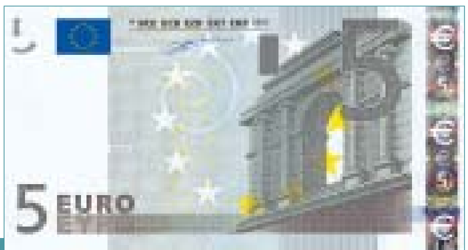
EUROPEAN CENTRAL BANK

METHODOLOGICAL NOTES FOR THE COMPILATION OF THE REVALUATION ADJUSTMENT

FEBRUARY 2006

MFI BALANCE SHEET STATISTICS
FLOWS STATISTICS

EUROPEAN CENTRAL BANK



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FEBRUARY 2006

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INTRODUCTION

The implementation of the revaluation adjustment at national level involves a number of aspects that are not adequately covered in the national implementation questionnaire. In order to provide a comprehensive view of how the revaluation adjustment data are obtained as well as the necessary details on the compilation procedures used by both MFIs and NCBs, NCBs have prepared a separate Methodological Note explaining, in as much detail as possible, the procedure for compiling the revaluation adjustment.

ISSUES COVERED IN THE METHODOLOGICAL NOTE

The following aspects are to be covered in the Methodological Note:

1. WRITE-OFFS/WRITE-DOWNS OF LOANS

- Valuation of loans – accounting for specific provisions – gross/net reporting to the NCB – gross/net reporting to the ECB.

- Where reporting of loans is net of specific provisions – frequency and size of provisioning. Where reporting of loans is gross of specific provisions – frequency and size of write-offs/write-downs. In both cases, measurement of loans that are written back to the books of the MFIs; measurement of loans that are written off directly against capital and reserves.

- Compliance with the ECB requirement – data to be compiled (measuring specific provisions or write-offs/write-downs) – treatment of write-offs linked to sales/ transfers of loans to third parties.

- Reporting obligation beyond the minimum cells – details of the additional cells – estimation procedure employed by the NCB to report to the ECB the complete set of data – the NCB's procedures for checking the data.

2. PRICE REVALUATION OF SECURITIES

- Different portfolios (trading portfolio, investment portfolio and fixed portfolio) – valuation rules of each portfolio, specifying securities other than shares and shares and other equity – relative importance of each portfolio.

- Compilation method at the MFI level. This should include a description of the type of data to be sent to the NCB – flows; adjustments; security-by-security – a detailed description of the procedures by type of portfolio, the transaction method/balance sheet method, estimations applied.

- Treatment of securities denominated in non-euro currency – difference between 'Securities other than shares' and 'Shares and other equity' (exclusion of the exchange rate adjustment in the first case) – instructions given to MFIs.

- Estimation method employed by the NCB for the full reporting of securities other than shares to the ECB – extension of the minimum requirement to other cells – coverage of securities with original maturity under two years.

- Application of the derogation in respect of the monthly adjustment (i.e. the possibility of collecting the data at quarterly frequency) – estimation method for obtaining monthly data – sources of information, revisions, etc.

- The NCB's procedures for checking the adjustment data – calculations in the NCB – securities denominated in non-euro currency.

Derogation on MMFs – extension/criteria and any other issues considered relevant by the NCB are also to be covered.

BELGIUM

1 VALUE REDUCTIONS ON CREDITS

1.1 DEFINITION AND VALUATION METHOD

Two types of value reductions on credits are distinguished:

1. The first type concerns claims with an uncertain outcome, for which there is no obligation to record value reductions, but which are nevertheless the subject, in the interest of prudence and sound management, of appropriation to value reductions. In the reporting of credit institutions, these value reductions are recorded on the liabilities side, under the heading 'Value reductions on credit risks with an uncertain outcome'. This implies a gross reporting of loans. For this reason, these value reductions are excluded from the new complementary reporting.

2. The second type concerns claims of a non-recoverable or doubtful nature.

   The Royal Decree on the annual accounts of credit institutions defines this as follows:

   "... problem risks on counterparties whose inability to honour their commitments has been established or is virtually certain, and also risks which are the subject of a lawsuit for which it is certain, or virtually certain, that its outcome will result in non-recovery of the disputed claims or in the impossibility of exercising the disputed legal remedies".

   The risk is thus much more precise, and non-recovery of the whole or part of the claim is certain or virtually certain. At the level of the reporting by credit institutions, these value reductions are recorded separately on the Assets side, under the heading 'Doubtful claims', or are the subject of a cancellation of claims if they are of a definitively irrecoverable nature. Doubtful loans are included in the loans reported to the ECB.

1.2 COMPLEMENTARY REPORTING

The complementary reporting required from credit institutions includes, in addition to the minimum obligations, all the data mentioned in Table 1.A of Regulation ECB/2001/13, including the breakdown by maturity, for non-MFIs (maturity up to one year, maturity over one year and up to five years, maturity over five years). As far as currencies are concerned, separate tables are drawn up 1) for all currencies for the euro equivalent, and 2) separately for the euro.

In the first part of the reporting, the data reported under the heading 'Credits' are transfers to and from 'Doubtful claims' (reclassifications) as well as cancellations of claims (covered by provisions in advance, or not on the liabilities side) resulting from their definitively irrecoverable nature.

The second part shows under the heading 'Doubtful claims' value corrections (value reductions, write-backs of value reductions and cancellations of claims for the balance, which still appears on the assets side at the end of the preceding period), and reclassifications (transfers to and from 'Credits').

Cancellations of claims are treated in two ways:

- either directly by crediting the credit account on the assets side (if the claim was of a normal nature, or possibly of an uncertain nature recorded on the liabilities side):

- or by crediting the doubtful claims account on the assets side (if the claim was already of a doubtful nature).

2 VALUATION DIFFERENCES ON SECURITIES

2.1 DEFINITION AND VALUATION METHOD

As far as securities are concerned, securities and other negotiable instruments constitute an important category of assets, excluding financial fixed assets whose residual maturity is indeterminate or which generally represent company shares.

A distinction is usually made between the following categories, depending on the purpose of acquisition:

1. Securities and instruments held for investment purposes.

   Two types of securities are included in this category: fixed-income securities and variable-income securities. For the latter, use is made of the lower of cost or market method (recording the acquisition price unless the market value is lower).

   With regard to fixed-income securities, these are recorded on the basis of their actuarial value calculated on purchase, taking into account the difference between the acquisition value and the repayment value on maturity. This method enables this difference to be spread actuarially over the life of the security.

2. Securities and instruments held in the commercial (or trading) portfolio comprise securities which are to be placed with third parties and securities which are acquired with the object of making a short-term profit (normally up to six months). The value at which these securities are shown on the assets side is adapted according to the market value on each closing date (mark to market). However, when there is no liquid market, the 'lower of cost or market' method is used.

2.2 COMPLEMENTARY REPORTING

The complementary reporting covers non-transactional flows, i.e. the valuation differences relating to the elements of the securities portfolios which were reported at the end of the preceding period and are present at the end of the reference period. The valuation differences chiefly relate, as stated above, to deferred capital gains or losses recognised from the accounting point of view by the valuation rules, actuarial adjustments and also accrued interest not yet due in so far as it has been incorporated into the value of the security in question (the figures therefore do not include accrued interest not yet due recorded in the regularisation accounts).

This calculation is made for all the portfolios. Shares and other securities are treated separately in the reporting, but are subject to the same sectoral breakdowns.

3 PRACTICAL DETAILS (CF. ANNEXES 03.49 AND 03.59 OF THE NATIONALE BANK VAN BELGIË/ BANQUE NATIONALE DE BELGIQUE (NBB) REPORTING INSTRUCTIONS)

As already mentioned, value reductions on credits and valuation differences in respect of securities are the subject of complementary monthly reporting, the structure of which is identical to that of the monthly reporting of outstanding amounts. The deadlines for this are fixed in the same way as for the ordinary reporting. A sectoral breakdown is provided for each European Union Member State. The report is drawn up for all currencies for their euro equivalent in each case, and separately for the euro.

To allocate the revaluation adjustments to the corresponding maturity in case of a write-off applied to the item 'Doubtful claims', a specific treatment is applied, whereby the allocation is based on the outstanding amounts of the credits. However, in the framework of quality control, banks are asked for further information in case of significant fluctuations.

The breakdown according to maturity is always made on the basis of the initial maturity.

As for the frequency of reporting, all the complementary flows tables will be sent in on a monthly basis by the same dates as those for outstanding amounts. Furthermore, certain data relating to the outstanding amounts of deposits and credits, which were previously sent in on a quarterly basis, are henceforth sent in monthly.

In the case of MMFs not subject to the compulsory reserve requirement and whose individual reporting to the Banking, Finance and Insurance Commission (BFIC) takes place monthly, the NBB has, logically, granted them derogation.

GERMANY

1 WRITE-OFFS/WRITE-DOWNS OF LOANS

1.1 VALUATION OF LOANS (GROSS/NET REPORTING)

In the bookkeeping of the German banks for loans, two types of accounts are kept: for the loan itself, and for the special provisions (Einzelwertberichtigungen). In order to show the loans in a balance sheet or a report, the provisions are netted with the accounts of the loans. The counterparts of building up provisions are the charges and income accounts (shown in the reports under 'Remaining liabilities'). The method for the handling of write-downs and write-offs does not differ; it is just a question of the amount of the provisions in relation to the corresponding loan. In the case of write-offs, the provisions are equal (100%) to the corresponding loans. There are no direct write-offs against capital and reserves.

1.2 FREQUENCY AND SIZE OF PROVISIONING

Special provisions are set up by the banks during their annual accounting when the creditworthiness of single loans is checked, and within the year at the time when a single loan has become doubtful. Thus adjustments on loans could occur in each reporting period. The reports on adjustments by the banks are derived from the changes to the special provisions during the reporting month (comparing the stock of special provisions at the end of the reporting month with the stock at the end of the previous month).

1.3 TREATMENT OF WRITE-OFFS LINKED TO SALES/TRANSFERS OF LOANS

Write-offs or write-downs set up within the reporting period (month) in the context of sales or transfers of loans cannot be identified in the German reports on adjustments. The reduction of loans is shown with the amount of the sold or transferred loans reported at the end of the previous month.

1.4 REPORTING OBLIGATION BEYOND THE MINIMUM CELLS (DETAILS OF ADDITIONAL CELLS, PROCEDURE FOR CHECKING THE DATA)

In Germany the adjustments are reported on special reporting forms which are identical with the reporting forms for the corresponding loans and securities, and are submitted together with the reports on stocks. Thus German data on adjustments are available for all requested cells of the consolidated balance sheet.

2 PRICE REVALUATION OF SECURITIES

2.1 VALUATION RULES FOR DIFFERENT PORTFOLIOS

For the purpose of reporting banking statistics, German banks make no distinction in the valuation of the different portfolios (trading, investment and fixed portfolio). The stocks of securities are recorded at the book value, which is the value of the securities according to the annual accounting at the beginning of the year (i.e. the minimum of market value and acquisition price), continued with the purchases and sales at the transaction prices throughout the year. In the case of sales, the securities are taken out of the stocks at calculated average prices. Thus the realised gains and losses are booked together with each transaction. As far as the ECB is concerned, this complies with the balance sheet method, as the realised gains and losses reflected in the changes in stocks are not adjusted (on the compilation of adjustments, see the next section).

2.2 COMPILATION METHOD AT MFI LEVEL

The amounts caused by revaluations are established by comparing the stocks of securities before and after the valuation at the end of the reporting period (see example below). As valuations for the (individual) securities are undertaken by German banks generally only once a year in the course of their annual accounting, data on adjustments due to price valuations are concentrated at the turn of the year.

2.3 TREATMENT OF SECURITIES DENOMINATED IN NON-EURO CURRENCY

In Germany banks are instructed to exclude exchange rate effects when calculating the adjustments for securities in non-euro currency. As they have to report asset and liability items denominated in foreign currency at the spot middle rate on the reporting day, they are expected to use these exchange rates for this purpose as well.

2.4 ESTIMATION METHOD EMPLOYED BY THE NCB

As the Bundesbank collects data on adjustments for all positions within each reporting period, no estimation is necessary.

2.5 APPLICATION OF THE DEROGATION

No derogation is undertaken in Germany.

2.6 NCB PROCEDURES FOR CHECKING THE ADJUSTMENT DATA

The data on adjustments are subject to the same calculation and plausibility checks as undertaken for the stock data.

2.7 DEROGATION ON MMFS (EXTENSION CRITERIA)

In respect of the short residual maturity of the securities (money market paper, bonds) in the portfolios of money market funds, no significant revaluation adjustments can be expected from these reporting agents. Thus in Germany the money market funds are exempted from the obligation to report on revaluation adjustments.

Table

Example for the compilation of security transactions and data on adjustments

	Price	Reporting period	
		November	December
Purchase	100	400	-
Sales	105	-	210*
Stock at the end of the period		400	200
Valuation	90	-	180
Adjustment**		-	-20
Charges and income account (remaining liabilities)			10

* Deduction from the stocks at an average price of 100.
** Difference between stocks before and after valuation

3 VALIDATION OF ADJUSTMENT DATA

The Bundesbank broadly bases its validation of revaluation adjustment data on two pillars. First, a set of linear constraints against which the adjustment data can be checked (whereby breakdowns must sum up to totals). Second, an assessment of the plausibility of the numbers. In doing so, there are basically two clues. The first and most important is the articulation of adjustment data with the corresponding balance sheet stock data. Significant write-offs/write-downs on loans or revaluations on securities are expected, ceteris paribus, to also have a bearing on the stocks. In other words, significant write-offs/write-downs on loans might result in a decrease in the corresponding loan stock, were this decline not set off by a similar amount of net new loan business in the period under observation, or might slow down or even invert a positive trend in the corresponding loan stock figures. The second clue is the checks with other internal and external sources, such as other types of statistics and news. The performance of continuity checks can be expected to be more difficult in the case of revaluation data given that the numbers, as well as the sign, might be quite volatile over time and not highly correlated across the periods.

GREECE

1 WRITE-OFFS/WRITE-DOWNS OF LOANS

The financial statements of credit institutions in Greece always contain three pieces of information: (a) the outstanding amount of loans gross of provisions, (b) provisions, and (c) the outstanding amount of loans net of provisions. The institutions report to the Bank of Greece loans gross of provisions and, as a separate item, provisions. The Bank of Greece reports loans to the ECB on a gross basis. Provisions are included on the liability side in 'Capital and reserves'.

Write-offs are carried out on an annual basis (usually in spring) and have to be approved by the general meeting of shareholders, together with the annual accounts of the institution. The write-offs apply retroactively from December of the previous year. Loans are usually written off against reserves, provided of course that the institution had in the past made sufficient provisions. Otherwise, loans are written off against profits.

MFIs report write-offs/write-downs to the Bank of Greece in a separate monthly table, broken down by sector, maturity and currency. All the data that the Bank of Greece reports to the ECB are thus derived from actual information reported by MFIs, and no estimation is required.

2 PRICE REVALUATION OF SECURITIES

Reporting institutions apply the same valuation rule for all their securities, and no differentiation is made according to the type of the portfolio.

The data reported to the Bank of Greece are monthly flows, excluding intra-month transactions: cases of selling (buying) a security and repurchasing (reselling) it within the reference month are not reported. The Bank of Greece calculates the revaluation adjustment by subtracting the flow from the change in stocks. The data reported by MFIs to the Bank cover both the "minimum" cells and the blank cells that have to be reported to the ECB.

As far as securities in non-euro currencies are concerned, reporting institutions have been asked to calculate the flow in the relevant currency and then convert the amount into euro using the exchange rate at the end of the month, and not the exchange rate at which the transaction actually took place. Nevertheless, this information is not really gross of the exchange rate adjustment, except in a very limited sense. Consider a concrete example. Suppose that at the beginning of the month the exchange rate is EUR 1=\$0.95. During the month the institution buys dollar securities at various exchange rates and prices and total purchases equal \$100. The dollar appreciates during the month to reach EUR 1 = \$0.92 at the end of the month. What the institution will report as a flow will be 108.7 EUR. This is however an overestimation of the true flow (i.e. it is gross of an exchange rate adjustment) which, if the transactions were carried out at an average exchange rate of 0.93, would have been only 107.5 EUR. But the number 108.7 includes only the second round of exchange rate changes and does not include the effect of the dollar appreciation on the stock of securities held by the institution. If the change in the stock of dollar securities is Stock(t) - Stock (t-1) = 130 EUR, then the calculation 130 - 108.7 = 21.3 does not give the flow but actually the sum of revaluations + the total exchange rate changes. Thus what the Bank of Greece reports to the ECB is not the 21.3, but the 21.3 minus the exchange rate adjustment which is calculated in the same way that the ECB does. If these changes are 10, the report as a price revaluation is 11.3. To this, the ECB adds back the exchange rate change of 10 to arrive at the total adjustment of 21.3 and the flow of 108.7. Of course, it has to be taken into account that the stock of non-euro debt securities held by Greek MFIs is no more than 3% of the total amount of debt securities they possess.

SPAIN

1 WRITE-OFFS/WRITE-DOWNS OF LOANS

1.1 VALUATION OF LOANS

The rules governing the recording of all transactions by credit institutions are included in Banco de España Circular 4/1991. This Circular has been adapted over time not only to reflect the necessary changes arising from new business in this sector, but also the statistical requirements of the ECB.

According to this Circular, loans and credits (hereafter, just 'loans') should be recorded in the balance sheet on the basis of the nominal amount drawn down. Provisions set aside to cover loans that prove doubtful (due either to default or to any other reason) are included on the liabilities side of the balance sheet and, for the purposes of EMU statistical statements, are transmitted after they have been included under capital and reserves. Consequently, loans are at all times recorded gross, i.e. without netting for the related provisions.

When a credit institution considers that one of its loans is definitely non-recoverable, it proceeds to write it off/down from the asset side of its balance sheet. This write-off/write-down can be made with a charge to provisions (if these were set aside) or directly to the profit and loss account if no covering provisions had been set up for the loan (in principle, write-offs/write-downs charged directly to the capital and reserves account are not allowed). There is no set period or frequency with which such write-offs/write-downs must be made. Institutions write off/write-down loans from their assets when necessary.

1.2 COMPLIANCE WITH ECB REQUIREMENTS

In respect of compliance with ECB requirements, two stages may be distinguished: before and after the entry into force of Regulation ECB/2001/13.

a) Before the entry into force of Regulation ECB/2001/13. The Directorate Statistics formerly estimated the adjustments to be sent to the ECB, taking as its basis the amount of asset write-offs/write-downs (both with a charge to provisions and with a direct charge to the profit and loss account), communicated quarterly for supervisory purposes by institutions to the Banco de España in the profit and loss account, and in statement T.10 'Movements in asset accounts written off/ down from the balance sheet' (contained in Circular 4/1991).

b) After the entry into force of Regulation ECB/2001/13. To comply with this Regulation, the Banco de España amended the aforementioned Circular 4/1991. As regards write-offs/write-downs of loans, the amendment involved establishing a new financial statement, namely 'EMU 3: Loan and credit write-offs/downs and recoveries. Net values'. With this statement, institutions send not only the minimum cells established in the Regulation, but also the sectoral and currency breakdown on a monthly basis. Thus, the only estimate the Banco de España's Directorate Statistics has to make is the maturity breakdown (which is a non-compulsory breakdown as far as transmission by reporting institutions is concerned). This estimate is made by proportionately distributing to outstanding balances the total amounts of those on which information is available.

With regard to the specific treatment of 'Write-offs/downs linked to sales/transfers of loans to third parties'l, applying the general instructions of the above-mentioned Circular, credit institutions write off/down the asset before or at the same time as its sale (by recognising the loss using insolvency funds, or directly with a charge to the profit and loss account). Thus, these write-offs/write-downs are always reflected in the data sent to the ECB.

The statement requested by the Banco de España to the credit institutions shows loan 'Write offs and recoveries' during the month. These are all the amounts removed from assets, less any amounts that have been received or reinstated in the assets, for instance as a result of debt restructurings, which are classified as 'Recoveries'. When the amounts received or reinstated in the assets are larger than the amounts written off, the net amount is shown with a negative sign. This does not of course occur frequently, but sometimes the ECB checks the data transmitted.

1.3 NCB PROCEDURES FOR CHECKING THE DATA

In addition to the usual checks applied to the series sent to the ECB (additions, correlation with other statements, etc.), two specific checks are applied:

a) Since institutions will continue to provide information both in the aforementioned profit and loss account and the T.10 statement, links between these statements and the information to be sent to the ECB have been established. The supervisory statements and, most particularly, the profit and loss account and the T.10 are habitually checked and monitored as they affect institutions' solvency, even via inspections at the headquarters of the credit institutions themselves, by other Bank directorates (i.e. Documentation and Central Credit Register System, Financial Institutions and Inspectorate).

b) Links to the related balance sheet balances have been established, so that in the event of any particularly high write-off/write-down, or a relatively uncommon heading, the corresponding credit institution is contacted.

Table EMU STATEMENT.3
Write-offs/downs and recoveries of loans and credits. Net values (a)
(Business in Spain)

	Residents in Spain		Residents in other euro area countries		Rest of the World
	Euro	Other	Euro	Other	
Monetary financial institutions					
General goverment					
Other sectors					
• Financial auxiliaries and other financial intermediaries					
• Insurance and pension funds					
• Non-financial corporations					
• Non-profit instithouseholds					
• Households:					
- Consumer credit					
- Housing credit					
- Other					
TOTAL					

(a) This statement records the write-offs/write-downs and recoveries of loans and credits during the month. The amount is equal to the balances removed from the asset side for all write-offs/write-downs made (charged directly to the profit and loss account or using loan loss or country-risk allowances), less the balances collected or reincorporated into assets as a result of debt restructuring classified as 'Regularised written-off assets'.

2 PRICE REVALUATION OF SECURITIES

2.1 INFORMATION AVAILABLE

The Banco de España amended Circular 4/1991 in order – inter alia – to introduce a securities portfolio valuation adjustment statement (EMU.7).

a) In this statement, MFIs send information on a quarterly basis on valuation adjustments owing to:

   - increases and reductions in the book value of securities held in portfolios brought about by price changes not attributable to exchange rate fluctuations; and

   - gains and losses realised on securities sold in the period, including those acquired in the period, and which do not therefore feature in the initial balance sheet.

Consequently, the transaction method is applied.

b) The breakdown to be provided by institutions is the minimum established in ECB Regulation (EC) 2423/2001 of 22 November 2001, (ECB/2001/13), i.e.:

   - Securities (other than shares) over two years of MFIs, general government and other resident sectors in Spain and in other euro area Member States,

   - Shares and other equity of MFIs and other resident sectors in Spain and in other euro area Member States,

   - Securities other than shares at over two years and shares and other equity of the Rest of the World.

2.2 ESTIMATES

Two types of estimates have to be made on the basis of frequency and of the breakdown by instrument available.

As earlier mentioned, the EMU.7 statement is quarterly, so that the Banco de España estimates the monthly data as follows:

- linear interpolation, when quarterly data are available, except in cases where there is additional information on a relevant event that has occurred during the quarter;

- extrapolation, when the quarterly information is not yet available. The relationship between changes in the debt index and the profit and

Table IN SUM, THE NEW EMU.7 STATEMENT IS AS FOLLOWS: SECURITIES PORTFOLIO: VALUATION ADJUSTMENTS (Business in Spain)

ASSETS	Residents in Spain	Residents in other euro area Member States	Rest of the World
Securities other than shares at over two years			
Monetary financial institutions (MFIs)			
General government			
Other sectors			
Shares and other equity			
Monetary financial institutions (MFIs)			
Other sectors			

loss account in prior periods is taken as a reference in the case of fixed income, and the change in the adjusted Madrid Stock Exchange is applied to the trading portfolio held by MFIs in the previous period in the case of equities.

With regard to instruments, in order to obtain a greater breakdown in the portfolio adjustment headings, the estimates are based on portfolio outstanding balances, while the list of removed assets (book value and realisable value) given by the statement of 'Movements in the securities portfolio' (T4).

2.3 CALCULATION METHOD

The calculation formula proposed to institutions for calculating revaluation adjustments is as follows:

Valuation adjustment =
$S_t - S_{t-1} - C_t + V_t - A_{tc}$

where:

S_t = End-of-period book-value balance

S_{t-1} = Beginning-of-period book-value balance

C_t = Purchases at cost during the period

V_t = Disposals at realisable value during the period

A_{tc} = Exchange rate adjustment.

2.4 OTHER MATTERS

A series of points on the methodology followed for the calculation of valuation adjustments was proposed in the "MFI balance sheet statistics national implementation plan for Regulation ECB/2001/13. Questionnaire". Those points which have not yet been answered in the foregoing text are clarified below:

a) It is not necessary to distinguish between the different types of portfolio as the reporting institutions send the adjustment directly. Valuation of the different types of portfolio in the balance sheet is as follows: trading portfolio at market price; investment portfolio and outright portfolio at purchase price; and in the case of fixed income adjusted for accrued interest and issue premia, distributing differences between the purchase and redemption prices during the whole life of the security.

   With the information that credit institutions send to the Banco de España, it is possible to approximate the composition of the fixed-income (with a breakdown into general government and other resident sectors) and equity portfolios (with no sectoral breakdown), distinguishing between the trading portfolio, the investment portfolio and the held-to-maturity (or permanent holdings) portfolio, in percentage terms and on a monthly basis, using the previous month's data. Quarterly percentage data for the equity portfolio can be prepared, with a breakdown by issuer, distinguishing between the trading portfolio on one hand, and the investment and held-to-maturity portfolios on the other, with a lag of two and a half months.

b) The exchange rate adjustments are excluded in all types of securities (including shares).

c) To check the information, the data sent by institutions and changes in the indices, profit and loss accounts and statement T4 are checked for consistency.

d) The exclusion criterion is applied to all MMFs, since the changes in prices in their portfolios are insignificant.

FRANCE

1 REVALUATION ON LOANS

1.1 DESCRIPTION OF THE REPORTING REQUIREMENTS

These reporting requirements only concern credit institutions (CIs). The MMFs have been exempted pursuant to Article 4.6 of Regulation ECB/2001/13.

A specific monthly reporting form has been designed. CIs are required to report in it any write-off which has implied a decrease in the stock of assets during the month under review. The involved assets are loans, securities, participating interests and leasing. The write-offs are to be broken down by currency (euro versus other currencies) and by sector. However, write-offs against claims on the general government are not to be broken down by sub-sector. In 2003, this reporting form had to be transmitted the 20th day after the end of the previous month at the latest. Consequently, the adjustments included in the first BSI transmission related to the previous end-of-month of the 15th working day had to be estimated. As from 2004, the deadline was advanced to the 10th working day and no estimations were further needed. Moreover, all CIs report their write-offs in the new quarterly income statement.

1.2 CALCULATION OF THE REVALUATION ADJUSTMENT

Two aspects need to be considered here, namely (a) the estimation of the data in 2003, and (b) the grossing-up. Regarding the first point, Banque de France applies a simple procedure, carrying forward the latest available data if their quality is acceptable. As far as the second point is concerned, monthly figures are grossed up by applying a coefficient that corresponds to the share of monthly reporters in the total of the write-offs recorded in the quarterly income statement.

2 REVALUATION ON SECURITIES

2.1 DESCRIPTION OF THE REPORTING REQUIREMENTS

These reporting requirements only concern credit institutions. The MMFs have been exempted pursuant to Article 4.6 of Regulation ECB/2001/13.

The requirement depends on the type of portfolio:

- Regarding the trading portfolio, credit institutions transmit the following information on a monthly and on a security—by-security basis: the identification code, total book value and number of securities with the same identification code, the market value of the security, the sector of the counterpart, the residency of the counterpart, currency (euro versus other currencies), and the side of the balance sheet the security is recorded on (portfolio on the asset side, debts on borrowed securities and short-selling on the liabilities side). In 2003, the deadline for the transmission for such information was the 20th day after the end of the previous month, whereas as from 2004 it is the 10th working day. As for the revaluation on loans, estimations had to be carried out regarding the first transmission of BSI data.

- Regarding the other portfolios (namely the held-for-sale, investment and participating interest portfolios), credit institutions transmit information on an aggregated basis, namely on a monthly basis the total by kind of portfolio of provisions set against the latter, the net amount of each portfolio broken down by residency and by currency. On a quarterly basis, the credit institutions are required to report the net and gross stocks broken down by currency (euro versus other currencies), by sector of issuer and by initial maturity.

2.2 CALCULATION OF THE REVALUATION ADJUSTMENT

Regarding the trading portfolio, Banque de France calculates the adjustment according to the simplified balance sheet approach as described in the Q&A on flows adjustments. For each International Securities Identification Number (ISIN) code, the minimum of the previous/present number of held securities is taken and the total book value (i.e. number of shares * market value) changes in prices applied. A particular treatment is applied in cases where the ISIN code is changed during the month, which happens in particular when the issuer merges different issues by issuing a new one. In 2003, the first transmission of the adjustment was estimated by analysing the correlation between the actual adjustment and the one that can be derived by applying changes in indices of the market value by type of securities (bonds, Treasury bills and shares) and the total stocks, broken down by residency and by currency.

Regarding the other portfolios, stocks gross of provisions have been collected since March 2003, the start of the new quarterly reporting. As a result, changes in the stocks equal the flows. Between two successive quarterly reporting periods, the total provisions are split using keys based on the quarterly reporting. As far as the held-for-sale portfolio is concerned, it could be possible at a later stage to break down the total of provisions by modelling the link between the changes in the book value and the changes in market values.

3 BACK SERIES

The previous procedure of estimating revaluations on loans continued until actual data were available. Back series relating to securities adjustments have been provided since mid-2004, based on the information currently available within the existing reporting framework. The latter consists of quarterly data; namely the breakdown of the securities held by kind of portfolio, by currency, by residency and by instruments (no breakdown by sector counterpart is available). On these stocks, indices derived from those calculated in the context of national accounts are applied, according to the simplified balance sheet approach. Regarding the held-for-sale portfolio, the total of provisions is also only available on a quarterly basis. It is split according to the share of the various instruments in this portfolio, about which a decrease in the market value is recorded. This method was discontinued in March 2003 and a reclassification adjustment was recorded in order to offset the change in the measurement of the stocks. No estimations are provided for the investment portfolio, taking into account that the provisions set against it only correspond to the difference between the acquisition cost and the redemption value amortised along the residual maturity of the security. Regarding the participating interest, no estimations are needed because the stocks are already gross of provisions.

IRELAND

1 WRITE-OFFS/WRITE-DOWNS

Loans are recorded on a net basis in statistical reports submitted to the Central Bank and Financial Services Authority of Ireland ('the Bank'). Using supplementary data, the Bank adjusts the 'net' data prior to their submission to the ECB. In this way gross data are submitted to the ECB.

The frequency of provisioning varies from institution to institution according to internal accounting practice. Data to be collected in flows statistics refer to specific provisions and write-offs/write-downs. Where a loan is sold/transferred to a third party, the treatment is as per the technical annex of write-offs/write-downs contained in the Guidance Notes to Regulation ECB/2001/13.

All cells in Table 1A of Regulation ECB/2001/13 are collected on a monthly basis.

The reporting form includes a number of arithmetic checks. Additional checks to examine data quality are under discussion with the institutions. Any checks provided by the ECB are to be set up on the Bank's database.

2 PRICE REVALUATION OF SECURITIES

Reporting institutions submit actual flows to the Bank compiled using the balance sheet method.

Institutions were instructed to exclude all exchange rate changes. The procedure for shares and other equity (non-euro) is as per the ECB Questions and Answers.

The Bank does not make any estimates as the reporting form includes all items in Table 1A of Regulation ECB/2001/13.

Data are collected on a monthly basis. Revisions follow previous existing Bank practice, i.e. are made according to a timetable agreed between the Bank and the reporting institution.

The reporting form includes a number of arithmetic checks. Additional checks to examine data quality were discussed with institutions. Any checks provided by the ECB are set up on the Bank's database.

3 OTHER ISSUES

All MMFs were given a derogation from the requirement to provide flows statistics.

ITALY

1 WRITE-OFFS/WRITE-DOWNS OF LOANS

With reference to loan write-offs/write-downs, Banca d'Italia has been transmitting monthly flows since the beginning of 1999, following the ECB's MBS Guidelines. Historical data are available from September 1995 onwards; data are partially estimated until December 2000; and starting from January 2001, data are reported by credit institutions.

1.1 VALUATION OF LOANS (GROSS/NET REPORTING)

Credit institutions report to Banca d'Italia the nominal amount of loans. These amounts are gross of loan provisions; on the liability side these are included in the item "remaining liabilities". Loans are included in the credit institutions' balance-sheet until an extinctive event occurs (repayment, board decision on the loans' irrecoverable, transfer to third parties).

1.2 FREQUENCY OF PROVISIONING AND REVERSION REPAYMENT OF WRITE-OFFS

Credit institutions regularly monitor the credit quality of their loans portfolio, with the consequence that provisions can potentially be recorded anytime within the year. Such adjustments are reported to Banca d'Italia as soon as they're recorded in the internal accounts.

1.3 TREATMENT OF WRITE-OFFS LINKED TO SALES/TRANSFERS OF LOANS

Write-offs reported by credit institutions also include those linked to sales/transfers of loans to third parties (write-offs are compiled at the very moment the loans are sold/transferred).

1.4 REPORTING OBLIGATION BEYOND THE MINIMUM CELLS/PROCEDURE FOR CHECKING DATA.

The reporting framework for write-offs/downs of loans, in accordance with data on outstanding amounts, requires the following:

- Original → maturity up to one year/from one to five years/over five years
- Currency → detailing each currency separately
- Counterpart → residency domestic/non-domestic
- Counterpart country → detailing each country separately
- Counterpart economic sector classification by economic sub-sector as defined by the Banca d'Italia regulation according to the ESA 95
- Purpose of the loan only for loans to households do agents also have to report the purpose of the loan: housing purchase/consumer credit/other purposes

Consistency checks applied by Banca d'Italia focus on the plausibility of figures reported. First of all, for write-offs exceeding a certain threshold (determined as a ratio of the overall amount of write-offs) credit institutions are required to confirm the correctness of data. Standard checks also apply (e.g. write-offs reported in the month are cross-checked with the total of loans referred to t-1 for each CI to be sure that write-offs are lower than or equal to the amount of outstanding loans).

2 REVALUATION OF SECURITIES

The data report on revaluations of securities started in January 2000, with reference to December 1999. Since the beginning of the compulsory production of the revaluation adjustments, the transaction approach has been followed to produce the required information. Historical data start from October 1997.

2.1 VALUATION RULES FOR DIFFERENT PORTFOLIOS

Valuation rules for outstanding amounts require the application of the book value, with the exception of listed securities other than shares belonging to the trading book to be reported at the market value.

2.2 COMPILATION METHOD AT THE MFI LEVEL

In accordance with the transaction method, credit institutions report the following flows data to Banca d'Italia:

- the amount of securities purchased during one month;
- the amount of securities sold during one month;
- the amount of the redemption of securities during one month.

All these items are reported at transaction values; no breakdowns by currencies are available (for transactions denominated in non-euro currencies the end of the month exchange rate is applied).

Financial transactions are identified by the difference between purchases and sales/ redemptions of securities. The revaluation adjustments are compiled as the difference between the variation of stocks and financial transactions during the reference month. This procedure and the available data do not allow the exclusion of:

- realised revaluations (for the part of the revaluation that occurred during the month in which securities were sold);
- revaluations associated with intra-month operations during the reference month;
- revaluations of securities purchased during the reference month.

The reporting framework for price revaluations on securities can be summarised as follows:

- Securities' inflows (purchases) are broken down by:

  Original maturity → up to two years/over two years

  Currency → euro/non-euro

  Issuer residency → domestic/non-domestic

  Issuer economic → sector classification by economic sub-sector as defined by the Banca d'Italia regulation according to the ESA 95

  Security grouping → classification by security grouping as defined in the Banca d'Italia regulation. Groupings are used to identify the relevant two categories: (1) Securities other than shares, and (2) Shares and other equities

  Quotation → listed / unlisted / to be listed / not applicable

- Securities' outflows (sales/redemptions) are broken down by:

  Original → maturity up to two years / over two years

  Currency → euro/non-euro

  Issuer residency → domestic/non-domestic

  Issuer economic → sector classification by economic sub-sector as defined by the Banca d'Italia regulation according to the ESA 95

  Security grouping → classification by security grouping as defined in the Banca d'Italia regulation. Groupings are used to identify the relevant two categories: (1) Securities other than shares, and (2) Shares and other equities.

Quotation → quoted securities/non-quoted securities/securities with quotation in progress/not applicable

2.3 SECURITIES DENOMINATED IN NON-EURO CURRENCY

The correct compilation method in respect of the price revaluation of securities has to exclude the exchange rate adjustment if the transaction method is used. To compile the revaluation adjustments, as a first step, the following formula is used:

(A) = Stock $_{(t)}$ → Stock $_{(t-1)}$ → Flows $_{(t)}$ → Reclassifications $_{(t)}$

The resulting aggregate (A) is the sum of revaluation adjustments plus exchange rate changes. If the amounts involved are significant (e.g. if A is greater than a standard threshold; if the exchange rate dynamics are not negligible, etc.), the next step is to estimate the exchange rate changes (as currency breakdown of flows are not available, stock data are used; an estimate is then obtained following the method explained in the Manual of Procedures (B)). Therefore, revaluation adjustments end up being equal to C = A-B. However, given the negligible outstanding amounts of most of the BSI including non-euro area currencies, no exchange rate adjustments have so far generally been needed.

2.4 ESTIMATION METHOD AT THE NCB

Not applicable.

2.5 DEROGATION IN RESPECT OF MONTHLY ADJUSTMENTS

Not applicable for credit institutions. According to article 4 of the Regulation 2001/13, money market funds are exempted from the obligation to report revaluation adjustments.

2.6 PROCEDURE FOR CHECKING DATA

Checks on price revaluation aim at verifying the consistency among the outstanding amounts of t and t-1 having regard to the flows of the month. More specifically, assuming that:

aggregate A: Stock positions at end-period on securities for the current month

aggregate B: Stock positions at end-period on securities for the previous month

aggregate C: Securities inflows (purchases)

aggregate D: Securities outflows (sales/ redemptions).

the check verifies that A is equal to B+C-D. Reporting institutions are required to verify data of the described relation does not hold and the difference between A and (B+C-D) is greater than an absolute threshold and a percentage of (B+C-D).

Checks run separately with respect to ‘Securities other than shares’ and ‘Shares and other equities’, and within each category (where applicable) by maturity, by currency and by economical sector.

LUXEMBOURG

1 WRITE-OFFS/WRITE-DOWNS OF LOANS

In the case of Luxembourg, loans are recorded at their gross value on the asset side, whereby the amount of specific provisions relating thereto is recorded on the liability side. The Banque centrale du Luxembourg (BCL) reports to the ECB the aggregated figures concerning loans at their gross valuation.

The write-off/write-down of loans is performed on the basis of a formal decision taken by the Board of the credit institution, and the timing may differ from one institution to the next. In principle, when a loan becomes uncertain, even before a write-off/write-down takes place, a specific provision is created so as to cover an eventual loss, in case the amount of the loan is not redeemed by the debtor. The provisioning of loans may take place on a quarterly basis; however, longer frequencies are possible, i.e. biannually or even annually, depending on the credit institution's accounting policy. However, when a loan is provisioned, it is not necessarily written off/down. The credit institution maintains the loan and the specific provisionson its balance sheet as long as the debtor is in a position to redeem part of the loan, be it in capital or purely in interest. The consequence of this accounting practice is that the effective write-off/write-down of loans may take place at an irregular frequency and long after the event that caused the loan to be provisioned.

As from 1 January 2003 credit institutions report data on write-offs/write-downs when they occur following a detailed reporting scheme, i.e. with a complete breakdown by economic sub-sectors and maturities. The reporting as set up by the BCL corresponds to the maximum of the requirements contained in Regulation ECB/2001/13. This allows the BCL to apply a certain number of consistency checks, as the amounts reported within the framework of the monthly BSI statistics and the amounts reported for write-offs/write-downs follow an identical reporting scheme.

2 PRICE REVALUATION OF SECURITIES

In Luxembourg, accounting practices establish the following validation rules for securities portfolios:

Table Valuation rules to be applied to each of the categories

	Fixed-income securities		
	Financial fixed assets	Trading portfolio	Structural portfolio
Purchase price	X		
Lower of cost or market	X (optional)	X	X
Mark-to-market		X (optional)	

Participating interests and shares in affiliated undertakings held as fixed assets are to be treated as financial fixed assets.

Other shares, variable-yield securities and shares in affiliated undertakings, which are not held as financial fixed assets, are to be valued as current assets. These securities may be included in the trading portfolio or in the structural portfolio as defined above. It is however not permitted to value the trading portfolio of such securities by the mark-to-market method.

Table Valuation rules to be applied to each of the categories:

	Participating interests and shares in affiliated undertakings	Other shares and variable-yield securities	
	Financial fixed assets	Trading portfolio	Structural portfolio
Purchase price	X		
Lower of cost or market	X (optional)	X	X
Equity method[1]	X (optional)		
Mark-to-market		not applicable	

1 Participating interests held by credit institutions in the share capital of undertakings over the operating and financial policies of which significant influence is exercised (20% or more of voting rights) may be shown in the balance sheet using the equity method. This consists in showing the participating interest as an amount corresponding to the proportion of the capital and reserves represented by that participating interest. The difference between this amount and the book value (purchase price or "lower of cost or market" value) is disclosed separately in the balance sheet ('Remaining assets/liabilities').

As a general rule, apart from the fixed assets portfolio which is valued at the (historical) cost price, the remaining portfolios, i.e. trading and investment, are in principle valued at the lowest of cost or market price. Another option is to value the assets at market value, although this is limited to the trading portfolio. The trading portfolio is the smallest of the remaining portfolios and represents approximately 3% of the reported total securities portfolios (at end-June 2002).

As from 1 January 2003 onwards, credit institutions are required to report value adjustments with regard to the securities held in their portfolios, irrespective of the type. The method used is the balance sheet method and the reporting scheme corresponds to the one used for the monthly BSI statistics. The collection of revaluation adjustments on securities as set up by the BCL corresponds to the maximum of the requirements contained in Regulation ECB/2001/13. No estimations are needed, as the reported data collection comprises all details in full.

As revaluation adjustments are reported on a monthly frequency, no derogation is to be granted.

Concerning the checking procedures, the fact that the monthly BSI and the revaluation adjustments reporting schemes are identical enables the BCL to perform a certain number of consistency checks, i.e. with regard to value changes.

3 ADDITIONAL INFORMATION

EXCHANGE RATE-RELATED ADJUSTMENTS

The BCL instructions require reporting agents to supply adjustment data for exchange rate effects, because these effects have an impact on the balance sheet from one period to the next. In fact, credit institutions report their balance sheet in the currency of denomination of their paid-in capital, and the BCL converts these amounts for reporting purposes into euro. As a consequence and, taking into account what is mentioned in the next paragraph, this allows the BCL to identify a higher level of non-transaction-related effects.

LOWER OF COST OR MARKET VALUATION PRINCIPLE

The legal conditions and aspects under which the annual accounts of Luxembourg credit institutions have to be established are laid down in the Law of 17 June 1992. The details of the accounting treatment are explained in detail in the "Definitions and Preliminary Comments" provided by the Supervisory Authority (Commission de Surveillance du Secteur Financier (CSSF)).

Following these accounting instructions, the usual reporting tables to be submitted to the CSSF and the BCL on a monthly and quarterly basis are established as follows. The securities portfolio of a bank is split into three different categories: the fixed financial assets portfolio, the structural portfolio and the trading portfolio.

Securities reported under the fixed financial assets and structural portfolios on the balance sheet are reported at their "cost price", i.e. purchase value. Their booking value in the portfolio remains unchanged as long as these securities are recorded in the balance sheet of the bank. Depending on the type of portfolio (fixed financial assets, structural, etc.), these securities are valued on the basis of certain specific rules (i.e. at historic cost, lower of cost or market), for which the methodological notes provide a detailed view on the prevailing valuation possibilities.

As a general rule, credit institutions apply the lower of cost or market principle, which in simple terms means that the securities are kept on balance sheet at their cost value. In case of an increase in the value of these securities, no value adaptations are to be done on balance sheet. However, in case of a reduction in value, a separate value correction has to be recorded on the liability side, which takes into account the holding loss that has been incurred. The consequence is that in cases of growth or reduction in value, no change in value would appear on balance sheet for the securities portfolios valued under the lower of cost or market principle, letting these appear stable over time. As such, as there is no difference in the value appearing on balance sheet for these securities portfolios; and there is in our opinion no need to require adjustment data, as this would create a deviation in the calculation of flows with regard to stocks data.

Securities recorded in the trading portfolio may be booked at market value or lower of cost or market. Only a small part is booked at market value. If securities are recorded at market value, their value may change from one month to the next according to the fluctuations of the market value of these securities. These changes appear in the monthly balance sheet and therefore make it necessary to adjust information in order to compile proper flows.

Based on the above, the BCL has instructed credit institutions to report adjustment data in relation to securities valued at the mark-to-market principle, for which a difference in valuation appears on balance sheet (in principle every month). However, this valuation principle is considered as a second-best option, and its extent is at this stage very limited.

NETHERLANDS

1 WRITE-OFFS

The loans reported by other MFIs (OMFIs) to De Nederlandsche Bank are gross of provisions. The frequency at which loans are written off differs from one MFI to the next. Some MFIs do this once a year, and others every quarter. However, this could also take place owing to a specific event. A write-off of a loan has its counterpart in the provisions, which are part of the item ‘Remaining liabilities’. Write-offs are reported by loans extended per sub-sector and maturity and by loans by type (mortgages, consumer credit, other) and maturity. The reported data are checked at an aggregated level against reported data for supervision purposes, taking into account the general economic conditions.

2 PRICE REVALUATIONS OF SECURITIES

The reporting of price revaluations of securities, which follows the transaction approach, distinguishes between BSI items ‘Shares and other equity’ and ‘Securities other than shares’. As MMFs belong to the tail, these institutions are fully exempted from reporting.

2.1 SHARES AND OTHER EQUITY

Shares and other equity are valued at market value as well as for the trading portfolio as the investment portfolio (approximately 20% and 80% respectively). The OMFIs report revaluation adjustments, representing realised and unrealised gains/losses (this includes exchange rate adjustments). The reported data are broken down by area (Domestic, Other MUMS, Rest of the World) and subsequently by MFIs and private sector. Actual data are reported on the 20th working day, and are transmitted to the ECB during the transition period with a month’s delay. During the transition period both information sets are used to develop an estimation, which may also include stock exchange indices. As for the checking of the data, the reports by the various OMFIs are used to detect outliers in the dataset, while stock exchange indices are also used.

2.2 SECURITIES OTHER THAN SHARES

Securities other than shares are valued at market value as far as the trading portfolio is concerned (20% of all securities other than shares). The remainder (80%), which are securities in the investment portfolio, are valued at redemption value. As with ‘Shares and other equity’, the OMFIs report revaluation adjustments that represent realised and unrealised gains/losses (this includes exchange rate adjustments). The reported data are broken down by area (Domestic, Other MUMS, Rest of the World) and subsequently by MFIs and the private sector, and by the parts denominated in euro. Actual data are reported on the 20th working day, which – after they have been adjusted for exchange rate changes – are transmitted to the ECB during the transition period with a month’s delay. All revaluation adjustment data are allocated at the ‘of which over two year’s? maturity band’. During the transition period both information sets are used to develop an estimation. As for the checking of the data, the reports by the various OMFIs are used to detect outliers in the dataset.

AUSTRIA

1 WRITE-OFFS/WRITE-DOWNS OF LOANS

In Austria the formula for calculating the revaluation adjustments for loans (write-offs, write-downs and the reversals of write-downs) is published in the Oesterreichische Nationalbank (OeNB) reporting instructions (Chapter 1.10). Furthermore, the reporting instructions give several examples that illustrate this calculation. The revaluation adjustments are compiled at a monthly frequency.

Due to the Austrian accounting rules, the outstanding stock for loans is presented net of write-offs and write-downs in the balance sheet.

Austrian MFIs are legally obliged to perform necessary write-downs or reversals of write-downs at least once a year when drawing up their balance sheet. Many MFIs, however, provide these provisions for doubtful loans voluntarily on a quarterly basis. The size of write-downs and reversals of write-downs is up to the MFI concerned.

In contrast to write-downs and reversals of write-downs, loans must be written off as soon as the MFI concerned is sure that there is no chance of the money being repaid. Please note that this may also occur during the business year. Writing off loans directly against 'Capital and reserves' is not allowed in Austria.

The compiled data comply with the ECB requirements. The Austrian reporting scheme is extended to cells not marked as "minimum" as follows:

Revaluation adjustments for loans are broken down by all economic sectors throughout the EU in euro, non-euro and all currencies. However, there is no breakdown by maturities. Instead, the maturity split is estimated by the OeNB by estimating a ratio for each maturity band. For this reason the OeNB informally compiles the maturity split data from a representative sample of Austrian MFIs, which allows a ratio for each maturity band to be calculated. Consequently, these maturity ratios are applied to the corresponding revaluation adjustments for the whole Austrian MFI sector.

2 PRICE REVALUATIONS OF SECURITIES

In Austria the reporting agents provide the OeNB with revaluation adjustments for securities held using the balance sheet method. The transaction flow of the period is defined as the sum of transactions involving only those assets which are recorded on balance sheet at the end of the previous reporting period or at the end of the current reporting period. The revaluation adjustment thus refers only to those securities held both at the end of the previous period and at the end of the present period. To calculate the price revaluation (revaluation adjustment), the minimum of the previous/present end-month stock referring to the same type of securities is taken, and the changes in price of this type of security are applied to it. In this method intra-period revaluations are not considered and realised profits and losses are not included in the adjustment. The following requirements which are necessary for the application of the balance sheet approach are fulfilled in Austria:

- Securities are recorded at market value on balance sheet. This concerns several securities portfolios. No distinction in the revaluation requirement is made between the investment (fixed) portfolio and the trading portfolio.
- The revaluation adjustment is calculated separately for each class of securities.

A formula for calculating the revaluation adjustments is published in the OeNB reporting instructions (Chapter 1.10), and several examples illustrate this calculation. The price adjustments are compiled at monthly frequency.

In case of securities in foreign currencies, Austrian reporting agents are instructed to calculate the revaluation adjustments and then to convert the results into euro using the

ECB reference exchange rate published for the reference date. For amounts denominated in currencies for which no ECB reference exchange rate exists, the conversion is based on the prevailing mid-market exchange rate (Devisenmittelkurs).

The Austrian reporting scheme is extended to cells not marked as "minimum" as follows: revaluation adjustments for securities held broken down by all economic sectors throughout the EU in euro, non-euro and all currencies; however, there is no breakdown by maturities. The maturity split is estimated by the OeNB using the same approach as with the revaluation adjustments for loans: the OeNB informally compiles the maturity split data from a representative sample of about 110 MFIs, which allows a ratio for each maturity band to be calculated. Consequently, these maturity ratios are applied to the corresponding revaluation adjustments for the whole Austrian MFI sector.

There is no derogation granted in Austria – neither with respect to the reporting frequency (quarterly instead of monthly reporting) nor with respect to MMFs (however, MMFs are currently included in the tail).

The OeNB checks the adjustment data using consistency checks as well as plausibility checks against the data referring to the preceding reference months.

Due to the large increase in additional items – especially concerning the revaluation adjustments broken down by all dimensions (countries, currencies, counterparties and maturities), and as the cost of implementing and maintaining these additional adjustments is extraordinarily high, the following solution was adopted. The MFIs report the revaluation adjustments as defined in Regulation ECB/2001/13, but without a maturity breakdown, which is then estimated by the OeNB. This rule helps to reduce the reporting burden for our national MFI sector and, at the same time, allows the OeNB to provide the ECB with adjustment data broken down by maturity.

As a consequence of the OeNB solution, the seven "minimum" cells referring to 'Revaluation adjustments for securities held with a maturity over two years' are estimated figures (although they should be directly reported by the MFI sector, as they are marked as minimum cells). They do not, however, include adjustments for securities with a maturity up to two years. The 'over two years' maturity band is estimated by the OeNB using the following approach: data are informally collected on the maturity breakdown for these revaluation adjustments from a representative sample of about 110 Austrian MFIs. The ratio for the 'over two years' maturity band that is derived from this sample is then applied to the whole Austrian MFI sector.

PORTUGAL

I WRITE-OFFS/WRITE-DOWNS OF LOANS

Within the framework of the Banco de Portugal's "Instruction No 19/2002 – Balance Sheet and Interest Rate Statistics of the Monetary and Financial Institutions (MFIs)", which regulates the reporting scheme for the purpose of money and banking statistics at country level, the reporting institutions have to submit data on write-offs/write-downs of loans on a monthly basis. Such items refer to loans or part of loans that have been removed from the MFI balance sheet because they were deemed uncollectible or for which there was no realistic prospect of recovery.

Example:

Data on loan write-offs/write-downs are collected basically with the same detail as for data on stocks, the exception being the maturity breakdown of loans, where a different approach is followed: when the amount of write-offs/write-downs broken down by sector does not exceed 20 million euro, an estimation procedure based on the maturities structure for stocks is applied in order to obtain the respective write-offs/write-downs reported in Table 1 (see example below). If that threshold is exceeded, the concerned MFI is asked to provide further detailed information.

Table 1

Data collected	Stocks	Write-offs/write-downs
Loans		
Up to 1 year	1,000	-
Over 1 and up to 5 years	2,000	-
Over 5 years	5,000	-
Total	**8,000**	**10**

Table

Estimation	Stocks	Write-offs/write-downs
Loans		
Up to 1 year	-	1.25 = (1 000 / 8 000) x 10
Over 1 and up to 5 years	-	2.50 = (2 000 / 8 000) x 10
Over 5 years	-	6.25 = (5 000 / 8 000) x 10
Total	**-**	**10**

2 PRICE REVALUATIONS OF SECURITIES

The Statistics Department of the Banco de Portugal, in addition to reporting information for monetary statistics purposes, receives information on securities statistics, within the scope of the Integrated Securities Statistics System (Sistema Integrado de Estatísticas de Títulos – SIET).

The reporting of information is based on the concept of securities defined in the ESA 95 – the European System of National and Regional Accounts in the Community – and is done by securities depositories (MFIs, dealers and brokers) in Portugal and also by other resident entities holding securities deposited outside the resident financial system.

Information is reported to the Banco de Portugal on a security by security basis (preferably taking as a basis the ISIN code) and on an investor by investor basis (except when the holder of the securities belongs to the household sector, in which case the reporting is aggregated by country of residence).

Entities that must report securities statistics send information on positions and transactions (purchases and sales, separately) of their own and their customers' portfolios up to 12 working days after the end of the period to which the data refer.

Information is sent mainly on a monthly basis, though some exceptions may occur for some types of information (e.g. customers' portfolio positions, for which information can be reported on a quarterly basis) and for some small institutions (for which information can be reported on an annual basis).

Purchases and sales are valued at nominal and transaction value and stocks are valued at nominal and market value (or by a proxy). In the case of MFIs, stocks are also valued at book value.

SIET also contains information collected by Banco de Portugal on the characteristics of securities issued by entities resident in Portugal and securities held by resident entities. This information block included in the system permits the compilation of securities issues statistics and allows the information received from the depositories to be characterised.

Information reported to SIET by MFIs together with information on the characteristics of securities included in the system permits the calculation of portfolio valuation changes, which is consistent with balance sheet statistics.

Changes in the value of a security refer to changes in the stock of that security which are not derived from transactions, being composed of two different elements: the exchange rate change and the price change. Thus:

$$VV = VC + VP$$

where:

VV = Total change in value

VC = Exchange rate change

VP = Price change.

The price change is the part of the change in the security stock caused by changes in the price of the security entered in the balance sheet. Conversely, the exchange rate change is the part of the change in the security stock caused by changes in the exchange rate of the currency in which the security was issued.

On operational grounds, total changes in value and price are directly calculated based on information provided by SIET. If required, the exchange rate change is obtained from their difference.

The calculation is done on a security by security basis, i.e. if the same security is held by several MFIs, the different positions – inflows and outflows – are added up.

The total change in value should include all changes in stock, except changes arising from the purchase or sale of the security. Thus:

$$VV_t = (VCont_t – VE_t) - (VCont_{t-1} – VS_t)$$

where:

VV = Total change in value, calculated on the basis of the book value (in euro)
VCont = Book value of securities held in portfolio (in euro)
VE = Value of portfolio inflows (in euro)
VS = Value of portfolio outflows (in euro)
t = Period for which the change is calculated
t-1 = Period prior to the calculation of the change.

Therefore, for a security without either portfolio inflows or outflows, the change in value coincides with the difference in value of the stock in both periods taken into account. If portfolio inflows are recorded, the current stock is "adjusted" for that inflow, whereas if portfolio outflows are recorded, the stock of the previous period is the one to be "adjusted" for that outflow.

Some examples of how the methodology is applied are shown below:

Example 1

Security A	Quantity in therms of nominal value	Value of portfolio inflows/outflows	Book value
Position in t-1	1000		1100
Portfolio inflows			
Portfolio outflows			
Position in t	1000		1150

VV_t = (1150 – 0) - (1100 – 0) = +50

Example 2

Security A	Quantity in therms of nominal value	Value of portfolio inflows/outflows	Book value
Position in t-1	1000		1100
Portfolio inflows	100	150	
Portfolio outflows			
Position in t	1100		1250

VV_t = (1250 – 150) - (1100 – 0) = 0

Example 3

Security A	Quantity in therms of nominal value	Value of portfolio inflows/outflows	Book value
Position in t-1	1000		1100
Portfolio inflows			
Portfolio outflows	500	500	
Position in t	500		400

VV_t = (400 – 0) - (1100 – 500) = -200

Example 4

Security A	Quantity in therms of nominal value	Value of portfolio inflows/outflows	Book value
Position in t-1	1000		1100
Portfolio inflows	1000	1200	
Portfolio outflows	500	500	
Position in t	1500		1900

VV_t = (1900 – 1200) - (1100 – 500) = +100

Price changes should include all changes in stock, except changes arising from the purchase or sale of the security or from the exchange rate change of the currency in which the security was issued. Therefore, the calculation formula of the price change is similar to the calculation formula of the total change in value, although values to be considered should be expressed in the original currency in which the security was issued. Thus:

$$VP_t = VVMO_t * TC_t$$

where:

VP = Price change, calculated on the basis of the book value (in euro)
VVMO = Total change in value, calculated on the basis of the book value (in the original currency)
TC = Exchange rate of the currency in which the security was issued against the euro (end of period)
t = Period for which the change is calculated.

On the other hand:

$VVMO_t = (VCont_t / TC_t - VE_t / TCM_t) - (VCont_{t-1} / TC_{t-1} - VS_t / TCM_t)$

where:

VVMO	=	Total change in value, calculated on the basis of the book value (in the original currency)
VCont	=	Book value of portfolio securities (in euro)
VE	=	Value of portfolio inflows (in euro)
VS	=	Value of portfolio outflows (in euro)
TC	=	Exchange rate of the currency in which the security was issued against the euro (end of period)
TCM	=	Exchange rate of the currency in which the security was issued against the euro (average)
t	=	Period for which the change is calculated
t-1	=	Period prior to the calculation of the change.

As referred to above, the exchange rate change is calculated as the difference between the total change in value and the price change:

$VC = VV_t - VP_t$

That is:

$VC_t = [(VCont_t - VE_t) - (VCont_{t-1} - VS_t)] - [(VCont_t / TC_t - VE_t / TCM_t) - (VCont_{t-1} / TC_{t-1} - VS_t / TCM_t)] * TC_t$

Which, simplifying, results in:

$VC_t = (VE_t - VS_t) * (TC_t / TCM_{t-1}) + VCont_{t-1} * (TCt / TC_{t-1} - 1)$

This yields a calculation formula that could be directly used based on the information provided by SIET, if it were not calculated as a difference.

FINLAND

1 WRITE-OFFS/WRITE-DOWNS OF LOANS

1.1 VALUATION OF LOANS

Loans are valued on balance sheet net of specific provisions. Gross reporting applies to reporting to Suomen Pankki as well as to the ECB.

1.2 FREQUENCY AND SIZE OF PROVISIONING

According to national regulations on the accounting of credit institutions, credit institutions shall regularly review the credit quality of their loan portfolios in order to identify doubtful claims as early as possible. This review shall always take place at least in the preparation of annual and interim reports, and a specific loan loss provision has to be made without delay once it has become probable that no payment will be received on the principal of the claim. Thus, although specific loan loss provisions may occur anytime within the year, they are usually made at the end of the year or in the months that coincide with interim reports, i.e. usually in March, June and September .

The size of provisioning has been very modest in recent years.

1.3 DATA TO BE COMPILED

The adjustment to be reported is the sum of the following items:

- new loan losses that have not yet been provisioned (+)
- new specific loan loss provisions (+)
- reversed specific loan loss provisions (-).

The above items from which the adjustment is derived also include write-offs linked to sales/ transfers of loans to third parties.

1.4 TREATMENT OF LOANS WRITTEN BACK TO THE BOOKS OF THE CREDIT INSTITUTIONS

The treatment of loans that are written back to the books of the credit institutions depends on whether an actual loss or merely a loan loss provision has been made. The recovery of an actual loan loss has no impact on the book value of loans in the balance sheet, as the loan in question has already been removed from the accounting system, whereas the reversal of a loan loss provision increases the book value of loans by the same amount.

1.5 GROUP-SPECIFIC LOAN LOSS PROVISIONS

National regulations on the accounting of credit institutions allow credit institutions to make specific loan loss provisions in respect of a group or group of claims, if it is probable that a certain group of claims has generated loan losses that cannot yet be recorded under individual claims. The group-specific loan loss provisions are associated either with claims in respect of a certain country or field of activity or with a large number of small claims of a similar kind. Such group-specific loan loss provisions are regarded as interim steps pending the making of specific loan loss provisions in respect of individual claims. As soon as adequate information is available to identify loan losses on individual claims, group-specific loan loss provisions are replaced by specific allowances in respect of individual claims, or by actual loan losses.

Group-specific loan loss provisions warrant a special statistical treatment since they cannot be linked to individual claims. Therefore, credit institutions should use all the available information at their disposal in order to allocate group-specific loan loss provisions to the breakdowns of the reporting scheme as accurately as possible. However, due to the very nature of group-specific provisions, credit institutions sometimes have to make assumptions.

1.6 ESTIMATION PROCEDURE FOR COMPLETE DATA

The actual reporting requirement addressed to reporting agents consists of the minimum cells in Regulation ECB/2001/13. The estimation procedure used to produce the full data set is based on the following steps:

- It is assumed that no write-offs/write-downs exist on loans granted to general government (indeed, it would be known if they did exist);

- In order to estimate the missing maturity and currency breakdowns, ratios derived from outstanding amounts are used for the respective sector and/or purpose of use.

1.7 CHECKS

Cross-checks are conducted between reported write-offs/write-downs and the item 'Loan and guarantee losses' in the profit and loss account. Write-offs/write-downs are expected to be somewhat smaller than loan and guarantee losses, since recoveries of actual loan losses and guarantee losses are excluded from the former.

2 PRICE REVALUATION OF SECURITIES

2.1 GENERAL REMARKS

Valuation rules for securities are as follows:

- Securities entered in the trading portfolio are valued at market price.

- Securities entered in the investment portfolio are valued at purchase price or at a lower market price.

- Securities entered in the fixed portfolio are valued at purchase price or at a permanently lower market price.

Suomen Pankki has made full use of the derogation that allows NCBs to grant an exemption on the reporting of revaluation adjustments to MMFs.

2.2 SHARES AND OTHER EQUITY

2.2.1 Valuation

The bulk of shares and equity in MFI balance sheet is related to group undertakings and participating interests. Recently the share of such items has been about 95% of all share holdings. This has one important implication for the calculation of revaluation adjustments, as group undertakings and participating interests are entered in the fixed portfolio, which is only infrequently revalued. In recent years, most of the volume in revaluations has been related to decreases in the book value of shares caused by large dividend payments from participating interests. Therefore revaluations are only expected to take place in the remaining 5% in the trading portfolio.

2.2.2 Data to be compiled

Reporting agents report adjustments to Suomen Pankki. For the trading portfolio, they use a simplified balance sheet method, where the adjustment equals the price change in book value per share times the minimum number of shares in the balance sheet at the end of the reference month and the previous month. For the fixed portfolio, they use either the simplified balance sheet method or ad hoc techniques to report infrequent adjustments.

2.2.3 Treatment of non-euro-denominated shares

Reporting agents have been instructed not to exclude the impact of exchange rates in the calculation of the revaluation adjustment.

2.3 SECURITIES OTHER THAN SHARES

2.3.1 Valuation

Based on an analysis of supervisory data, there are indications that the share of securities other than shares in trading and investment portfolios is approximately 60% to 75% of the total.

2.3.2 Data to be compiled

Reporting agents report adjustments to Suomen Pankki. For securities with a single price – i.e. the entire trading portfolio plus securities which the average cost method is applied to – a simplified balance sheet method is used, where the adjustment equals the price change in book value per security, times the minimum number of securities in the balance sheet at the end of the reference month and the previous month. For securities with multiple prices in the books of credit institutions, the adjustment is derived by tracking individual securities.

2.3.3 Treatment of non-euro-denominated issues

For non-euro-denominated issues, reporting agents have been instructed to exclude the impact of exchange rates in the calculation of revaluation adjustments.

2.4 ESTIMATION PROCEDURE FOR COMPLETE DATA

The actual reporting requirement addressed to reporting agents consists of the minimum cells. The estimation procedure used to produce the full data set is based on the following steps:

- Ratios derived from outstanding amounts for the respective sector are used to estimate the missing currency breakdowns for issues with original maturity of over two years.

- MFI issues with original maturity up to two years are estimated following the current procedure that applies average duration, change in relevant interest rates and indications of portfolio structure.

2.4.1 Checks

Due to the method chosen, it is not possible to cross-check directly revaluation adjustments and the profit and loss account. Therefore, the existing procedures in respect of the calculation of the revaluation adjustment continue to be followed.

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