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Recent U.S. Progress in Collecting Data on Derivatives

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Recent U.S. Progress in Collecting Data on Derivatives

1. This note briefly summarizes work conducted in the United States over the past several years to design a report form that collects comprehensive data on U.S. positions and transactions in derivative financial instruments.

2. In the United States, the U.S. Bureau of Economic Analysis (BEA) is the agency that is responsible for compiling the U.S. balance of payments and international investment position accounts. BEA has authority for directly collecting certain data for these purposes, principally in the areas of direct investment and international services transactions. It relies on other U.S. Government agencies as well as on private institutions for most of the other information that it uses in the accounts.

3. The Department of Treasury is the U.S. Government agency with primary responsibility for data collection in the area of portfolio investment and derivatives. It works closely with other Government agencies – particularly the Federal Reserve Board, the Federal Reserve Bank of New York, and BEA – in identifying data gaps, resolving conceptual and practical issues, and in designing report forms. The data on portfolio investment are collected by the Federal Reserve Bank of New York, which serves as the Department of Treasury's data collection agent for the Treasury International Capital (TIC) reporting system.

4. Regarding derivatives, BEA designed and conducted a voluntary, one-time survey of derivatives in 1998-99, to assess the size of U.S. positions and transactions. The survey was completed by six derivatives dealers who, in total, were believed to account for about half of total U.S. positions and transactions in derivatives. Results showed that, at market value, cross-border positions for the six dealers totaled nearly $200 billion both for assets

and for liabilities, with a relatively small net position. Transactions for a single month were reported by five dealers, which BEA estimated represented an annualized net flow of about $3 billion.

5. Work on designing a mandatory survey of derivatives after 1999 proceeded in coordination with other initiatives to improve the TIC reporting system and in consultation with potential survey respondents, so that the burden on reporters from all initiatives could be introduced in a balanced fashion.[1] The introduction of the derivatives survey also was scheduled so that it would occur after accounting guidelines issued by national and international accounting standard setters, such as the Financial Accounting Standards Board and the International Accounting Standards Board, and by international organizations, such as the International Monetary Fund, were established and had stabilized.

6. Four meetings at roughly annual intervals were held with industry representatives in 2000-03, to discuss and refine the coverage of the derivatives survey. Industry representatives said that data on transactions in derivatives were much more burdensome to report than data on positions in derivatives. To balance the burden on survey respondents and the needs of data users for timely, comprehensive data, the recently approved mandatory quarterly "Report of Holdings of, and Transactions in, Financial Derivatives Contracts with Foreign Residents" (TIC Form D) has the following attributes:

   a. Exemption level – The exemption level is set relatively high so as to exclude most transactors from reporting while also covering the vast majority of transactions and

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1. Among the improvements and expansions of the TIC reporting system during the period 2000 forward were the establishment of annual surveys of portfolio investment assets and liabilities; coverage of broker margin accounts; collection of information on portfolio investment liabilities by domestic sector, instrument, maturity, and currency; expanded efforts that improved the comprehensiveness and accuracy of overall TIC reporting, including of short-term financial instruments (other than derivatives) and of bank sweep accounts; and the elimination of some detailed data reporting requirements to offset a portion of the increases in respondent burden associated with the above.

positions. Reporters must file Form D if total holdings of derivatives contracts with domestic and foreign parties, for their own account and for the accounts of their customers, are at least $100 billion (notional value). If the exemption level is exceeded, positions and transactions involving only foreign residents must be reported. At this exemption level, it is expected that fewer than 50 U.S. companies, accounting for an overwhelming majority of U.S. cross border derivatives positions and activity, will be required to report.

b. Phasing in of mandatory reporting of transactions data – Comprehensive data on positions in derivatives will be collected on the survey beginning with 1Q05. However, data on transactions will be phased in over three quarters, and only data on transactions in over-the-counter (OTC) foreign exchange derivatives will be reported on a mandatory basis in 1Q05. In 2Q05, transactions in all exchange-traded contracts must also be reported on a mandatory basis. In 3Q05, transactions data will have to be reported for all types of derivatives, including OTC interest rate contracts.

c. Summary of data item coverage: For holdings, Form D collects data on the total gross positive and on the total gross negative fair value of derivatives contracts by individual foreign country. Aggregate positive and negative fair value estimates (for all foreign countries combined) are also subdivided as follows. OTC derivatives are subdivided by risk category (single-currency interest rate contracts; foreign exchange contracts; and other contracts), and single-currency interest rate contracts and foreign exchange contracts are further subdivided by type of instrument (forwards, swaps, and options). Exchange-traded derivatives are subdivided into the reporter's own derivatives contracts traded on foreign exchanges; U.S. customers' contracts on foreign exchanges; and foreign counterparty contracts on U.S. exchanges. In addition, 3 memorandum items are collected with no country detail (contracts with the reporter's own foreign offices, contracts with foreign official institutions, and contracts of U.S. depository institutions with foreigners).

For transactions, less detailed data are collected. Form D collects data on "net settlements" during the reporting period, representing the net of all cash receipts and payments for the acquisition, sale, or settlement of derivatives. Data are collected for each individual foreign country. Data for all foreign countries combined are also subdivided as follows. Net settlements data are collected for OTC derivatives, by risk category (single-currency interest rate contracts, foreign exchange contracts, and other contracts), but these data are not further subdivided by type of instrument. Net settlements of exchange-traded contracts are subdivided into the reporter's own derivatives contracts traded on foreign exchanges; U.S. customers' contracts on foreign exchanges; and foreign counterparty contracts on U.S. exchanges. Of the 3 memorandum items, transactions data must be reported only for contracts with foreign official institutions.

d. Exclusions: Cash collateral for OTC derivatives and initial and maintenance cash margin for exchange-traded derivatives are not collected on TIC Form D, because they are collected on other TIC surveys.

7. The coverage of derivatives on the survey is consistent with U.S. generally accepted accounting standards (Financial Accounting Statement No. 133). Swaps, forwards, futures, and options are covered, and employee stock options are not covered.

8. A copy of the TIC Form D is attached. A copy of the detailed instructions to the form may be found at the following Department of Treasury Web site: www.ustreas.gov/tic/forms.html.

Question for the Committee

9. Do Committee members have any questions or comments on the U.S. collection of data on cross-border derivatives positions and transactions (TIC Form D)?