

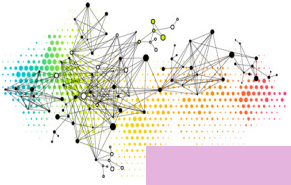


Portfolio Investment (L6)

Course on External Sector Statistics

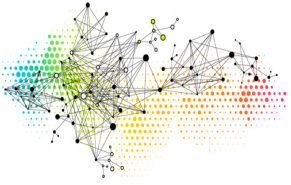
Nay Pyi Taw, Myanmar

January 19-23, 2015



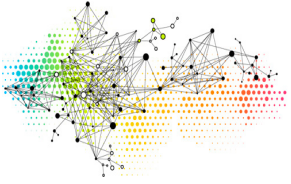
Outline

- What is portfolio investment?
 - Definitions
 - Presentation
 - Relationship with other functional categories
- Recording in BOP/IIP
 - Valuation
 - Accrued interest
- Coordinated Portfolio Investment Survey (CPIS)



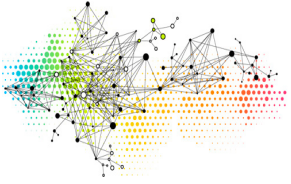
Portfolio Investment: Definition (1/2)

- Portfolio investment is defined as cross-border transactions and positions involving **equity or debt securities**, other than those included in direct investment or reserve assets (*BPM6*, para 6.54).
- The characteristic feature of securities is their **negotiability**.
 - that is, their legal ownership is readily transferable from one unit to another unit by delivery or endorsement.
- Negotiable instruments are designed to be traded on organized markets (*BPM6*, para 5.15).



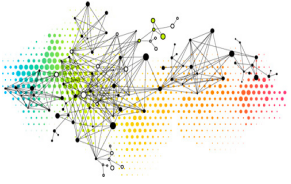
Portfolio Investment: Definition (2/2)

- Can be bought and sold
 - Often many holders/owners over their life (para 6.54).
- Which makes it a efficient, flexible way of raising and investing money
 - Money not tied/locked up
 - Investor doesn't need to get involved in management
 - Often very liquid
- Offer a range of risks and return trade-offs



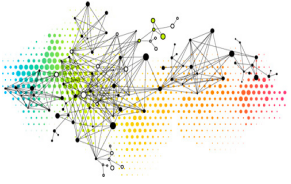
Equity Securities: Definition

- **Equity** comprises all instruments and records acknowledging **claims on the residual value** of a corporation or quasicorporation, after the claims of all creditors have been met (*BPM6*, para 5.21).
 - **Investment funds** are collective investment undertakings through which investors pool funds for investment in financial or nonfinancial assets or both. These funds issue shares (if a corporate structure is used) or units (if a trust structure is used).



Debt Securities: Definition

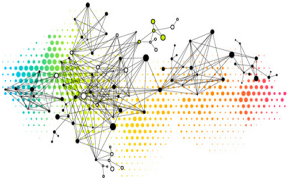
- Debt securities are negotiable instruments serving as evidence of a debt (*BPM6*, para 5.44).
- Debt instruments are those instruments that require the payment of principal and/or interest at some point(s) in the future (*BPM6*, para 5.31).



Debt Securities: Examples

- **Long-term debt securities** include:
 - Convertible bonds into equity (*BPM6*, para 5.46).
 - Nonparticipating preferred stocks (*BPM6*, para 5.46).
 - Zero-coupon and other deep-discounted bonds (*BPM6*, para 7.31)
 - Indexed bonds (*BPM6*, para 5.49)
 - Asset-backed securities (*BPM6*, para 5.47)

- **Short-term debt securities** include:
 - Treasury bills (*BPM6*, para 5.44)
 - Bankers' acceptances (*BPM6*, para 5.48)
 - Certificates of deposit (*BPM6*, para 5.44)
 - Commercial paper (*BPM6*, para 5.44)



Presentation for BOP/IIP (1/2)

1. Portfolio investment is presented by:

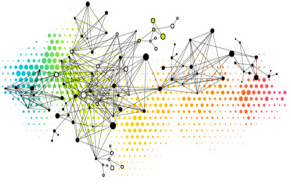
- Assets (“net acquisition of” in BOP presentation)
- Liabilities (“net incurrence of” in BOP presentation)

2. With a breakdown by instrument into:

- Equity and investment fund shares, and
- Debt securities.

3. By original maturity into:

- Long term (more than one year)
- Short term (one year or less original maturity)



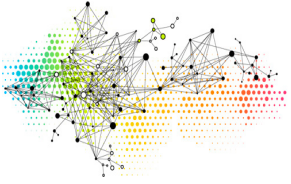
Presentation for BOP/IIP (2/2)

4. By institutional sector:

- Central bank
- Other deposit-taking corporations
- General government
- Other sectors
 - Other financial corporations
 - Nonfinancial corporations, households, and NPISHs

5. Data are presented by:

- For assets, the domestic (resident) investor/holder
- For liabilities, domestic (resident) issuer



Presentations for Additional Analytical Position Data

- **Currency composition**
 - **Table I of Appendix 9** presents the currency composition of outstanding debt claims and liabilities by currency of denomination.
- **Remaining maturity**
 - **Table IV of Appendix 9** presents the remaining maturity (of one year or less) of long-term debt liabilities to nonresidents.
- **Counterpart economy**
 - Approach adopted in the CPIS.

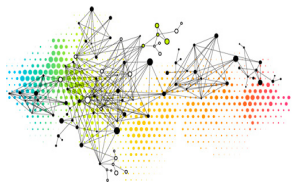
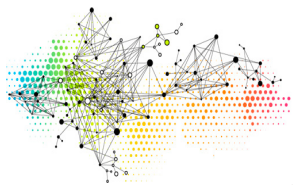


Table A9-I-1a. Debt Claims on Nonresidents

Year ... (latest year under review)

	Central bank	General government	Deposit-taking corporations, except the central bank	Other sectors ⁵			Inter- company lending ⁶	Total
				Total	OFC	Other		
Total²								
Domestic currency								
Foreign currency								
U.S. dollar								
Euro								
Yen								
Other currencies								
Unallocated ³								
Of which one year or less⁴								
Domestic currency								
Foreign currency								
U.S. dollar								
Euro								
Yen								
Other currencies								
Unallocated ³								
Reserve assets⁷								
In SDR basket								
Not in SDR basket								



(b) Remaining Maturity

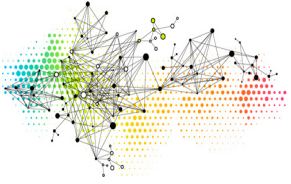
Table A9-IV. Remaining Maturity of Debt Liabilities to Nonresidents (at a reference date)¹

Specific Financial Instruments: Remaining Maturity of One Year or Less of Long-Term Debt Instruments by Sector

	Central bank	General government	Deposit-taking corporations, except the central bank	Other sectors ²			Total
				Total	OFC	Other	
Deb securities							
Trade credit and advances							
Loans							
Currency and deposits							
Other debt liabilities							
Total							

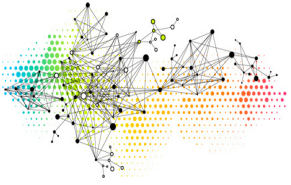
¹Table A9-IV is supplementary.

²A further breakdown for (i) Other financial corporations, and (ii) Nonfinancial corporations (except intercompany lending), households, and NPISHs is encouraged.



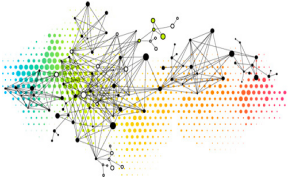
Relationship with Other Functional Categories

- The key is a different relationship between creditor (investor) and debtor (issuer):
 - **Direct investment:** Control in management (10 % voting power).
 - **Loans/deposits:** Non-negotiable debt instruments.
 - **Reserves:** the creditor is a monetary authority (or the assets are under the control of the monetary authority).
 - **Portfolio investment:** No lasting relationship/voice in management and can sell.



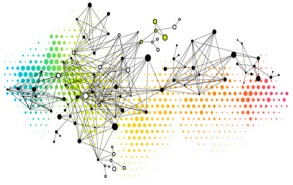
Recording: Valuation

- Portfolio investment flows (financial account)
 - At market value, not at nominal value.
- Portfolio investment positions (IIP data)
 - At market value, not at nominal value.
- Portfolio investment income
 - On equity securities: Dividends recorded when securities go ex-dividend.
 - On investment funds, reinvested earnings are also recorded.
 - On debt securities: Interest accruals, not cash basis.



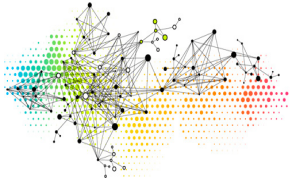
Recording: Accrued Interest

- Interest accrues to the holder on a continuing basis.
- In BOP, accrued interest is recorded with an offset (because no payment is made) in the financial account under portfolio investment—assuming interest income is reinvested in the bond.



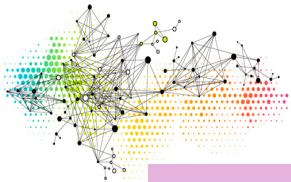
CPIS: Purpose

- Improve statistics on portfolio investment assets, through:
 - the collection of comprehensive data, with
 - geographical breakdown
- Exchange the bilateral data, so that
 - Participating countries get better insight in nonresident holdings of their resident liabilities.
- Coordinated by IMF, on a harmonized basis:
 - Same standards
 - Same concepts
 - Same report date



CPIIS: Content

- CPIIS covers holdings of asset positions (not flows).
 - Of tradable instruments (equity and debt securities)
 - Valued at market prices
 - Broken down geographically, by nonresident issuer
 - With an annual frequency (since 2001)
- IMF derives liabilities for all economies, not just those participating.
- Further recommended breakdown:
 - Sector breakdown of issuer and holder
 - Currency breakdown
 - Liabilities
 - Negative (short) positions
- Recommended: metadata



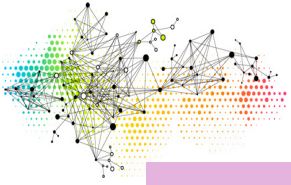
CPIS – 2013 Results

- The 2013 CPIS survey results^{1/} were posted on the IMF website in September 2014: <http://cpis.imf.org>

<i>Number of economies reporting end-2013</i>	<i>Required*</i>	<i>Encouraged Items</i>					
		<i>Sector of Holder</i>	<i>Currency Breakdown</i>	<i>Sector of Issuer</i>	<i>Cross-Sector classification</i>	<i>Liabilities</i>	<i>Short/negative positions</i>
	74	62	46	18	14	14	1

* To participate in the CPIS, an economy must provide position data of its holding of securities (separately for equity, LT debt instruments, and ST debt instruments) broken down by the economy of residency of the issuer.

^{1/} G-20 recommendations #10-11 refer to CPIS data in the context of financial interconnectedness.



CPIS – Data Enhancements

- **Frequency:** From annual to semiannual data.
- **Timeliness:** Dissemination from 11 months to 9 months after the measurement date.
- **Scope:** On an encouraged basis, the reporting of data on:
 - Institutional sector of nonresident debtor (issuer)
 - Institutional sector of resident holder cross-classified by institutional sector of nonresident issuer for 25 economies with systemically important financial sectors.
 - This provides more granular data on “from-whom-to-whom” basis
 - Short (negative) positions
- CPIS enhancements were first implemented with **end-June 2013 data** (for 56 economies) released in March 2014.



Scope the CPIS and complementary surveys

vision
ment

CPIS : Securities classified as portfolio

investment - securities held as reserve assets are excluded

SEFER : Securities held as reserve assets - part of the portfolio investment liabilities of the issuers. SEFER must supplement the CPIS in an integrated way.

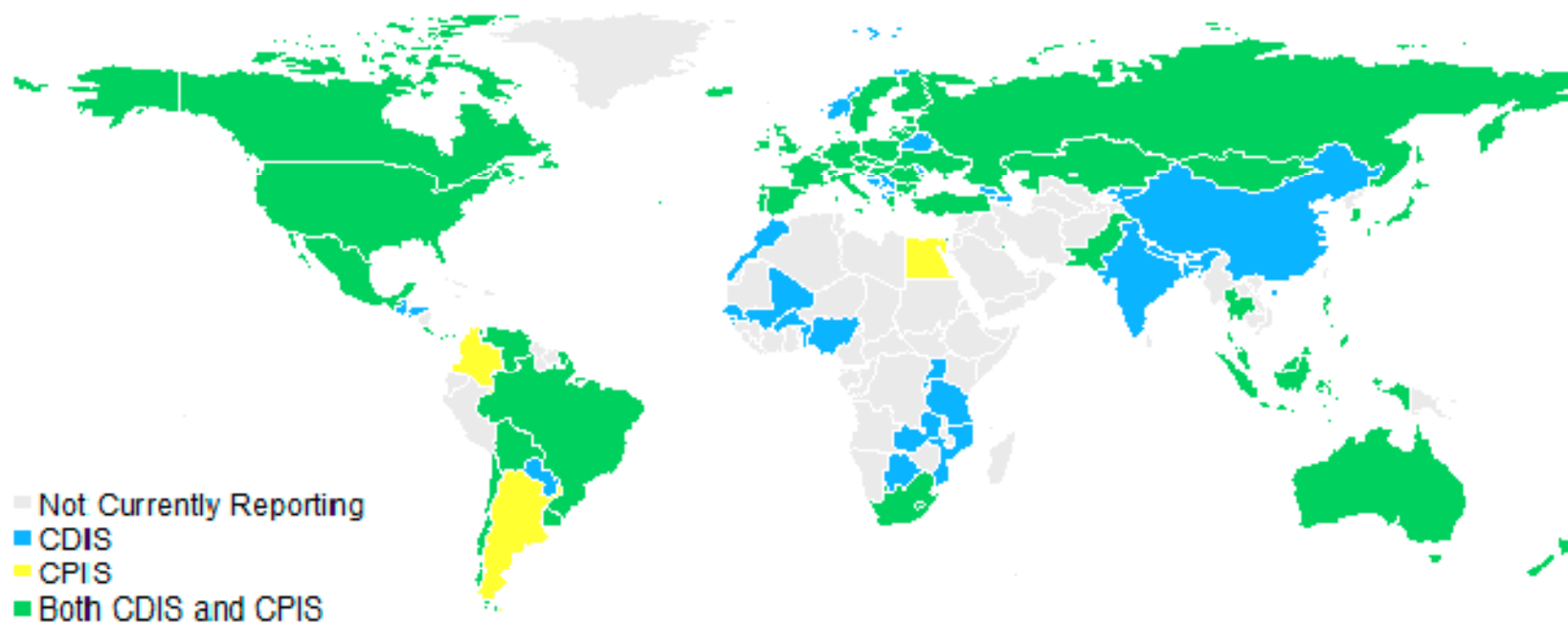
SSIO : Securities held by international

organizations - International Organizations are nonresidents of the economy in which they are located (host economy), and thus their holdings in securities are not included in the host economy's external position. By conducting the survey, the IMF seeks to facilitate the reconciliation of global portfolio investment assets and liabilities positions.





CDIS and CPIS reporters (as of October 2014)



101 CDIS reporters
74 CPIS reporters