2.22 ARF 722.0: ABS/RBA Derivatives

2.22.1 General guidance

Applicable items of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia (SESCA);* and
- *1.17 Residual maturity.*

2.22.2 Purpose of reporting

The form is designed to meet international economic statistical reporting requirements as prescribed by the *2008 System of National Accounts* (SNA) and *Balance of Payments Manual 6* (BPM6). These economic statistical frameworks consider *derivatives* as more than a financial instrument used for risk management such as hedging. *Derivatives* according to these frameworks are financial instruments in their own right, like *loans* and *securities*, and contribute to an economy's accumulation of financial assets and liabilities and its overall net financial wealth.

2.22.3 Principles of reporting under economic statistical frameworks

The principles underlying the reporting of financial instruments through the Australian Accounting Standards Board (AASB) are broadly in line with reporting principles within the SNA and BPM 6 economic statistical frameworks. However, for *derivatives*, there are significant divergences in reporting requirements between the AASB and the economic statistical frameworks, and therefore the reporting of *derivatives* on this form does not align with AASB. Specifically, the divergences result in reporting for statistical purposes that requires:

- financial *derivatives* to be treated as a financial instrument that can be traded and carries a market valuation that is linked to, but valued separately from, the underlying instrument on which the *derivative* is based;
- positions and flows associated with the financial *derivative* to be reported separately;

- assets and liabilities of *derivatives* on a *gross* basis, that is, *derivatives* should not be reported on net basis;
- settlements (cash receipts and payments) as transactions and *market value* changes and accruing interest (e.g., on swap coupons) as revaluations. The transactions and revaluations will not reconcile back to items in the profit and loss (P&L) statement; and
- reporting of all *warrants*.

Table 1 below illustrates the divergence between AASB, and SNA and BPM6 reporting for *derivative* by comparing the reporting requirements for loans.

Table 1: AASB and SNA/BPM6 reporting for loans and a swap

	Instrument /counterparty	AASB Reporting	SNA/BPM 6 Reporting
Asset position	ADI loan with non-resident (Asset position)	ADI loan asset position with non-resident	ADI loan asset position with non-resident
	Swap with Trading Company (Asset position)	Net asset or net liability position: (offset with swaps with other counterparties)	Swap (gross positive position)
Liability position	ADI loan with non-resident (Liability position)	ADI loan liability position with non-resident	ADI loan liability position with non-resident
	Swap with Trading Company (Liability position)	Net asset or net liability position: (offset with swaps with other counterparties)	Swap (gross negative position)
Asset transactions	ADI loan with non-resident (Asset position)	Transactions (issuance less repayments)	Transaction (issuance less repayments)
	Swap with Trading Company (Asset position)	Net transactions (offset with swaps with other counterparties)	Transactions (cash receipts and payments on a contract by contract basis)
Liability transactions	ADI loan with non-resident (Liability position)	Transactions (issuance less repayments)	Transactions (issuance less repayments)
	Swap with Trading Company (Liability position)	Net transactions (offset with swaps with other counterparties)	Transactions (cash receipts and payments on a contract by contract basis)

The major objective of reporting on ARF 722.0 is to reconcile the opening and closing positions for *derivatives* through:

- transactions and revaluations during the period for those *derivatives* with *resident* counterparties; and
- transactions, *market value* changes, exchange rate variations and other changes for those *derivatives* with *non-resident* counterparties.

Reporting on ARF 722.0 is not an attempt to reconcile the net transactions and revaluations back to the P&L statement.

Within the SNA and BPM6 reporting, the transactions and positions are of equal priority within these economic statistics.

2.22.4 Types of derivatives

Report the value of the *derivatives*; do not include the value of the underlying financial instrument.

The form categorises *derivatives* to the following instrument types:
* options;
* forwards;
* swaps; and
* other.

Report credit *derivatives* where these are not classified as options or forward-type instruments in the 'Other' instrument category.

Futures should only be reported on item 9.

Example 1: Swap

ADI A sets up to pay fixed-rate and receive floating-rate from *resident* Company XYZ.

The swap was initiated in March quarter and settles in December quarter. There was no payment to initiate the contract and payments will be made semi-annually in June and December. These payments are the net of the receive floating and pay fixed legs of the contract.

ADI A would report on the ARS 722.0 for the March, June, September, and December quarters as shown in table 2, 3, 4 and 5:

At the end of March quarter, the swap had a *market value* of $10 million.

Table 2: ARF 722.0 - Swap – March quarter

Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty	Instrument type	Opening position: Gross positive mark to market value	Transactions	Revaluations	Closing position: Gross positive mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Private non-financial	Swaps	0	0	10000000	10000000

corporations					

During the June quarter a $5 million net coupon receipt was received by the ADI and, at the end of June quarter, the swap had a *market value* of $12 million.

Table 3: ARF 722.0 - Swap – June quarter

Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty (1)	Instrument type (2)	Opening position: Gross positive mark to market value (3)	Transactions (4)	Revaluations (5)	Closing position: Gross positive mark to market value (6)
Private non-financial corporations	Swaps	10000000	-5000000	7000000	12000000

At the end of September quarter the swap had a *market value* of $5 million. No net coupon payments were received during the quarter.

Table 4: ARF 722.0 - Swap – September quarter

Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty (1)	Instrument type (2)	Opening position: Gross positive mark to market value (3)	Transactions (4)	Revaluations (5)	Closing position: Gross positive mark to market value (6)
Private non-financial corporations	Swaps	12000000	0	-7000000	5000000

During the December quarter, a $4 million net coupon receipt was received and at the end of December quarter the swap expires.

Table 5: ARF 722.0 - Swap – December quarter

Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty (1)	Instrument type (2)	Opening position: Gross positive mark to market value (3)	Transactions (4)	Revaluations (5)	Closing position: Gross positive mark to market value (6)
Private non-financial corporations	Swaps	5000000	-4000000	-1000000	0

Example 2: Forward

In terms of the requirements of the ARS 722.0, a forward is reported the same way as the swap in example 1. The only difference is that a forward has one settlement period, whereas a swap can have multiple settlement periods.

Example 3: Option

In March quarter, *ADI* A enters into a European-style option agreement with a superannuation fund to buy 1,000,000 XYZ shares at a pre-set price of $10 per share from the superannuation fund. The option premium is $0.4 million. The option expires in December quarter.

The payment of the option premium is treated as a transaction ($0.4 million). The erosion of the premium (or time value) is treated as a revaluation (-$0.1 million).

ADI A would report on the ARS 722.0 for March, June, September, and December quarters in tables 6, 7, 8, and 9 as follows:

At the end of March quarter, the share price is $10 per share, which suggests a zero intrinsic value.

Table 6: ARF 722.0 - Option – March quarter

Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties

Type of counterparty (1)	Instrument type (2)	Opening position: Gross positive mark to market value (3)	Transactions (4)	Revaluations (5)	Closing position: Gross positive mark to market value (6)
Superannuation funds	Options	0	400000	-100000	300000

In June quarter, the *market value* of Company XYZ shares rise to $30 per share. Therefore the intrinsic value, equal to the difference between the *market value* and the pre-set price multiplied by the number of shares, is $20 million. The premium has eroded by a further $0.1 million. The $19.9 million revaluation is equal to the intrinsic value ($20 million) less the erosion of time value ($0.1 million).

Table 7: ARF 722.0 - Option – June quarter

Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty (1)	Instrument type (2)	Opening position: Gross positive mark to market value (3)	Transactions (4)	Revaluations (5)	Closing position: Gross positive mark to market value (6)
Superannuation funds	Options	300000	0	19900000	20200000

In September quarter, the *market value* of Company XYZ shares rises to $31 per share, making the intrinsic value equal to $21 million. The premium erodes by a further $0.1 million. The $0.9 million revaluation is equal to the $1 million increase in the intrinsic value less the erosion of premium.

Table 8: ARF 722.0 - Option – September quarter

Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty	Instrument type	Opening position: Gross	Transactions	Revaluations	Closing position:

		positive mark to market value			Gross positive mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Superannuation funds	Options	20200000	0	900000	21100000

In December quarter, the *market value* of Company XYZ shares is $31 per share. The premium erodes by $0.1 million and the option expires. The cash receipt of $21 million closes the option position.

Table 9: ARF 722.0 - Option – December quarter

Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty	Instrument type	Opening position: Gross positive mark to market value	Transactions	Revaluations	Closing position: Gross positive mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Superannuation funds	Options	21100000	-21000000	-100000	0

2.22.5 Item 9: Futures with resident and non-resident counterparties

Futures

The form requires the reporting of futures separately in item 9 in recognition of their balance sheets positions being equal to zero due to these settling on a daily basis.

Futures have the following unique features:

- they are only traded on an exchange, which is a type of *clearing house*;
- they have a value of zero for the opening and closing positions as they are fully *margined* (or settled) daily to account for any mark-to-market changes;
- *ADIs* can have several *derivative* contracts with the exchange which are settled on a net basis.

Example 4: Resident Futures

An *ADI* has Futures contracts with the Australian Stock Exchange (ASX). Since the ASX is a resident, the country of exchange is Australia. During the quarter the entity makes a net gain

of $100 million. The net gain can be broken down into $150 million positive and $50 million negative. The entity would report the following for the quarter in Table 10:

Table 10: ARF 722.0 - Futures

Item 9: Futures with resident and non-resident counterparties			
Country of exchange (1)	Net transactions during the period (2)	Revaluations with gross positive value during the period (3)	Revaluations with gross negative value during the period (4)
Australia	-100000000	150000000	50000000

For item 9, values in column 3 and 4 should be reported as a positive numbers. A net cash receipt should be shown as a negative number in column 2. Similarly a net cash payment should be shown as a positive number in column 2.

Column 4 less column 3 should equal column 2, as futures are fully margined or settled daily to account for any mark-to-market changes.

2.22.6 Assets and liabilities

Derivatives on an asset side should be reported separately to those on a liability side. Therefore, the form requires reporting of gross positive mark to market (MTM) value and gross negative MTM value of *derivatives* separately.

If the contract starts and finishes in an asset position, show

- a cash receipt as a negative transaction; and
- a cash payment as a positive transaction.

Similarly, if the contract starts and finishes in a liability position, show

- a cash receipt as a positive transaction;
- a cash payment as a negative transaction.

Items 1, 2, 3, and 4 require a splitting of transactions by asset or liability side. If the institution is unable to do this, e.g., in the case of a netting agreement that are difficult to unwind for reporting purposes or the *derivative* switches during the quarter and there is uncertainty as to the position the *derivative* is in at the time the settlement is received, then:

- show a cash receipt as a negative transaction on the asset side, rather than estimating splits between a negative transaction on the asset side and a positive transaction on the liability side; and
- show a cash payment as a negative transaction on the liability side, rather than estimating splits between a negative transaction on the liability side and a positive transaction on the asset side.

Items 7 and 8 are also split by asset or liability side for residual maturity of *derivatives*.

Refer to *Section 2.22.11 Transactions* for more details on splitting transactions by side.

Example 5: Swap that switches positions

(a) Assume a swap with a private non-financial corporation has an opening position of $30 million asset (gross positive **market value**) and a closing position of $30 million liability (gross negative **market value**). During the quarter there is a net cash receipt of $4 million was received by the ADI. Revaluations in this case, is used as a balancing item between the opening position on the positive mark to market contracts and the negative mark to market contracts.

(b) Assume a swap with a superannuation fund has an opening position of $20 million liability (gross negative **market value**) and a closing position of $20 million asset (gross positive **market value**). During the quarter there are no cash settlements. Revaluations, in this case, is used as a balancing item between the opening position on the negative mark to market contracts and the positive mark to market contracts.

The entity would report the following for the quarter in Table 11:

Table 11: ARF 722.0 - Swap – December quarter

Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty (1)	Instrument type (2)	Opening position: Gross positive mark to market value (3)	Transactions (4)	Revaluations (5)	Closing position: Gross positive mark to market value (6)
Private non-financial corporations	Swaps	30000000	-4000000	-26000000	0
Superannuation funds	Swaps	0	0	20000000	20000000
1.1. Total derivatives with a gross positive mark to market value		30000000	-4000000	-6000000	20000000
Item 2: Derivatives with gross negative mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty	Instrument type	Opening position: Gross	Transactions	Revaluations	Closing position:

		negative mark to market value			Gross negative mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Private non-financial corporations	Swaps	0	0	30000000	30000000
Securitisers	Swaps	20000000	0	-20000000	0
2.1. Total derivatives with a gross negative mark to market value		20000000	0	10000000	30000000

2.22.7 Counterparties

For items 1 and 2 that exclude *clearing houses and central counterparties*, the form requires the *derivative* positions and flows (transactions and revaluations) by *resident* counterparties, by SESCA counterparty type.

Items 3 and 4 also exclude *clearing houses and central counterparties.*

For items 3, 4, 7 and 8 report for *non-resident* counterparties only. Further, items 3 and 4 require a breakdown of *derivative* positions and flows by country.

Clearing houses and central counterparties

The form uses the term *clearing houses and central counterparties* to represent recognised *clearing houses and central counterparties* that interpose themselves between counterparties to *derivatives* traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer. A *central counterparty* becomes counterparty to trades with market participants through novation, an open offer system, or another legally binding arrangement.

It is recognised that the increased use of *central counterparties* for OTC *derivatives* and *derivatives* with exchanges will result in some difficulty in the reporting of *derivatives* based on the economic statistical frameworks. As a result, the form has separated the reporting of *derivatives* with *clearing houses and central counterparties* into:

- futures, where the balance sheet positions are equal to zero due to these *derivative* settling on a daily basis. Futures are reported at item 9;
  - *derivatives* with *clearing houses and central counterparties* that are margined. These are reported at item 5; and
  - *derivatives* with *clearing houses and central counterparties* that are not margined. These are reported in item 6.

Items 5, 6, and 9 require reporting of the exchange, *clearing house and central counterparty* by country. *Clearing houses and central counterparties* should also be reported in items 7 and 8.

Table 12: ARF 722.0 counterparty reporting

Item	Name	Residency	Inclusions
1	Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties	Residents	Exclude clearing houses and central counterparties Exclude futures
2	Derivatives with gross negative mark to market values and resident counterparties excluding clearing houses and central counterparties	Residents	Exclude clearing houses and central counterparties Exclude futures
3	Derivatives with gross positive mark to market values and non-resident counterparties excluding clearing houses and central counterparties	Non-residents	Exclude clearing houses and central counterparties Exclude futures
4	Derivatives with gross negative mark to market values and non-resident counterparties excluding clearing houses and central counterparties	Non-residents	Exclude clearing houses and central counterparties Exclude futures
5	Derivatives with resident and non-resident clearing houses and central counterparties that are margined	Residents and non-residents	Include only clearing houses and central counterparties Exclude futures
6	Derivatives with resident and non-resident clearing houses and central counterparties that are not margined	Residents and non-residents	Only clearing houses and central counterparties Exclude futures
7	Derivatives with closing gross positive mark to market values and non-resident counterparties, by currency and residual maturity (including clearing houses and central counterparties)	Non-residents	Include clearing houses and central counterparties, and all other counterparties Exclude futures
8	Derivatives with closing gross negative mark to market values and non-resident counterparties, by currency and residual maturity (including clearing houses and central counterparties)	Non-residents	Include clearing houses and central counterparties, and all other counterparties Exclude futures
9	Futures with resident and non-resident counterparties	Residents and non-residents	Include clearing houses and central counterparties, and all other counterparties

2.22.8 Opening and closing positions

For reporting of opening and closing positions, do not offset contracts:

- in an asset position with contracts in a liability position; or
- in different types of *derivative* instruments; or
- with different counterparties.

The opening and closing balance reported on this form will not line up with the *derivatives* items reported on the ARF 720.0A/B, as the reporting on ARF 722.0 does not follow AASB.

For item 1, all *derivatives* in a positive opening position are to be reported in column 3 and all those in a positive closing position are to be reported in column 6 by counterparty and *derivative* type. For item 2, all *derivatives* in a negative opening position are to be reported in column 3 and those in a negative closing position are to be reported in column 6.

For both item 1 and 2, the *derivatives* reported in column 3 will not necessarily be the same *derivatives* as those reported in column 6 as some *derivatives* will switch during the quarter from an asset to a liability position, or vice versa. The same treatment should be applied for equivalent opening and closing positions in items 3 and 4.

Items 5 and 6 require reporting of the net opening and net closing positions with *resident* and *non-resident clearing houses and central counterparties* and the net transactions and revaluations.

The gross closing positive and negative positions are also to be reported, noting that the gross closing positions should reconcile with the opening positions of the next reporting period.

Residual maturity

For all *non-resident derivatives* the *residual maturity* is required to be reported in items 7 and 8. This refers to the *residual maturity* of the closing positions for the quarter and is the time remaining until the *derivative* is due to be settled. This is required to measure the foreign currency exposure risks of *derivatives*. It is not the *residual maturity* of the underlying financial instrument.

Example 6: Maturity

An *ADI* has the following *derivative* contracts:

(a) A new forward contract to sell AUD$2.5m for USD$2m at $0.80c to a counterparty in New York, and a maturity of 15 months;

(b) An existing forward contract to sell AUD$2m for CNY¥10.0m at ¥5.00 to a counterparty in Singapore. It settles at the end of the quarter; and

(c) An existing forward contract to sell USD$3.2m for GBP£2.4m for £0.75 to a counterparty in London and a residual maturity of 90 days.

During the quarter:

- •USD/AUD depreciated from $0.80 USD to $0.75 USD.
- •CNY/AUD depreciated from ¥5.50 CNY to ¥4.50 CNY.
- •GBP/USD remains unchanged at £0.80 GBP.

The entity would report the following for the quarter in Table 13;

Table 13: ARF 722.0 - Forward

Item 7: Derivatives with closing gross positive mark to market values and non-resident counterparties, by currency and residual maturity (including clearing houses and central counterparties)						
	Residual maturity of contract ($AUD)					
Currency of closing position	<= 90 days	>90 days <= 6 months	>6 months <= 1year	>1 year <=5 years	>5 years	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
USD (a)	0	0	0	166667	0	166667

Item 8: Derivatives with closing gross negative mark to market values and non-resident counterparties, by currency and residual maturity (including clearing houses and central counterparties)						
	Residual maturity of contract ($AUD)					
Currency of closing position	<= 90 days	>90 days <= 6 months	>6 months <= 1year	>1 year <=5 years	>5 years	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
USD (c)	266667	0	0	0	0	266667

(a) This new forward is a USD asset because it has an AUD leg. At the end of the quarter the mark to market is an asset of $0.167m ((USD$2m/0.75) – (USD$2m/0.80) = $2.667m – $2.5m= $0.167m AUD).

(b) This existing forward has an opening liability position of $0.182m but the *derivative* is settled to 0 at the end of the *reporting period* and is therefore not recorded on either table.

(c) This existing forward is a USD liability because the USD leg is generating the liability ((£2.4m/0.8) – (£2.4m/0.75)= $3m – $3.2m = – $0.2m USD).

The USD value of the liability does not change over the quarter however the AUD equivalent has increased due to the change in the USD/AUD exchange rate (USD$0.2m/0.75 = $0.267m AUD).

Currency

Currency of the closing positions refers to the currency in which the *derivative* is likely to be settled. Positions denominated in foreign currency should be converted to Australian dollars using the exchange rate as at the end of the *reporting period*.

In item 7 and 8, for a derivative that involves the exchange of Australian dollars for a foreign currency, record under that foreign currency whether buying or selling that currency.

For a *derivative* that involves the exchange of two foreign currencies, report the currency that is being paid to settle to zero. That is:

- if an asset position is being settled, then show the currency you are buying / receiving;
- if a liability position is being settled, then show the currency you are selling / paying.

For example, if an *ADI* has a *derivative* contract to swap USD for Yen and the Yen appreciates against the USD, then this becomes an asset for the *ADI* because they are now receiving more Yen for their USD than the market rate. The *ADI* would settle this asset back to zero by receiving money, in this case Yen. Hence the currency of the closing asset position should be in Yen.

Similarly, if the Yen depreciates against the USD, then this becomes a liability for the *ADI* because they are now receiving less Yen for their USD than the market rate. The *ADI* would settle this liability back to zero by paying money, in this case USD. The currency of the closing liability position should be in USD.

2.22.9 Treatment of Margins

Initial *margins* consist of cash or other *collateral* to protect the counterparty against default risk. The ownership of the *margin* remains with the entity that deposited it. Initial *margin* payments in cash are classified as *deposits* (if the debtor's liabilities are part of broad money) or in other accounts receivable/payable.

Variation *margins* can be treated as settlement or *collateral*. When the variation margin is treated as settlement, gains or losses from *derivatives* are shown in the entities cash position and the *derivatives* carrying value reverts to zero with each variation settlement (*derivative* transaction). If variation *margins* are treated as collateral adjustments to the amount of posted collateral have no effect on the carrying value of the *derivative*.

Derivatives with *clearing houses and central counterparties* that are *margined* means that the variation *margins* are being used as settlement. When taken to the extreme, *margining* produces a zero balance sheet position (footprint) for the *derivative*. This is the case for futures which are fully *margined* or settled daily to square off any revaluations of the *derivative*.

Derivatives that are *margined* can still have a balance sheet position (footprint) due to timing differences between *clearing houses and central counterparties*. To account for this, the form

has two separate items, one for futures (item 9) and another for *derivatives* with *clearing houses and central counterparties* that are *margined* (item 5). Futures should be excluded from item 5.

When variation **margins** are treated as *collateral*, they should be excluded from transactions in the *derivative* as adjustments to the amount of posted collateral have no effect on the holding value of the *derivative*.

Derivatives with *clearing houses and central counterparties* that are not *margined* means that the variation *margins* are being treated as collateral or the *derivative* is not subject to a margining process.

Example 7: Margins

An *ADI* has several swap contracts with a *resident clearing house* with the following features;

- at the beginning of the quarter there is a net asset position of $20,000: equal to $40,000 gross positive and $20,000 gross negative;
- during the quarter there was a net cash receipt of $10,000;
- during the quarter there was a holding loss of $60,000;
- at the end of the quarter there was a net liability position of $50,000: equal to $10,000 gross positive and $60,000 gross negative.

The *ADI* would record the following for the quarter in Table 14;

Table 14: ARF 722.0 - Margined Swap

Item 5: Derivatives with resident and non-resident clearing houses and central counterparties that are margined											
Country of clearing house and central counterparty	Instrument type	Net opening position	Opening position: *of which gross positive*	Opening position: *of which gross negative*	Net transactions	Market value changes	Exchange rate variations	Other changes	Net closing position	Closing position: *of which gross positive*	Closing position: *of which gross negative*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Australia	Swaps	20000	40000	20000	-10000	-60000	0	0	-50000	10000	60000

Since the *clearing house* is a *resident* counterparty, the country is Australia. Hence, all revaluations are to be reported under *market value* changes.

Example 8: Not Margined

An *ADI* has several swap contracts with *non-resident* and *resident clearing houses* with the following features;

At the beginning of the quarter there is:

(a) a net asset position of $15,000 with CEC Belgium, equal to $24,000 gross positive and $9,000 gross negative. These comprise mostly of EURO/AUD forwards;

(b) a net asset position of $210,000 with ASX, equal to $310,000 gross positive and $100,000 gross negative. These comprise of swaps denominated in AUD; and

(c) a net liability position of $63,000 with ICE in USA, equal to $41,000 gross positive and $104,000 gross negative. These comprise mostly of USD/AUD forwards.

During the quarter:

- The AUD depreciated against all major currencies resulting in positive *market value* changes for forward assets and negative *market value* changes for forward liabilities; and
- there was a favourable change in the Bank Bill Swap Rate resulting in positive *market value* changes for swaps;

The *ADI* would record the following for the quarter in Table 15:

Table 15: ARF 722.0 - Not Margined Derivatives

Item 6: Derivatives with resident and non-resident clearing houses and central counterparties that are not margined											
Country of non-resident clearing house and central counterparty	Instrument type	Net opening position	Opening position: *of which gross positive*	Opening position: *of which gross negative*	Net transactions	Market value changes	Exchange rate variations	Other changes	Net closing position	Closing position: *of which gross positive*	Closing position: *of which gross negative*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Belgium (a)	Forwards	15000	24000	9000	-2100	3200	0	0	16100	24800	8700
Australia (b)	Swaps	210000	310000	100000	-30000	12000	0	0	192000	272000	80000

United States of America (c)	Forwards	-63000	41000	104000	9000	-18800	0	0	-72800	44000	116800
6.1. Total derivatives that are not margined		162000	375000	213000	23100	-3600	0	0	135300	340800	205500

2.22.10 Valuations

Market valuation should be used for both over-the-counter (OTC) and exchange-traded (ET) *derivatives*. The *market value* is equivalent to the dirty price. The clean price and the accrued interest should not be reported separately.

Revaluations represent:

- the holding gain and losses arising from changes in *market values* of the contracts;
- accrued interest (e.g. swap coupons); and
- other changes that are not transactions (such as write offs).

Revaluations can also be used to reconcile the opening and closing positions and adjust for those *derivatives* which have switched sides during the quarter.

Practical implementation

The guidance below is provided in recognition that the reporting of transactions and revaluations on the basis required for the economic statistical framework may be operationally challenging.

For *resident* counterparties, the revaluations are not required to be split into components. This applies to items 1, 2, 5, and 6 for *derivatives* with all *resident* counterparties.

For international reporting requirements under the *Balance of Payments Manual 6 (BPM6)* items 3, 4, 5, and 6 require a breakdown of revaluations into *market value* changes, exchange rate variations and other changes for *non-resident* counterparties.

Market value changes

When reporting gross positions of *derivative* with *non-resident* counterparties, *market value* changes refer to the impact on the value of the stock of financial liabilities and assets due to changes in their price excluding any exchange rate movements. Market value changes include *holding gains/losses* during the period arising from changes in value of the underlying instrument on which the *derivative* is based and are realised at the end of each reporting period as part of the gross closing position for the *derivatives*.

For *derivatives* with exchange rates as the underlying instruments, the effect of change in exchange rate on the *derivatives* should be treated as a *market value* change.

Exchange rate variations

Exchange rate variations refer to the change in value of the *derivative* due to changes in the exchange rate between the Australian dollar and other currencies when outstanding amounts (gross positive and negative positions) of the *derivatives* are settled.

When reporting for those *derivatives* in gross positions with *resident* counterparties the effect of change on exchange rate on the *derivative* is absorbed into revaluations.

Other changes

Other changes refers to changes to the stock of financial assets and liabilities not due to transactions, *market value* changes and exchange rate variations and may include reclassifications and write offs. Can also include country reclassification when the counterparty moves country during the *reporting period*.

Example 9: Revaluations

An *ADI* has the following *derivative* contracts:

(a) A new forward contract to sell AUD$2.5m for USD$2m at $0.80c to a counterparty in New York, and a maturity of 15 months.;

(b) An existing forward contract to sell AUD$2m for CNY¥10m at ¥5.00 to a counterparty in Singapore. It settles at the end of the quarter; and

(c) An existing forward contract to sell USD$3.2m for GBP£2.4m for £0.75 to a counterparty in London and a residual maturity of 9 months.

During the quarter:

- USD/AUD depreciated from $0.80 USD to $0.75 USD;
- CNY/AUD depreciated from ¥5.50 CNY to ¥4.50 CNY; and
- GBP/USD remains unchanged at £0.80 GBP.

The *ADI* would report the following for the quarter in Table 16;

Table 16: ARF 722.0 - Forward

Item 3: Derivatives with gross positive mark to market values and non-resident counterparties excluding clearing houses and central counterparties						
	Opening position: Gross positive mark to market value		Valuation and Other Changes			Closing position: Gross positive mark to market value
Country of non-resident debtor		Transactions	Market value changes	Exchange rate variations	Other Changes	

(1)	(2)	(3)	(4)	(5)	(6)	(7)
United States of America (a)	0	0	166667	0	0	166667
Singapore (b)	0	-222222	222222	0	0	0
3.1. Total derivatives with a gross positive mark to market value	0	-222222	388889	0	0	166667

Item 4: Derivatives with gross negative mark to market values and non-resident counterparties excluding clearing houses and central counterparties

Country of non-resident debtor	Opening position: Gross negative mark to market value	Transactions	Valuation and Other Changes			Closing position: Gross negative mark to market value
			Market value changes	Exchange rate variations	Other Changes	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Singapore (b)	181818	0	-181818	0	0	0
United Kingdom (c)	250000	0	0	16667	0	266667
4.1. Total derivatives with a gross negative mark to market value	431818	0	-181818	166667	0	266667

(a) This new forward has an opening position of 0 as the contract price is the same as the exchange rate at the start of the quarter. It is USD asset because it has an AUD leg.

At the end of the quarter the mark to market is an asset of $0.167m ((USD$2m/0.75) – (USD$2m/0.80) = $2.667m – $2.5m= $0.167m AUD). As this change in value is due to the change in the market value of the *derivative* it is recorded all in *market value* changes.

(b) This existing forward has an opening liability position of $0.182m as the contract price is less than the exchange rate at the start of the quarter. It is a CNY asset/liability because it has an AUD leg.

At the end of the quarter prior to settlement, the mark to market is an asset of $0.222m ((¥10m/4.5) - (¥10m/5.0) = $2.222m - $2m). As this change in value is due to the change in the *market value* of the *derivative* it is recorded all in *market value* changes.

This is firstly shown by closing the liability position of $0.182m through *market value* changes and creating an asset position to $0.222m through *market value* changes. Finally the *derivative* is settled to 0 using transactions.

(c) This existing forward has an opening liability position of $0.25m (USD$0.2m/0.80) as the contract price is less than the exchange rate at the start of the quarter ((£2.4m/0.8) – (£2.4m/0.75) = $3m – $3.2m = – $0.2m USD). It is a USD liability because the USD leg is generating the liability.

The USD value of the liability does not change over the quarter however the AUD equivalent has increased due to the change in the USD/AUD exchange rate (USD$0.2m/0.75 = $0.267m AUD).

This change will be recorded under exchange rate variations ($0.267m – $0.25m = $16,667).

2.22.11 Transactions

Transactions represent the settlements of the mark to market (MTM) position when reporting gross positions of *derivatives*. Specifically, transactions in *derivatives* include:

- the payment to initiate the contract less the payment to settle the contract within the quarter;
- associated cash flows such as interest payments, premiums and variation *margins* (where they are regarded as settling the derivative).

Do not report *realised gains and losses* as *derivative* transactions (as per AASB) for the reporting basis of the economic statistical framework because transactions in this form include the payment to initiate the *derivative* (e.g., an Option premium).

Transactions can be likened to cash receipts and payments. Refer to 2.22.6 Assets and liabilities for more details.

Transactions for derivatives with exchange rates as underlying instruments

For transactions in *derivatives* with exchange rates as underlying instruments where it is difficult to apply a spot exchange rate at the time of settlement, take the total realised amount for the period for each trade and convert to Australian dollars at the closing rate at the end of the *reporting period*.

Transactions excluding clearing houses and central counterparties

For items 1, 2, 3, and 4 report all transactions related to *derivatives* in a gross positive MTM value (asset) position separately from transactions related to *derivatives* in a gross negative MTM value (liability) position.

Do not offset contracts:

- in an asset position with contracts in a liability position or vice versa; or
- in different types of *derivative* instrument; or
- with different counterparties.

If the contract starts and finishes in an asset position, show

- a cash receipt as a negative transaction; and
- a cash payment as a positive transaction.

Similarly, if the contract starts and finishes in a liability position, show

- a cash receipt as a positive transaction;
- a cash payment as a negative transaction.

Transactions with clearing houses and central counterparties

For items 5, 6, and 9 report net transactions of the *derivatives*, that is transactions in a gross positive MTM value (asset) may be netted off with transactions in a gross negative MTM value (liability).

Do not offset contracts:

- in different types of *derivative* instruments; or
- with different clearing houses and central counterparties.