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Financial assets classification

FOR INFORMATION

**INTERNATIONAL RESERVES**

by International Monetary Fund

## International Reserves

1. This document is a short report from IMF Committee on Balance of Payments Statistics (Committee) to the Advisory Expert Group on National Accounts (AEG) setting out the work on international reserves issues by the Committee that is directly relevant to the revision of the IMF's *Balance of Payments Manual*, fifth edition (*BPM5*). Clearly, international reserves affect the external accounts, and so are primarily a balance of payments issue but reserves are also covered in the *System of National Accounts, 1993 (1993 SNA)* in paragraph 11.61.

2. The work on reserves is just starting. Essentially, the intention is to update *BPM5* for changes introduced in the *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (Guidelines)*<sup>1</sup> (see ahead) and to take account of and discuss issues that have arisen since the *Guidelines* were drafted in 2000. At its meeting in June 2005, the Committee agreed the issues to be addressed and created an *ad hoc* technical group, denominated Reserves Assets Technical Expert Group (RESTEG), to provide the Committee with its expert advice.

3. The list of the key issues that RESTEG will address is attached.<sup>2</sup> The issues primary relate to the conditions under which an asset is to be classified as a reserve asset, and not the recognition of assets as such. In this sense the work is relevant for the functional category classification of assets in the balance of payments. The issue of SDR as a liability is the subject of a separate paper for the AEG.

4. Some of the issues are drawn from the outreach seminars in 2004 and 2005 on international reserves that the IMF's Statistics Department (STA) has undertaken in different regions. The seminars have provided a venue for country experts to review experiences in compiling the template data, to understand and attempt to resolve outstanding issues, and to improve the coverage and accuracy of the data.

5. This work is set against the background of a considerable amount of methodological development on reserves since the publication of the *1993 SNA* and *BPM5*. Data deficiencies, as revealed by the financial crises of the 1990s, inter alia, stimulated the need for clearer dissemination standards and comprehensive methodological guidelines on international reserves. These needs were addressed with the introduction of the Data Template in 2000 as a new requirement of the Special Data Dissemination Standard (SDDS) and with the publication of the *Guidelines*. While the *Guidelines* are based on *BPM5* they provide considerably more detailed explanations on what constitutes a reserve asset and cover not just reserve assets but related flows and positions.

6. While the scope of the *Guidelines* is wider than that of reserve assets covered in *BPM5*, the *Guidelines* will need to be amended to be consistent with the new *Manual*. Given

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<sup>1</sup> The *Guidelines* are available at <http://dsbb.imf.org/Applications/web/sddsguide/>

<sup>2</sup> The full list of issues to be addressed in the revision of *BPM5* are set out in the paper "Revision of *BPM5*: Issues on International Reserves" is available at: <http://www.imf.org/external/pubs/ft/bop/2005/05-70.pdf>

this, it was proposed that the RESTEG could continue after it has completed its work on reserve assets, to discuss the revision of the *Guidelines*, although the composition of members could be reassessed. The Committee would decide at its annual 2006 meeting whether to extend RESTEG's work into the issues affecting the revision of the *Guidelines*.

**Box 1. Working Arrangements for the Review of International Reserves Methodological Issues for the Revision of the *BPM5***

The establishment of the Reserve Assets Technical Expert Group (RESTEG) was endorsed by the IMF Committee on Balance of Payments Statistics (the Committee) at its meeting in June 2005.

The main objective of the RESTEG is to advise the Committee, in the process of revising the fifth edition of the *Balance of Payments Manual (BPM5)* for reserve assets, by providing recommendations to the Committee on issues identified in BOPCOM Paper 05/70 as having implications for the revision. Subject to the agreement of RESTEG, additional issues relating to reserve assets can be added. Subject to the Committee's concurrence, after it has completed its work on reserve assets on the *BPM5* revision, RESTEG can discuss and make proposals to the Committee on the issues in BOPCOM 05/70 relating to the revision of the *Data Template on International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (Guidelines)* (Appendix II of BOPCOM Paper 05/70). There is no intention to change the Data Template and so this topic will be considered out of the scope of RESTEG. Issues paper(s) will be prepared by RESTEG's Secretariat.

The RESTEG will provide (i) by September 2006, recommendations to the Committee for treating the issues identified in BOPCOM 05/70 that have implications for the revision of *BPM5*; and if work continues, (ii) by September 2007, proposals to the Committee on the other reserve assets and international liquidity issues identified in Appendix 1 of BOPCOM 05/70. Decisions on the acceptance of RESTEG recommendations for the revision of *BPM5* reside with the Committee.

Economies and international organizations that provide members to the RESTEG are Bahrain, Brazil, Egypt, Germany, Hong Kong SAR People's Republic of China, Hungary, Japan, Korea, Mexico, Russian Federation, Singapore, South Africa, United Kingdom, United States, Bank of Central African States (BEAC), Bank for International Settlements (BIS), European Central Bank (ECB), and IMF.

**LIST OF TOPICS FOR CONSIDERATION BY THE  
RESERVE ASSETS TECHNICAL EXPERT GROUP (RESTEG)**

	<b>Name of Issue</b>	<b>Brief Description of Issue</b>
1.	Characteristics of Instruments Classified as Reserve Assets <ul style="list-style-type: none"> <li>• <b>Pledged Assets</b></li> </ul>	The <i>Data Template Guidelines</i> provide a clear view on the treatment of pledged assets, and it is proposed that the new <i>Manual</i> adopts the <i>Guidelines</i> ' text. These principles could also apply to encumbrance and ring fencing arrangements, that limit usability of foreign currency assets held by the monetary authorities. In the light of country experience, further clarification on the treatment of pledged assets and collateral guarantees could be considered.
2.	Characteristics of Instruments Classified as Reserve Assets <ul style="list-style-type: none"> <li>• <b>Foreign Currency</b></li> </ul>	Only foreign assets are eligible as reserve assets in line with the <i>Guidelines</i> . Nonconvertible foreign currency assets will not be included. Issues such as the inclusion in reserve assets of the monetary authorities' holdings of non convertible currencies of neighboring countries used for trade could be discussed.
3	Characteristics of Instruments Classified as Reserve Assets <ul style="list-style-type: none"> <li>• <b>Currency of Denomination</b></li> </ul>	Currency of denomination and that of settlement are different in some financial instruments. In this context, indexation of assets to another currency is also relevant. There is no clear guidance in <i>BPM5</i> , nor the <i>Guidelines</i> on the treatment of such assets.
4.	Characteristics of Instruments Classified as Reserve Assets <ul style="list-style-type: none"> <li>• <b>Liquidity (marketability)</b></li> </ul>	Marketability is a relevant factor for determining an asset's liquidity. But can marketability be better defined than at present?
5.	Treatment of Specific Instruments/Transactions <ul style="list-style-type: none"> <li>• <b>Investment Funds</b></li> </ul>	Some countries have renewed interest in the creation of investment funds in their different modalities, similar to those created by oil producing countries in last decades. What criteria in addition to: a) liquidity of the assets; b) claims on nonresidents, and c) under the effective control and readily available to the monetary authorities, can help determine if the external assets of investment funds can be considered as reserve assets?
6.	Treatment of Specific Instruments/Transactions <ul style="list-style-type: none"> <li>• <b>Pooling Assets</b></li> </ul>	Pooling arrangements are collective investment schemes under which funds collected from participants are held in an investment vehicle that conduct re-investments. Such schemes raise issues not only on availability for use and the effective control of the monetary authorities over the assets but also cases in which (i) the funds may be re-invested in residents liabilities, and where (ii) the fund's assets might be re-invested in assets denominated in a country's own currency. Clearer guidance on the treatment and classification of such arrangements is needed.

	<b>Name of Issue</b>	<b>Brief Description of Issue</b>
7.	Treatment of Specific Instruments/Transactions <ul style="list-style-type: none"> <li>• <b>Treatment of Bank Deposits in Resident Banks</b></li> </ul>	<i>BPM5</i> and the <i>Guidelines</i> permit the inclusion in reserves of foreign assets to which commercial banks have title, but which are under the direct and effective control of the monetary authorities. However, recording practices differ from country to country. Tightening up the existing <i>BPM5</i> exceptions may be warranted.
8.	Treatment of Specific Instruments/Transactions <ul style="list-style-type: none"> <li>• <b>Treatment of Reverse Transactions</b></li> </ul>	Should the option for recording repos, set out in paragraph 85 of the <i>Guidelines</i> be restricted, leaving the solution in paragraph 85 (i) as the single approach to adopt for repos and related activities? Changing the guidance would: a) avoid overstatements of reserve assets, and; b) uniform treatment of reverse transactions, improving international comparability of reserve data.
9.	Treatment of Reserve Related Liabilities <ul style="list-style-type: none"> <li>• <b>Reserve Related Liabilities</b></li> </ul>	Data on reserve liabilities of the monetary authorities are among those required for Fund surveillance and other users have expressed interest in this concept. Should it be introduced into the updated <i>BPM5</i> and, if so, how is the concept to be defined. Regarding the latter the <i>Balance of Payments Textbook</i> (paragraphs 625-640) and Data Template (Section II) can be drawn upon.
10.	Treatment of Reserve Related Liabilities <ul style="list-style-type: none"> <li>• <b>Liability Aspects of SDRs</b></li> </ul>	SDRs have some liability-like aspects: interest can be incurred on SDRs and a country is required to repay its allocation of SDRs when the country leaves the membership of the Fund. Also, arrears on SDRs related payments are liabilities. Should SDRs that are allocated be classified as (unconditional) liabilities, at present they are not liabilities in the <i>BPM5</i> nor <i>SNA</i> , and if so, how could such liabilities be incorporated into the framework?