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The Treatment of the Non-Tradable Bonds: An Example of Argentina Republic's Samurai Bonds

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Views expressed in this paper are those of author and do not necessarily reflect those of Bank of Japan or International Department.

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Summary

1. In the case that an issuer of bonds deferred interest and principal payments due and then the bonds became non-tradable in markets, how to record the bonds at actual value is a problem, as the case of loans. Therefore, we think it is very helpful for us to discuss about the treatment of these bonds in the electronic discussion group on the treatment of non-performing loans. In this short paper, we introduce an example of a practical compiling method used in Japan for Argentina Republic's samurai bonds, which is deferred interest and principal payments due and is non-tradable. It will be helpful to discuss about this theme, and we propose to discuss about the methods in the EDG.

An Example of Argentina Republic's Samurai Bonds: Japan

2. On December 24, 2001, the Argentina Republic deferred interest and principal payments due on its public external debt obligations, and interest and principal payments on the samurai bonds (issue no. 4~7) issued by the Republic are suspended currently.
3. In the compilation process of IIP, we found that stocks of bonds held by residents were recorded at two alternative values (actual value³ and book value⁴) in reports from securities companies. These companies recorded the stocks of the bonds held by them at actual value with their original calculus. However, they did not know procedures of accounting of investors who left bonds in custody accounts, and therefore they recorded stocks of the bonds at book value.
4. According to the international statistics manuals such as BPM5, portfolio investment stocks should be recorded at market value. However, in practice, market prices of bonds as above example are not available, and therefore it is often difficult to record stocks of such bonds at

² Yen denominated issues by non-Japanese entities in the Japanese domestic market.

³ The term "actual value" refers to the value assessed by Securities companies. Each valued their holding of the stock of the Argentina Republic's samurai bonds, as they uniquely assessed. That is, they calculated the value using some information they had such as maturity, liquidity, supply-demand gap of the bonds and credit risk. In an example of a major security company (Nomura Securities) which calculates and releases many bond prices including Argentina Republic's samurai bonds, the bonds are valued at 20% of the face value (including accrued interest).

⁴ To estimate book value, the respondents valued the stock of holdings of other investors in their custody accounts at the original purchase price (not including accrued interest). In Japan, we compile portfolio investment at cash flow basis, and therefore accrued interest and reschedule of the bonds are not recorded.

actual value. In this example, we compiled according to the reports. That is, stocks of bonds held by respondents' group were recorded at actual value, and stocks of bonds held by other investors (in the custody accounts) were recorded at book value.

5. As just described, when we treat non-tradable bonds in macroeconomic statistics, we face the same problem as of nonperforming loans, i.e. a difficulty in finding out actual value. The international statistics manuals do not provide criteria to compile such bonds.
 - In the first place, no substantial difference exists between bonds and borrowings as a way of finance except for existence of security papers.
6. Considering these reasons, as a theme in the EDG on the treatment of nonperforming loans, we propose to discuss the treatment of non-tradable bonds in markets.
 - In addition, if member countries can provide their practices to the EDG, it will be very helpful to find a best practice.

Argentina Republic's Samurai Bonds (outstanding issue)

| Issue Number | Issue Amounts (billion yen) | Coupon (%) | Issue Date | Maturity Date |
|--------------|--------------------------------|---------------|------------|---------------|
| 4 | 500 | 5.000 | 1996/12/10 | 2002/12/20 |
| 5 | 200 | 5.400 | 1999/12/17 | 2003/12/17 |
| 6 | 600 | 5.125 | 2000/ 6/14 | 2004/ 6/14 |
| 7 | 615 | 4.850 | 2000/ 9/26 | 2005/ 9/26 |