# 2013 triennial central bank survey
# Frequently asked questions and answers

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## A. Risk categories

### 1. Foreign exchange transactions: the reporting of gold

*Question:* Is gold to be included in the reporting of foreign exchange transactions?

*Answer*: The answer is different for the two parts of the survey. In the turnover part, which cover foreign exchange and interest rate derivatives, transactions in gold should not be included. The turnover template does therefore not include any particular cell for the reporting of gold.

In the amounts outstanding part of the survey, which covers not only foreign exchange and interest rate derivatives but also equity, commodity, credit and other derivatives, transactions in gold should be included and reported as a special category of the foreign exchange segment: transactions "including gold".

## B. Instruments

### 1. Reporting of currency options strategies

*Question:* How should the following currency options strategy be reported? Bank X has bought a straddle with a principal amount USD 10 million. This option trading strategy involves buying simultaneously a call and a put option, with the same expiration date.

*Answer*: Each portion of an option strategy should be reported separately. In the above example, this strategy should be reported by bank X under "options bought" for an amount of USD 20 million (one call and one put option, each with a principal of USD 10 million). The same should also apply to the simultaneous purchase or sale of calls and puts in connection with all other types of options strategies, such as straddles, strangles and butterflies.

### 2. Reporting of FX swaps (revised)

*Question*: How should FX swaps be reported? Does the unsettled short leg of a FX swap transaction need reporting?

*Answer*: The answer is different for the two parts of the survey.

In the turnover part of the survey, any FX swaps (be they spot/forward, forward/forward or short-term swaps carried out as "tomorrow/next day" transactions) should only be reported only once. The basis for reporting should be the long leg of the swap. Therefore, it does not matter whether the short leg has been settled or not because it should not be reported under any circumstances.

In the amounts outstanding part of the survey, the unsettled forward legs of FX swaps are reported separately. The unsettled spot leg (settlement <= 2 bus. days) is not reported. However, if the settlement of the short leg is due more than two business days later, we suggest to regard this transaction as a forward/forward swap and to report each leg separately if it has not yet been settled on the reporting date.

Examples of short-term swaps include “overnight swaps”, “spot/next swaps”, as well as other “tomorrow/next day” transactions.

### 3. Categorisation of currency swaptions and interest rate swaptions

*Question:* Should they be listed as currency swaps and interest rate swaps, respectively?

*Answer*: No, please categorise them as currency options and interest rate options, respectively.

### 4. Reporting of in/out swaps between CLS members

*Question:* Should in/out swaps between CLS members be included in the reporting?

*Answer*: So-called in/out swaps are exclusively used between CLS members in order to reduce pay-ins when settling FX transactions via the CLS system. As they are only carried out for liquidity management purposes in order to amend the settlement mechanism, their inclusion in the triennial survey would artificially boost the reported data and make any comparison with previous surveys difficult. These swaps should therefore be excluded from the reporting for the triennial survey.

### 5. Reporting of “cash/same day” transactions.

*Question:* Should Spot include “cash/same day” transactions?

*Answer*: Cash/same day transactions are spot transactions with same-day settlement (T+0 settlement) and should be reported as Spot in the turnover part of the triennial survey.

## C. Counterparties

### 1. Definition of “reporting dealers” (new)

*Question*: Is the definition of “reporting dealers” comparable in the two parts of the survey?

*Answer*: “Reporting dealers” are defined differently in the two parts of the survey.

- In the turnover part, “reporting dealers” are defined as financial institutions that participate as reporters in the Triennial Survey. All survey participants are therefore included on the “reporting dealers list” for the turnover part of the survey.

- In the amounts outstanding part, “reporting dealers” are defined as those institutions participating in the BIS semi-annual OTC derivatives market statistics and located in one of the 13 reporting countries. Thus, the “reporting dealer list” here is identical to that used for the June 2013 semiannual OTC derivatives statistics. Other Triennial Survey participants not participating in the BIS semiannual statistics are not considered “reporting dealers” in this part of the survey (they are called “non-regular reporting institutions” in the guidelines and would be considered “other financial institutions” by “reporting dealers”).

The reporting population is identified clearly on the first page of the two sets of guidelines.

## 2. The “lists of reporting dealers” for the two parts of the survey

*Question:* Are the “list of reporting dealers” for the two parts of the survey comparable? In particular, why does the reporting dealer list for the amounts outstanding part not include all institutions participating in this part of the survey?

*Answer*: The two reporting dealer lists serve the same purpose in that they are used to identify counterparties for the purpose of eliminating double-counting. However, the two lists do not contain the same institutions.

The list of reporting dealers for the turnover part include more than one thousand participating institutions located in 53 countries. The list of the “reporting dealers” for the amounts outstanding part contains only the head offices (around 70) of those institutions from the 13 countries that participate in the BIS semiannual OTC derivatives survey (this is to ensure consistency with this semiannual exercise and to limit reporting burden).

This means that, for the amounts outstanding part, transactions with a financial entity that is not a reporting dealer (but is instead a “non-regular reporting institution”) will have to be classified as “with other financial institutions”. It is thus difficult to eliminate double-counting of transaction between two “non-regular reporting institutions”. Nonetheless, it is believed that the amounts involved are relatively small or could be partially estimated.

## 3. Counterparties in a FX prime brokerage relationship (revised)

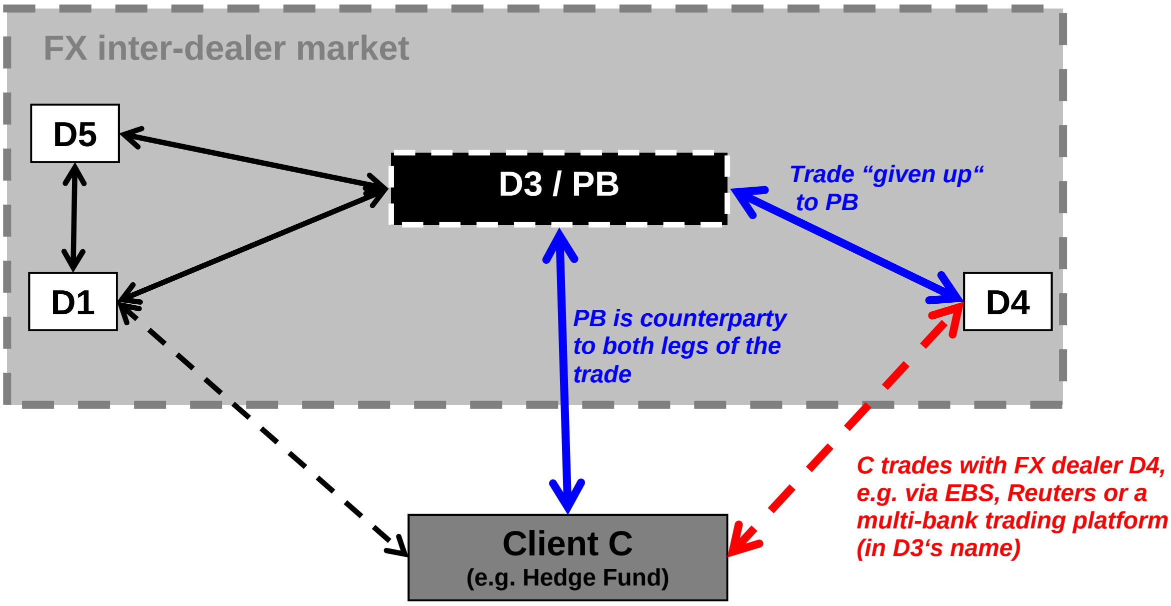
*Question:* Who should be considered as counterparties in the case of FX prime brokerage relationship?

*Answer*: The two legs of the prime brokered transactions should be reported as two separate deals. Assuming that in the first leg both the prime broker and the counterparty dealer are reporting dealers, the trade should be reported by both the prime broker and the counterparty dealer as a deal “with reporting dealers” (e.g. trade between D3 and D4 in the chart below). If in the second leg the counterparty is not a reporting dealer, the prime broker should report the transaction as a deal “with other financial institutions” or “with non-financial customers” (e.g. trade between D3 and C in the chart below). [1]

In addition, reporting dealers that have acted as prime brokers are requested to report the transactions they have brokered under the item “of which prime brokered” under the total of each instrument and currency pair (both legs should be included here).

[1] The counterparty dealer in the prime-brokered transaction, however, is not required to report a trade with the *customer* of the prime broker as he will likely not have the relevant information to assess whether the transaction is with the prime broker itself or a client of the prime broker. Therefore, the counterparty dealer will only have to report the trade with another reporting dealer (ie the prime broker).

**FX prime brokerage relationship**




Prime brokers are typically large FX dealers with a high credit rating. Dealers who act as prime brokers (D3) allow some of their customers (C) to trade with a set of third party banks (e.g. executing dealer D4) in the prime brokers name and using the prime broker's credit lines.

This way the client gains access to the tight bid-ask spreads and the deep liquidity of electronic trading platforms in the FX interdealer market (EBS and Thomson Reuters). The prime broker earns fees from this service to the client. Moreover, prime brokerage provides customers with anonymity, ie the counterparty to the customer's trade (executing dealer D4) often does not know that she is in fact dealing with a client of the prime broker. In other words, even though effectively C trades with D4, there are actually two trades taking place which need to be recorded as such in the survey. The rising prevalence of the PB model in FX has significant implications for the turnover figures recorded by the Triennial Survey, as a "give up" trade executed via a prime broker could under some circumstances create twice the turnover of a direct transaction. For example, if a hedge fund C trades $1 with a bank (reporting dealer D4) and the trade is "given up" to the prime broker (reporting dealer D3), the Triennial Survey records this transaction as $1 of inter-dealer trading between dealers D4 and D3, and $1 of trading between the hedge fund C and its prime broker (dealer D3). Since the Triennial Survey currently does not collect information on PB activity, it cannot gauge the contribution of PB to the overall growth in FX turnover.

## 4. Treatment of centrally cleared transactions (revised)

*Question:* Are centrally cleared transactions treated differently in the two parts of the survey?

*Answer*: Central clearing involves replacing an OTC derivatives contract between two counterparties, say A and B, with one contract between A and a central counterparty (CCP) and a second contract between B and the CCP (ie novation)

The treatment of centrally cleared transactions in the amount outstanding part of the survey is different from that in the turnover part.

- Amount outstanding
  When reporting dealers clear through CCPs, both contracts **post-novation** are captured in the outstanding statistics. Positions of reporting dealers vis-à-vis CCPs should be recorded as positions with 'other financial institutions' in all but the CDS statistics. In the CDS statistics, positions should be recorded under the CCP sub-category (within the other financial institutions category).

- Turnover
  Transactions that are centrally cleared via CCPs should be reported on a **pre-novation** basis (ie with the original execution counterpart as counterparty) in the turnover statistics. Any post-trade transaction records that arise from central clearing via CCPs (eg through novation) should not be reported as additional transactions. However, dealers are asked to indicate in the *complementary information section* of the survey how much of their reported total turnover in different OTC derivatives instruments is centrally cleared (see section K.8 of the reporting guidelines).

### 5. Reporting of retail-driven transactions (new)

*Question:* How should retail-driven transactions conducted via electronic trading platforms be reported (in the turnover part of the survey)?

*Answer*: Retail-driven transactions are those initiated by retail investors. Retail investors refer to private individuals executing on their own behalf (not for any institution) speculative, leveraged, and cash-settled foreign exchange transactions.
From a reporting dealer's point of view, electronically executed retail-driven transactions can be of two types:

1. *Direct* transactions with private individuals, e.g. when private investors trade via electronic margin brokerage platforms operated by the dealer (examples would be Citibank's CitiFX Pro or Deutsche Bank's former dbFX). In this case the direct counterparty of dealer is a natural person. Trades of this type are to be categorised as "with non-financial customers" and the turnover due to such trades should be reported under the "of-which retail driven" item.

2. *Indirect* transactions via a third-party platform that caters to retail investors, eg when retail investors trade FX instruments for speculative purposes via electronic platforms such as Oanda, FXCM, Saxo, Gaitame.com, Gain Capital, operating as "retail aggregators". Retail aggregators are wholesale financial firms that act as intermediaries, aggregating quotes from dealers and facilitating trades by retail investors by offering them to trade through margin accounts. For such transactions the direct counterparty for the dealer would typically be a wholesale financial institution, i.e. the retail aggregator. Trades of this type are to be categorised as "with other financial customers / other" and the amount should be specified under the "of which retail-driven" item.

The table below illustrates how to report direct and indirect electronically executed retail-driven transactions in the reporting template for the turnover part of the survey.

| | Direct transactions | Indirect transactions |
|---|---|---|
| Total | X | X |
| with reporting dealers | | X<br>(if retail broker/aggregator is reporting dealer) |
| with other financial institutions<br>non-reporting banks<br>institutional investors<br>hedge funds and proprietary trading firms<br>official sector financial institutions<br>others | | X<br>(if retail broker/aggregator is not reporting dealer)<br>+<br>in the relevant sub-category (typically "others") |
| with non-financial customers | X | |
| o/w retail-driven | X | X |

Please note that the transactions listed in the footnote of the "Retail-driven transactions" section of the guidelines are excluded from "o/w retail-driven" because they are not associated with FX trading for investment/speculation purposes.

## D. Currencies in the turnover template

### 1. Reporting of the columns "other" and "residual" in the turnover part of the survey

*Question:* What is the difference between currency column "other" and currency column "residual" in the turnover reporting template? How should totals and grand total be calculated?

*Answer*: Column "other" in the turnover template is to report the second currency of those currency pairs involving the local currency, the US dollar, the Euro or the Japanese Yen in one side of the deal, and a currency that is not explicitly listed in tables A1, A2 or A3 in the other side. In contrast, column "residual" is to report those transactions which do not involve the local currency, the US dollar, the Euro or the Japanese Yen in any side of the contract. Totals should be calculated as the sum of listed currencies plus the column other. Grand total should be calculated as the sum of totals plus the column residual.

### 2. Table A4 and how it relates to the columns "other" and "residual" in reporting tables A1, A2 and A3

*Question:* How should tables A4 in the turnover template be completed? How should transactions reported in columns "other" and "residual" in tables A1 A2 and A3 be reported in table A4?

*Answer*: Table A4 in the turnover template, should provide additional information on those currencies included in columns "other" and "residual" in tables A1, A2 ,A3. It is important to keep in mind that columns "other" and "residual" should be treated differently when being transferred to table A4.

For deals reported under column "other", given that the first currency of the transaction is already identified (as local currency, USD, Euro or JPY) only the second currency should be reported in table A4, i.e. the same amount reported in column "other" should be distributed in table A4. In contrast, for deals reported under column "residual", since both currencies are unknown, transactions should be allocated to two currencies in table A4. In other words, although the deal is reported once in column "residual", it should be reported twice in table A4, making up 200% of the deal. For example, in a Chilean peso/ Brazilian real transaction of US$ 100 reported by Argentina: US$ 100 should be reported in column "residual" and at the same time US$100 should be reported under CLP and another US$ 100 under BRL (making up 200% of the deal in table A4).

For those cases where neither currency involved in the deal is listed in table A4, the transaction should be included twice under column "other" of table A4 (making up 200% of the deal in the same column).

### 3. Reporting of transactions involving the domestic currency (new)

*Question:* Should selected transactions involving the domestic currency be reported twice, once in table A1 and once in table A2/A3?

*Answer*: Transactions in a given currency pair should be reported ONLY ONCE. In some cases, it is possible to report transactions in a selected currency pair either in table A1 or in table A2/A3 (e.g. PLN/USD for reporters in Poland, GBP/EUR for reporters in United Kingdom, SGD/USD for reporters in Singapore…). The preferred approach would be to report the data in table A1 and have an empty column in table A2/A3. In no case should both columns to be filled in simultaneously.

For euro area countries, we would suggest to report all currency pairs involving the domestic currency under table A3 and leave table A1 empty. In no case should both tables to be filled in simultaneously.

## E. Execution methods

### 1. Single bank proprietary platforms

*Question:* What is meant by "single bank" proprietary platforms for data on the role of electronic-based systems?

*Answer*: Single bank proprietary platforms are developed by a bank internally for both in-house use and normally available to other banks and non-bank clients on a 'white label'/prime brokerage basis. Examples include BARX, Citi Velocity, FX trader Plus, DB's Autobahn.

They differ from multi-bank dealing systems in that the primary liquidity provider is only that single bank. Reporters should include all prime brokerage business under the single-bank platform category. In contrast, multi-bank dealing systems may be thought of as 'Multi-dealer' systems in that various banks provide liquidity to the system. Examples of Multi-dealer platforms are Currenex, Hotspot or FXall.

### 2. Treatment of other products (new)

*Question:* How should the execution method of 'other products' be reported in Table C?

*Answer*: Other products should be reported in table C in the same way as they are reported in tables A1 to A4. In tables A1 to A4, no breakdown by currency is requested for "other products" but they should be included in the grand total. Similarly, no breakdown by execution method is requested for "other products" in table C, but they should be included in the grand total (total FX contracts).

## F. Maturities

### 1. Calculation for outright forward and foreign exchange swap transactions

*Question:* How should the maturity of outright forward and foreign exchange swap transactions be calculated?

*Answer*: An FX swap is typically an outright forward plus a spot transaction (settled within t+2). Given that we are attempting to measure both outright forwards and foreign exchange swaps in terms of comparable maturities, it is preferable to measure the maturity of the foreign exchange swap on the same basis as that of outright forwards, i.e. the difference between the due date of the long leg and the date of the initiation of contract in the turnover part of the triennial survey and the difference between the due date of the long leg and the reporting date in the amounts outstanding part of the triennial survey.

### 2. How should the maturity of a forward/forward swaps be determined?

*Question:* How does the reporting differ for the turnover and amounts outstanding parts of the triennial survey?

*Answer*: As stated on page 2 of the guidelines for the turnover part of the survey, forward/forward swaps should only be reported once as one single deal. As the principle of maturity classification in this part of the survey is the original maturity of each deal, the maturity of these swaps should be determined as the difference between the date of initiation of the deal and the far-end or due date of the second leg of the deal.
As stated on page 2 of the guidelines for the amounts outstanding part of the triennial survey, for swaps executed on a forward/forward basis both forward parts of the transaction should be reported separately. As the principle of maturity classification in this part of the survey is the remaining maturity of each deal, the maturity of each leg (in case the first leg has not come due) should be determined as the difference between the reporting dates and the settlement or due dates, respectively, of the near- and far-end legs of the swap.

### 3. Should we calculate maturity in business days or calendar days?

*Question:* Does "seven days" mean seven business days or a calendar week?

*Answer*: A calendar week.

### 4. Treatment of other products (new)

*Question:* How should we handle other product items in table O4?

*Answer*: Other products should be excluded when reporting the maturity breakdown in table O4.

## G. Additional information requirements

### 1. Which questions should be completed by reporting dealers (new)?

*Question:* Can you please confirm that reporting dealers are expected to complete questions 3, 4, 6, 7 and 8 on the information sheet with the remaining questions completed by Central Banks based on aggregate data?

*Answer*: Reporting dealers are expected to complete questions 3, 4, 6, 7 and 8 of the complementary information sheet (turnover part of the survey). Central Banks are expected to aggregate the answers to questions 3, 4, 6, 7 and 8 provided by reporting dealers and provide the BIS with answers to all questions

### 2. Calculation of the estimated percentage coverage (new)

*Question*: How should I calculate the "estimated percentage coverage" for the "detailed breakdown of other financial institutions", "prime brokered", "retail-driven", "execution methods" and "centrally cleared transactions" in the quality control questions?

*Answer*: As indicated in the guidelines, each reporting dealer is expected to provide all the requested data. In exceptional cases, should a participant be not capable to report one of the new items (due for example to the lack of lead time to modify the IT application), the central bank could exempt that participant from reporting the new item. In such case, an estimate of the data that is not reported should be provided by the reporting dealer for quality assurance purposes.

Let us illustrate this with the following example where 3 reporting dealers (RD) participate in the survey.

- RD1 reports "total spot" of 1000, o/w prime brokered 100.
- RD2 reports "total spot" of 2000, o/w prime brokered 50.
- RD3 reports "total spot" of 1500, o/w prime brokered is not available.

The central bank (CB) was informed that reporting RD3 could not report the data on prime brokered transactions in foreign exchange markets. After discussions with RD3, CB decided to exempt him from reporting this particular data. As part of the exemption process, an assessment of his market share was made. According to RD3, his activity as FX prime broker is comparable to that of RD2 and should amount to approximately 50.

So, CB would report 4500 under "total spot", 150 under "o/w prime brokered". In question 5, CB would report under the column "prime brokered":

a) Number of dealers reporting the data: 2
b) Number of dealers not reporting the data due to technical incapacity to report: 1
c) Number of dealers not reporting the data due to no turnover in the transaction in question: 0
d) Estimated percentage coverage 75 (=150/(150 + 50) where 50 is the estimate that was given by RD3

### 3. Aggregation of the estimated percentage coverage (new)

*Question*: How are we supposed to sum up the percentages reported by participants in questions 6 and 7 of the complementary information sheet (turnover part of the survey)?

*Answer*: There are two options here. The first option would be to collect from reporters estimated amounts in US dollars, aggregate the estimates across reporters and calculate an estimated percentage share by dividing the total estimated amounts by the reported total. This option is likely to be more accurate and would therefore be the preferred choice. A second option would be to collect from reporters estimated amounts in percentage terms and weight the responses by market share (sum (percentage * weight), where the weight is calculated as the reporter's share of country total).

## 4. Aggregation of the top 5 'major' and 'non-major' currency pairs traded (new)

*Question*: As regards 'major' and 'non-major' currency pairs reported by participants in the complementary information sheet under question number 7, how should we present the aggregate amount?

*Answer*: Again here, we would propose to weight the currency pairs reported by participants by both the reporter's share of country total and the rank of the currency pair. Rank 1 would have a weight of 100%, rank 2 a weight of 80%, rank 3 a weight of 60%, rank 4 a weight of 40% and rank 5 a weight of 20%.

In the example below, you would have to report the five currency pairs indicated in red.

| | Reporter A (70% of total) | | Reporter B (25% of total) | | Reporter C (5% of total) | |
|---|---|---|---|---|---|---|
| Rank | Major currency pairs | Non-major currency pairs | Major currency pairs | Non-major currency pairs | Major currency pairs | Non-major currency pairs |
| 1 | EUR/USD | HUF/EUR | EUR/USD | TRY/USD | GBP/USD | TRY/RUB |
| 2 | USD/JPY | TRY/USD | USD/CHF | HUF/EUR | USD/JPY | PLN/EUR |
| 3 | GBP/USD | PLN/EUR | GBP/USD | PLN/EUR | USD/CAD | HUF/EUR |
| 4 | AUD/USD | RUB/USD | AUD/USD | RUB/USD | AUD/USD | TRY/USD |
| 5 | USD/CHF | TRY/AUD | USD/JPY | TWD/USD | USD/CHF | TRY/BGN |

| Reporter | Major currency pairs | Non-major currency pairs | Weight reporters (1) | Weight rank (2) | Global weight (1) * (2) |
|---|---|---|---|---|---|
| Reporter A | EUR/USD | HUF/EUR | 70% | 100% | 70% |
| Reporter A | USD/JPY | TRY/USD | 70% | 80% | 56% |
| Reporter A | GBP/USD | PLN/EUR | 70% | 60% | 42% |
| Reporter A | AUD/USD | RUB/USD | 70% | 40% | 28% |
| Reporter A | USD/CHF | TRY/AUD | 70% | 20% | 14% |
| Reporter B | EUR/USD | TRY/USD | 25% | 100% | 25% |
| Reporter B | USD/CHF | HUF/EUR | 25% | 80% | 20% |
| Reporter B | GBP/USD | PLN/EUR | 25% | 60% | 15% |
| Reporter B | AUD/USD | RUB/USD | 25% | 40% | 10% |
| Reporter B | USD/JPY | TWD/USD | 25% | 20% | 5% |
| Reporter C | GBP/USD | TRY/RUB | 5% | 100% | 5% |
| Reporter C | USD/JPY | PLN/EUR | 5% | 80% | 4% |
| Reporter C | USD/CAD | HUF/EUR | 5% | 60% | 3% |
| Reporter C | AUD/USD | TRY/USD | 5% | 40% | 2% |
| Reporter C | USD/CHF | TRY/BGN | 5% | 20% | 1% |

| Major currency pairs | Sum of global weight |
|---|---|
| 1) EUR/USD | 95% |
| 2) USD/JPY | 65% |
| 3) GBP/USD | 62% |
| 4) AUD/USD | 40% |
| 5) USD/CHF | 35% |
| 6) USD/CAD | 3% |

| Non-major currency pairs | Sum of global weight |
|---|---|
| 1) HUF/EUR | 93% |
| 2) TRY/USD | 83% |
| 3) PLN/EUR | 61% |
| 4) RUB/USD | 38% |
| 5) TRY/AUD | 14% |
| 6) TRY/RUB | 5% |
| 7) TWD/USD | 5% |
| 8) TRY/BGN | 1% |

## 5. Centrally cleared transactions, is CLS Bank a CCP? (new)

*Question*: In the Complementary Information section of the triennial survey, reporting dealers are requested to assess how much of their reported total turnover of various OTC derivative instruments was centrally cleared via CCPs after execution. Would CLS be considered to be a central clearer? Would settling via a Settlement Member be considered as central clearing?

*Answer*: CLS Bank is not a CCP. And settling via a CLS Settlement Member that provides third-party services is per se not central clearing.

Today, the biggest firms known to provide CCP services for OTC FX (some instruments only) include LCH.Clearnet, CME Group and InterContinental Exchange. A number of other firms are now also said to be getting into this business of OTC FX central clearing. The objective of the CCP question in the survey is to get a sense of how much of OTC FX turnover is post-trade sent to one of these specialised entities for *clearing and novation*.

By contrast, CLS specialises in *settlement* (the very final step), not clearing. So, if the question is on clearing, CLS is not relevant. Moreover, currently, CLS Settlement Members are all just banks, not CCPs. It is possible that in future some CCPs could become CLS Settlement Members; but until that happens, settling via a Settlement Member is a separate issue from central clearing.