Frequently Asked Questions

FOR

TREASURY INTERNATIONAL CAPITAL (TIC) D REPORT

Questions and answers are grouped together according to the sections of the instructions to which they relate.

Revised November 29, 2010

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I. <u>General Instructions</u>

I. D. Who Must Report

Q. A U.S. branch of a foreign bank has futures contracts with foreign exchanges (e.g., Eurex). Are these contracts reportable?

A. Yes. A U.S. branch of a foreign bank is a U.S. resident for the purpose of TIC D. Therefore, a U.S. branch's future contracts with a foreign exchange are reported on the TIC D report.

Q. If an institution has $400 billion in notional amounts of derivatives in March, but its contracts fall below that afterwards, does the institution report in June?

A. Yes. Once an institution meets the reporting threshold, it must continue to report for the rest of the same year and for the following calendar year. In addition, if at any time the amount reported by a TIC D reporter for Grand Total Net Settlements (Part 1, Column 3, Row 7) exceeds $400 million (either a positive or negative value), the TIC Form D should be submitted for the following two calendar years, even if outstanding worldwide notional values fall below the $400 billion level.

Q. How should the amount of outstanding derivatives contracts be computed to check if the reporting threshold has been exceeded?

A. To determine if a U.S.-resident company's derivatives exceed the $400 billion reporting threshold, aggregate the notional values of the company's derivatives on a global consolidated basis.

If the U.S. resident is a subsidiary or branch of a foreign organization, exclude contracts of its parent or of its parent's offices located outside the United States. (See next question for more details.)

Q. Do multiple U.S. subsidiaries of the same foreign organization all need to report?

A. To determine if derivatives contracts exceed the reporting threshold, U.S. subsidiaries of a foreign organization should total all of the derivatives on the books of each <u>top-tier</u> entity in the United States. That is, the notional values of derivatives contracts must be totaled individually for each bank or company that is a U.S. subsidiary of a foreign entity.

Q. Should the U.S. branch or agency of a foreign bank report separately?

A. Yes, branches or agencies of foreign banks in the United States are treated as separate legal entities.

Q. What should be reported when a foreign affiliate acts as a broker for the reporter on foreign futures exchanges?

A. Foreign affiliates are foreign residents on the TIC D report. Contracts between a U.S.-resident entity and its foreign-resident affiliates should be reported. Such contracts should be reported for the country where the affiliate is located even though the ultimate counterparty or exchange may be in a third country. For example, if the U.S. TIC D reporter has an affiliate in London which it uses to buy and sell futures on an exchange in Frankfurt, outstanding contracts and settlements should be reported opposite the United Kingdom, not Germany.

Note that contracts or brokerage activity between the TIC reporter's foreign affiliates and unaffiliated U.S. residents should not be included in the TIC D. The reporter should only include derivatives in which it is a counterparty or broker, in the case of exchange traded contracts.

Q. Should a custodian providing accounting and valuation services for derivatives contracts report its customers' derivatives on TIC D?

A. No. Customer derivatives contracts should only be reported when the reporter is acting as counterparty or as broker in the case of exchange traded contracts.

Q. What are the consolidation reporting rules for completing TIC D?

A. The TIC D report should be completed using the same consolidation principles as the company's financial statements using U.S. generally accepted accounting principles (GAAP) for the U.S.-resident offices of the reporter. The contracts on the books of the company's foreign offices and affiliates should not be consolidated.

Q. Should the derivative contracts of Special Purpose Entities (SPEs) be included?

A. The derivative contracts of U.S.-resident SPEs that are consolidated under U.S. GAAP should be included.

Q. Does an institution have to consider both notional values of derivatives contracts and the level of net settlements reported in the TIC D to determine if it is exempt from reporting?

A. Yes, the TIC D form must be submitted if (a) the total notional value of worldwide holdings of derivatives (including contracts with U.S. and foreign residents, measured on a consolidated-worldwide accounting basis) for the reporter's own account exceeds $400 billion or (b) the amount reported by a TIC D reporter for Grand Total Net Settlements (Part 1, Column 3, Row 7) exceeded $400 million (either a positive or negative value) for any calendar quarter during the preceding two calendar years.

Q. Does meeting the exemption level in the current quarter affect reporting in subsequent quarters?

A. Yes, once **either** exemption level is exceeded, the reporter should submit the TIC D Form for that calendar quarter, for the remaining calendar quarters in the same calendar year, and for each quarter in the following calendar year.

I. E. Accounting Issues

Q. How should foreign currency amounts be converted to U.S. dollars?

A. Spot exchange rates on the *as-of date* should be used to convert foreign currency amounts to U.S. dollar equivalents. These rates should be applied to the fair value amounts reported in Columns 1 and 2 for the report date. For net settlements in Column 3, the preferred method is to convert payments to U.S. dollars using the closing dollar exchange rates on the day of each transaction. If it is not possible to use the closing rates on the days of the payments, please contact FRBNY to discuss which rates you would use.

Q. How should cross currency derivatives contracts not involving the U.S. dollar be converted to U.S.-dollar equivalents?

A. For cross currency swaps which involve two currencies other than the U.S. dollar, the fair value of the contract should be entered in Column 1 or 2 using the U.S. dollar equivalent of the fair value of the purchase side of the contract.

II. What to Report

II. A. General Description of What is to be Reported

Q. Are the positions of the reporter's foreign-resident clients on foreign exchanges included?

A. No. Positions of foreign-resident clients with foreign exchanges are not reported.

Q. Should U.S.-dollar denominated contracts of U.S. residents on foreign exchanges be reported?

A. Yes. The currency of the contract does not determine whether a contract should be reported.

Q. How should a derivative contract be reported, if the location of the counterparty and the guarantor are different?

A. A contract should be reported opposite the location of the contract's direct counterparty. The location of the guarantor of the contract should not be used in determining the residence of the counterparty.

Q. Does the location of the traders determine whether the derivative contract should be reported?

A. No. The location where contracts are booked determines whether they should be reported. The physical location of the traders with whom you deal does not always correspond to the location of the legal entity where the bank books the contracts.

II. B. Reportable Derivatives

Q. What is included in "Other Contracts"?

A. "Other Contracts" (Row 3.c) includes all over-the-counter contracts other than single currency interest rate, foreign exchange, credit and equity contracts. Examples of such contracts are weather, energy, precious metals and other commodity-linked derivatives that are not traded on organized exchanges.

Q. Should the forward contracts of Foreign Exchange Swaps be reported on the row for Forwards (2.a) or for Swaps (2.b)?

A. The fair values and net settlements of the forward contracts of FX swaps should be included and reported with other forwards on the row for Forwards (2.a) under Foreign Exchange risk. Currency swaps are reported on the row for Swaps (2.b).

III. Column Instructions (Part 1 and Part II)

Q. How are derivatives contracts treated that are settled by physical delivery of the underlying commodity or security?

A. In Columns 1 and 2 report the fair (market) values of all types of financial derivative contracts regardless of whether they are to be settled by cash payments or physical delivery of the underlying. In many cases it is not known how the contract will be settled until it is actually exercised. In Column 3, report receipts and payments to settle financial derivatives contracts when ONLY cash is paid or received.

For example, the fair (market) values of outstanding options to buy crude oil or Treasury securities are reported in Column 1 or 2. In Column 3 report all cash payments or receipts to purchase/sell the options and to settle those contracts. However, the amount paid to exercise the option for physical delivery of the commodities or securities should NOT be reported in Column 3.

III. A. Column 1 – Gross Positive Fair Value of Derivatives with Non-U.S. Residents at End of Reporting Quarter.

Q. How is the fair (market) value of futures contracts determined if futures cash settle daily?

A. At end quarter, the fair value of a futures contract that is settled each day by cash payments (variation margin) is any residual amount in the account through which the payments are paid and disbursed. (The sum of all cash payments are reported in Column 3, U.S. Net Settlements.)

Q. How should the fair values of exchange traded options be treated?

A. Exchange traded options with variation margin payments are treated like futures for net settlement and fair value purposes. For exchange traded options where the profit and loss effects of daily price changes are not settled each day (premium paid options), the fair value on the last business day of the quarter should be reported in Columns 1 or 2.

Q. How should swaps be reported in Columns 1 and 2?

A. The fair value of each contract is only reported in one column. The fair market value of a contract represents the net amount that would be paid or received if the contract was settled.

III. C. Column 3 – U.S. Net Settlements during the Quarter with Non-U.S. Residents

Q. What are considered "settlements?"

A. "Settlements" has a special meaning in the context of reporting Column 3 or the TIC D report that differs from the ways in which the word is commonly used in futures market operations. For exchange traded futures and options, contracts are considered settled when the delivery requirements of the contracts are fulfilled. This can be accomplished by selling previously purchased futures or options contracts or by buying back previously sold futures or options contracts for the same delivery date on the same underlying instrument and on the same exchange. However, settlements reported in Column 3 include all receipts and payments made under the terms of derivatives contracts as well as payments for the purchase, sale, or closeout of derivatives. For the purpose of the report, settlement payments and receipts occur when accounts are credited or debited. For exchange traded contracts, the daily debit or credit of variation margin to a futures account is considered a payment or receipt which should be included and captured on open positions for "Net Settlements" of the TIC D report.

Q. Are premiums for options contracts reported?

A. Yes, options premiums should be reported in Column 3 when received or paid.

Q. Are payments for the exercise of options reported?

A. Payments and receipts when options are exercised are reported but ONLY when cash is paid or received. The exercise of an option for the physical delivery of oil or securities is not reported. Payments and receipts to exercise an option to deliver foreign currencies (cash) are reported in Column 3.

Q. When a foreign exchange option is exercised and a spot contract is issued to settle the option, is the spot contract included in net settlements?

A. No. Only the amount paid to settle the option is reported in net settlements. The spot contract is not reported. It is just the means used to make the payment.

III. D. Items to Exclude from the Calculation of Net Settlements

Q. Should initial margin be reported?

A. Initial margin is considered collateral and should <u>not</u> be reported on the TIC D report. However, variation margin, the periodic payments and receipts resulting from the daily changes in the value of futures, are reported.

Q. Should collateral be reported?

A. Collateral is not reportable on the TIC D report, even if in the form of cash.

IV. <u>Specific Instructions for Part I</u>

IV. A. Row Definitions for Rows 1-7

Q. How should contracts be reported that involve more than one type of derivatives?

A. All derivatives products should be reported (by row) according to each contract's predominant type of risk. Therefore, contracts that involve more than one type of derivative should not be separated from its host contract (i.e. bifurcated). Interest rate risk types include *single-currency interest rate* contracts (Row 1), whose predominant risk stems from interest rates and does not involve the exchange of currencies; *foreign exchange* contracts (Row 2), whose predominant risk is from the forward purchase and sale of two or more currencies; equity contracts (Row 3a) whose predominant risk involves shares in corporate ownership, credit contracts (Row 3b) whose predominant risk depends on the credit events of companies and governments and *Other* contracts (Row 3c) whose predominant risk reflects risks other than the four types listed above.

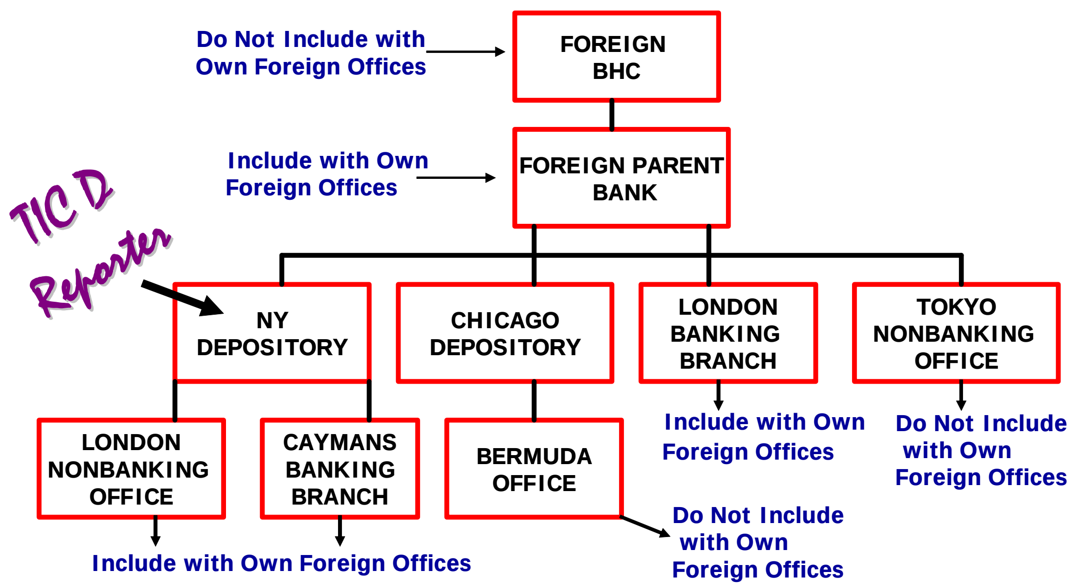
IV. B. Memorandum Row Definitions

Q. For a foreign-owned bank, what should be included as Own Foreign Offices (M.1)?

A. The definition of "Own Foreign Offices" must be applied carefully. TIC D reporters who are foreign-owned depository institutions should include contracts

i. with the reporter's own offices, branches, and agencies outside the United States (both bank and non-bank),
ii. with its own foreign parent bank, and
iii. with the parent's non-U.S. bank branches and agencies.

CONTRACTS WITH OWN FOREIGN OFFICES



However, foreign-owned depository institutions should exclude the parent's foreign affiliated banks and non-banking offices. This definition of Own Foreign Office is consistent with definitions in the TIC B report. See diagram.