IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS
RESERVE ASSETS TECHNICAL EXPERT GROUP (RESTEG)

ISSUES FOR DISCUSSION AT THE RESTEG MEETING
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RESERVE ASSETS TECHNICAL EXPERTS GROUP

Issues for discussion at the RESTEG meeting

1. In December 2005, the IMF circulated ten issues papers for comment by Reserve Assets Technical Expert Group (RESTEG) members. Arising from the comments received, it was decided to conduct a meeting of RESTEG on May 11–12, 2006 in Washington, D.C.

2. This paper has been prepared for the meeting. It sets out the points for discussion arising from the comments received, together with a brief description of the proposals in the issues papers. Along with the ten issues papers and an additional issues paper on gold swaps, which is being circulated separately, it will serve as the basis for the discussions at the meeting. The paper presents each issue in the proposed order of the agenda.

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I. MARKETABILITY (LIQUIDITY): ISSUES PAPER #4

Background

3. The term “liquidity” is central to the determination of the classification of an instrument as a reserve asset. For some instruments, such as securities, this term is synonymous with “marketability.” *Balance of Payments Manual, fifth edition (BPM5)* provides little by way of description as to what is meant by liquidity or marketability.\(^1\)\(^,\)\(^2\)

**Proposed treatment** (see paragraphs 8 and 9 of the issues paper)

4. The starting point for any discussion of marketability or liquidity is the wording in paragraph 65 of the *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (Guidelines)*. In providing guidance on what is meant by liquidity or marketability, the new *Manual* could draw on the *Guidelines’* text on marketability (in line with the footnote 19 of the *Guidelines*), and the definition of market liquidity in the *Compilation Guide on Financial Soundness Indicators (FSI Guide)* to come up with a single criterion. This criterion would emphasize the ability to buy, sell, and liquidate an asset for foreign currency (cash) with minimum cost and time. It could further elaborate on minimum cost to encompass penalties paid for ready availability of a time deposit, the costs of transacting in a security, and the ability to transact in an asset without significantly affecting its value.

5. The guidance would continue to be based on the concept of the usability of the asset itself and the ability to raise funds by using it as collateral is not sufficient to make it a reserve asset.

**Points for discussion**

6. The proposals included in the paper were generally acceptable, but the need for some clarifications was raised. The following are proposed for discussion:

   (1) The degree of specification of the guidelines for the terms “readily available for balance of payments needs” and the condition of “liquidity” that reserve assets need to meet (should these be specific or have some room for discretion?).
   (2) Clarification of minimum cost, and what constitutes a significant loss of value.
   (3) The need, or not, for some explicit time limit in determining readily available—what is meant by converting an asset into cash quickly or readily.
   (4) The inclusion, or not, of a reference to the creditworthiness of the counterparty, and how might this be described.
   (5) Any other issues.

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\(^1\) The footnote 19 of the *Guidelines* states, “*Marketable* assets refer to those that can be bought, sold, and liquidated with minimum cost and time and for which there are ready and willing sellers and buyers.”

\(^2\) The *FSI Guide* states, “In terms of markets, *liquidity* generally refers to the ability to buy and sell assets quickly and in large volume without substantially affecting the asset’s price. In terms of instruments, liquidity generally refers to those assets that can be converted into cash quickly without a significant loss in value.” (Appendix VII: Glossary of terms).
II. INVESTMENT FUNDS: ISSUES PAPER #5

Background

7. The continued accumulation of reserves in some countries has renewed interest in the creation of long-term investment funds in their different modalities, similar to those created by oil producing countries in last decades, for stabilization and/or inter-generational wealth purposes, or such like. The issue has arisen as to whether, and under what conditions, foreign assets that are part of a long-term investment fund be included in reserves. When the authorities create a long-term investment fund the perception is that the objective is oriented to “return” over the longer term rather than “liquidity” for balance of payments needs.

Proposed treatment (see paragraphs 14–16 of the issues paper)

8. The new Manual could adopt the Guidelines’ wording on the key criteria to determine if the foreign assets in long-term investment funds can be considered reserve assets. These criteria are the same as for any assets, including being foreign currency assets that are readily available to meet a balance of payments financing need.

9. Nonetheless, some further guidance on the treatment of assets held in investment funds could be added. This text would cover the issues discussed in paragraphs 7 to 13 of the issues paper including on whose books the assets are held, emphasizing the importance of any specific legal or administrative impediments to using the assets of these investment funds to raise external liquidity to meet a balance of payments financing need. Ready availability to use the assets for balance of payments financing of any type, as opposed to use under restrictive conditions, is the most important demonstration of de facto control by the monetary authorities. Resources that are encumbered should not be part of reserve assets, even if, say, the central bank is the asset manager of the funds.

10. Also to support transparency, the IIP could include as a memorandum or supplementary item data on those foreign assets of the authorities not part of reserves but owned by long-term investment funds created by the government.

Points for discussion

11. There was a general support for the positions in the issues paper. However, some questions were raised about the boundary between inclusion or exclusion of investment fund assets within the reserves. The following are proposed for discussion:

(1) The conditions, if any, under which assets held in investment funds be included in reserves.

(2) The classification of assets in investment funds that can be readily called back by the monetary authorities, and meet other criteria for reserve assets.

(3) Classification of funds that can be withdrawn from the investment fund during the annual budgetary process.

(4) Presentation of the data as a memorandum or supplementary item to IIP.

(5) Any other issues.
III. POOLED ASSETS: ISSUES PAPER #6

Background

12. Pooled asset arrangements are collective investment schemes under which funds collected from participants are held in an investment vehicle that conducts investments. The participants have a claim on the collective investment scheme. Neither BPM5 nor the Guidelines provide explicit guidance on the treatment of pooled assets in reserve assets, although the principles of the Guidelines can be applied.

Proposed treatment (see paragraph 11 of the issues paper)

13. The new Manual could include paragraphs that provide a description of pooled asset arrangements, explain the standard principles that need to be applied in determining their classification as reserve assets, provide extra guidance along the lines of paragraphs 4 to 9 of the issues paper that is specific to pooled asset arrangements, and highlight the importance of transparency in such cases including a memorandum or supplementary item to the IIP on the amount of investment in pooled assets.

Point for discussion

14. The position in the issues paper was generally accepted, but with some calls for further clarification. The following are proposed for discussion:

(1) The conditions under which pooled assets be included in reserves

(2) The role of the legal framework of the pooled assets (trust, trust company, LLP etc.), and the composition of the underlying assets.

(3) Treatment of funds that are invested in domestic assets, such as;

   • Treatment of the fraction of the pool invested in domestic assets.

   • Information to be released on the distribution of the assets across member economies of the pool.

   • Thresholds to determine how big the concentration of assets in own economy would raise classification concerns (i.e., about classifying the pool as reserve assets).

   • Treatment of indexation of pooled assets (should it be the same as other assets?).

(4) Presentation of the amount of investment in pooled assets as a memorandum or supplementary item to the IIP.

(5) Any other issues.
IV. CLARIFICATION OF FOREIGN CURRENCY: ISSUES PAPER #2

Background

15. Although BPM5 does not provide specific guidance on the treatment of convertible/non-convertible currencies in international reserves, the Guidelines mentions that foreign currency assets must be in convertible foreign currencies (Paragraph 673). Thus, foreign currency assets in nonconvertible currencies should not be included in reserve assets. The lack of a definition on convertibility in BPM5 does not facilitate the correct identification of these types of assets.

Proposed treatment (see paragraphs 8 and 9 of the issues paper)

16. The new Manual could adopt the Guidelines’ text in paragraphs 66 and 67 including a definition of convertible that covers freely usable for settlements of international transactions. Some further description of what is meant by freely usable for settlements of international transactions could be provided, including a reference to the question of holdings of currencies of neighboring countries that might not be widely traded in principal exchange markets.

17. Also, to support transparency, the IIP could also include, as a memorandum item, the presentation of the currency composition of the reserves set out in item IV. 2. (a) of the Data Template, that is showing the split of reserves between currencies in the SDR basket and those not in the SDR basket.

Points for discussion

18. There was a general agreement on the issues paper position on convertibility, with some calls for greater specification. However, the issues of the treatment of currencies of neighboring countries and of a memorandum item on the currency composition raised a variety of views.

19. The following are proposed for discussion:

(1) Clarification of the term “freely usable for settlements of international transactions.”

(2) Treatment of currencies of neighboring countries within reserve assets.

(3) Presentation of the currency composition of the reserves set out in item IV.2.(a) of the Data Template as a memorandum, that is compulsory, item.

(4) Any other issues.

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3 Paragraph 67 of the Guidelines states, “…such assets must be in convertible foreign currencies…” and as a corollary, “…assets redeemable only in nonconvertible foreign currencies cannot be reserve assets.”
V. ClARIFICATION OF CURRENCY DENOMINATION: ISSUES PAPER #3

Background

20. One of the criteria for an asset to be included in reserve assets is that it is a claim in foreign currency. However, in BPM5 there is no clear guidance on what is meant by a claim in foreign currency and on how assets indexed to another currency should be treated.

Proposed treatment (see paragraphs 6–10 of the issues paper)

21. The guidance from the Guidelines could be introduced into the new Manual, with foreign currency assets being determined by the currency of settlement (redemption). Assets denominated in one foreign currency but settled in another foreign currency could be classified as reserve assets provided the settlement currency is convertible.

22. However, assets denominated in domestic currency but settled in foreign currency while regarded as foreign currency assets could be excluded from reserve assets, along with foreign currency assets indexed to the domestic currency. So, only assets denominated and settled in foreign currency and not indexed to the domestic currency could be regarded as reserve assets.

23. Pooled asset arrangements settled in foreign currency by the issuer could be regarded as foreign currency assets even if some of the underlying assets are denominated or indexed to domestic currency (see the further discussion in issues paper #6). If part of the claims denominated in foreign currency were to be settled in domestic currency and part in foreign currency only that percentage settled in foreign currency could be regarded as foreign currency assets.

24. Financial instruments denominated in foreign currency and settled in domestic currency (and other means), such as sovereign debt, indexed securities, nondeliverable forwards (NDFs) contracts and NDFs options, would be excluded from reserve assets.

25. Also a definition of domestic currency based on that in the External Debt Statistics: Guide for Compilers and Users (Debt Guide) could be introduced.

Points for discussion

26. There was a general agreement on issues paper’s position but regarding treatment of assets denominated in or indexed to the domestic currency but settled in foreign currency, there are some dissenting views.

27. The following are proposed for discussion:

(1) The issue of the exclusion from reserves of assets denominated in or indexed to the domestic currency but settled in foreign currency, which satisfy all other requirements as reserve assets (See also page 4).

(2) Any other issues.
VI. BANK DEPOSITS IN RESIDENT BANKS: ISSUES PAPER #7

Background

28. In BPM5, foreign currency bank deposits in resident banks are not considered reserve assets. However, BPM5 permits the inclusion in reserves of foreign assets to which commercial banks have title but which can only be transacted on in the terms specified by the monetary authorities or only with their express permission. If reserves data in such circumstances are only collected from the central bank and other official institutions, then deposits by these official entities in these resident banks are regarded as proxies for the counterpart claims that the commercial banks hold on nonresidents. The Guidelines follows recommendations in BPM5 but provides more specific treatments.

Proposed treatment (see paragraphs 9–14 of the issues paper)

29. First, the new Manual should confirm that reserve assets should only include claims on nonresidents. Claims on residents do not raise external liquidity. So, all claims on resident banks would be excluded on the grounds that these assets are claims on residents. This would be a “clean solution” that would not be open to interpretation.

30. Second, claims of resident banks on nonresidents over which the monetary authorities have control but the commercial banks have legal title could be included under restrictive conditions of control that are clearly stated provided the other eligibility criteria for reserve assets are met. In this instance, the resident bank is performing a quasi-agency role. Effectively this would mean that the scope of the monetary authorities would remain as in BPM5.

31. The conditions that would need to be met would be:

- the resident banks can only transact in these claims on nonresidents on the terms specified by monetary authorities or only with their express approval, and
- the authorities have access to these claims on nonresidents on demand to meet a balance of payments financing need, and
- there is a prior law or an otherwise legally binding contractual arrangement confirming this agency role of the resident banks that is actual and definite in intent.

32. Similarly, it could be stated that claims of resident banks on nonresidents where there is no such law or otherwise legally binding contractual arrangement should not be included in reserve assets.

33. If countries include these commercial bank assets in reserves, the data should be collected directly from commercial banks and not by proxy through central bank claims on resident banks. If data are collected as a proxy for the commercial bank holdings on nonresidents, in the balance of payments statistics, the commercial banks’ claims on nonresidents should be reduced by a corresponding amount.
34. If claims on nonresidents of resident banks are allowed under these restrictive circumstances, as in the Data Template, these claims should be separately identified.

Points for discussion

35. There was a variety of views expressed on this issues paper.

36. The following are proposed for discussion:

(1) Under what conditions, if any, can deposits on resident banks be included in reserve assets?

(2) Relevance of solvency and liquidity of the banks in assessing the eligibility of the deposits to be included into reserve assets.

(3) Measures to assure that Monetary Authorities have effective control over assets of domestic banks, including making public the text of the contracts or, at least, essential parts of the text that specify control over the relevant assets of domestic banks.

(4) Any other issues.
VII. Reserve Related Liabilities: Issues Paper #9

Background

37. BPM5 does not discuss the concept of monetary authorities’ reserve-related liabilities (RRL). Nonetheless, data on RRL are among those required for Fund surveillance and for program purposes, the idea of foreign currency drains was introduced in the Data Template, while users outside of the Fund have expressed interest in the RRL concept. Such a measure helps track developments in the balance of payments—a build-up in reserve assets through borrowing would provide mixed messages on the sustainability of the external situation—and serves as an indicator of liquidity pressures on reserve assets.

Proposed Treatment (see paragraphs 10 and 11 of the issues paper)

38. Given the increasing interest in data on RRL, not least that arising from the introduction of the Data Template, consideration could be given in the new Manual to including a new category for RRL as a memorandum item, for position data at least, covering foreign currency liabilities only.

39. Also, foreign currency liabilities to residents could be included in a memorandum item, either as part of a more widely defined RRL memorandum item or as a separately identified item if an RRL category is included in the main account.

Points for Discussion

40. There was general agreement in principle to create an RRL item in the balance of payments and IIP but there were differing views on the coverage of such an item, and whether it should be a memorandum item or in the main accounts.

41. The following are proposed for discussion:

(1) Should RRL data cover both stocks and flows?

(2) Should RRL cover foreign currency liabilities to nonresidents only, or also to residents are covered? As one total or separate figures?

(3) Institutional coverage of RRL, e.g., monetary authorities as a whole, or monetary authorities and central government?

(4) Should instruments denominated in or indexed to the domestic currency but settled in foreign currency be included in RRL?

(5) Presentation of RRL in the main body or as a memorandum, thus required, item?

(6) Cover all maturities, or just short-term liabilities?

(7) Any other issues.
VIII. REVERSE TRANSACTIONS: ISSUES PAPER #8

Background

42. Because of the conceptual approach to the treatment of reverse transactions in macro-
    economic statistics, it is important in compiling reserves data to avoid overstating a country’s
    foreign currency liquidity position. The Guidelines specify two approaches for dealing with
    this concern, but given the experience since the Guidelines were introduced the issues paper
    proposed a single approach.

Proposed treatment (see paragraphs 9–13 of the issues paper)

43. First, the treatment in the reserves data of reverse repos, funds acquired under repos,
    and collateral loans should be made explicit in the new Manual.

44. Second, in order to avoid double counting of the security and the funds raised through
    the repos, the securities involved in the repo agreements should not be included in reserve
    assets, that is for repos, the new Manual should recommend the approach in 85 (i) of the
    Guidelines. This should give a uniform treatment of transactions and improve international
    comparability of reserve data among countries.

45. Third, the treatment in reserves of transactions relating to reverse repos should be as
    set out in paragraphs 85 (ii) and 85 (iv) of the Guidelines depending on whether the repo
    asset is liquid and available on demand, or not.

46. Fourth, the same treatments as set out in paragraphs 10 and 11 of the issues paper
    should be applied to securities lent/borrowed with other securities used as collateral and no
    cash is exchanged (paragraph 88 of the Guidelines).

47. Fifth, the new Manual could also discuss the cases where repos and reverse repos
    involve securities that do not meet the criteria to be classified as reserve assets, but the funds
    involved do, e.g., they are dollar assets.

Points for discussion

48. The proposal in the issues paper was generally acceptable, although questions were
    raised about the idea of reclassifying securities under repo excluded from reserves under
    portfolio investment in the IIP. Also, references were made to the link between this topic and
    the reserve related liabilities issue above.

49. The following are proposed for discussion:

    (1) The exclusion of securities under repo from reserves of the lender monetary authorities
        and reclassification as portfolio investment.

    (2) Should funds received via repo recorded as reserve related liabilities?

    (3) Any other issues.
IX. GOLD SWAPS AND GOLD DEPOSITS/LOANS

50. See separate issues paper (Issues paper #11).
X. PLEDGED ASSETS: ISSUES PAPER #1

Background

51. Reserve assets are, first and foremost, liquid or marketable assets readily available to the monetary authorities. These assets can be viewed as assets in the most unconditional form. However, monetary authorities sometimes arrange for the pledging of assets to third parties that makes them unavailable to the creditor until the maturity of the arrangement, which prior to maturity is not marketable. These pledged assets are not readily available and therefore should not to be included in reserve assets. The guidance in BPM5 is not clear on the treatment of this issue and, therefore, could be improved.

Proposed treatment (see paragraph 12 of the issues paper)

52. It is proposed that the new Manual adopt the principle and wording of paragraph 72 of Guidelines' text and add a reference to the maximum amount that can be excluded. Some additional examples could be added, based on country experience, and account should be taken of the wording in paragraph 426 of BPM5 with regard to the exceptions.

Points for discussion

53. There was general agreement with the proposals in the issues paper but some clarification of the maximum amount to be excluded was raised.

54. The following are proposed for discussion:

(1) *Issues of maximum amount to be excluded from reserve assets in relation to pledging.*

(2) *Presentation of pledged assets as a memorandum or supplementary item to IIP.*

(3) *Any other issues.*
XI. ISSUES ON SDRs: ISSUES PAPER #10

Background

55. Like the views of the members of RESTEG, within the Advisory Experts Group on the National Accounts (AEG), there was overwhelming support for the proposal to change the treatment of the SDR allocation so gross liabilities are recorded in the system and transactions are recorded when SDRs are allocated and cancelled. However, the issue of whether the instrument is debt, equity, or other was not discussed and requires discussion in RESTEG (paragraphs 21 to 23 of the issues paper).

Possible treatment (see paragraphs 21–23 of the issues paper)

56. Regarding whether an SDR allocation is debt or equity, given the need to pay interest it meets the definition of debt (Debt Guide paragraph 2.3).

57. However, the classification as shares and other equity in the Monetary and Financial Statistics Manual (MFSM) reflects that the allocation has the nature of an unrequited transfer. Also, in the MFSM framework the revaluation of the SDR allocation has no affect on the value of shares and other equity, as the change in the value of the SDR allocation is offset by a contra-entry that is posted to revaluation adjustment. Both entries are within shares and other equity. This would not be the case if the SDR allocation were classified as debt. The MFSM approach is long standing. Further, central banks might consider that it is most unlikely that they are to leave Fund membership and so regard the SDR allocation as akin to an equity and other share.

58. Given this special nature, an alternative is to regard for statistical purposes the SDR allocation by convention as an “other instrument”, that is, neither a debt nor equity instrument.

Points for discussion

59. RESTEG members’ views were divided on SDRs’ instrumental classification. Some prefer debt, and others prefer “other” (neither equity nor debt). One member raised the similarity of SDRs to preference shares and the treatment of SDRs should take this into account. Within the IMF’s Statistics Department, monetary and financial statistics have classified SDRs as equity for a very long time. More details are provided in the collation of comments on issues paper #10.

60. The following is proposed for discussion:

(1) Instrument classification of SDRs, i.e., debt, equities, or other.