstream for interest rate derivatives.

2. Other
An example of such a system is Reuters Dealing for foreign exchange. ATFox and e-Mider are examples of systems used for interest rate derivatives.

B. Systems for customers

1. Multi-bank dealing systems
Examples of such systems are FXAll, Currenex, FX Connect, and Globalink.

2. Single bank proprietary platforms
These electronic systems are used exclusively by a dealer to serve its customers.

For foreign exchange spot and foreign exchange derivatives transactions conducted through electronic systems, reporting institutions are asked to report turnover data by currency pairs. These are the US Dollar against the Euro, the Japanese yen, and the pound sterling (USD/EUR, USD/JPY, USD/GBP) and for the Euro against the Japanese yen (EUR/JPY). Report all transactions that do not involve these four currency pairs under Other.

For interest rate derivatives, trades through electronic systems should be broken down and reported for contracts denominated in the US Dollar (USD), the Euro (EUR), the Japanese yen (JPY) and Other.

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
NB - 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 <u>not</u> 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.

September 5, 2003

Instructions for the

Central Bank Survey of Foreign Exchange and Derivatives Market Activity

Derivatives Outstanding Survey
End-June 2004

(Attachment for dealers who file the Semiannual Report of Derivatives Activity (FR 2436))

FR 3036
OMB No. 7100-0285

Approval expires September 30, 2004

This report is authorized by law [12 U.S.C. §§ 248(a), 353-359, and 461]. Your voluntary cooperation in submitting this report is needed to make the results comprehensive, accurate and timely. The Federal Reserve may not conduct or sponsor, and an organization is not required to respond to, a collection of information unless it displays a currently valid OMB control number. The Federal Reserve System regards the individual institution information provided by each respondent as confidential [5 U.S.C. § 552(b)(4)]. If it should be determined that any information collected on this form must be released, other than in the aggregate in ways that will not reveal the amounts reported by any one institution, respondents will be notified.

Public reporting burden for this collection of information is estimated to be 15 hours per response, including time to gather and maintain data in the proper form, to review instructions and to complete the information collection. Send comments regarding this burden estimate to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551; and to the Office of Management and Budget, Paperwork Reduction Project, (7100-0285), Washington, DC 20503.

A. Introduction

These instructions cover the survey of *amounts outstanding* for derivatives as of end-June 2004 for dealers who file the Semiannual Report of Derivatives Activity (FR 2436). Separate instructions have been provided for the *turnover* part of the survey.

To reduce reporting burden, the amounts outstanding part of the survey was aligned with the FR 2436 report. Most of the data needed for the Triennial Survey can therefore be taken from the FR 2436. The survey, however, requires a small amount of additional information for derivative products that are not included in the semiannual report. These items are included in the Attachment for Regular OTC Derivatives Market Statistics at end-June 2004.

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 for the attachment to the *amounts outstanding* part of the survey are the top tier company or holding company for U.S.-based financial institutions that file the FR 2436 report.

2. Additional report items

The attachment collects information on the following instruments:

Other products. Report the notional principal amounts outstanding for contracts that are highly leveraged or the notional amount is variable and the break down into individual plain-vanilla components is impractical. The aggregates for such instruments are reported only for foreign exchange contracts and single-currency interest rate derivatives and are not reported by currency.

Credit derivatives and "Other" derivatives. Report the notional amounts of principal outstanding for Credit derivatives and "Other" derivatives.

3. Risk categories

Foreign exchange contracts. These contracts include those involving the exchange of currencies in the forward market. They cover outright forwards, foreign exchange swaps, currency swaps (including cross-currency interest rate swaps) and currency options. Foreign exchange contracts include all deals involving exposure to more than one currency, whether in interest rates or exchange rates.

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 rates. Thus it excludes contracts involving the exchange of one or more foreign currencies (e.g., cross-currency swaps and currency options) and other contracts whose predominant risk characteristic is foreign exchange risk and which should be reported as foreign exchange contracts.

Credit derivatives are contracts in which the payout is linked primarily to some measure of the creditworthiness of a particular reference credit. The contracts specify an exchange of payments in which at least one of the two legs is determined by the performance of the reference credit. Payouts can be triggered by a number of events, including a default, a rating downgrade or a stipulated change in the credit spread of the reference asset. Typical credit derivative instruments are credit-spread forwards and options, credit event or default swaps and total return swaps.

"Other" derivatives are any other derivative contracts, which do not involve an exposure to foreign exchange, interest rate, equity, commodity or credit risk.

4. Instrument types

Data for credit and “other” derivatives are broken down into the following categories:

- Forwards and swaps
- OTC options sold
- OTC options bought

The gross positive and gross negative market values for credit and “other” derivatives are also reported.

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 organized exchanges and their contractual terms are not standardized. 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.

Those forward contracts are to be reported that have been entered into by the reporting bank and are outstanding (i.e., open contracts) as at the reporting date. Contracts are outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying financial instrument or commodity or settled in cash. Such contracts can only be terminated other than by receipt of the underlying asset, by agreement of both buyer and seller.

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, both forward parts of the transaction should be reported separately. In contrast, in the case of foreign exchange swaps, which are concluded as spot/forward transactions, only the unsettled forward part of the deal is to be reported.

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 organized 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.

5. The types of data requested

To gauge the size of the foreign exchange and OTC derivatives markets, the survey will collect the data on outstandings in nominal amounts and gross market values of the reporting institution.

Nominal or notional amounts outstanding are defined as the gross nominal or notional value of all deals concluded and not yet settled at the reporting date. The data should in principle be reported on a consolidated basis, i.e., inter-company deals should be excluded, even if they relate to transactions with affiliates which are unconsolidated based on ownership criteria but are in effect controlled by the reporting institution. For contracts with *variable nominal or notional principal amounts*, the basis for reporting should be the nominal or notional principal amounts at the time of reporting.

The notional amount or par value to be reported for a derivative contract with a multiplier component is the contract's effective notional amount or par value. For example, a swap contract with a stated notional amount of $1,000,000 whose terms called for quarterly settlement of the difference between 5% and LIBOR multiplied by ten has an effective notional amount of $10,000,000.

No netting of contracts is permitted. Therefore (1) obligations of the reporting bank to purchase from third parties against the bank's obligations to sell to third parties, (2) written options against purchased options, or (3) contracts subject to bilateral netting agreements should not be netted.

The par value to be reported is that of the contract itself and not the par value of financial instruments intended to be delivered under forward contracts.

Swaps. The notional amount of a swap is the underlying principal amount upon which the exchange of interest, foreign exchange or other income or expense is based.

Credit derivatives. The contract amount to be reported for credit derivatives is the nominal value of the relevant reference credit. Credit linked notes are excluded from this survey.

Gross fair values are defined as the sums of the absolute values of all open contracts with either positive or negative fair values on the *as of* date. Fair values are the amounts at which a contract could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted price is available for a contract, the number of trading units should be multiplied by that market price. If a quoted market price is not available, the reporting institution should provide its best estimate of market value based on the quoted price of a similar contract or on valuation techniques such as discounted cash flows.

Gross fair value is defined as the value of all open contracts before counterparty or any other netting. Thus, the gross positive market value of a firm's outstanding contracts is the sum of all positive fair values of a firm’s contracts. Similarly, the gross negative fair value is the sum of all negative values of a firm’s contracts.

The term gross is used to indicate that contracts with positive and negative fair values with the same counterparty should not be netted. Nor should the sums of positive and negative contract values be set off against each other within a risk category such as foreign exchange, interest rate, equity, commodity, credit and "other".

Unlike forwards or swaps, OTC options have a fair value at initiation, which is equal to the premium paid to the writer of the option. Throughout their life option contracts can only have a positive fair value for the buyer and a negative fair value for the seller. If a quoted market price is available for a contract, the fair value to be reported for that contract is the product of the number of trading units of the contract multiplied by that market price. If a quoted market price is not available, the fair value of an outstanding option contract at the time of reporting can be determined on the basis of secondary market prices for options with the same strike prices and remaining maturities as the options being valued, or by using option pricing models. In an option pricing model, current quotes of forward prices for the underlying (spot prices for American options) and the implied volatility and market interest rate relevant to the option's maturity would normally be used to calculate the "market" values.

Gross positive fair value is the sum of the current fair values of all purchased options, and gross negative fair value would be the sum of the values of sold options. Options sold and purchased with the same counterparty should not be netted against each other, nor should offsetting bought and sold options on the same underlying.

All data on amounts outstanding should be reported as of end-June 2004.

6. Reporting basis

As in the case of the FR 2436, the reporting of amounts outstanding data should be on a *consolidated basis* by the top-tier company or holding company. Data from all branches and (majority-owned) subsidiaries worldwide must be added together and reported. Deals between branches and subsidiaries of the reporter must not be reported.

7. Currency of reporting and currency conversion

Amounts outstanding are to be reported in US dollar equivalents. Contracts that are denominated in non-dollar currencies should be converted into US dollars by using the end-of-period exchange rates as of the reporting date. For practical reasons, reporting institutions may also use their internal (bookkeeping) exchange rates to convert amounts outstanding booked in non-dollar currencies, as long as these exchange rates correspond closely to market rates.

8. 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.

9. Reporting deadline

Data should be submitted to the Federal Reserve Bank of New York by August 31, 2004.

C. Counterparties

Contracts are reported by counterparty as follows: reporting dealers, other financial institutions and non-financial customers.

"Reporting dealers" for the amounts outstanding part of the survey are those institutions whose head office is located in the Group of Ten countries that participate in the semi-annual OTC derivatives market statistics. 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. Two separate lists of "reporting dealers" for the turnover and amounts outstanding parts of the survey are provided.

"Other financial institutions" covers all categories of financial institution *not* classified as "reporting dealers". It will include all non-reporting financial institutions, such as commercial banks, investment banks and securities houses, mutual funds, pension funds, hedge funds, currency funds, money market funds, thrifts, leasing companies, insurance companies, and financial subsidiaries of non-financial companies

A "non-financial customer" is any counterparty other than those described above, in practice mainly corporate firms and governments.

D. 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 according to more or less standardized contracts and market conventions. If a transaction is composed of several plain vanilla components, each part should in principle be reported separately. OTC credit derivatives outstanding are defined and categorized as follows:

Credit derivatives

Credit spread forward:	Agreement to pay or receive at some time in the future a cash payment that depends on the difference between a spread (i.e. the difference in yields between two financial assets) agreed at contract initiation and that prevailing at settlement.
Credit event/default swap:	Contract, which commits two counterparties to exchange a periodic fee in exchange for a payment contingent on a default event or any other, agreed change in the credit quality of a reference asset for an agreed period of time.
Total return swap:	Contract, which commits two counterparties to exchange the total economic performance of a financial asset (defined to include all interest payments, fees and any capital appreciation or depreciation) in exchange for a floating rate payout based on a reference index (usually LIBOR plus a spread reflecting the creditworthiness of the counterparty as well as the credit rating and liquidity of the underlying asset).
Credit spread option**:**	Option contract that gives the right to receive a cash payment if a spread, i.e. the difference in yields between two financial assets, widens beyond an agreed strike level during a specific period.

Examples of how to calculate the fair value of forwards and swaps

For a forward, a contract to purchase USD against EUR at a forward rate of 1.00 when initiated has a positive fair value if the EUR/USD forward rate at the time of reporting for the same settlement date is lower than 1.00. It has a negative market value if the forward rate at the time of reporting is higher than 1.00 and it has a zero market value if the forward rate at the time of reporting is still 1.00. As explained in Section D above, each positive or negative fair value would have to be reported twice, according to the currencies making up the two "legs" of the contract.

For swaps, which involve multiple (and sometimes two-way) payments, the fair value is the net present value of the payments to be exchanged between the counterparties between the reporting date and the contract's maturity, where the discount factor to be applied would normally reflect the market interest rate for the period of the contract's remaining maturity. Thus, a fixed/floating swap which, at the interest rates prevailing at the reporting date involves net annual receipts by the reporter of e.g. 2% of the notional principal amount for the next three years has a positive marked-to-market (or replacement) value equal to the sum of three net payments (each 2% of the notional amount), discounted by the market interest rate prevailing at the reporting date.

September 5, 2003

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

Derivatives Outstanding Survey
End-June 2004

(For dealers who do not file the Semiannual Report of Derivatives Activity (FR 2436))

FR 3036
OMB No. 7100-0285

Approval expires September 30, 2004

This report is authorized by law [12 U.S.C. §§ 248(a), 353-359, and 461]. Your voluntary cooperation in submitting this report is needed to make the results comprehensive, accurate and timely. The Federal Reserve may not conduct or sponsor, and an organization is not required to respond to, a collection of information unless it displays a currently valid OMB control number. The Federal Reserve System regards the individual institution information provided by each respondent as confidential [5 U.S.C. § 552(b)(4)]. If it should be determined that any information collected on this form must be released, other than in the aggregate in ways that will not reveal the amounts reported by any one institution, respondents will be notified.

Public reporting burden for this collection of information is estimated to be 60 hours per response, including time to gather and maintain data in the proper form, to review instructions and to complete the information collection. Send comments regarding this burden estimate to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551; and to the Office of Management and Budget, Paperwork Reduction Project, (7100-0285), Washington, DC 20503.

A. Introduction

These instructions cover the survey of *amounts outstanding* for derivatives held as of the last day of business of June 2004. Separate instructions have been provided for the *turnover* part of the survey.

In order to create benchmarks for regular OTC derivatives market reporting in the G-10 countries, and to minimize the reporting burden for regular, semiannual reporters, this part of the survey corresponds to the regular OTC derivatives market report (FR 2436).

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 for the *amounts outstanding* part of the survey are the top tier company or holding company for U.S.-based financial institutions that actively participate in foreign exchange and derivatives markets and that have significant derivatives positions.

2. Risk categories

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

- foreign exchange and gold contracts (Tables 1 and 4)
- single-currency interest rate derivatives (Tables 2 and 4)
- equity, commodity, credit and "other " derivatives (Tables 3 and 4).

Foreign exchange and gold contracts. These contracts include those involving the exchange of currencies in the forward market. They cover outright forwards, foreign exchange swaps, currency swaps (including cross-currency interest rate swaps) and currency options. Foreign exchange contracts include all deals involving exposure to more than one currency, whether in interest rates or exchange rates.

Gold contracts include all deals involving exposure to that commodity.

Single-currency interest rate derivatives. 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 rates. Thus it excludes contracts involving the exchange of one or more foreign currencies (e.g., cross-currency swaps and currency options) and other contracts whose predominant risk characteristic is foreign exchange risk and which should be reported as foreign exchange contracts.

Equity, commodity, credit and "other" derivatives. Equity derivative contracts are contracts that have a return, or a portion of their return, linked to the price of a particular equity or to an index of equity prices.

Commodity contracts are contracts that have a return, or a portion of their return, linked to the price of, or to a price index of, a commodity such as a precious metal (other than gold), petroleum, lumber or agricultural products.

Please note that contracts that have a return or a portion of their return, linked to the price of precious metals (other than gold) should be reported separately from *other commodity-linked contracts*.

Credit derivatives are contracts in which the payout is linked primarily to some measure of the creditworthiness of a particular reference credit. The contracts specify an exchange of payments in which at least one of the two legs is determined by the performance of the reference credit. Payouts can be triggered by a number of events, including a default, a rating downgrade or a stipulated change in the credit spread of the reference asset. Typical credit derivative instruments are credit-spread forwards and options, credit event or default swaps and total return swaps.

"Other" derivatives are any other derivative contracts, which do not involve an exposure to foreign exchange, interest rate, equity, commodity or credit risk.

3. Instrument types

For OTC derivatives, the following instrument breakdown is requested:

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

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 organized exchanges and their contractual terms are not standardized. 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.

Those forward contracts are to be reported that have been entered into by the reporting bank and are outstanding (i.e., open contracts) as at the reporting date. Contracts are outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying financial instrument or commodity or settled in cash. Such contracts can only be terminated other than by receipt of the underlying asset, by agreement of both buyer and seller.

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, both forward parts of the transaction should be reported separately. In contrast, in the case of foreign exchange swaps, which are concluded as spot/forward transactions, only the unsettled forward part of the deal is to be reported.

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 organized 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 or impossible. 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 amortizing rate swaps.

Further instrument definitions and reporting categorizations 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 the data on outstandings in nominal amounts and gross market values of the reporting institution.

Nominal or notional amounts outstanding are defined as the gross nominal or notional value of all deals concluded and not yet settled at the reporting date. The data should in principle be reported on a consolidated basis, i.e., inter-company deals should be eliminated. For contracts with *variable nominal or notional principal amounts*, the basis for reporting should be the nominal or notional principal amounts at the time of reporting.

The notional amount or par value to be reported for a derivative contract with a multiplier component is the contract's effective notional amount or par value. For example, a swap contract with a stated notional amount of $1,000,000 whose terms called for quarterly settlement of the difference between 5% and LIBOR multiplied by ten has an effective notional amount of $10,000,000.

No netting of contracts is permitted. Therefore (1) obligations of the reporting bank to purchase from third parties against the bank's obligations to sell to third parties, (2) written options against purchased options, or (3) contracts subject to bilateral netting agreements should not be netted.

The par value to be reported is that of the contract itself and not the par value of financial instruments intended to be delivered under forward contracts.

Swaps. The notional amount of a swap is the underlying principal amount upon which the exchange of interest, foreign exchange or other income or expense is based.

Equity and commodity-linked contracts. The contract amount to be reported for an equity or commodity contract is the quantity, e.g., number of units, of the commodity or equity product contracted for purchase or sale multiplied by the contract price of a unit.

The notional amount to be reported for commodity contracts with multiple exchanges of principal is the contractual amount multiplied by the number of remaining exchanges of principal in the contract.

Credit derivatives. The contract amount to be reported for credit derivatives is the nominal value of the relevant reference credit. Credit linked notes are excluded from this survey.

Gross fair values are defined as the sums of the absolute values of all open contracts with either positive or negative fair values on the *as of* date. Fair values are the amounts at which a contract could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted price is available for a contract, the number of trading units should be multiplied by that market price. If a quoted market price is not available, the reporting institution should provide its best estimate of market value based on the quoted price of a similar contract or on valuation techniques such as discounted cash flows.

Gross fair value is defined as the value of all open contracts before counterparty or any other netting. Thus, the gross positive market value of a firm's outstanding contracts is the sum of all positive replacement values of a firm’s contracts. Similarly, the gross negative fair value is the sum of all negative values of a firm’s contracts.

The term gross is used to indicate that contracts with positive and negative fair values with the same counterparty should not be netted. Nor should the sums of positive and negative contract values be set off against each other within a risk category such as foreign exchange, interest rate, equity, commodity, credit and "other".

Unlike forwards or swaps, OTC options have a fair value at initiation, which is equal to the premium paid to the writer of the option. Throughout their life option contracts can only have a positive fair value for the buyer and a negative fair value for the seller. If a quoted market price is available for a contract, the fair value to be reported for that contract is the product of the number of trading units of the contract multiplied by that market price. If a quoted market price is not available, the fair value of an outstanding option contract at the time of reporting can be determined on the basis of secondary market prices for options with the same strike prices and remaining maturities as the option being valued, or by using option pricing models. In an option pricing model, current quotes of forward prices for the underlying (spot prices for American options) and the implied volatility and market interest rate relevant to the option's maturity would normally be used to calculate the "market" values.

Gross positive fair value is the sum of the current fair values of all purchased options, and gross negative fair value would be the sum of the values of sold options. Options sold and purchased with the same counterparty should not be netted against each other, nor should offsetting bought and sold options on the same underlying.

All data on amounts outstanding should be reported as of end-June 2004.

4. Reporting basis

The reporting of amounts outstanding data should be on a *consolidated basis* by the top-tier company or holding company. Data from all branches and (majority-owned) subsidiaries worldwide must be added together and reported. Deals between branches and subsidiaries of the reporter must be eliminated.

5. Currency of reporting and currency conversion

Amounts outstanding are to be reported in US dollar equivalents. Contracts that are denominated in non-dollar currencies should be converted into US dollars by using the end-of-period exchange rates as of the reporting date. For practical reasons, reporting institutions may also use their internal (bookkeeping) exchange rates to convert amounts outstanding booked in non-dollar currencies, as long as these exchange rates correspond closely to market rates.

6. 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.

7. Reporting deadline

Data should be submitted to the Federal Reserve Bank of New York by August 31, 2004.

C. Counterparties

Contracts are reported by counterparty as follows: reporting dealers, other financial institutions and non-financial customers.

"Reporting dealers" for the amounts outstanding part of the survey are those institutions whose head office is located in the Group of Ten countries that participate in the semi-annual OTC derivatives market statistics. 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. Two separate lists of "reporting dealers" for the turnover and amounts outstanding parts of the survey are provided.

"Other financial institutions" covers all categories of financial institution *not* classified as "reporting dealers". It will include all non-reporting financial institutions, such as commercial banks, investment banks and securities houses, mutual funds, pension funds, hedge funds, currency funds, money market funds, thrifts, leasing companies, insurance companies, and financial subsidiaries of non-financial companies

A "non-financial customer" is any counterparty other than those described above, in practice mainly corporate firms and governments.

D. Currency and other risk factor breakdowns

For amounts outstanding of foreign exchange and interest rate contracts the following currency breakdown is requested:

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

Reporting institutions are asked to identify individual other currencies if they have a material amount of outstanding contracts in those currencies, for example, if a notional amount outstanding in a currency for a given instrument is greater than 2% of the total notional amount outstanding for that instrument.

Amounts outstanding of *foreign exchange contracts* are to be broken down on a single-currency basis. This means that the notional amount outstanding and the gross positive or negative fair value of each contract will be reported twice, according to the currencies making up the two "legs" of the contract. The total of the amounts reported for individual currencies will thus be 200% of total amounts outstanding. For example, a reporting institution entering into a forward contract to purchase US dollars in exchange for euro with a notional principal amount of $100 million would report $100 million in the USD column and another $100 million in the EUR column.

Equity-linked contracts must be categorized according to whether they are related to US, Japanese, European (excluding countries in Eastern Europe), Latin American, other Asian or other countries' equity and stock indices. The contracts should be allocated according to the nationality of the issuer of the underlying rather than the country where the instrument is being traded. For commodity, credit and "other" derivatives, no further breakdown by risk factor is required.

E. Maturities

For amounts outstanding of foreign exchange (including gold), interest rate and equity-linked contracts, a breakdown is requested by remaining maturity according to the following bands:

- one year or less
- over one year and up to five years
- over five years.

In the case of transactions where the first leg has not come due, the remaining maturity is to be determined by the difference between the near and far-end dates of the transaction and not by the date of conclusion of the deal.

F. Categorization of derivatives involving more than one risk category

Individual derivatives transactions are to be categorized into six risk classes: foreign exchange, single-currency interest rate, equity, commodity, credit and "other". Transactions should be reported in only one risk category based on the contracts predominant risk character.

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 according to more or less standardized contracts and market conventions. If a transaction is composed of several plain vanilla components, each part should in principle be reported separately. OTC foreign exchange derivatives outstanding should be defined and categorized as follows:

1. Foreign exchange 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. Short-term swaps carried out as “tomorrow/next day” transactions should also be included in this category.

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.
Currency swaption:	OTC option to enter into a currency swap contract.
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 amortized 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.
Interest rate warrant:	OTC option; long-dated (over one year) interest rate option.

3. Equity and stock index derivatives

Equity forward:	Contract to exchange an equity or equity basket at a set price at a future date.
Equity swap:	Contract in which one or both payments are linked to the performance of equities or an equity index (e.g. S&P 500). It involves the exchange of one equity or equity index return for another, or the exchange of an equity or equity index return for a floating or fixed interest rate.
Equity option:	Option contract that gives the right to deliver or receive a specific equity or equity basket at an agreed price at an agreed time in the future.
Equity warrant:	OTC option; long-dated (over one year) equity option.

4. Commodity derivatives

Commodity forward:	Forward contract to exchange a commodity or commodity index at a set price at a future date.
Commodity swap:	Contract with one or both payments linked to the performance of a commodity price or a commodity index. It involves the exchange of the return on one commodity or commodity index for another, and the exchange of a commodity or commodity index for a floating or fixed interest rate.
Commodity option:	Option contract that gives the right to deliver or receive a specific commodity or commodity index at an agreed price at a set date in the future.

5. Credit derivatives

Credit spread forward:	Agreement to pay or receive at some time in the future a cash payment that depends on the difference between a spread (i.e. the difference in yields between two financial assets) agreed at contract initiation and that prevailing at settlement.
Credit event/default swap:	Contract, which commits two counterparties to exchange a periodic fee in exchange for a payment contingent on a default event or any other, agreed change in the credit quality of a reference asset for an agreed period of time.
Total return swap:	Contract, which commits two counterparties to exchange the total economic performance of a financial asset (defined to include all interest payments, fees and any capital appreciation or depreciation) in exchange for a floating rate payout based on a reference index (usually LIBOR plus a spread reflecting the creditworthiness of the counterparty as well as the credit rating and liquidity of the underlying asset).
Credit spread option:	Option contract that gives the right to receive a cash payment if a spread, i.e. the difference in yields between two financial assets, widens beyond an agreed strike level during a specific period.

Examples of how to calculate the fair value of forwards and swaps

For a forward, a contract to purchase USD against EUR at a forward rate of 1.00 when initiated has a positive fair value if the EUR/USD forward rate at the time of reporting for the same settlement date is lower than 1.00. It has a negative market value if the forward rate at the time of reporting is higher than 1.00 and it has a zero market value if the forward rate at the time of reporting is still 1.00. As explained in Section D above, each positive or negative fair value would have to be reported twice, according to the currencies making up the two "legs" of the contract.

For swaps, which involve multiple (and sometimes two-way) payments, the fair value is the net present value of the payments to be exchanged between the counterparties between the reporting date and the contract's maturity, where the discount factor to be applied would normally reflect the market interest rate for the period of the contract's remaining maturity. Thus, a fixed/floating swap which, at the interest rates prevailing at the reporting date involves net annual receipts by the reporter of e.g. 2% of the notional principal amount for the next three years has a positive marked-to-market (or replacement) value equal to the sum of three net payments (each 2% of the notional amount), discounted by the market interest rate prevailing at the reporting date.