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(Acts whose publication is not obligatory)

EUROPEAN CENTRAL BANK

DECISION OF THE EUROPEAN CENTRAL BANK

of 1 December 1998

on the annual accounts of the European Central Bank as amended on 15 December 1999 and 12 December 2000

(ECB/2000/16)

(2001/81/EC)

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

HAS DECIDED AS FOLLOWS:

Having regard to the Statute of the European System of Central Banks and of the European Central Bank (hereinafter referred to as the 'Statute') and in particular to Article 26.2 thereof,

Whereas:

- (1) According to Article 26.2 of the Statute, the Governing Council of the European Central Bank (ECB) shall establish the accounting principles for the annual accounts of the ECB.
- (2) Due regard has been given to the preparatory work conducted by the European Monetary Institute (EMI).
- (3) In order to allow for comparability, the format for the accounts introduced by this Decision needs to be made applicable to the annual ECB accounts for the year 2000, in spite of the entry into force of this Decision on 1 January 2001.
- (4) The ECB attaches great importance to enhancing the transparency of the regulatory framework of the European System of Central Banks (ESCB) even in the absence of an obligation to do so under the Treaty establishing the European Community. The ECB has decided, in line with this approach, to publish a consolidated version of the Decision on the annual accounts of the European Central Bank of 1 December 1998 as amended on 15 December 1999 and on 12 December 2000,

CHAPTER I

GENERAL PROVISIONS

Article 1

Definitions

1. For the purposes of this Decision:
 - 'transitional period' shall mean the period beginning on 1 January 1999 and ending on 31 December 2001,
 - 'national central banks' (NCBs) shall mean the NCBs of participating Member States,
 - 'participating Member States' shall mean Member States which have adopted the single currency in accordance with the Treaty establishing the European Community (hereinafter referred to as the 'Treaty'),
 - 'non-participating Member States' shall mean Member States which have not adopted the single currency in accordance with the Treaty,
 - 'Eurosystem' shall mean the NCBs and the ECB.
2. Further definitions of technical terms used in this Decision are included in the glossary attached as Annex I.

Article 2

Scope of application

The rules set out in this Decision shall apply to the annual accounts of the ECB comprising the balance sheet, items

recorded in the books of the ECB off-balance sheet, the profit and loss account and the notes to the annual accounts of the ECB.

Article 3

Basic accounting assumptions

The following basic accounting assumptions shall apply:

- (a) economic reality and transparency: the accounting methods and financial reporting shall reflect economic reality, shall be transparent and shall respect the qualitative characteristics of understandability, relevance, reliability and comparability. Transactions shall be accounted for and presented in accordance with their substance and economic reality and not merely with their legal form;
- (b) prudence: the valuation of assets and liabilities and income recognition shall be carried out prudently. In the context of this Decision, this implies that unrealised gains are not recognised as income in the profit and loss account, but are transferred directly to a revaluation account. However, prudence does not allow the creation of hidden reserves or the deliberate misstatement of items on the balance sheet and in the profit and loss account;
- (c) post-balance sheet-events: assets and liabilities shall be adjusted for events that occur between the annual balance sheet date and the date on which the financial statements are approved by the competent bodies if they affect the condition of assets or liabilities at the balance sheet date. No adjustment shall be made for assets and liabilities, but disclosure shall be made of those events occurring after the balance sheet date that do not affect the condition of assets and liabilities at the balance sheet date, but which are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions;
- (d) materiality: deviations from the accounting rules, including those affecting the calculation of the profit and loss account of the ECB, shall not be allowed unless they can reasonably be judged to be immaterial in the overall context and presentation of the financial accounts of the reporting institution;
- (e) going concern basis: accounts shall be prepared on a going concern basis;
- (f) the accruals principle: income and expenses shall be recognised in the accounting period in which they are earned or incurred and not according to the period in which they are received or paid;
- (g) consistency and comparability: the criteria for balance sheet valuation and income recognition shall be applied consistently in terms of commonality and continuity of approach to ensure comparability of data in the financial statements.

Article 4

Recognition of assets and liabilities

A financial or other asset/liability shall only be recognised in the balance sheet of the reporting entity when:

- (a) it is probable that any future economic benefit associated with the asset or liability item will flow to or from the reporting entity;
- (b) substantially all of the risks and rewards associated with the asset or liability have been transferred to the reporting entity; and
- (c) the cost or value of the asset to the reporting entity or the amount of the obligation can be measured reliably.

Article 5

Cash/settlement approach

The cash (or 'settlement') approach shall be used as the basis for recording data in the accounting system of the ECB.

CHAPTER II

COMPOSITION AND VALUATION RULES FOR THE BALANCE SHEET

Article 6

Composition of the balance sheet

The composition of the balance sheet shall be based on the structure established in Annex II.

Article 7

Balance sheet valuation rules

1. Current market rates and prices shall be used for balance sheet valuation purposes unless specified otherwise in Annex II.
2. The revaluation of gold, foreign currency instruments, securities and financial instruments (on-balance-sheet and off-balance-sheet) shall be performed at the year-end and mid-market rates and prices.
3. No distinction shall be made between price and currency revaluation differences for gold, but a single gold revaluation difference shall be accounted for, based on the euro price per defined unit of weight of gold derived from the EUR/USD exchange rate on the revaluation date. Revaluation shall take place on a currency-by-currency basis for foreign exchange (including on-balance-sheet and off-balance-sheet transactions) and on a code-by-code basis (same ISIN number/type) for securities, except for those securities included in the item 'Other financial assets', which shall be treated as separate holdings.

*Article 8***Repurchase agreements**

1. A repurchase agreement shall be recorded as a collateralised inward deposit on the liabilities side of the balance sheet, while the item that has been given as collateral remains on the assets side of the balance sheet. Securities sold which are to be repurchased under repurchase agreements shall be treated by the ECB, which is required to repurchase them, as if the assets in question were still part of the portfolio from which they were sold.

2. A reverse repurchase agreement shall be recorded as a collateralised outward loan on the assets side of the balance sheet for the amount of the loan. Securities acquired under reverse repurchase agreements shall not be revalued and no profit or loss arising thereon shall be taken to the profit and loss account by the party lending the funds.

3. Repurchase agreements involving securities denominated in foreign currencies shall have no effect on the average cost of the currency position.

4. In the case of security lending transactions, the securities shall remain on the balance sheet of the transferor. Such transactions shall be accounted for in the same manner as that prescribed for repurchase operations. If, however, securities borrowed are not kept in the depot of the transferee at the year-end, the transferee shall be required to establish a provision for losses if the market value of the underlying securities has risen since the contract date of the lending transaction and to show a liability (retransfer of the securities) if the securities have been sold in the meantime by the transferee.

5. Collateralised gold transactions shall be treated as repurchase agreements. The gold flows relating to these collateralised transactions shall not be recorded in the financial statements and the difference between the spot and forward prices of the transaction shall be treated on an accruals basis.

(d) unrealised losses taken to the profit and loss account shall not be reversed in subsequent years against new unrealised gains;

(e) there shall be no netting of unrealised losses in any one security, or in any currency or in gold holdings against unrealised gains in other securities or currencies or gold.

2. Premiums or discounts arising on issued and purchased securities shall be calculated and presented as part of interest income and shall be amortised over the remaining life of the securities, either according to the straight line method or the internal rate of return (IRR) method. The IRR method shall, however, be mandatory for discount securities with a remaining maturity of more than one year at the time of acquisition.

3. Accruals denominated in foreign currencies shall be translated at the mid-market rate at the year-end and reversed at the same rate.

4. Only transactions that entail a change in the holding of a given currency may give rise to realised foreign exchange gains or losses.

5. Holdings on special revaluation accounts stemming from contributions according to Article 49.2 of the Statute with respect to central banks of a Member State for which the derogation has been abrogated shall be used to offset unrealised losses when exceeding previous revaluation gains registered in the corresponding (standard) revaluation account as described in paragraph 1(c) of this Article, prior to the offsetting of such losses in accordance with Article 33.2 of the Statute. The holdings on special revaluation accounts for gold, for currencies and for securities shall be reduced pro rata in the event of a reduction in the holdings of the relevant assets.

*Article 10***Cost of transactions**

CHAPTER III

INCOME RECOGNITION*Article 9***Recognition of income**

1. The following rules shall apply to income recognition:

(a) realised gains and realised losses shall be taken to the profit and loss account;

(b) unrealised gains shall not be recognised as income, but transferred directly to a revaluation account;

(c) unrealised losses shall be taken to the profit and loss account when exceeding previous revaluation gains registered in the corresponding revaluation account;

1. The following general rules shall apply to the cost of transactions:

(a) the average cost method shall be used on a daily basis for gold, foreign currency instruments and securities, to compute the acquisition cost of items sold, having regard to the effect of exchange rate and/or price movements;

(b) the average cost price/rate of the asset/liability shall be reduced/increased by unrealised losses taken to the profit and loss account at the year-end;

(c) in the case of the acquisition of coupon securities, the amount of coupon income purchased shall be treated as a separate item. In the case of securities denominated in foreign currency, it shall be included in the holding of that currency, but shall not be included in the cost or price of the asset for the purpose of determining the average price.

2. The following special rules shall apply to securities:

- (a) transactions shall be recorded at the transaction price and booked in the financial accounts at the clean price;
- (b) custody and management fees, current account fees and other indirect costs are not considered as transaction costs and shall be included in the profit and loss account. They shall not be treated as part of the average cost of a particular asset;
- (c) income shall be recorded gross with refundable withholding and other taxes accounted for separately;
- (d) for the purpose of calculating the average purchase cost of a security, either (i) all purchases made during the day shall be added at cost to the previous day's holding to produce a new weighted average price before applying the sales for the same day; or (ii) individual purchases and sales of securities may be applied in order in which they occurred during the day for the purpose of calculating the revised average price.

3. The following special rules shall apply to gold and foreign exchange:

- (a) transactions in a foreign currency which entail no change in the holding of that currency shall be translated into euro, using the exchange rate of the contract or settlement date, and shall not affect the acquisition cost of that holding;
- (b) transactions in foreign currency which entail a change in the holding of that currency shall be translated into euro at the exchange rate of the contract or settlement date;
- (c) actual cash receipts and payments shall be translated at the mid-market exchange rate on the day on which settlement occurs;
- (d) net acquisitions of currencies and gold made during the day shall be added, at the average cost of the purchases of the day for each respective currency and gold, to the previous day's holding, to produce a new weighted average rate/gold price. In the case of net sales, the calculation of the realised gain or loss shall be based on the average cost of the respective currency or gold holding for the preceding day so that the average cost remains unchanged. Differences in the average rate/gold price between inflows and outflows made during the day shall also result in realised gains or losses. Where a liability situation exists in respect of a foreign currency or gold position, the reverse treatment shall apply to the abovementioned approach. Thus the average cost of the liability position shall be affected by net sales, while net purchases shall reduce the position at the existing weighted average rate/gold price;

- (e) costs of foreign exchange transactions and other general costs shall be posted to the profit and loss account.

CHAPTER IV

ACCOUNTING RULES FOR OFF-BALANCE-SHEET INSTRUMENTS

Article 11

General rules

1. Foreign exchange forward transactions, the forward legs of foreign exchange swaps and other currency instruments involving an exchange of one currency for another at a future date shall be included in the net foreign currency positions for calculating foreign exchange gains and losses.
2. Interest rate swaps, futures, forward rate agreements and other interest rate instruments shall be accounted for and revalued on an item-by-item basis. These instruments shall be treated as being separate from on-balance-sheet items.
3. Profits and losses arising from off-balance-sheet instruments shall be recognised and treated in a similar manner to on-balance-sheet instruments.

Article 12

Foreign exchange forward transactions

1. Forward purchases and sales shall be recognised in off-balance-sheet accounts from the trade date to the settlement date at the spot rate of the forward transaction. Gains and losses on sale transactions shall be calculated using the average cost of the currency position on the contract date (plus two or three working days) in accordance with the daily netting procedure of purchases and sales. Gains and losses shall be considered to be unrealised until the settlement date and shall be treated in accordance with Article 9.1.
2. The difference between the spot and the forward rates shall be treated as interest payable or receivable on an accruals basis for both purchases and sales.
3. At the settlement date the off-balance-sheet accounts shall be reversed, and any balance on the revaluation account shall be credited to the profit and loss account at quarter-end.
4. The average cost of the currency position shall be affected by forward purchases from the trade date plus either two or three working days, depending on the market conventions for the settlement of spot transactions, at the spot purchase rate.
5. The forward positions shall be valued in conjunction with the spot position of the same currency, offsetting any differences that may arise within a single currency position. A net loss balance shall be debited to the profit and loss account when it exceeds previous revaluation gains registered in the revaluation account; a net profit balance shall be credited to the revaluation account.

*Article 13***Foreign exchange swaps**

1. Spot purchases and sales shall be recognised in on-balance-sheet accounts at the settlement date.
2. Forward sales and purchases shall be recognised in off-balance-sheet accounts from the trade date to the settlement date at the spot rate of the forward transactions.
3. Sale transactions shall be recognised at the spot rate of the transaction, therefore no gains and losses will arise.
4. The difference between the spot and forward rates shall be treated as interest payable or receivable on an accruals basis for both purchases and sales.
5. At the settlement date the off-balance-sheet accounts shall be reversed.
6. The average cost of the foreign currency position shall not change.
7. The forward position shall be valued in conjunction with the spot position.

*Article 14***Interest rate futures**

1. Interest rate futures shall be recorded on the trade date in off-balance-sheet accounts.
2. The initial margin shall be recorded as a separate asset if deposited in cash. If deposited in the form of securities, it shall remain unchanged in the balance sheet.
3. Daily changes in the variation margins shall be recorded in the balance sheet in a separate account, either as an asset or as a liability, depending on the price development of the futures contract. The same procedure shall be applied on the closing day of the open position. Immediately thereafter the separate account shall be cancelled and the overall result of the transaction shall be recorded as a profit or loss, regardless of whether or not delivery takes place. If delivery does take place, the purchase or sale entry shall be made at market price.
4. Fees shall be taken to the profit and loss account.
5. The conversion into euro, if appropriate, shall be made on the close-out day at the market rate on that day. An inflow of foreign currency shall have an effect on the average cost of this currency position on the close-out date.
6. Owing to daily revaluation, the profits and losses shall be entered in defined separate accounts. A separate account on the assets side shall represent a loss and a separate account on the liabilities side shall represent a profit. Unrealised losses shall be debited to the profit and loss account and such

amounts shall be credited to a liability account (other liabilities).

7. Unrealised losses taken to the profit and loss account at the year-end shall not be reversed in subsequent years against unrealised profits, unless the instrument is closed out or terminated. In the case of a profit, the entry made shall be a debit to a suspense account (other assets) and a credit to the revaluation account.

*Article 15***Interest rate swaps**

1. Interest rate swaps shall be recorded on the trade date in off-balance-sheet accounts.
2. The current interest payments, either received or paid, shall be recorded on an accruals basis. Netting payments per interest rate swap are allowed.
3. The average cost of the currency position shall be affected by interest rate swaps in a foreign currency when there is a difference between payments received and payments paid. A payment balance leading to an inflow shall affect the average cost of the currency when the payment is due.
4. Every interest rate swap shall be marked-to-market and, if necessary, translated into euro at the currency spot rate. Unrealised losses taken to the profit and loss account at the year-end shall not be reversed in subsequent years against unrealised profits unless the instrument is closed out or terminated. Unrealised revaluation gains shall be credited to a revaluation account.
5. Fees shall be taken to the profit and loss account.

*Article 16***Forward rate agreements**

1. Forward rate agreements shall be recorded at the time of trading in off-balance-sheet accounts.
2. The compensation payment to be paid by one party to another at the settlement date shall be entered on the settlement date in the profit and loss account. Payments shall not be recorded on an accruals basis.
3. If forward rate agreements in a foreign currency are held, there shall be an effect on the average cost of this currency position in the compensation payment. The compensation payment shall be translated into euro at the spot rate on the settlement date. A payment balance leading to an inflow shall affect the average cost of the currency when the payment is due.

4. All forward rate agreements shall be marked-to-market and, if necessary, translated into euro at the currency spot rate. Unrealised losses taken to the profit and loss account at the year-end shall not be reversed in subsequent years against unrealised profits unless the instrument is closed out or terminated. Unrealised revaluation gains shall be credited to a revaluation account.

5. Fees shall be taken to the profit and loss account.

Article 17

Forward transactions in securities

Forward transactions in securities may be accounted for in accordance with either of the following two methods:

Method A:

- (a) forward transactions in securities shall be recorded in off-balance-sheet accounts from the trade date to the settlement date, at the forward price of the forward transaction;
- (b) the average cost of the holding of the traded security shall not be affected until settlement; the profit and loss effects of forward sale transactions shall be calculated on the settlement date;
- (c) at the settlement date the off-balance-sheet accounts shall be reversed and the balance on the revaluation account, if any, shall be credited to the profit and loss account. The security purchased shall be accounted for using the spot price on the maturity date (actual market price), while the difference vis-à-vis the original forward price is recognised as a realised profit or loss;
- (d) in the case of securities denominated in a foreign currency, the average cost of the net currency position shall not be affected if the ECB already holds a position in that currency. If the bond purchased forward is denominated in a currency in which the ECB does not hold a position, so that the relevant currency has to be bought, the rules for the purchase of foreign currencies under Article 10(3)(d) shall apply;
- (e) forward positions shall be valued on an isolated basis against the forward market price for the remaining duration of the transaction. A revaluation loss at the year-end shall be debited to the profit and loss account, and a revaluation profit shall be credited to the revaluation account. Unrealised losses recognised in the profit and loss account at the year-end shall not be reversed in subsequent years against unrealised profits unless the instrument is closed out or terminated.

Method B:

- (a) forward transactions in securities shall be recorded in off-balance-sheet accounts from the trade date to the settlement date at the forward price of the forward transaction. At the settlement date the off-balance-sheet accounts shall be reversed;
- (b) at the quarter-end the revaluation of a security shall be made on the basis of the net position resulting from the balance sheet and from the sales of the same security recorded in the off-balance-sheet accounts. The amount of the revaluation shall be equal to the difference between this net position valued at revaluation price and the same position valued at the average cost of the balance sheet position. At the quarter-end, forward purchases shall be subject to the revaluation process described in Article 7. The revaluation result shall be equal to the difference between the spot price and the average cost of the purchase commitments;
- (c) the result of a forward sale shall be recorded in the financial year in which the commitment was undertaken. This result shall be equal to the difference between the initial forward price and the average cost of the balance sheet position (or the average cost of the off-balance-sheet purchase commitments if the balance sheet position is not sufficient) at the time of the sale.

CHAPTER V

ANNUAL PUBLISHED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Article 18

Formats

1. The format for the ECB's published annual balance sheet is laid down in Annex III.
2. The format of the ECB's published profit and loss account is laid down in Annex IV.

CHAPTER VI

FINAL PROVISIONS

Article 19

Development, application and interpretation of rules

1. The Accounting and Monetary Income Committee (AMICO) shall act as the ESCB forum for advising the Governing Council, via the Executive Board, on the development and application of the accounting rules of the ESCB.
2. In interpreting this Decision, account shall be taken of the preparatory work, the accounting principles harmonised by Community law and generally accepted international accounting standards.

*Article 20***Transitory rules**

All assets and liabilities as at the close of business on 31 December 1998 shall be revalued on 1 January 1999. The market prices and rates applied by the ECB in the opening balance sheets on 1 January 1999 shall be the new average cost at the start of the transitional period.

*Article 21***Final provisions**

This Decision in the present amended version shall enter into force on 1 January 2001. However, the revised formats

introduced by its provisions shall also apply to the drawing up of the annual balance sheet of the ECB as at 31 December 2000 and the profit and loss account of the ECB for the year ending 31 December 2000.

This Decision shall be published in the *Official Journal of the European Communities*.

Done at Frankfurt am Main, 12 December 2000.

The President

Willem F. DUISENBERG

ANNEX I

GLOSSARY

- *Amortisation* shall mean the systematic reduction in the accounts of a premium/discount or of the value of assets over a period of time.
- *Asset* shall mean a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.
- *Average cost* shall mean the continued (or weighted) average method, by which the cost of every purchase is added to the existing book value to produce a new weighted average cost.
- *Cash/settlement approach* shall mean an accounting approach under which accounting events are recorded at the settlement date.
- *Clean price* shall mean transaction price excluding any rebate/accrued interest, but inclusive of transaction costs which form part of the price.
- *Discount* shall mean the difference between the par value of a security and its price when such price is lower than par.
- *Discount security* shall mean an asset which does not pay coupon interest, and the return on which is achieved by capital appreciation because the asset is issued or bought at a discount.
- *Financial assets* shall mean any asset that is: (i) cash; or (ii) a contractual right to receive cash or another financial instrument from another enterprise; or (iii) a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable; or (iv) an equity instrument of another enterprise.
- *Financial liability* shall mean any liability that is a legal obligation to deliver cash or another financial instrument to another enterprise or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.
- *Foreign currency holding* shall mean the net position in the respective currency. For the purpose of this definition special drawing rights (SDRs) shall be considered as a separate currency.
- *Foreign exchange forward* shall mean a contract in which the outright purchase or sale of a certain amount denominated in a foreign currency against another currency, usually the domestic currency, is agreed on one day and the amount is to be delivered at a specified future date, more than two working days after the date of the contract, at a given price. This forward rate of exchange consists of the prevailing spot rate plus/minus an agreed premium/discount.
- *Foreign exchange swap* shall mean the simultaneous spot purchase/sale of one currency against another (short leg) and forward sale/purchase of the same amount of this currency against the other currency (long leg).
- *Forward rate agreement* shall mean a contract in which two parties agree the interest rate to be paid on a notional deposit of a specified maturity on a specific future date. At the settlement date compensation has to be paid by one party to the other, depending on the difference between the contracted interest rate and the market rate on the settlement date.
- *Forward transactions in securities* shall mean over-the-counter contracts in which the purchase or sale of an interest rate instrument (usually a bond or note) is agreed on the contract date to be delivered at a future date, at a given price.
- *Interest rate future* shall mean an exchange-traded forward contract. In such a contract, the purchase or sale of an interest rate instrument, for example a bond, is agreed on the contract date to be delivered at a future date, at a given price. Usually no actual delivery takes place the contract is normally closed out before the agreed maturity.
- *Internal rate of return* shall mean a rate at which the accounting value of a security is equal to the present value of the future cash flow.
- *(Cross-currency) interest rate swap* shall mean a contractual agreement to exchange cash flows representing streams of periodic interest payments with a counterparty either in one currency or in two different currencies.
- *Interlinking* shall mean the technical infrastructures, design features and procedures which are put in place within, or constitute adaptations of each national RTGS system and the ECB payment mechanism (EPM) for the purpose of processing cross-border payments in the Target system.

- *International securities identification number (ISIN)* shall mean the number issued by the relevant competent issuing authority.
 - *Liability* shall mean a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.
 - *Market price* shall mean the price that is quoted for a gold, foreign exchange or securities instrument (usually excluding accrued or rebate interest either on an organised market (e.g. stock exchange) or a non-organised market (e.g. over-the-counter market)).
 - *Maturity date* shall mean the date on which the nominal/principal value becomes due and payable in full to the holder.
 - *Mid-market price* shall mean the mid-point between the bid price and the offer price for a security based on quotations for transactions of normal market size by recognised market-makers or recognised trading exchanges.
 - *Premium* shall mean the difference between the par value of a security and its price when such price is higher than par.
 - *Provisions* shall mean amounts set aside before arriving at the profit or loss figure in order to provide for any known or expected liability or risk, the cost of which cannot be accurately determined (see 'Reserves'). Provisions for future liabilities and charges may not be used to adjust the value of assets.
 - *Realised gains/losses* shall mean gains/losses arising out of the difference between the sale price of a balance sheet item and its (adjusted) cost.
 - *Reserves* shall mean an amount set aside out of distributable profits, which is not intended to meet any specific liability, contingency or expected diminution in value of assets known to exist at the balance sheet date.
 - *Revaluation accounts* shall mean balance sheet accounts for registration of the difference in the value of an asset or liability between the (adjusted) cost of its acquisition and its valuation at an end-of-period market price, when the latter is higher than the former in case of assets, and when the latter is lower than the former in case of liabilities. They include differences in both price quotation and/or market exchange rates.
 - *A reverse sale and repurchase agreement ('reverse repo')* is a contract under which a holder of cash agrees to the purchase of an asset and, simultaneously, agrees to resell the asset for an agreed price on demand, or after a stated time, or in the event of a particular contingency. Sometimes a repo transaction is agreed via a third party ('triparty repo').
 - *Reverse transaction* shall mean an operation whereby the central bank buys ('reverse repo') or sells ('repo') assets under a repurchase agreement or conducts credit operations against collateral.
 - *Settlement* shall mean an act that discharges obligations in respect of funds or assets transfers between two or more parties. In the context of intra-Eurosystem transactions, settlement refers to the elimination of the net balances arising from intra-Eurosystem transactions and requires the transfer of assets.
 - *Settlement date* shall mean the date on which the final and irrevocable transfer of value has been recorded in the books of the relevant settlement institution. The timing of the settlement can be immediate (real-time), same day (end-of-day) or an agreed date after the date on which the commitment has been entered into.
 - *Straight line depreciation/amortisation* shall mean that depreciation/amortisation over a given period is determined by dividing the cost of the asset, less its estimated residual value, by the estimated useful life of the asset *pro rata temporis*.
 - *Target* shall mean the Trans-European Automated Real-time Gross Settlement Express Transfer system composed of one Real-time Gross Settlement system (RTGS system) in each of the NCBs, the EPM and the interlinking.
 - *Transaction costs* shall mean costs that are identifiable as related to the specific transaction.
 - *Transaction price* shall mean the price agreed between the parties when a contract is made.
 - *Unrealised gains/losses* shall mean gains/losses arising from the revaluation of assets compared to their (adjusted) cost of acquisition.
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ANNEX II

COMPOSITION AND VALUATION RULES FOR THE BALANCE SHEET

Note: the numbering relates to the balance sheet format given in Annex III.

ASSETS

Balance sheet item	Categorisation of contents of balance sheet items	Valuation principle
1. Gold and gold receivables	Physical gold (i.e. bars, coins, plates, nuggets) in storage or 'under way'. Non-physical gold, such as balances in gold sight accounts (unallocated accounts), term deposits and claims to receive gold arising from the following transactions: upgrading or downgrading transactions and gold location or purity swaps where there is a difference of more than one business day between release and receipt	Market value
2. Claim on non-euro area residents denominated in foreign currency	Claims on counterparties resident outside the euro area (including international and supranational institutions and non-EMU central banks) denominated in foreign currency	
2.1. Receivables from the IMF	<p>(a) <i>Drawing rights within the reserve tranche (net)</i> National quota minus balances in euro at the disposal of the IMF. (The No 2 account of the IMF (euro account for administrative expenses) could be included in this position or under the item 'Liabilities to non-euro area residents denominated in euro')</p> <p>(b) <i>Special drawing rights</i> Holdings of special drawing rights (gross)</p> <p>(c) <i>Other claims</i> General arrangements to borrow (GAB), loans under special borrowing arrangements, deposits within the framework of the PRGF</p>	<p>(a) <i>Drawing rights within the reserve tranche (net)</i> Nominal value, translation at the year-end foreign exchange market rate</p> <p>(b) <i>Special drawing rights</i> Nominal value, translation at the year-end foreign exchange market rate</p> <p>(c) <i>Other claims</i> Nominal value, translation at the year-end foreign exchange market rate</p>
2.2. Balances with banks and security investments, external loans and other external assets	<p>(a) <i>Balances with banks outside the euro area</i> Current accounts, fixed-term deposits, day-to-day money</p> <p>(b) <i>Security investments (other than equity shares, participations and other securities under asset item 'Other financial assets') outside the euro area</i> Marketable notes and bonds, bills, zero bonds, money market paper, all issued by non-euro area residents</p> <p>(c) <i>External loans (deposits)</i> Loans to and non-marketable securities (other than equity shares, participations and other securities under asset item 'Other financial assets') issued by non-euro area residents</p>	<p>(a) <i>Balances with banks outside the euro area</i> Nominal value, translation at the year-end foreign exchange market rate</p> <p>(b) <i>Securities (marketable)</i> Market price and foreign exchange market rate at year-end</p> <p>(c) <i>External loans</i> Deposits at nominal value, non-marketable securities at cost; both translated at the year-end foreign exchange market rate</p>

Balance sheet item		Categorisation of contents of balance sheet items	Valuation principle
		(d) <i>Other external assets</i> Non-euro area banknotes and coins	(d) <i>Other external assets</i> Nominal value, translation at the year-end foreign exchange market rate
3.	Claims on euro area residents denominated in foreign currency	(a) <i>Securities</i> Marketable notes and bonds, bills, zero bonds, money market paper (other than equity shares, participations and other securities under asset item 'Other financial assets') (b) <i>Other claims</i> Non-marketable securities (other than equity shares, participations and other securities under asset item 'Other financial assets'), loans, deposits, sundry lending	(a) <i>Securities (marketable)</i> Market price and foreign exchange market rate at year-end (b) <i>Other claims</i> Deposits at nominal value, non-marketable securities at cost, both translated at the year-end foreign exchange market rate
4.	Claims on non-euro area residents denominated in euro		
4.1.	Balances with banks, security investments and loans	(a) <i>Balances with banks outside the euro area</i> Current accounts, fixed-term deposits, day-to-day money Reverse repo operations in connection with the management of securities denominated in euro (b) <i>Security investments (other than equity shares, participations and other securities under asset item 'Other financial assets') outside the euro area</i> Marketable notes and bonds, bills, zero bonds, money market paper, all issued by non-euro area residents (c) <i>Loans outside the euro area</i> Loans to and non-marketable securities issued by non-euro area residents (d) <i>Securities issued by entities outside the euro area</i> Securities issued by supranational or international organisations (e.g. the EIB), irrespective of their geographical location	(a) <i>Balances with banks outside the euro area</i> Nominal value (b) <i>Securities (marketable)</i> Market price at year-end (c) <i>Loans outside the euro area</i> Deposits at nominal value, non-marketable securities at cost (d) <i>Securities issued by entities outside the euro area</i> Market price at year-end
4.2.	Claims arising from the credit facility under ERM II	Lending according to the conditions of ERM II	Nominal value
5.	Lending to euro area credit institutions related to monetary policy operations denominated in euro	Items 5.1 to 5.5: transactions according to the respective monetary policy instruments described in the document 'The single monetary policy in stage three: General documentation on Eurosystem monetary policy instruments and procedures'	

Balance sheet item		Categorisation of contents of balance sheet items	Valuation principle
5.1.	Main refinancing operations	Regular liquidity-providing reverse transactions with a weekly frequency and normally a maturity of two weeks	Nominal value or (repo) cost
5.2.	Longer-term refinancing operations	Regular liquidity-providing reverse transactions with a monthly frequency and normally a maturity of three months	Nominal value or (repo) cost
5.3.	Fine-tuning reverse operations	Reverse transactions, executed as ad hoc transactions for fine-tuning purposes	Nominal value or (repo) cost
5.4.	Structural reverse operations	Reverse transactions aiming at adjusting the structural position of the Eurosystem vis-à-vis the financial sector	Nominal value or (repo) cost
5.5.	Marginal lending facility	Overnight liquidity facility at a pre-specified interest rate against eligible assets (standing facility)	Nominal value or (repo) cost
5.6.	Credits related to margin calls	Additional credit to credit institutions, arising from value increases of underlying assets regarding other credit to these credit institutions	Nominal value or cost
6.	Other claims on euro area credit institutions denominated in euro	Current accounts, fixed-term deposits, day-to-day money, reverse repo operations in connection with the management of security portfolios under the asset item 'Securities of euro area residents denominated in euro' (including transactions resulting from the transformation of former foreign currency reserves of the euro area) and other claims. Correspondent accounts with non-domestic euro area credit institutions. Other claims and operations which are not related to monetary policy operations of the Eurosystem	Nominal value or cost
7.	Securities of euro area residents denominated in euro	Marketable securities (related to or eligible to be used for monetary policy purposes, other than equity shares, participations and other securities under asset item 'Other financial assets'): Notes and bonds, bills, zero bonds, money market paper held outright (including government securities stemming from before EMU) denominated in euro; ECB debt certificates purchased for fine-tuning purposes	Market price at year-end
8.	General government debt denominated in euro	Claims on government stemming from before EMU (non-marketable securities, loans)	Deposits/loans at nominal value, non-marketable securities at cost
9.	Intra-Eurosystem claims		

Balance sheet item	Categorisation of contents of balance sheet items	Valuation principle
9.1.	<p>Claims related to promissory notes backing the issuance of ECB debt certificates</p> <p>Only an ECB balance sheet item. Promissory notes issued by NCBs, due to the back-to-back agreement in connection with ECB debt certificates</p>	Nominal value
9.2.	<p>Other claims within the Eurosystem (net)</p> <p>(a) Net claims arising from balances of Target accounts and correspondent accounts of NCBs i.e. the net figure of claims and liabilities (see also liability item 'other liabilities' within the Eurosystem (net))</p> <p>(b) Other intra-Eurosystem claims that may arise</p>	<p>(a) Nominal value</p> <p>(b) Nominal value</p>
10.	<p>Items in course of settlement</p> <p>Settlement account balances (claims), including the float of cheques in collection</p>	Nominal value
11.	<p>Other assets</p>	
11.1.	<p>Coins of euro area</p> <p>Euro coins</p>	Nominal value
11.2.	<p>Tangible and intangible fixed assets</p> <p>Land and buildings, furniture and equipment (including computer equipment), software</p>	<p>Cost less depreciation</p> <p>Depreciation rates:</p> <ul style="list-style-type: none"> — Computers and related hardware/ software and motor vehicles: four years — Equipment, furniture and plant in building: 10 years — Building and capitalised (major) refurbishment expenditure: 25 years <p>Capitalisation of expenditure: limit based (below EUR 10 000 excluding VAT: no capitalisation)</p>

Balance sheet item	Categorisation of contents of balance sheet items	Valuation principle
11.3. Other financial assets	Equity shares, participating interests and investments in subsidiaries. Investment portfolios related to pension funds and severance schemes. Securities held owing to statutory requirements and investment activities for a specific purpose, carried out by NCBs on their own account such as the management of an earmarked portfolio corresponding to capital and reserves and the management of an earmarked portfolio held as a permanent investment (financial fixed assets). Reverse repo operations with credit institutions in connection with the management of security portfolios under this item	(a) <i>Marketable equity shares</i> market value (b) <i>Participating interests and illiquid equity shares</i> cost (c) <i>Investment in subsidiaries or significant interests</i> net asset value (d) <i>Securities (marketable)</i> market value (e) <i>Non-marketable securities:</i> cost (f) <i>Financial fixed assets</i> cost Premiums/discounts are amortised
11.4. Off-balance sheet instruments revaluation differences	Valuation results of foreign exchange forwards, foreign exchange swaps, interest rate futures, financial swaps, forward rate agreements	Net position between forward and spot, at foreign exchange market rate
11.5. Accruals and deferred expenditure	Income not due in, but assignable to the reported period. Prepaid expenditure and accrued interest paid ⁽¹⁾	Nominal value, foreign exchange translated at market rate
11.6. Sundry	Advances, loans, other minor items. Loans on a trust basis. Investments related to customer gold deposits	Nominal value/cost <i>Investments related to customer gold deposits</i> Market value
12. Loss for the year		Nominal value

⁽¹⁾ I.e. accrued interest purchased with a security.

LIABILITIES

Balance sheet items	Categorisation of contents of balance sheet items	Valuation principle
1. Banknotes in circulation	Euro banknotes issued by the ECB	Nominal value
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	Items 2.1, 2.2, 2.3 and 2.5: deposits in euro as described in the document 'The single monetary policy in stage three: general documentation on Eurosystem monetary policy instruments and procedures'	
2.1. Current accounts (covering the minimum reserve system)	Euro accounts of credit institutions that are included in the list of financial institutions subject to a minimum reserves according to the Statute. This item contains primarily accounts used in order to hold minimum reserves	Nominal value

	Balance sheet items	Categorisation of contents of balance sheet items	Valuation principle
2.2.	Deposit facility	Overnight deposits at a pre-specified interest rate (standing facility)	Nominal value
2.3.	Fixed-term deposits	Collection for liquidity absorption purposes owing to fine-tuning operations	Nominal value
2.4.	Fine-tuning reverse operations	Monetary policy-related transactions with the aim of liquidity absorption	Nominal value or (repo) cost
2.5.	Deposits related to margin calls	Deposits of credit institutions, arising from value decreases of underlying assets regarding credits to these credit institutions	Nominal value
3.	Other liabilities to euro area credit institutions denominated in euro	Repo operations in connection with simultaneous reverse repo operations for the management of security portfolios under asset item 'Securities of euro area residents denominated in euro'. Other operations which are not Eurosystem monetary policy related. No current accounts of credit institutions	Nominal value or (repo) cost
4.	ECB debt certificates issued	Only an ECB balance sheet item. Debt certificates as described in the document 'The single monetary policy in stage three: General documentation on Eurosystem monetary policy instruments and procedures'. Discount paper, issued with the aim of liquidity absorption	Nominal value
5.	Liabilities to other euro area residents denominated in euro		
5.1.	General government	Current accounts, fixed-term deposits, deposits repayable on demand	Nominal value
5.2.	Other liabilities	Current accounts of staff, companies and clients (including financial institutions listed as exempt from the obligation to hold minimum reserves — see liability item 2.1), etc.; fixed-term deposits, deposits repayable on demand	Nominal value
6.	Liabilities to non-euro area residents denominated in euro	Current accounts, fixed-term deposits, deposits repayable on demand (including accounts held for payment purposes and accounts held for reserve management purposes): of other banks, central banks, international/supranational institutions (including the European Commission); current accounts of other depositors. Repo operations in connection with simultaneous reverse repo operations for the management of securities denominated in euro. Balances of Target accounts of non-participating NCBs	Nominal value or (repo) cost
7.	Liabilities to euro area residents denominated in foreign currency	Current accounts. Liabilities under reverse repo operations; usually investment transactions using foreign currency assets or gold	Nominal value, translation at year-end foreign exchange market rate
8.	Liabilities to non-euro area residents denominated in foreign currency		

	Balance sheet items	Categorisation of contents of balance sheet items	Valuation principle
8.1.	Deposits, balances and other liabilities	Current accounts. Liabilities under reverse repo operations; usually investment transactions using foreign currency assets or gold	Nominal value, translation at the year-end foreign exchange market rate
8.2.	Liabilities arising from the credit facility under ERM II	Borrowing according to the conditions of ERM II	Nominal value, translation at the year-end foreign exchange market rate
9.	Counterpart of special drawing rights allocated by the IMF	SDR-denominated item which shows the amount of SDRs that were originally allocated to the respective country/NCB	Nominal value, translation at the year-end foreign exchange market rate
10.	Intra-Eurosystem liabilities		
10.1.	Liabilities equivalent to the transfer of foreign reserves	ECB balance sheet item, denominated in euro	Nominal value
10.2.	Other liabilities within the Eurosystem (net)	(a) Net liabilities arising from balances of Target accounts and correspondent accounts of NCBs, i.e. the net figure of claims and liabilities (see also asset item 'Other claims within the Eurosystem (net)') (b) Other intra-Eurosystem liabilities that may arise	(a) Nominal value (b) Nominal value
11.	Items in course of settlement	Settlement account balances (liabilities), including the float of giro transfers	Nominal value
12.	Other liabilities		
12.1.	Off-balance sheet instruments revaluation differences	Valuation results of foreign exchange forwards, foreign exchange swaps, interest rate futures, financial swaps, forward rate agreements	Net position between forward and spot, at foreign exchange market rate
12.2.	Accruals and deferred income	Expenditure falling due in a future period but relating to the reporting period. Income received in the reported period but relating to a future period	Nominal value, foreign exchange translated at market rate
12.3.	Sundry	Taxation (suspense) accounts. (Foreign currency) credit or guarantee cover accounts. Repo operations with credit institutions in connection with simultaneous reverse repo operations for the management of security portfolios under asset item 'other financial assets'. Compulsory deposits other than reserve deposits. Other minor items. Current income (net accumulated profit), profit of the previous year (before distribution). Liabilities on a trust basis. Customer gold deposits	Nominal value or (repo) cost <i>Customer gold deposits</i> Market value

	Balance sheet items	Categorisation of contents of balance sheet items	Valuation principle
13.	Provisions	For pensions, for exchange and price risks, and for other purposes (e.g. expected (future) expenses)	Cost/nominal value
14.	Revaluation accounts	(a) Revaluation accounts related to price movements (for gold, for every type of euro-denominated security, for every type of foreign currency-denominated security, market valuation differences related to interest rate risk derivatives); revaluation accounts related to foreign exchange rate movements (for every currency net position held, including foreign exchange swaps/forwards and SDRs) (b) Special revaluation accounts stemming from contributions according to Article 49.2 of the Statute with respect to central banks of Member States for which the derogation has been abrogated (see Article 9.5)	Revaluation difference between average cost and market value, foreign exchange translated at market rate
15.	Capital and reserves		
15.1.	Capital	Paid-up capital	Nominal value
15.2.	Reserves	Legal reserves, according to article 33 of the Statute	Nominal value
16.	Profit for the year		Nominal value

ANNEX III

ANNUAL BALANCE SHEET OF THE ECB

(million EUR) ⁽¹⁾

Assets	Reporting year	Previous year	Liabilities	Reporting year	Previous year
1. Gold and gold receivables			1. Banknotes in circulation		
2. Claims on non-euro area residents denominated in foreign currency			2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro		
2.1. Receivables from the IMF			2.1. Current accounts (covering the minimum reserve system)		
2.2. Balances with banks and security investments, external loans and other external			2.2. Deposit facility		
3. Claims on euro area residents denominated in foreign currency			2.3. Fixed-term deposits		
4. Claims on non-euro area residents denominated in euro			2.4. Fine-tuning reverse operations		
4.1. Balances with banks, security investments and loans			2.5. Deposits related to margin calls		
4.2. Claims arising from the credit facility under ERM II			3. Other liabilities to euro area credit institutions denominated in euro		
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro			4. ECB debt certificates issued		
5.1. Main refinancing operations			5. Liabilities to other euro area residents denominated in euro		
5.2. Longer-term refinancing operations			5.1. General government		
5.3. Fine-tuning reverse operations			5.2. Other liabilities		
5.4. Structural reverse operations			6. Liabilities to non-euro area residents denominated in euro		
5.5. Marginal lending facility			7. Liabilities to euro area residents denominated in foreign currency		
5.6. Credits related to margin calls			8. Liabilities to non-euro area residents denominated in foreign currency		
6. Other claims on euro area credit institutions denominated in euro			8.1. Deposits, balances and other liabilities		
7. Securities of euro area residents denominated in euro			8.2. Liabilities arising from the credit facility under ERM II		
8. General government debt denominated in euro			9. Counterpart of special drawing rights allocated by the IMF		

(million EUR) ⁽¹⁾

Assets	Reporting year	Previous year	Liabilities	Reporting year	Previous year
9. Intra-Eurosystem claims			10. Intra-Eurosystem liabilities		
9.1. Claims related to promissory notes backing the issuance of ECB debt certificates			10.1. Liabilities equivalent to the transfer of foreign reserves		
9.2. Other claims with the Eurosystem (net)			10.2. Other liabilities within the Eurosystem (net)		
10. Items in course of settlement			11. Items in course of settlement		
11. Other assets			12. Other liabilities		
11.1. Coins of euro area			12.1. Off-balance sheet instruments revaluation differences		
11.2. Tangible and intangible fixed assets			12.2. Accruals and deferred income		
11.3. Other financial assets			12.3. Sundry		
11.4. Off-balance sheet instruments revaluation differences			13. Provisions		
11.5. Accruals and deferred expenditure			14. Revaluation accounts		
11.6. Sundry			15. Capital and reserves		
12. Loss for the year			15.1. Capital		
			15.2. Reserves		
			16. Profit for the year		
Total assets			Total liabilities		

⁽¹⁾ The ECB may alternatively publish exact euro amounts, or amounts rounded in a different manner.

ANNEX IV

PUBLISHED PROFIT AND LOSS ACCOUNT OF THE ECB

(million EUR) ⁽¹⁾

Profit and loss account for the year ending 31 December ...	Reporting year	Previous year
1.1.1. Interest income on foreign reserve assets		
1.1.2. Other interest income		
1.1. Interest income		
1.2.1. Remuneration of NCB's claims in respect of foreign reserves transferred		
1.2. Interest expense		
1. <i>Net interest income</i>		
2.1. Realised gains/losses arising from financial operations		
2.2. Write-downs on financial assets and positions		
2.3. Transfer to/from provisions for foreign exchange rate and price risks		
2. <i>Net result of financial operations, write downs and risk provisions</i>		
Fees and commissions income		
Fees and commissions expense		
3. <i>Net income from fees and commissions</i> ⁽²⁾		
4. <i>Income from equity shares and participating interests</i>		
5. <i>Other income</i>		
Total net income		
6. <i>Staff costs</i> ⁽³⁾		
7. <i>Administrative expenses</i> ⁽³⁾		
8. <i>Depreciation of tangible and intangible fixed assets</i>		
9. <i>Banknote production services</i> ⁽⁴⁾		
10. <i>Other expenses</i>		
(Loss)/profit for the year		

⁽¹⁾ The ECB may alternatively publish exact euro amounts, or amounts rounded in a different manner.

⁽²⁾ The breakdown between income and expense may alternatively be provided in the explanatory notes to the annual accounts.

⁽³⁾ Including administrative provisions.

⁽⁴⁾ This item shall be used in case of outsourced banknote production (for the cost of the services provided by external companies in charge of the production of banknotes on behalf of the central banks). It is recommended that the costs incurred in connection with the issue of euro banknotes should be taken to the profit and loss account as they are invoiced or otherwise incurred.