

Annex 2.6

METHODOLOGY OF COMPILATION OF LBS AND CBS

The LBS provide for the collection of data on the positions of all banking offices located within the reporting area. Such offices report exclusively on their own (unconsolidated) business, which thus includes international transactions with any of their own affiliates (branches, subsidiaries, joint ventures) located either inside or outside the reporting area. The basic organizing principle underlying the reporting system is the residence of the banking office. This conforms to balance of payments and external debt methodology. In addition, data on ownership or nationality basis are also calculated by regrouping according to country of origin. Thus, the LBS cover both international assets and liabilities of offices of domestic and foreign banks operating within the reporting country. The LBS data are classified by currency (domestic and foreign currencies), sector (banks and non-banks) and country of residence of counter party, and by nationality of reporting banks.

The CBS focus on the assets side of banks' balance sheet. The data mainly cover financial claims reported by domestic banks' offices, including the exposures of their foreign affiliates, and are collected on worldwide basis with inter-office transactions being netted out. Unlike the locational banking statistics, the consolidated banking statistics call for maturity details of assets, and they also entail a somewhat finer sector breakdown (banks, non-bank public sector and non-bank private sector). The additional information can be used to supplement locational banking data while compiling and evaluating external debt statistics from creditor side, although, unlike the locational statistics, the reporting system underlying the consolidated statistics does not conform to balance of payments and external debt methodology. Thus, in the CBS, banks with head office in the reporting country (e.g., India) provide data on total assets for their all offices in the reporting

country and abroad excluding inter-office transactions, i.e., data are reported on consolidated basis. Affiliates/branches of foreign banks operating in the reporting country (e.g., India) also report their claims on countries other than the reporting country (e.g., India) including transactions with their offices outside the reporting country.

In the CBS, the reporting banks are classified under three categories, viz., "Domestic Banks" having head offices in India, "Inside Area Foreign Banks" having head offices in another BIS Reporting country and "Outside Area Foreign Banks" having head offices outside BIS-Reporting countries. The following aspects are taken into consideration for reporting/segregating the international claims for the three categories of banks:

Head offices of banks in the reporting countries (i.e., domestic banks) are required to provide consolidated reports on financial claims of their offices worldwide both on an ultimate risk and an immediate borrower basis; worldwide consolidated reporting entails that, for example, an Indian bank, with a foreign branch in the US, should report - (a) the claims of its domestic branches on all non-residents, (b) the claims of its foreign branch in the US on all non-residents (but other than entities in India), and (c) the claims, of its foreign branch in the US, on residents/entities in the US in currencies other than US dollar. Claims between the Indian head office and its foreign branch in the US should be netted out. Besides, the foreign branches are also required to report their local assets and local liabilities in local currency.

Banking offices in reporting countries whose head office is located in another reporting country (i.e., inside area foreign banks, such as, Mumbai office of a US bank where US is a BIS reporting country) are required to provide non-

consolidated data on claims on entities in their respective home country only (e.g., the branch or subsidiary of a US bank in India should report its claims on the US only to avoid the double counting of its claims on other countries which are reported through its head office to the BIS) and on an immediate borrower basis only. These data should, therefore, include any positions the banks have *vis-à-vis* their own affiliates or head offices in their home country.

Banking offices in reporting countries whose head office is outside the reporting countries (i.e., outside area foreign banks, such as, Mumbai office of a Thai bank where Thailand is not a BIS reporting country) are required to provide non-consolidated data on financial claims on non-residents, including their home country, on an immediate borrower basis only.

The three major sub-components of international assets and liabilities are: (i) loans and deposits,

(ii) holding of debt securities and own issues of debt securities, and (iii) other assets and liabilities. The “other assets and liabilities” mainly comprise, on the asset side, equity shares (including mutual and investment fund units and holdings of shares in a bank’s own name but on behalf of third parties), participations, and working capital supplied by head offices to their branches abroad and, on the liability side, working capital received by local branches from their head offices abroad.

The BIS revised its guidelines for consolidated banking statistics (CBS) by modifying its reporting format and increasing the coverage of products by including financial instruments such as derivatives, guarantees, etc. The revised system has been implemented from the reporting quarter March 2005, which covers, besides existing items, the claims of domestic reporting banks on ultimate risk basis arising from derivatives, guarantees and credit commitments.

TERMS USED IN INTERNATIONAL BANKING STATISTICS

- Cross border positions** : It refers to the transactions (assets/liabilities) with non-residents in any currency.
- International position** : Banks’ on balance sheet assets and liabilities *vis-à-vis* non-residents in any currency plus similar assets and liabilities *vis-à-vis* residents in foreign currencies.
- Foreign claims** : It can be disaggregated into cross-border claims and local claims of foreign branches of domestic banks. Alternately, it can also be disaggregated into international claims and local claims denominated in local currencies.
- International Claims** : They are defined as cross border claims plus local claims in foreign currencies.
- Cross-border Claims** : They are the claims on the borrowers resident outside the country in which the office of bank booking the claim is located.
- Local Claims** : It is the claim booked by foreign offices of domestic banks on the resident of the country in which foreign office is located.

EXPLANATION OF THE METHODOLOGY OF COMPILATION OF LBS/CBS AND DIFFERENT TERMS USED IN IBS WITH THE HELP OF AN EXAMPLE

Reporting of IBS Data

Reporting Bank	Assets/Liabilities	Currency+	Assets with/Liabilities towards				
				IN	LK	US	XX
				1	2	3	4
Domestic (Indian) Banks' Branches in India (IN)	Asset	Local	A	—	15	25	10*
		Non-Local	B	15	5	30	10
	Liability	Local	C	—	15	20	10*
		Non-Local	D	12	15	10	5
Domestic (Indian) Banks' Branches in the US	Asset	Local	E	25	10	30	5
		Non-Local	F	20	30	35	10
	Liability	Local	G	—	—	35	—
		Non-Local	H	—	—	—	—
US based Banks' Branches in India (IN) (Inside Area Bank)	Asset	Local	I	—	20	25	15
		Non-Local	J	10	15	30	5
	Liability	Local	K	—	20	35	10
		Non-Local	L	25	20	40	5
Sri Lanka based Banks' Branches in India(IN) (Outside Area Bank)	Asset	Local	M	—	20	15	10
		Non-Local	N	10	30	20	15
	Liability	Local	O	—	12	25	10
		Non-Local	P	20	15	35	10

IN - INDIA, LK - SRI LANKA, US - UNITED STATES, XX - NOT A SPECIFIC COUNTRY

+ Local/non-local currency is according to the country of operation of the reporting branches.

* Asset/Liabilities with/towards own office operating in the country 'XX'

'-' Not required under IBS reporting

COMPILATION OF LBS/CBS

Locational Banking Statistics (LBS)					
Country	International Assets		International Liabilities		
IN	B1+J1+N1	35	D1+L1+P1		57
LK	A2+B2+I2+J2+M2+N2	105	C2+D2+K2+L2+O2+P2		
US	A3+B3+I3+J3+M3+N3	145	C3+D3+K3+L3+O3+P3		
XX	A4+B4+I4+J4+M4+N4	65	C4+D4+K4+L4+O4+P4		
Consolidated Banking Statistics (CBS)					
Reporting Banks according to Country of Incorporation	Cross Border Claims (in all currencies)	Local Claims in Currency		International Claims	Foreign Claims
		Non local	Local		
	1	2	3	4 [= '1'+ '2']	5 [= '3'+ '4']
Domestic (Indian) Banks X	140	35	30	175	205
Inside Area Banks Y	55	—	—	55	55
Outside Area Banks Z	110	—	—	110	110
Note: The claims on home country (i.e., India) is excluded in CBS					
X1= 140 (= A2+A3+A4+B2+B3+E2+E4+F2+F4)		X2= 35 (=F3) X3= 30 (=E3)			
Y1= 55 (=I3+J3)		Z1= 110 (=M2+M3+M4+N2+N3+N4)			

'-' Not required under CBS reporting.