(1) Topic: Debt Instruments Indexed to a Foreign Currency

(2) Issues – see BOPTEG Issues Paper # 25

(3) Recommendations:

(i) Most BOPTEG members felt that debt instruments indexed to a foreign currency are different to debt instruments denominated in a foreign currency, and should not be treated as if they are the same. To emphasise this, the group proposed that the distinction between currency of account and currency of settlement and their implications be clarified in the forthcoming updates of statistical manuals.

(ii) The currency of account is determined by the currency in which the value of flows and positions is fixed. The currency unit of account is important for distinguishing transactions and holding gains and losses. With the clarification on the currency of account, the group agreed that debt instruments with both principal and coupons indexed to a foreign currency should be classified and treated in the national accounts and balance of payments as being denominated in that foreign currency.

(iii) The currency of settlement may be different from the currency unit of account. Using a currency in settlement that is different from the currency unit of account simply means that a currency conversion is involved each time a settlement occurs. The currency of settlement is important for international liquidity and measurement of potential foreign exchange drains. The currency of settlement also has implications for reserve assets. The importance of the currency of settlement should also be taken into account in future editions of International Reserves and Foreign Currency Liquidity (Reserves Template). The group emphasized the importance of clarifying implications for foreign exchange and liquidity data.

(4) Rejected Alternatives:

None.
(5) Questions for the Committee:

(i) Does the Committee agree that currency of account is defined by the unit of account agreed by the parties, and that the flows and positions are measured by reference to that currency? See 3(ii) above.

(ii) Does the Committee agree that currency of account should be contrasted with currency of settlement, which should be explained as relevant for some purposes such as liquidity measurement? See 3(i and iii) above.