

3. Predetermined Short-Term Net Drains on Foreign Currency Assets (Nominal Value): Section II of the Reserves Data Template

138. Section II of the reserves data template is used to report the authorities' predetermined short-term net drains on foreign currency assets. "*Predetermined*" drains are the known or scheduled contractual obligations in foreign currencies with both residents and nonresidents. Contractual obligations of the authorities can arise from on-balance-sheet and off-balance-sheet activities. *On-balance-sheet obligations* include predetermined payments of principal and interest associated with loans and securities. (See also footnote 6 of the reserves data template.) *Off-balance-sheet activities* that give rise to predetermined flows of foreign currency include commitments in forwards, swaps, and futures contracts. Potential or possible receipts from the future sale of commodities,⁴⁸ scheduled disbursements of loans, and claims in disputes among others, should not be included in this section. Only predetermined net drains derived from actual assets and liabilities should be included.

Defining Predetermined Drains

139. *Short-term net drains* refer to contractual foreign currency obligations scheduled to come due during the 12 months ahead. Maturity depends upon when the contract falls due irrespective of whether the expectation is that it will be rolled over. "*Net drains*" refer to outflows of foreign currency net of inflows. Outflows are to be reported separately from inflows.

140. Outflows consist of scheduled amortizations of foreign currency obligations and associated interest payments during the coming year and scheduled deliveries of foreign currencies under forwards, futures, and swap contracts. Inflows comprise obligations due to the authorities in the 12-month period ahead arising from on- and off-balance-activities. Outflows and inflows recorded in this section are only from actual assets and liabilities. Note, however, with respect to foreign currency inflows associated with assets of the authorities, that only those pertaining to assets not covered in Section I of the reserves data template are to be included, i.e., it would be inconsistent to regard an asset as already existing (Section I) while, at the same time, report it in Section II, as a predetermined net inflow. For example, foreign currency assets shown in Section I include accrued interest and thus interest on such assets should not be recorded in Section II. Similarly, proceeds from the sale of foreign currency assets (such as securities) are reflected in the positions shown in Section I as increases in foreign currency deposits and decreases in securities. In addition, inflows from contractual foreign exchange obligations that are not expected to be received for example because the debtor is delinquent should not be included in Section II. (See also later

⁴⁸ Countries expecting a steady inflow of foreign currencies from future commodity sales may provide additional information in footnotes or metadata accompanying the Reserve Data Template.

discussion in this chapter under “Reporting Other Foreign Currency Drains.”) Future expected disbursements of funds from loan agreements are excluded from Section II, if the timing, size, or other aspects of the disbursements are not predetermined (however, they may qualify under certain circumstances for reporting in Section III, as contingent net drains).

141. *The predetermined foreign currency flows covered in Section II of the reserves data template can emanate from positions vis-à-vis residents and nonresidents. The predetermined foreign currency flows covered in Section II of the reserves data template refer to those that emanate from the authorities’ balance-sheet and off-balance sheet positions vis-à-vis residents and nonresidents.*

142. *Whether an obligation is short term is defined on the basis of its remaining maturity. “Short-term” refers to a period up to and including one year. Thus, short-term obligations include those with an original maturity of one year or less and those with longer original maturities whose remaining maturity is one year or less. In the reserves data template, they also include any amortization and interest payments falling due during the coming year on obligations with an original maturity of more than one year.*

143. *Predetermined drains covered in Section II of the reserves data template are those of the monetary authorities and the central government, excluding social security funds. As stated in footnote 11 in para. 20, the existence of a currency board does not remove the requirement to report data on the central government in the reserves data template.*

Reporting Data on Predetermined Drains

144. In reporting data on predetermined drains, a number of considerations need to be taken into account. Unlike data in Section I of the reserves data template, which pertain to stock data showing foreign currency assets of the authorities on the reference date (the last day of the reference period), information required in *Section II concerns outflows and inflows of foreign currency during the 12 months following from the reference date*. The time horizon is broken into the three subperiods: “up to one month,” “more than one month and up to three months,” and “more than three months and up to one year.” The finer breakdowns of the time horizon are intended to facilitate a more detailed assessment by policymakers and market participants of the authorities’ liquidity position. The “total” column in Section II of the reserves data template is to reflect the sum of the three subperiods.

145. Unlike foreign currency assets reported in Section I of the reserves data template, which are to be disclosed at approximate market values, inflows and outflows of foreign currency in Section II of the reserves data template are to be recorded in nominal values; that is, the cash-flow value when the flows take place. No discounting for such flows is needed. Further inflows and outflows of foreign currency in Section II of the reserves data template should be recorded on a due for payments basis and not on an accrual basis.

146. When converting foreign currency loans, securities, and other on-balance-sheet obligations to the currency used in the reporting of the data, the exchange rate to be used is the market rate applicable at the reference date. For forwards, futures, and swaps, the exchange rate specified in the contract (the strike price) should be used to determine the

nominal value, which then can be converted to the reporting currency at the market exchange rate for the reference date.

147. In reporting domestic currency instruments that settle in foreign currency, the domestic currency flows should first be converted to foreign currency at the exchange rate specified in the instrument; they then should be converted to the reporting currency at the market exchange rate applicable at the reference date. Given that this section records predetermined settlements in foreign currency, instruments settled in domestic currency but are indexed to foreign currency should be excluded while instruments settled in foreign currency but are linked to domestic currency should be included in this section. However, domestic currency instruments indexed to foreign exchange rates and settled in domestic currency should be reported in Section IV using notional/nominal value.

148. In Section II, as in sections III and IV, the computation of net drains (net flows) requires that inflows and outflows be recorded with opposite signs; plus signs (+) are used for inflows and minus signs (–), for outflows. Net drains (net flows) can have a (+) or a (–) sign.

149. Obligations relating to loans and securities (viz., debt service payments of principal and interest) involve foreign currency outflows; the minus sign (–) should accompany the data. Corresponding foreign currency obligations due to the authorities are to be recorded with a (+) sign. In addition, interest payments should be reported separately from principal. (See sample form in Appendix II.)

150. In the case of predetermined currency flows related to financial derivatives contracts, short positions (corresponding to outflows) and long positions (corresponding to inflows) should be distinguished by (–) and (+) signs, respectively. The aggregate (net) position may have either sign. The disclosure of gross positions is required in order to provide more complete information on the foreign currency flows of the authorities, but netting is allowed if offsetting positions are maintained with the same counterparty and at the same maturity and insofar as a legally enforceable master netting agreement exists allowing settlement in net terms. This procedure is generally referred to as *netting by novation*.⁴⁹ Netting by novation also is allowed for matched positions on organized exchanges.

151. Since repos and reverse repos are different in nature from traditional loans and securities, it is recommended that if the accounting practices noted in para. 85(iii) and (iv) are followed, foreign currency outflows and inflows associated with repos and reverse repos should be recorded in item II.3. of the reserves data template, with outflows separately identified from inflows and accompanied by appropriate signs. In particular, as explained in para. 85(iii), predetermined foreign currency outflows associated with repos should be reported in Section II.3 of the reserves data template if the securities provided as collateral remain in reserves. Predetermined foreign currency inflows relating to reverse repos should be recorded in Section II.3 when the repo asset is not liquid and not recorded in reserves (para. 85(iv)). This will facilitate the crosschecking of data reported in Sections I, II, and IV

⁴⁹ Netting by novation should be distinguished from closure netting. The latter generally refers to cases of insolvency and bankruptcy, where netting ensures that financial market participants can terminate or close out and net financial market contracts; closure netting allows market participants to liquidate collateral pledged by the defaulting counterparty in connection with these contracts.

of the reserves data template on repos and related activities undertaken by the authorities. Foreign currency flows associated with repos and reverse repos should be separately identified from other short-term flows in item II.3.

152. Amortization schedules are good data sources for deriving information on gross foreign currency outflows and inflows related to repayments on short-term loans and installments on long-term loans and associated interest payments falling due within the three time horizons of a one-year period. Countries also can draw on the detailed public-sector external debt data that they compile, where appropriate. Flow of funds accounts represent yet another good data source for Section II of the reserves data template.

How Foreign Currency Transactions in Reserves Data Template Relate to those in the External Account

153. *Loans and securities* referred to in Section II of the reserves data template are similar to those defined as loans and securities in the *BPM6*. Nonetheless, there are a number of important differences.

154. Unlike data on external liabilities compiled for a country's *international investment position (IIP)*,⁵⁰ which are *based on the residency concept* with external liabilities referring to liabilities to nonresidents irrespective of currencies involved, *only loans and securities repayable in foreign currencies, irrespective of the residency of the holder, are to be included in Sections II and III of the reserves data template.*

155. Unlike data reported in countries' IIP, which reflect outstanding assets and liabilities at a point in time, the information called for in Section II concerns the *foreign currency inflows and outflows emanating from outstanding assets and liabilities* to be received or paid within the three periods of the forthcoming 12 months.

156. In addition, data on external liabilities compiled for IIP purposes are based on the original maturity of instruments. In the reserves data template, *short term foreign currency flows are determined on the basis of the remaining maturities of instruments.*⁵¹

157. The IIP calls for separate data for the central bank and of the general government,⁵² viewing them as two different sectors of the reporting economy. The reserves data template requires information on total foreign currency flows associated with the monetary authorities and the central government (excluding social security funds) as a whole.

158. The IIP calls for external assets and liabilities to be measured at current market prices as of the reference date. Section II of the reserves data template calls for the recording of inflows and outflows at nominal values (i.e., the outstanding amount the debtor owes the creditor, including principal and any accrued and unpaid interest).

⁵⁰ A country's IIP is represented by its balance sheet of external assets and external liabilities.

⁵¹ Including amortized payments of instruments with remaining maturities of longer than one year.

⁵² The central government, which includes local and state jurisdictions, is a component of the general government.

Reporting Foreign Currency Flows Associated with Loans, Securities, and Deposits

Loans Securities, and Deposits—Item II.1 of the Reserves Data Template

159. *Loans are financial assets that (a) are created when a creditor lends funds directly to a debtor, and (b) are evidenced by documents that are not negotiable. (See BPM6, paragraph 5.51.)* Included are loans incurred by the authorities and the central government to finance trade, other loans and advances (including mortgages), use of IMF credit and loans from the IMF, and financial leases. Loans under repo, reverse repo, and gold swap arrangements are excluded from Section II.1 but may be recorded, as appropriate, in Section II.3.

160. Short-term loans repayable within the time horizon are to be reported. In the case of debt maturing in more than one year, interest payments and principal installments falling due within one year are to be reported. Long-term loans with a remaining maturity of up to one year also are to be included.

161. Short-term foreign currency loans and deposits held among central banks and other banking institutions are difficult to distinguish in practice. For this reason, “foreign currency deposits” are included in this item. Deposits of foreign central banks and other foreign banking institutions⁵³ with the monetary authorities of the reporting country are included, along with foreign currency deposits held at the central bank of the reporting country by resident entities. These deposits are ones legally and in practice redeemable by depositors on short notice. Among these, deposits “on call” are to be reported under the shortest maturity category.

162. *Debt securities are negotiable instruments serving as evidence of a debt. (See BPM6, paragraph 5.44.)* They consist of (1) bonds and notes (including debentures, nonparticipating preference shares, and negotiable long-term certificates of deposits) and (2) money market or negotiable debt instruments. Bonds and notes usually give the holder the unconditional right to a fixed money income or to a contractually determined variable money income; that is, when payment of interest is not dependent on the earnings of the debtor. Bonds, notes, and debentures also provide the holder with the unconditional right to a fixed sum as a repayment of principal on a specified date or dates. Included are nonparticipating preferred stocks or shares and convertible bonds. Also so treated are negotiable certificates of deposit with maturities of more than one year, dual-currency bonds,⁵⁴ zero-coupon bonds and other deeply discounted bonds, floating-rate bonds, indexed bonds, and asset-backed securities, such as collateralized mortgage obligations and participation certificates. (Mortgages are not bonds and are included under loans.)

163. *Money market instruments generally give the holder the unconditional right to receive a stated, fixed sum of money on a specified date.* These instruments usually are traded at a

⁵³ Other types of nonresident entities should be included if they hold deposits with the authorities of the reporting country.

⁵⁴ A dual currency bond is a bond where the interest or principal (or both) payments differ from the currency in which it was issued.

discount in organized markets. The discount is dependent on the interest rate and the time remaining to maturity. Included are instruments such as treasury bills, commercial paper and bankers' acceptances, and short-term negotiable certificates of deposit.

164. *Only instruments issued by the monetary authorities and the central government* (excluding social security funds) settled in foreign currencies should be considered in reporting on predetermined outflows of foreign currency resources in item II.1. of the reserves data template.

165. To derive information on foreign currency flows pertaining to public debt securities on a frequent and timely basis, an adequate and consistent statistical system is required. Such a system might exist in the agency that publishes the reserves data template or in another government organization that provides the data to the publishing agency. Such a system should maintain detailed information on characteristics of each debt security such as: (1) the entity that issues the security, (2) the dates of issue and of maturity, (3) the currency of issue, (4) the amount raised, (5) the nominal or face value of the debt, (6) the interest rate, (7) the timing of payments of interest, and (8) where applicable, the embedded put options.⁵⁵ From such a system, information can be derived on the amount the issuer will pay the holder at the date of redemption of the security, which represents the nominal value of the security called for in the reserves data template.

166. Inflows of foreign currency to be reported in item II.1 of the reserves data template include those relating to scheduled foreign currency obligations due to the authorities on outstanding loans securities and deposits owned by the authorities that are not covered in Section I of the reserves data template. Inflows arising from outstanding loans, securities and deposits that the authorities do not expect to receive should not be included, such as when the debtor is delinquent.

Foreign Currency Flows Relating to Forwards, Futures, and Swaps

Forwards, Futures, and Swaps—Item II.2 of the Reserves Data Template

167. In determining foreign currency flows, financial derivatives can be regarded as instruments that unbundle various contractual rights and obligations, allowing for the transfer or exchange of risks. Settlement is in the form of specified cash flows, the size of which are determined by reference to, or derived from, values of underlying instruments (foreign currencies, securities, and commodities) or from particular financial indexes (such as interest rates, exchange rates, and stock indices).

168. Item II.2 of the reserves data template is for reporting on forwards, futures, and swaps. Options, which are financial derivatives that may or may not be exercised, are to be reported in Section III.

⁵⁵ See also Chapter 4 on securities with embedded put options.

169. Only financial derivatives settled in foreign currency, vis-à-vis domestic currency should be covered in item II.2. of the reserves data template.

170. *Forwards and futures* are agreements to buy or sell a fixed quantity of a particular asset (for example, currency) at a specified future date at a pre-agreed price. *Swaps* are agreements by two parties to exchange cash flows in the future according to a prearranged formula. Futures and swaps are no more than variations of forward contracts.

171. A *forward contract*, as distinguished from a futures contract, is an “over-the-counter” (*OTC*) instrument. It is not traded on organized exchanges but by dealers (typically banks) trading directly with one another or with their counterparties over the telephone, by computer, or by facsimile. Examples are forward exchange agreements.

172. The essential difference between a forward contract and a *futures contract* is that the latter is *traded on organized exchanges* and settlement is with a central counterparty. Examples of futures contracts are interest rate futures, equity futures, currency futures, and commodity futures.

173. *Swaps can be considered as a series of forward contracts.* One type of swap, often referred to as a *foreign exchange swap*, involves the exchange of two currencies (principal amount only) on a specific date at a rate agreed at the time of inception of the contract (the short leg) and the reverse exchange of the same two currencies at a date further in the future at a rate agreed at the time of the contract (the long leg).⁵⁶ Another type of swap, often referred to as a *currency swap*, involves contracts that commit two counterparties to exchange streams of interest payments in different currencies for an agreed period of time and to exchange principal amounts in different currencies at a pre-agreed exchange rate at maturity.⁵⁷ These and other types of swaps are covered in Section II.2. of the reserves data template.

174. The foreign currency flows that should be reported in Section II of the reserves data template are the foreign exchange commitments (nominal value) that need to be met at settlement of all outstanding forward, futures, and swap contracts.^{58 59}

175. Where future contracts are subject to daily settlement and so predetermined cash flows for such futures contracts are negligible, no value is to be reported in Section II of the reserves data template. However, the notional value of futures settled in a foreign currency should be provided in the country notes.

⁵⁶ For example, an initial sum in U.S. dollars is exchanged for its equivalent in pounds sterling (a spot transaction) and a reverse exchange taking place at the maturity of the swap. Both spot/forward and forward/forward swaps are included. Short-term swaps carried out as “tomorrow/next day” transactions also are included in this category.

⁵⁷ For example, a “cross-currency swap” is a multicurrency interest rate swap.

⁵⁸ Structured floating-rate notes are classified as debt securities because it is a variation of a standard variable-rate bond.

⁵⁹ The notional value of other financial derivative instruments should be included in Section II.2. and their marked-to-market values in IV. (1). (e) if they are in the authorities’ portfolio.

176. For countries that use nondeliverable forwards (NDFs) that are settled in foreign currency, the notional value of such contracts should be included in Section II.2. of the reserves data template. This treatment is to take account of the fact that, like forwards, NDFs can have a significant impact on a country's exchange rate. As NDFs are not identified as such in the reserves data template their notional value should be clearly identified in country notes accompanying the data. (The reporting of the notional value of NDFs that are settled in domestic currency is discussed in Chapter 5. NDFs settled in domestic currency but denominated (or indexed) to a foreign currency should be reported in Section IV.)

177. In the reserves data template, short and long positions refer to those corresponding to future outflows and inflows of foreign currency, respectively.

Reporting Other Foreign Currency Drains

Other Predetermined Foreign Currency Flows— Item II.3 of the Reserves Data Template

178. *Item II.3.—“other”*—should be used to report on the flows not included in items II.1. and II.2 of the reserves data template. These include:

- Predetermined foreign currency outflows and inflows relating to repos, reverse repos, and gold swaps (as well as those associated with securities lending with cash collateral), accompanied by appropriate signs, if, for repos, the collateralized securities remain in reserves, and for reverse repos (and securities lending with cash collateral) when the repo asset is not recorded in reserve assets.
- Accounts payable that are materially significant, including scheduled payments for goods and services previously purchased on credit by the authorities, payments of interest and principal in arrears (if the value of the arrears is not included in Section 1), and wages and salaries outstanding (outflows of foreign currency).

179. Item II.3. should only be used to report materially significant accounts receivable from creditworthy entities (*inflows* of foreign currency); when they are included in II.3., they *should be reported separately from outflows*. Inflows not expected to be received by the authorities (such as accounts that are delinquent) within the specified time horizon should be excluded.