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IIP: Implementing the *BPM6* Enhancements

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IIP: Implementing the *BPM6* Enhancements[1]

The sixth edition of IMF's Balance of Payments and International Investment Position Manual (BPM6) introduced enhancements that expanded the range of classifications of financial assets and liabilities in the international investment position (IIP) to include: domestic and foreign currency, remaining maturity breakdowns, and additional detail on reserve-related liabilities. As user interest has grown in these breakdowns, global statistical initiatives are responding. In this context, this paper examines the key drivers to the emerging data needs, examines the existing IIP data collection framework and data collection initiatives, and recommends a way forward. The paper seeks the Committee's views on the separate identification of nonfinancial corporations (a supplementary classification in BPM6), and on possible time frames for implementing the recommendation related to the IIP in the G-20 Data Gaps Initiative (DGI) Phase II.

I. Assessing External Positions: Drivers to Emerging Data Needs

1. With the 2008 global crisis evidencing the growth in financial interconnectedness across economies, the demand for more detailed data on external positions has heightened as analysts and policymakers seek richer assessments of cross-border risks and spillovers, and sectoral vulnerabilities. The importance of strengthening balance sheet analysis in the IMF's surveillance was emphasized in the IMF's 2014 Triennial Surveillance Review, and the need for reviving and modernizing balance sheet analysis was included in the IMF Managing Director's action plan for strengthening surveillance. To this end, an IMF policy paper[2] was published which reviewed the use of balance sheet analysis in its bilateral surveillance and introduced some practical examples of how it can be deepened. The paper found the need to address key data gaps, with particular emphasis on nonbank financial institutions, nonfinancial corporations, governments, and households, and information related to currency and remaining maturity breakdowns, counterparties and off balance sheet exposures.

2. The IMF's External Sector Report (ESR)—which presents a multilaterally consistent assessment of the largest economies' external sector positions and policies, and integrates analysis from the IMF's bilateral and multilateral surveillance to provide a consistent assessment of exchange rates, current accounts, reserves, capital flows, and external balance sheets—has also underlined the importance of information on the structure and size of an economy's gross foreign assets and foreign liabilities. Analysis of risks related to sizable movements among major currencies, including possible sectoral dislocation, and balance sheet risks is also the subject of 2015 IMF Spillover Report. Further, the recent International

[1] Prepared by Paul Austin and Natalia Ivanyk, Balance of Payments Division, STA.

[2] The most recent IMF document on Balance Sheet Analysis in Fund Surveillance can be found at: http://www.imf.org/external/np/pp/eng/2015/061215.pdf.

Monetary and Financial Committee (IMFC) Communiqué from the Lima annual meetings highlighted that "foreign currency exposures warrant special attention."

3. In addition, for bilateral surveillance, the implication of currency mismatches is increasingly discussed in the context of IMF Article IV consultations, in line with the Integrated Surveillance Decision. For assessing debt sustainability, the IMF has developed a formal framework for conducting public and external debt sustainability analyses (DSAs) in both low income and market access countries as tool to better detect, prevent, and resolve potential crises.

4. More recently, the G-20 Finance Ministers and Central Bank Governors (FMCBG) at its meeting in Turkey (September 2015), endorsed proposals for a second phase of the Data Gaps Initiative (DGI II),[3] to further address data gaps, including in cross border position statistics. Under the DGI II, a recommendation on the IIP includes a request for consultations with the IMF Committee on Balance of Payments Statistics (Committee), as discussed ahead. The FMCBG also supported the efforts of the IMF, FSB and BIS to advance work on addressing data gaps involving foreign currency exposures.[4]

II. THE IIP DATA REPORTING FRAMEWORK FOR *BPM6* ENHANCEMENTS

5. In recognition of the growing importance of balance sheet analysis in understanding sustainability and vulnerability, including currency and maturity mismatches, the framework for reporting the currency composition and remaining maturity breakdowns for selected position data was established in *BPM6*. The related memorandum and supplementary tables (Tables A9I-IV) are presented in Appendix 9 of *BPM6*, with accompanying guidance in paragraphs 5.103-108. Table A9-V covers memorandum/supplementary items related to reserve-related liabilities.

6. Tables A9-1 through A9-III cover the currency composition of debt assets and liabilities, and financial derivatives positions with nonresidents by institutional sector and by selected foreign currencies, including the U.S. dollar, Euro, Yen, and others. Table A9-IV covers remaining maturity of debt liabilities to nonresidents. The tables are consistent with the standard components of the IIP, and with the presentation adopted in the *External Debt Statistics: Guide for Compilers and Users 2013*; and are supported by methodological guidance on the definition of domestic and foreign currency (*BPM6* paragraphs 3.95–3.97), the currency denomination of equities (*BPM6* paragraph 3.100), and the currency attribution of financial derivatives (paragraph 5.108).

[3] The first phase of G-20 DGI was launched by the IMF and the Financial Stability Board (FSB) in 2009 in response to the request by the G-20 FMCBG.

[4] A paper on the work by IMF staff to address data gaps involving foreign currency exposures was presented to the G-20 FMCBG Meeting in Ankara, Turkey in September 2015. See http://www.imf.org/external/np/g20/pdf/2015/foreigncurrency.pdf

III. IIP DATA AVAILABILITY[5]

Economies Reporting Standard IIP Components

New IIP Reporters

7. Since September 2014, nine additional economies have submitted IIP data to STA bringing the total number to 148 countries. All G-20 economies report IIP data to STA. In the World and Regional tables published in the *2014 Balance of Payments Statistics Yearbook (BOPSY),* reported IIP data account for over 95 percent of the estimated global totals for IIP assets and liabilities.[6]

Improved Periodicity

8. Improved periodicity of IIP reporting to STA has continued. As of September 2015, 98 economies report quarterly data (compared to 84 last year), including seventeen individual G-20 economies, reflecting progress in implementing (i) Recommendation #12 of the G-20 DGI (Phase I); and (ii) the March, 2010 IMF Executive Board decision, which prescribed for SDDS subscribers the quarterly reporting of IIP data by end–September 2014.

BPM6 Implementation

9. There is also marked progress in the number of economies compiling IIP on a *BPM6*-basis: as of September 2015, 92 economies report IIP data on a *BPM6* basis, compared to 45 as of September 2014. Seventy countries report these data with quarterly periodicity.

Availability of Currency Composition Breakdowns

10. Of the 148 economies reporting IIP data to the IMF, one (Japan) has provided partial data on currency composition.[7] Some economies disseminate these data on their websites. Individual economy data are also available through different surveys for IIP subcomponents. These include partial data reported by selected economies, including the foreign/domestic currency split for the rest of the world account within the framework of the sectoral financial accounts; as well as financial instrument-specific collections undertaken by the IMF, and other international and regional agencies as follows:

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[5] The number of reporters cited in this section is based on data submissions to STA for publication in the IMF's *International Financial Statistics (IFS).*

[6] Estimates for nonreporting economies are derived from the IMF Research Department's External Wealth of Nations (EWN) database.

[7] The data submitted to STA cover information requested in *BPM6* tables A9-I.1a. and A9-I.2a. The Bank of Japan disseminates the data at http://www.boj.or.jp/en/statistics/br/bop_06/index.htm/.

- Under the IMF's **CPIS**, data on the foreign currency composition of portfolio investment assets are reported for three currencies (US dollar, Euro, and Japanese yen) identified in the IIP report form and in addition, Pound sterling and the Swiss franc. Fifty economies (mainly European) currently report these data, including 13 G-20 economies. The currency breakdown is encouraged, and under the current CPIS structure, the data are available only at the instrument level and do not include a cross-classification by institutional sector.

- Data on cross-border foreign/domestic assets/liabilities of the financial sector, particularly for the central bank and deposit taking corporations except the central bank, are generally available from **monetary and financial statistics** reported by economies to the IMF using STA's Standardized Report Forms.

- The World Bank's **Quarterly External Debt Statistics** (QEDS) provides a split between domestic currency and foreign currency of total external debt (QEDS Table 2). Thirty one economies (including nine G-20 economies) report QEDS Table 2 to the World Bank. The currency composition of external debt is also an encouraged item under the IMF's Special Data Dissemination Standard (SDDS).

- The **BIS' international banking statistics** (locational) provides a domestic/foreign currency split for assets and liabilities for all sectors and nonbank sector.

- The BIS also collects quarterly **data on securities issues** with breakdown by currency. Data reported by 53 countries and collected based on methodology described in the *Handbook on Security Statistics*. Three markets of issue are distinguished: international market, domestic market and all markets. **International debt securities are reported by type, sector, and currency of issuance.**

- The **Centralized Securities Database** (CSDB) contains data on: 1) all individual securities issued by EU residents; 2) securities likely to be held and transacted in by EU residents; and 3) securities denominated in euro, regardless of the issuer and holder. Sectoral, maturity, and currency of denomination attributions are intrinsic features of the database.

11. For **official reserve assets**, economies compiling and disseminating the **Reserves Data Template** provide as a memorandum item, a currency composition split of official reserve assets between currencies in the SDR basket, and other. The SDDS prescribes the reporting of this split at least once a year. The IMF also conducts a quarterly survey on the currency composition of official foreign exchange reserves (COFER). However, the data for individual countries are strictly confidential; at present there are 146 reporters. The currencies identified in COFER are: U.S. dollar, Pound sterling, Japanese yen, Swiss franc, Canadian dollar, Australian dollar, and the Euro. The IMF has also recently conducted an ad-hoc survey on the Holdings of Currencies in Official Foreign Currency Assets (OFCA).

Developments related to these collections are outlined in BOPCOM Paper 15/23 *Update on Reserve-Related Initiatives*.

12. The instrument-based collections highlighted above suggests that while the building blocks for developing external positions by currency breakdowns may be in place for economies with advanced statistical systems, there may also be unevenness across instruments and across resident institutional sectors in terms of capacity to produce the data. In debtor economies, for example, loan-by-loan external debt monitoring systems may allow external debt by currency and remaining maturity breakdowns to be more readily available. There are also variances in levels of data transparency, with a few economies publicly disseminating the currency composition of reserve assets, while most deem such data confidential.

IV. DGI Phase II and the IIP

13. Nonfinancial corporations (NFCs) fall under the standard *BPM6* classification of "NFCs, Households, and NPISHs."[8] In the context of the DGI Phase II Recommendation II.10 (see Box 1), **the possibility of separate identification of NFCs** is being raised, given the increased cross-border, particularly foreign currency, exposures of NFCs especially of emerging markets economies. Recommendation II.10 requests that the IMF consider this option, in collaboration with the Committee.

Box 1: Recommendation II.10: International Investment Position

The G-20 economies to provide quarterly IIP data to the IMF, consistent with the Balance of Payments and International Investment Position Manual, sixth edition (BPM6), and including the enhancements such as the currency composition and separate identification of other (non-bank) financial corporations, introduced in that Manual. IMF to monitor reporting and the consistency of IIP data, and consider separate identification of nonfinancial corporations, in collaboration with IMF Committee on Balance of Payments Statistics (BOPCOM).

14. Given the challenges in implementing the currency composition of financial assets and liabilities, G-20 economies have also suggested that an implementation timeline as well as implementation challenges be discussed at the Committee level.

V. The way Forward

15. This section outlines possible approaches for implementing the *BPM6*-based enhancements to the IIP and proposes a possible mechanism for developing data collection. A key objective is to address users' expectations while balancing the trade-off between the

[8] *BPM6* table 4.2 indicates that for NFCs, supplementary "of which" items may be provided for public corporations.

scope of required data and economies' capacity to overcome limitations of current compilation systems.

16. The development of a compilation framework to support the reporting of *BPM6*-based enhancements to the IIP is likely to be challenging, and further work is required to identify the extent to which current data sources support the compilation framework; and to determine whether the financial reporting standards employed by countries impact the scope of the data collection. A possible approach is to conduct a survey of economies' current compilation systems in order to craft a phased implementation of improved compilation practices going forward. In this regard, STA may consider:

- Conducting a survey of targeted IIP reporters on data availability, underlying methodology, and statistical techniques for compiling currency composition and remaining maturity data for specific IIP components; and

- Presenting a summary of the survey results at the next BOPCOM meeting (2016) to define implementation strategy.

17. A data reporting mechanism should also follow a tailored approach, and may include: (i) partial reporting based on available data; and (ii) defining minimum requirements for reporting data, including on reserve-related liabilities.

Questions for the Committee:

1. What are the Committee members' views on separately identifying nonfinancial corporations in the IIP data reporting framework?

2. Do Committee members support the proposed IIP survey with a summary of results to be presented to the 2016 meeting of the Committee?

3. What are Committee members' views on following a tailored approach to data reporting of the enhancements?