
Mandate of the ECB Task Force on Portfolio Investment Income

Prepared by the European Central Bank

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EUROPEAN CENTRAL BANK

WORKING GROUP ON BALANCE OF PAYMENTS

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Judith Pfluger ☎: 7389

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MANDATE OF THE TASK FORCE ON PORTFOLIO INVESTMENT INCOME

Approved by the Statistics Committee

INTRODUCTION

1. Among the priorities of the Statistics Committee (STC)'s working programme, both the future of balance of payments (b.o.p.)/international investment position (i.i.p.) data collection systems and further enhancements in the quality of euro area statistics play a prominent role. In the context of the former, referring in particular to the problems encountered in the collection of Portfolio Investment statistics, the Task Force on Portfolio Investment Collection Systems (TF-PICS) characterised global solutions to these problems and defined a limited number of acceptable practices. Moreover, the findings of the TF-PICS offer further guidance on the direction to go in the future in this field.

2. The recording of income in the current account of the euro area b.o.p. has proved to be of low quality, even not enabling publication of some breakdowns. To be more precise, the Working Group on Balance of Payments Statistics and External Reserves (WG-BP&ER) identified substantial problems to compile income figures on an accruals basis.

3. The combination of these two factors, i.e. the planned and ongoing changes in portfolio investment collection systems and the practical difficulties at present in the compilation of accruals, should pave the way for investigating how the collection of portfolio investment income would fit into this changing framework. Although the TF-PICS did not carry out a detailed analysis of the problems with the collection of data on portfolio investment income, all models/solutions proposed were at least basically evaluated against their ability to deliver appropriate information in this specific regard.

4. Against this background, the STC endorsed in its December 2001 meeting the establishment of a Task Force dedicated to practical problems and alternative solutions for portfolio income. The work of such a Task Force on Portfolio Investment Income (TF-PII) should focus on the identification of "best

practices” across countries as well as the detection of practices that would be deemed ‘not acceptable’ for the collection of these figures. Additionally, the STC approved a list of specific (conceptual and practical) topics to be studied. Besides considering best practices currently employed by b.o.p. compilers, the TF-P II should also take into account current and foreseeable changes in portfolio investment collection systems, which may require new solutions for the collection of the raw income data, where relevant.

5. Furthermore, in addition to the problems that national collection systems suffer to correctly compile income figures, the TF PII should always bear in mind that the compilation of reliable euro area aggregates may require additional enhancements to current practices.

6. The TF-P II should investigate both the product of external statistics (output) and viable techniques to collect and compile the data, by identifying which systems can ensure the production of reliable figures at the level of both national statistics and euro area aggregates. Based on the data collection methods deemed as acceptable by the TF-PICS the TF-P II should define which elements this limited number of DCMs should provide in order to compile income figures. The TF-P II should prioritise practical aspects and ensure the feasibility of the solutions proposed.

CORE MANDATE

7. The TF-P II should work along the following lines:

(i) Definition of pre-conditions: output requirements and quality criteria

In the light of current (and foreseeable) requirements, as defined at present, the TF-P II should firstly take stock of the features that the final product should fulfil in terms of *output requirements* and *quality criteria*¹. In this respect it may be advisable to start from the final product for portfolio investment statistics as defined by the TF-PICS, being then adapted to the specific features of portfolio investment income.

The work of the TF-P II should focus on the compilation of high-quality euro area aggregates. Analogous to the investigations of the TF-PICS, it may be assumed that the Centralised Securities Database will be available to NCBs and NSIs within the EU.

(ii) Identification and exhaustive description of acceptable and non-acceptable practices

The TF-P II should present a limited number of techniques able to ensure the delivery of the final product under the above restrictions (i.e. in terms of output requirements and quality). The design of these techniques should cover the definition of the target population and the specific components necessary for the calculation of portfolio investment income (in terms of e.g. appropriate nominal/market interest rates/average yields, consistent stocks by individual/groups of securities, etc.). Where the TF-P II considered stratified approaches by categories of instruments, those categories should be defined in a very precise manner.

¹ This first step is intended to establish in a very precise way what are the prerequisites to be fulfilled and on the basis of which the TF-P II should rationalise its conclusions.

In particular, the methods selected should (i) ensure, to the extent possible, a symmetric treatment between credits and debits; (ii) guarantee consistency between portfolio investment stocks and income flows; and (iii) be compatible with the portfolio investment data collection systems that were considered as acceptable solutions by the TF-PICS, and which Member States have decided to implement.

Those techniques selected as acceptable should be evaluated and ranked according to a *qualitative* assessment of advantages and disadvantages.

In addition, the TF-PII should balance and accommodate the following items, as identified and approved by the STC and the WG-BP&ER:

- Pre-requisites for the calculation of income (e.g. availability of appropriate stocks at the same frequency, relevant nominal/market yields, etc.);
- Methods for collecting information on coupon *payments/receipts*;
- Feasibility of the recommended methods, on the basis of security-by-security versus benchmark yields on groups of securities (by type of security, maturity, country and sector of the issuer, etc.);
- Interest rate applied for accruals calculation (debtor/acquisition/creditor) on practical grounds. The ability to adapt to any future change in standards² (from one principle to another) should be deemed a merit for any proposed technique by the TF-PII;
- Consider the availability of the necessary information in connection with the outcome of the TF-PICS;
- Can one single overall method be recommended?

(iii) Detailed investigation on specific topics

Finally, a thorough investigation should include the technical analysis of the list of specific bullet points approved by the WG-BP&ER and the STC in their meetings of November and December 2001.

The list of topics would include:

- Income on *Collective Investment Institutions*;
- Income on *shares* (e.g. distinction between direct investment and portfolio investment income, distinction between income and capital gains and losses, etc.);

² Following the recommendation given by the STC in its February 2002 meeting, the TF-PII should (i) check the data availability for calculating accruals according to the debtor/creditor approach and (ii) assess the magnitude of any differences in the calculation of accrued interest following either approach with a view to shed some light on the conceptual discussion at play in international fora.

- Practical difficulties in the collection of income on *zero-coupon bonds*;
- Financial flows, which should not be considered as income, e.g. *payments under Interest Rate Swaps or fees paid on securities lending/gold loans-deposits*. (lower priority; dependent on time constraints)

In the course of its investigations, the TF-PII would be free to identify any other additional issue that could deserve further analysis.

8. The results of the above points should be condensed in a final report, which would be addressed to the WG-BP&ER and subsequently to the STC for final approval. Considering the analysis of the TF-PII, both the WG-BP&ER and the STC would then consider plans to adopt the recommendations of the TF-PII and establish the appropriate implementation calendar.