

Chapter 6

Functional Categories in External Accounts

A. Introduction

6.1 The functional categories¹ are the primary classification used for each of financial transactions, positions, and income in the international accounts. Five functional categories of investment are distinguished in the external accounts:

- (a) direct investment,
- (b) portfolio investment,
- (c) financial derivatives (other than reserves) and employee stock options,
- (d) other investment, and
- (e) reserve assets.

6.2 The functional categories are built on the classification of financial assets and liabilities discussed in Chapter 5, but with an additional dimension that takes into account some aspects of the relationship between the parties and the motivation for investment. The functional categories are designed to facilitate analysis by distinguishing categories that exhibit different economic motivations and patterns of behavior.

6.3 While linked to the classification of financial assets and liabilities, the functional categories highlight features that are particularly relevant for understanding cross-border financial flows and positions. For example, a loan can appear under direct investment or other investment, but the different

¹The term functional classification is also used in different contexts in other areas of statistics, such as the classification of the functions of government.

nature of the relationship between the parties in these two cases has analytical significance because the risks and motivations behind the transaction may be different.

6.4 A different relationship exists between the counterparties for portfolio investors compared with direct investors. Direct investment is related to control or a significant degree of influence² and tends to be associated with a lasting relationship. As well as funds, direct investors may supply additional contributions such as know-how, technology, management, and marketing. Furthermore, enterprises in a direct investment relationship are more likely to trade with and finance each other.

6.5 In contrast to direct investors, portfolio investors typically have less of a role in the decision making of the enterprise with potentially important implications for future flows and for the volatility of the price and volume of positions. Portfolio investment differs from other investment in that it provides a direct way to access financial markets, and thus it can provide liquidity and flexibility. It is associated with financial markets and with their specialized service providers, such as exchanges, dealers, and regulators. The nature of financial derivatives as instruments through which risk is traded in its own right in financial markets sets them apart from other types of investment. Whereas other instruments may also have risk transfer elements, these other instruments also provide financial or other resources.

6.6 Reserve assets are shown separately because they serve a different function and thus are managed in different ways from other assets. Reserve assets include a range of instruments that are shown under other categories when not owned by monetary authorities. As reserve assets, however, they have the distinct motive to meet balance of payments financing needs and undertake market intervention to influence the exchange rate.

6.7 Monetary and financial statistics and flow of funds data primarily use the instruments classification, as shown in Chapter 5, so it is desirable that data on the same basis can be derived

² In the context of direct investment, the terms "significant degree of influence" and "influence" have the same intent and are used interchangeably.

from the external accounts for compatibility. Table 6.1 shows the linkages between the financial assets classification shown in Chapter 5 and the functional categories shown in this chapter.

Table 6.1. Link between Financial Assets Classification and Functional Categories
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2025 SNA Financial Assets and Liabilities Classification	Functional categories				
	DI	PI	FD	OI	RA
AF1 Monetary gold and SDRs					
AF11 Monetary gold					
Gold bullion					X
Unallocated gold accounts					X
AF12 special drawing rights				X ¹	X ¹
AF2 Currency and deposits					
AF21 currency				X	X
AF22 transferable deposits					
AF221 interbank positions				X	X
AF229 other transferable deposits	X			X	X
AF29 other deposits	X			X	X
AF3 Debt securities	X	X			X
AF4 Loans	X			X	X
AF5 Equity and investment fund shares					
AF51 Equity					
AF511 listed shares	X	X			X
AF512 unlisted shares	X	X			X ²
AF519 other equity and equity in international organizations	X			X	
AF52 Investment fund shares/units					
AF521 money market fund shares/units		X			X
AF522 other investment fund shares/units		X		x	X
AF6 Insurance, pension, and stand. guarantee schemes					
AF61 nonlife insurance technical reserves	x			X	
AF62 life insurance and annuity entitlements	x			X	
AF63 pension entitlements				X	
AF64 claims of pension funds on pension managers	X			X	
AF65 entitlements to nonpension benefits				X	
AF66 provisions for calls under standardized guarantees	X			X	
AF7 Financial derivatives and employee stock options					
AF71 Financial derivatives					
AF711 forward-type contracts			X		X
AF712 options			X		X
AF72 employee stock options			X		
AF8 Other accounts receivable/payable					
AF81 trade credit and advances	X			X	
AF89 other accounts receivable/payable	X			X	

Note: DI—direct investment; PI—portfolio investment; FD—financial derivatives (other than reserves) and employee stock options; OI—other investment; RA—reserve assets. X shows applicable functional categories (x shows cases considered to be relatively uncommon) for the most detailed instrument categories.

¹SDRS: assets = reserve assets; liabilities = other investment.

²unlisted shares must be liquid, as stated in paragraph 6.87.

B. Direct Investment

References:

Organization for Economic Cooperation and Development (OECD), *OECD Benchmark Definition of Foreign Direct Investment*, fifth edition.

IMF, *Coordinated Direct Investment Survey Guide*.

1. Definition of direct investment

6.8 *Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. As well as the equity that gives rise to control or influence, direct investment also includes investment associated with that relationship, including investment in indirectly influenced or controlled enterprises (paragraph 6.12), investment in fellow enterprises (see paragraph 6.17), debt (except selected debt set out in paragraph 6.28), and reverse investment (see paragraph 6.40). The Framework for Direct Investment Relationships (FDIR) provides criteria for determining whether cross-border ownership results in a direct investment relationship, based on control and influence.³ The definition of direct investment is the same as in the fifth edition of the *OECD Benchmark Definition of Foreign Direct Investment*, which provides additional details on the FDIR and the collection of direct investment data. Annex 6, Selected Issues on Direct Investment, provides an overview of direct investment by pulling together*

³The coverage of direct investment is determined from the relationship between the owner and issuer of the financial instrument. That is, it is not determined from the relationship between the buyer and the seller of the instrument. For example, if a direct investor buys shares in its direct investment enterprise from an unrelated party, the direct investor will classify the purchase as direct investment. As the seller of the shares classifies the sale under portfolio investment, this recording may result in bilateral asymmetry.

relevant information from the main part of the *Manual* and also presents more details on specific issues pertaining to direct investment.

a. Definition of a direct investment relationship

6.9 *A direct investment relationship arises when an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy.* Operational definitions of control and influence are given in **paragraph 6.12**. Enterprises in a direct investment relationship with each other are called affiliates or affiliated enterprises. In addition, all enterprises that are under the control or influence of the same direct investor are considered to be in a direct investment relationship with each other.

6.10 Because there is control or a significant degree of influence, direct investment tends to have different motivations and to behave in different ways from other forms of investment. As well as equity (which is typically associated with voting power), the direct investor may also supply other types of finance, as well as know-how. Direct investment tends to involve a lasting relationship, although it may be a short-term relationship in some cases. Another feature of direct investment is that decisions by enterprises may be made for the group as a whole.

b. Definitions of direct investor and direct investment enterprise

6.11 *A direct investor is an entity or group of related entities that is able to exercise control or a significant degree of influence over another entity that is resident of a different economy. A direct investment enterprise is an entity subject to control or a significant degree of influence by a direct investor.*⁴ In some cases, a single entity may be, at the same time, a direct investor, a direct investment enterprise, and a fellow enterprise (defined in **paragraph 6.17(c)**) in its relationships to other enterprises.

⁴ An exception is investment funds, which cannot be direct investment enterprises as investments in negotiable investment funds shares are always considered to be portfolio investment. Shares in investment funds are included in other equity and equity in international organizations under other investment when they are not negotiable.

c. Definitions of control and influence—definitions of immediate and indirect relationships

6.12 Control or influence may be achieved directly by owning equity that gives voting power in the enterprise, or indirectly by having voting power in another enterprise that has voting power in the enterprise. Accordingly, two ways of having control or influence are identified:

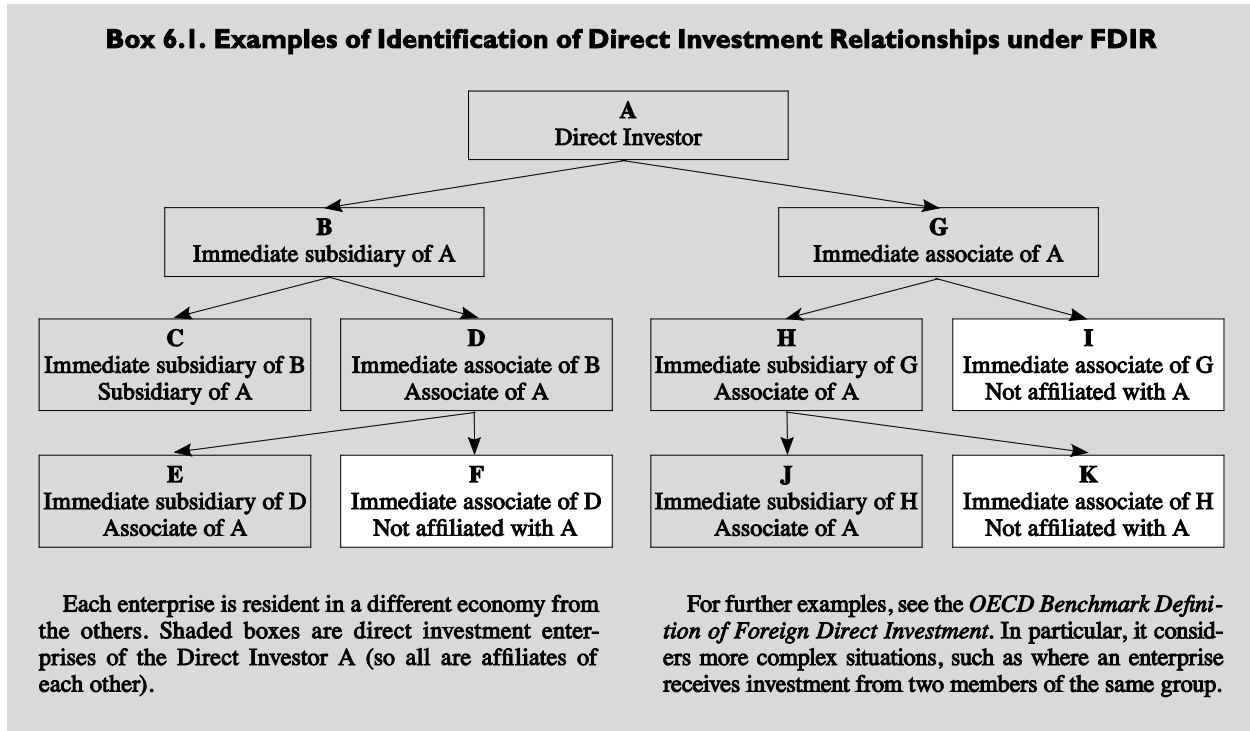
(a) **Immediate direct investment relationships** arise when a direct investor directly owns equity that entitles it to **10 percent or more** of the voting power in the direct investment enterprise.

- Control is determined to exist if the direct investor owns more than 50 percent of the voting power in the direct investment enterprise.
- A significant degree of influence is determined to exist if the direct investor owns from 10 to 50 percent of the voting power in the direct investment enterprise.

(b) **Indirect direct investment relationships** arise through the ownership of voting power in one direct investment enterprise that owns voting power in another enterprise or enterprises, that is, an entity is able to exercise indirect control or influence through a chain of direct investment relationships. For example, an enterprise may have an immediate direct investment relationship with a second enterprise that has an immediate direct investment relationship with a third enterprise. Although the first enterprise has no equity in the third enterprise, it may be able to exercise indirect control or influence, according the FDIR criteria specified in **paragraph 6.14**.

In addition to direct investment relationships between two enterprises that arise because one enterprise controls or influences the other, there are also direct investment relationships between two enterprises that do not control or influence each other, but that are both under the control or influence of the same investor (i.e., fellow enterprises, as discussed in **paragraph 6.17**).

6.13 In practice, effective control or influence may arise in some cases with less than these percentages. These definitions should be used in all cases, however, for international consistency and to avoid subjective judgments.



Note: See paragraph 6.15 for the definitions of subsidiary and associate.

6.14 The principles for indirect transmission of control and influence through a chain of ownership for the purposes of paragraph 6.12(b) are as follows:

- (a) Control can be passed down a chain of ownership as long as control exists at each stage.
- (b) Influence can be generated at any point down a chain of control.
- (c) Influence can be passed only through a chain of control but not beyond.

Whereas the FDIR applies a criterion of 10 percent or more of voting power for immediate direct investment, transmission through chains of ownership is not linked to a particular equity share, but a chain of control. For example, a chain of ownership of enterprises with each link

involving 60 percent of the voting power involves a chain of control, even though the indirect equity by the top enterprise is 36 percent at the second level (i.e., 60 percent of 60 percent), 21.6 percent at the third level (i.e., 60 percent of 36 percent), and so on. The application of these principles may be understood more readily from Box 6.1 and by numerical examples in the *OECD Benchmark Definition of Foreign Direct Investment*.

d. Definitions of subsidiaries, associates, fellow enterprises, and affiliates

6.15 In regard to its relationship with a direct investor, a direct investment enterprise is either a subsidiary or an associate:

- (a) *A subsidiary is a direct investment enterprise over which the direct investor is able to exercise control.*
- (b) *An associate is a direct investment enterprise over which the direct investor is able to exercise a significant degree of influence, but not control.*

Control and influence are defined in **paragraph 6.12** and may arise from an immediate relationship or in indirect relationship through a chain of ownership. The terms subsidiary and associate refer to both incorporated and unincorporated enterprises. The FDIR makes no distinction on the basis of incorporation, so directly owned branches (**see paragraph 4.xx**) are always treated as subsidiaries.

6.16 Under the FDIR, an entity is a direct investor in another entity where the second entity is

- (a) an immediate subsidiary of the direct investor;
- (b) an immediate associate of the direct investor;
- (c) a subsidiary of a subsidiary of the direct investor (also considered to be an indirect subsidiary of the direct investor);

- (d) a subsidiary of an associate of the direct investor (also considered to be an indirect associate of the direct investor); or
- (e) an associate of a subsidiary of the direct investor (also considered to be an indirect associate of the direct investor).

However, no direct investor–direct investment enterprise relationship exists in cases in which the entity is an associate of an associate of the direct investor. In this case, the ability of the investor to influence the management of the entity is considered to have become too diluted to be significant.

(These principles are illustrated in Box 6.1.)

6.17 Affiliates of an enterprise consist of:

- (a) *its direct investor(s), both immediate and indirect;*
- (b) *its direct investment enterprises, whether subsidiaries (including branches and other quasi-corporations), associates, or subsidiaries of associates, both immediate and indirect; and*
- (c) **fellow enterprises**, *that is, those enterprises that are under the control or influence of the same immediate or indirect investor, but neither of the enterprise controls or influences the other enterprise. Often the direct investor and fellow enterprises are all in different economies, but sometimes the direct investor is in the same economy as one of the fellow enterprises (in which case, it is not a direct investor in that fellow enterprise). This situation is more likely to arise in economies that do not use a local enterprise group as the statistical unit for direct investment purposes.*

All affiliates are in a direct investment relationship with each other. The term affiliated enterprises is also used, because affiliates are almost always enterprises (the exception is a direct investor that is an individual, household, or government).

6.18 Some practical difficulties may be encountered in applying the FDIR in full, and thus similar methods—such as the participation multiplication method and the direct influence and indirect control

method-may be adopted. For details, see *OECD Benchmark Definition of Foreign Direct Investment* and the IMF's *Coordinated Direct Investment Survey Guide*.

e. Requirements for a direct investment relationship

6.19 Voting power is obtained as a result of ownership of equity. When decisions are made on a one-share one-vote basis, voting power is in the same proportion as the ownership of ordinary shares. In some cases, voting power can be exercised without commensurate ownership of shares. For instance, for unincorporated entities, including foundations, there are no shares in the sense of a tradable instrument.⁵ Additionally, voting power may be greater or less than percentage of shares held when there are “golden shares” or dual classes of shares (i.e., in cases in which nonvoting shares or some shares have higher weights that allow one or more parties to exercise voting power disproportionately to their share ownership). However, voting power is not recognized if temporarily obtained through repurchase agreements (because no change in the economic ownership of the shares has occurred) or through the holding of warrants (because the warrant holder does not possess voting power until the warrants are exercised). In addition, as elaborated in the FDIR, one entity may obtain voting power indirectly in an enterprise by owning shares in an intermediate entity or through chains of intermediate entities that, in turn, own shares in the enterprise.

6.20 A direct investor could be:

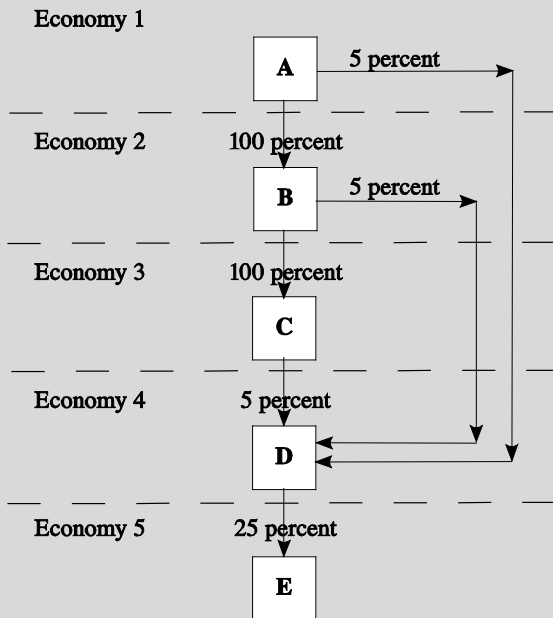
- (a) an individual or household;
- (b) an enterprise, incorporated or unincorporated, public or private;
- (c) an investment fund;
- (d) a government, central bank, or international organization. Special treatments for governments that have direct investment enterprises for fiscal purposes are discussed in paragraphs 8.24–8.26;

⁵ Voting power is typically assigned based on governance structures such as bylaws, partnership agreements, or trust deeds.

- (e) a nonprofit institution investing in an enterprise that operates for profit; however, the relationship between two nonprofit institutions is excluded from direct investment;
- (f) an estate, trustee in bankruptcy, or other trust; or
- (g) any combination of two or more of the above.

6.21 For two or more individuals or other entities to be considered a combination, and thus be regarded as a single direct investor, they must be in a direct investment relationship or have a family relationship (in the case of individuals). The different individuals or other entities must be resident in the same economy as each other. They cannot include any investor that is a resident of the same economy as the direct investment enterprise. Equity ownership in an enterprise held by a group of related investors acting in combination can be summed to establish either control or influence. However, equity held by an associate is not summed with that from any other enterprise to establish either control or influence because influence is not able to be passed unless there is control of the next affiliate (this concept is illustrated in **Box 6.2**). [Annex 4, *BD4*] also provides further elaboration and examples on entities under direct investment relationship.

Box 6.2. Direct Investment Relationships with Combination of Investors



A is a direct investor in D because its own immediate ownership of voting power in D, **in combination** with its control over B and C's stakes in D, means that A has 15 percent of the voting power in D.

For the same reason, B is also a direct investor in D (10 percent of voting power).

C is not a direct investor in D; however, it is a fellow enterprise of D (because C and D have A and B as direct investors in common).

D is a direct investor in E, however E is not in a direct investment relationship with A, B, or C, because in combination, they do not control D, and D does not control E.

If A's voting power in B were only 49 percent, A would not be a direct investor in D, because it does not have control over B, so A's and B's stakes in D are not combined.

6.22 A government may be a direct investor. Special treatments of positions and transactions apply when a government has a direct investment enterprise that is used for fiscal purposes, discussed further in **paragraphs 8.24–8.26**. If a government equity holding could qualify as both direct investment and reserve assets, it is included in direct investment, whereas debt instruments are classified as reserve assets provided that the reserve asset criteria are met (see also **paragraph 6.98**).

6.23 A nonprofit institution may not be a direct investment enterprise, as it is not created with the intention of repatriating earnings to its investor. However, a nonprofit institution may be a direct investor in a for-profit entity.

6.24 A direct investment enterprise is always a corporation (which as a statistical term includes branches, notional resident units, trusts, other quasi-corporations, as well as incorporated entities) with the following exceptions. Regarding central banks and NPISHs, they can be direct investors, but can't be direct investment enterprises as they are not created with the intention of repatriating earnings to their investors.⁶ Likewise, investment funds (MMF and non-MMF) can be director investors, but they cannot be direct investment enterprises as investments in investment funds shares are always considered to be portfolio investment or other investment. Because a direct investment enterprise is owned by another entity, households or governments can be direct investors, but they cannot be direct investment enterprises. A public corporation, as defined in paragraphs 4.108–4.112, in some instances also may be a direct investment enterprise.

2. Coverage of direct investment as a functional category

6.25 Direct investment covers most financial transactions and positions between affiliates resident in different economies. Investment income associated with direct investment positions is also included in direct investment. The exceptions are noted in paragraphs 6.28–6.29 and 6.32. Issues associated with investment income on direct investment equity and debt instruments are covered in paragraphs 12.xx-xx.

a. Coverage of debt between affiliates

⁶ Most of the central banks share their surpluses with respective governments although their intention is not to generate profits unlike other entities in the financial corporations sector, which are market producers.

Definition of intercompany lending

6.26 *Intercompany lending is used to describe direct investment debt positions between affiliated enterprises.* It includes debt instrument transactions and positions other than those excluded by **paragraph 6.28**; it is not limited to loans. As shown in **Tables I and III** in Appendix 14, Standard Components and Selected Other Items, and *External Debt Statistics: Guide for Compilers and Users*, intercompany lending is identified separately from other debt for debt analysis, because this lending has different implications for risk and vulnerability compared with debt between unrelated parties. Splits of intercompany lending by type of instrument and maturity are supplementary items that allow comparability with national accounts and financial statistics.

6.27 Although debt and other financial claims that do not involve voting power are not relevant to defining a direct investment relationship, they are included in direct investment transactions and positions if a direct investment relationship exists between the parties. Debt instruments other than monetary gold, SDRs, currency, interbank positions, and pension and related entitlements potentially can be included in direct investment. However, transactions between affiliates in financial assets issued by an unrelated third party are not direct investment transactions. Insurance technical reserves are included in direct investment when the parties are in a direct investment relationship. For example, reserves may arise from reinsurance contracts between affiliated insurance corporations. They also arise with captive direct insurance. (A captive insurance company writes insurance policies largely or entirely with its owners and other affiliates.)

Coverage of debt between selected affiliated financial corporations

6.28 Debt between selected affiliated financial corporations is not classified as direct investment because it is not considered to be so strongly connected to the direct investment relationship. The financial corporations covered by this case are:

- (a) deposit-taking corporations (both central banks and deposit-taking corporations other than the central bank);
- (b) investment funds; and
- (c) other financial intermediaries except insurance corporations and pension funds.

In other words, the usual direct investment definitions apply for captive financial institutions and money lenders, insurance corporations, pension funds, and financial auxiliaries. (These subsectors are defined in **Chapter 4, Section D**; debt instruments are defined in **paragraphs 5.31–5.33**.) All debt positions between the selected types of affiliated financial corporations are excluded from direct investment and are included under portfolio (e.g., debt securities) or other investment (e.g., loans, deposits). Both affiliated parties must be one of the selected types of financial corporations, but they need not be the same type. Table 6.2 summarizes the functional category of debt between affiliated enterprises.

Table 6.2. Functional Category of Debt Between Affiliated Enterprises

		Liabilities			
		Deposit-taking corporations (S121/S122)	Investment funds (S123/S124)	Other financial intermediaries except insurance corporations and pension funds (S125)	Other sectors ¹
Assets	Deposit-taking corporations (S121/S122)	OI (or PI)	OI (or PI)	OI (or PI)	DI
	Investment funds (S123/S124)	OI (or PI)	OI (or PI)	OI (or PI)	DI
	Other financial intermediaries except	OI (or PI)	OI (or PI)	OI (or PI)	DI

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	insurance corporations and pension funds (S125)				
	Other sectors ¹	DI	DI	DI	DI

Note: DI—direct investment; PI—portfolio investment; OI—other investment

¹ Include General Government (S13), Other financial institutions (S126/S127/S128/S129), Non-financial corporations (S11) and households and Non-profit Institutions Serving Households (S14/S15).

b. Coverage of other financial instruments

6.29 Financial derivatives and employee stock options are excluded from direct investment and included in the functional category financial derivatives (other than reserves) and employee stock options.

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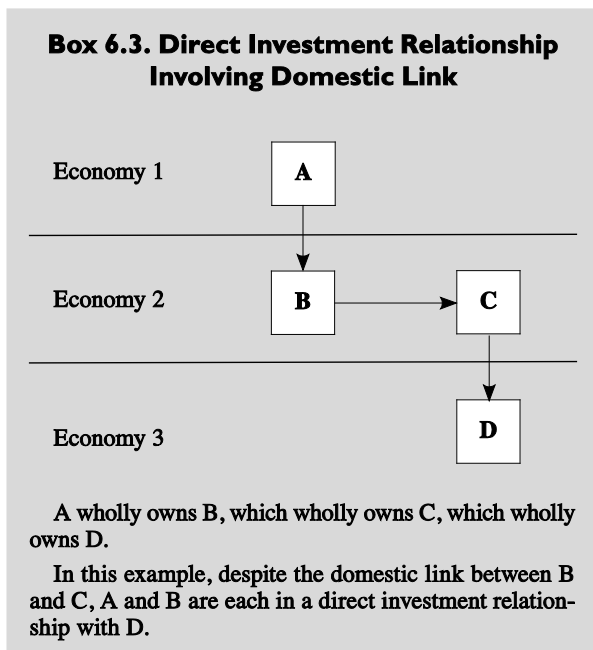
6.31 Direct investment may include real estate investment, including investment properties and vacation homes. As discussed in paragraphs 4.26–4.40, branches or notional units are identified when nonresidents own real estate and other natural resources. The normal ownership threshold for influence or control under the FDIR is applied. Because it may have different motivations and economic impact from other direct investment, if real estate investment is significant, compilers may wish to publish data on such investment separately on a supplementary basis.

6.32 Equity in international organizations is excluded from direct investment, even in cases in which voting power is 10 percent or more, and included in other investment—other equity and equity in international organizations.. Equity in international organizations would not generally qualify as reserve assets because of the lack of ready availability (see paragraph 6.69).

c. Pass-through funds

6.33 “Pass-through funds” or “funds in transit” are funds that pass through a direct investment enterprise resident in an economy to an affiliate in another economy, so that the funds do not stay in the economy of the first enterprise. Such flows have little impact on the economy they pass through. Special purpose entities, holding companies, and financial institutions that serve other nonfinancial affiliates are particularly associated with funds in transit, but other enterprises may also have pass-through funds in direct investment flows. Identifying these flows in practice is complicated.

6.34 Pass-through funds are included in direct investment in standard presentations because:



Income flows and position between A and B should reflect the investment in and income from C as well as D.

- (a) they are an integral part of a direct investor’s financial transactions and positions with affiliated enterprises;
- (b) the exclusion of these funds from direct investment would distort and substantially understate direct investment financial flows and positions at aggregate levels; and
- (c) the inclusions of these data in direct investment promotes symmetry and consistency among economies.

However, for the economies through which the funds pass, it is useful to identify inflows and outflows not intended for use by the entity concerned. This *Manual* recommends a supplemental framework for the statistics by ultimate investing economy (UIE), ultimate host economy (UHE), and pass-through funds. Primarily, the supplemental framework will be applied to the development of direct investment statistics by UIE and UHE that could be used in turn to derive aggregates on pass-through funds. Annex 6 and the *OECD Benchmark Definition of Foreign Direct Investment* provides detailed guidance on this supplemental framework.

d. Effect of domestic ownership links on direct investment relationships

6.35 To identify direct investment relationships, the FDIR does not exclude ownership links between enterprises resident in the same economy. Although any transactions and positions between enterprises in the same economy are not included in external accounts, it is possible that a direct investor may have a chain of control or influence in which one link in the chain is a resident-to-resident relationship. Such a relationship does not preclude a direct investment relationship between two enterprises that are resident in different economies from each other. (This case is illustrated in Box 6.3.)

e. Beginning and ending direct investment relationships

6.36 The whole of the transaction that reaches or surpasses the threshold of 10 percent or more of voting power is included under direct investment. Any transactions before that point are not generally classified as direct investment (with the exception of reverse investment—defined in **paragraph 6.37(b)**—and investment in other affiliates). Any prior positions are shown as being reclassified at the time that the direct investment relationship comes into existence (reclassifications are discussed in **paragraphs 9.13–9.20**). For example, if the direct investor previously had 9 percent of voting power, then acquired 2 percent more, there would be a direct investment transaction by the purchaser involving 2 percent of voting power, and the reclassification entries in the other changes in

financial assets and liabilities account would show a reduction of portfolio investment involving the previously held 9 percent and a corresponding increase in direct investment. Subsequent transactions up to and including a transaction that takes the voting power below 10 percent are classified as direct investment. Once the direct investment equity threshold has been crossed (either upward or downward), any debt positions between the parties should also be changed by a reclassification entry in the other changes in volume account.

3. Types of direct investment transactions and positions

6.37 In the standard components, direct investment is classified according to the instruments (equity and debt instruments) and sectors (central bank; deposit-taking corporations except the central bank; general government; other financial corporations; nonfinancial corporations; and households and NPISHs).

6.37-1 The sectoral presentation of direct investment links with balance sheet and other sectoral data compiled in the system of national accounts (SNA), monetary and financial statistics (MFS), and government finance statistics (GFS), thus facilitating comparison with these datasets. Also, this presentation provides a convenient way to analyze the net foreign lending or borrowing of each resident sector. It also supports the Balance Sheet Approach (BSA) by providing details on the external positions for the resident sectors (see paragraphs 19.xx-xx for details on BSA).

6.37-2 The following items based on the relationship between the investor and the entity receiving the investment are included under memorandum items:

- (a) investment by a direct investor in its direct investment enterprise (whether in an immediate relationship or not);
- (b) reverse investment by a direct investment enterprise in its own immediate or indirect direct investor, as explained in paragraphs 6.39–6.40; and

(c) investment between resident and nonresident fellow enterprises, as explained in paragraph 6.17, combining equity and debt investment

6.38 These three memorandum items reflect different types of relationships and motivations. For example, the interpretation of a direct investor acquiring direct investment assets is different from a direct investment enterprise acquiring direct investment assets. While the first type of investment involves influence or control, this may not be the case for the other two types, because the investor is not a direct investor. It is important for compilers to monitor trends in the second and third types to identify if they are becoming significant. It is also important to identify reverse investment and investment between fellows to be able to determine the net investment by nonresident direct investors in the economy and by resident direct investors abroad. Moreover, these memorandum items are necessary to derive the data under directional principle (see paragraphs 6.42-6.43 and Box 6.4).

6.38-1 In addition, reinvestment of earnings should be reported as a memorandum item in the balance of payments' financial account, which should be consistent with the standard component, re-invested earnings, recorded in the earned income account (see Annex 14 for details on the presentation of these items and supplementary items in balance of payments and IIP).

a. Reverse investment

6.39 A direct investment enterprise may acquire an equity or other financial claim on its own immediate or indirect direct investor. These transactions may occur as a way of withdrawing investment, or as a way of organizing finance within a transnational group. For example, for an enterprise that borrows on behalf of its parent company and in cases in which treasury functions are concentrated in a subsidiary (see paragraphs 4.83(d) and 4.86), the subsidiary may lend money to its direct investor.

6.40 *Reverse investment arises when a direct investment enterprise lends funds to or acquires equity in its immediate or indirect direct investor, provided it does not own equity comprising 10 percent or more of the*

voting power in that direct investor. In contrast, if two enterprises each have 10 percent or more of the voting power in the other, there is not reverse investment, rather there are two mutual direct investment relationships. That is, each enterprise is both a direct investor and direct investment enterprise of the other.

6.41 Issues associated with investment income on direct investment equity and debt instruments are covered in paragraphs 12.xx-xx.

b. Presentation of data according to the directional principle

6.42 *The directional principle is a presentation of direct investment data organized according to the direction of the direct investment relationship.* It can be contrasted with the asset and liability presentation (discussed in paragraphs 6.37 and 6.37-2) of aggregates used in standard components and memorandum items in this *Manual*, which are organized according to whether the investment relates to an asset or liability. It is clarified that the difference between the asset-liability and directional presentations arises from differences in the treatment of reverse investment and some investment between fellow enterprises. The directional principle can be applied to the IIP, financial account, and investment income. Under the directional principle, direct investment is shown as either direct investment abroad or direct investment in the reporting economy:

(a) *Direct investment abroad covers assets and liabilities between resident direct investors and their direct investment enterprises. It also covers assets and liabilities between resident and nonresident fellow enterprises if the ultimate controlling parent⁷ is resident.* Direct investment abroad is also called outward direct investment.

⁷ Entity that ultimately controls an enterprise, identified by proceeding up the ownership chain from the enterprise through the controlling links (ownership of more than 50 per cent of the voting power) until an individual, household, or company that is not controlled by another company is reached. If there is no company, individual, or household that controls the resident company, then the resident company may be considered to be its own ultimate controlling parent.

(b) *Direct investment in the reporting economy includes all liabilities and assets between resident direct investment enterprises and their direct investors. It also covers assets and liabilities between resident and nonresident fellow enterprises if the ultimate controlling parent is nonresident.* Direct investment in the reporting economy is also called inward direct investment.

6.43 The treatment of fellow enterprises under the directional principle is as follows:

- In principle, all assets and liabilities between fellow enterprises are shown in direct investment abroad when the ultimate controlling parent is a resident. In that case, control and influence is exercised from the economy of the resident, so it is useful to view an investment in a fellow enterprise abroad as part of outward investment.
- In principle, all assets and liabilities between fellow enterprises are shown in direct investment in the reporting economy when the ultimate controlling parent is a nonresident. In this case, control and influence are exercised from another economy, so it is useful to view investment with the fellow enterprise abroad as part of inward investment.
- However, if the residence of the ultimate controlling parent is unknown, assets are treated as direct investment abroad and liabilities are treated as direct investment in the reporting economy. This treatment is allowed for practical reasons. It is recognized that, in some cases, economies may not be able to implement the preferred or “in principle” basis of presentation in their direct investment data, because they cannot identify ultimate controlling parents.

c. Analytical use of the different presentations of direct investment

6.44 Data on both the asset and liability presentation and the directional principle presentation are useful for different kinds of analysis.

- Data on an asset and liability basis are consistent with monetary, financial, and other balance sheet data, and thus facilitate comparison between the data sets. These data are needed on an immediate counterparty basis to adequately monitor flows and positions. For instance, if a

jurisdiction of convenience that is the home to large SPEs (see paragraphs 4.xx-xx) were to experience a currency or other financial crisis, data users would find data sets that look through the SPEs (or that net data for SPEs without separate identification of gross levels) to be of limited help. SPEs and other entities may transform debt to equity, a long-term instrument to short-term, local currency to foreign currency, fixed to variable rates, and so on, and these transformations alter risk characteristics in important ways.

- Data on a directional principle basis assist in understanding the motivation for direct investment and take account of the direction of control and influence. In the directional presentation, reverse investment can be seen as equivalent to the withdrawal of investment. The directional principle may be particularly useful for an economy that hosts direct investment enterprises that lend to fellow enterprises or direct investors or host direct investors that borrow from their affiliates.

6.45 The calculations and relationship between the asset and liability presentation discussed in paragraph 6.37-2 and the directional presentations are shown in Box 6.4. In this *Manual*, the directional presentation appears as supplementary items. Under the directional principle, direct investment abroad and direct investment in the reporting economy include both assets and liabilities, and thus, negative values may arise. More details on the directional principle and the conversion between asset and liability and directional presentations can be found in the *OECD Benchmark Definition of Foreign Direct Investment*.

4. Other issues concerning direct investment transactions, positions, and income

a. Round tripping

6.46 Round tripping refers to the channeling abroad by resident direct investors of local funds and the subsequent return of these funds to the local economy in the form of direct investment. . The

entity in the other economy to which the local funds are channeled often has limited operations of its own. (There may be two or other intermediate economies with round tripping.) Its special nature means that, where it is significant, compilers should consider publishing supplementary information on the extent of round tripping. (Round tripping results in an economy being its own ultimate host economy or ultimate investing economy in partner data.). For more details on round tripping including relevant examples, refer to the *OECD Benchmark Definition of Foreign Direct Investment*.

b. Relationships other than direct investment

6.47 Some relationships involve cooperation between enterprises that resemble direct investment relations. However, such cases should not be classified as direct investment unless they meet the definition involving control or influence through voting power. For example, there may be representation on the board of directors, a common board of directors but no formal relationship, participation in policymaking processes, material intercompany transactions, interchange of managerial personnel, provision of technical information, or provision of long-term loans at lower than existing market rates. Creditors of an insolvent company may exercise influence or even effectively control it, but they would not qualify as direct investors unless their debt is converted to equity with voting power. Furthermore, an enterprise may have substantial foreign ownership but no individual investor or group of related investors may have a direct investment stake.

c. Additional detail for direct investment

6.48 The financial instrument, maturity, and currency classifications in Chapter 5 can be used for direct investment. Compilers should break down debt instruments relating to direct investment relationships according to the *SNA/MFSM* instrument classification on a supplementary basis. The split by type of instrument is necessary for reconciliation with financial account, flow of funds, and sector balance sheets, because these data use the instrument classification and not the international accounts functional classification. However, because of the relationship between the two parties, the strictness of

terms, and risks and vulnerability aspects of direct investment-related debt may differ from those of other debt. For those reasons, intercompany lending is identified separately in *External Debt Statistics: Guide for Compilers and Users* (see also paragraph 6.26).

6.49 Classification by partner economy is discussed in Annex 9, with paragraphs xx dealing with direct investment. Partner data for direct investment can be classified according to either the immediate or ultimate investor or host economy. These issues are discussed further in the *OECD Benchmark Definition of Foreign Direct Investment*.

Box 6.4. Derivation of Data under the Directional Principle

The memorandum and supplementary items for direct investment positions and transactions are shown in the table below. They may be rearranged to support different kinds of presentation and analysis.

Components of Direct Investment (Asset/Liability Presentation based on the relationship between the investor and the entity receiving the investment)

Assets	Liabilities
Of direct investors in direct investment enterprises	Of direct investment enterprises to direct investor
A1 equity and debt instruments	L1 equity and debt instruments
Of direct investment enterprises in direct investor—Reverse investment	Of direct investor to direct investment enterprises—Reverse investment
A3 equity and debt instruments	L3 equity and debt instruments
Of resident fellow enterprises in fellow enterprises abroad	Of resident fellow enterprises to fellow enterprises abroad
A5 Equity and debt instruments	L5 Equity and debt instruments
A5.1 equity and debt instruments (if ultimate controlling parent is resident ¹)	L5.1 equity and debt instruments (if ultimate controlling parent is nonresident ²)
A5.2 equity and debt instruments (if ultimate controlling parent is nonresident ²)	L5.2 equity and debt instruments (if ultimate controlling parent is resident ¹)

¹That is, resident in the compiling economy.

²That is, not resident in the compiling economy.

Asset/liability presentation

Direct investment assets:

Equity and debt instruments: $A1 + A3 + A5$;

Direct investment liabilities:

Equity and debt instruments: $L1 + L3 + L5$;

Directional principle presentations

In principle:

Direct investment abroad (outward direct investment): Equity and debt instruments: $A1 - L3 + A5.1 - L5.2$;

Direct investment in the reporting economy (inward direct investment):

Equity and debt instruments: $L1 - A3 + L5.1 - A5.2$;

Acceptable practical alternative:

Direct investment abroad: Equity and debt instruments: A1 – L3
+ A5;

Direct investment in the reporting economy: Equity and debt instruments: L1
– A3 + L5;

6.50 Classification by kind of economic activity (industry) may be of interest for direct investment. The *ISIC* or some regional or national equivalent can be used to compile data on the kind of economic activity. Although this classification is not used for other functional categories, it is useful for direct investment. It is preferable to prepare estimates on both inward and outward direct investment on a dual basis, based on the industry of the direct investment enterprise and the industry of the direct investor. If data on only one basis can be prepared, the preferred industry classification is that of the direct investment enterprise. Industrial classification applies to units, rather than transactions. Often in direct investment data, the industry classification is applied to economy-specific enterprise groups, or to economy-specific enterprise groups in a single institutional sector. If a direct investment enterprise or enterprise group is involved in different economic activities, it is classified according to the predominant activity.

d. Further issues concerning direct investment

6.51 In addition to the classification issues in this chapter, direct investment is discussed in the chapters concerning positions, financial account transactions, and earned income (Chapters 7, 8, and 12, respectively). The cross-cutting issues and links are shown in Annex 6.

6.52 Some aspects of direct investment—other than those directly related to balance of payments and international investment position data—may be of interest, particularly in the host economy, from analytical and policymaking points of view. While the external accounts data show the cross-border flows and stocks, another aspect of the impact of direct investment is on domestic

variables such as employment, sales, value added, and gross fixed capital formation. These statistics are called Activities of Multinational Enterprises and are discussed in Chapter 15.

6.52-1 In their present form, direct investment statistics do not separately identify investments that represent the creation of new business enterprises in the host economy and additional injection of funds to existing ones. Greenfield direct investment and extension of capacity is investment in direct investment enterprises established within the last three years and capital injections that are used to expand the capacity of direct investment enterprises that have existed for three years or more. Annex 6 provides further guidance on the definition and collection of supplementary data on greenfield investment and extension of capacity.

6.52-2 Cash pooling arrangements provided by banks allow corporations to externalize the intra-group cash management, and thus, manage their global liquidity more effectively and with lower costs. Annex 6 provides a description of the main types of cash pooling arrangements (single legal account, physical cash pool, and notional cash pool) and their different statistical treatments (i.e., to classify associated debt instruments as either direct investment or other investment).

6.53 The foreign-controlled corporations subsector overlaps with direct investment. The foreign-controlled corporations subsector includes all subsidiaries and branches resident in the economy. (see paragraphs 4.xx.4.xx for details on foreign control of corporations).

C. Portfolio Investment

6.54 *Portfolio investment is defined as cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets.* Securities are defined in paragraph 5.15. The negotiability of securities is a way of facilitating trading, allowing them to be held by different parties during their lives. Negotiability allows investors to diversify their portfolios and to withdraw their investment readily. Investment fund shares or units (i.e., those issued by investment funds) that are evidenced by securities and that are not reserve assets are included in portfolio investment.

Further, investments in investment fund shares are always treated as portfolio investment or other investment irrespective of the ownership of voting power (i.e., 10 percent or higher) (see paragraph 6.24). Although they are negotiable instruments, exchange-traded financial derivatives are not included in portfolio investment because they are included in their own separate category.

6.55 Equity not in the form of securities (e.g., in unincorporated enterprises) is not included in portfolio investment; it is included in direct or other investment. Equity in time-share accommodation evidenced by a security is usually portfolio investment (although holdings that provided 10 percent or more of voting power would be direct investment, and holdings not in the form of securities and not included in direct investment would be other investment). In a few cases identified in paragraph 6.28, debt securities representing financial claims on affiliated enterprises are included in portfolio investment.

6.56 Portfolio investment covers, but is not limited to, securities traded on organized or other financial markets. Portfolio investment usually involves financial infrastructure, such as a suitable legal, regulatory, and settlement framework, along with market-making dealers, and a sufficient volume of buyers and sellers. However, acquisition of shares in hedge funds, private equity funds, and venture capital are examples of portfolio investment that occurs in less public and more lightly regulated markets. (However, shares in these funds are included in other equity and equity in international organizations in other investment when investment is not in the form of a security and not included in reserve assets.) Portfolio investment is distinctive because of the nature of the funds raised, the largely anonymous relationship between the issuers and holders, and the degree of trading liquidity in the instruments.

6.57 Portfolio investment may be presented by instrument, original or remaining maturity, or institutional sector. Further information on portfolio investment is included in Chapter 7 (concerning

positions), Chapter 8 (concerning financial account transactions), and Chapter 12 (concerning earned income).

D. Financial Derivatives (Other Than Reserves) and Employee Stock Options

6.58 The definition of the functional category financial derivatives and employee stock options (other than reserves) largely coincides with the corresponding financial instrument class, which is discussed in detail in paragraphs **5.79–5.98**. The difference in coverage between the functional category and the financial instrument is that financial derivatives associated with reserve asset management are excluded from the functional category and included in reserve assets (see **paragraph 6.91**). This category is identified separately from the other categories because it relates to risk transfer, rather than supply of funds or other resources.



6.59 Unlike other functional categories, no earned income accrues on financial derivatives. Any amounts accruing under the contract are classified as revaluations and are included in the other changes in financial assets and liabilities account. (These entries are discussed in paragraphs **9.30–9.31**.) In addition, as noted in the footnote to paragraph **10.121**, an intermediary may provide services associated with transactions in derivatives.

6.60 Recording of financial derivatives separately for both assets and liabilities is encouraged for both positions and transactions. However, it is recognized that measuring transactions on a gross basis may not be feasible, in which case net reporting is acceptable. Further, this *Manual* recommends presenting financial derivatives by market risk categories, by instrument, and by trading venue and clearing status on a supplementary basis (see paragraph 5.95).

6.60-1 Information on financial derivatives (other than reserves) and employee stock options is included in Chapter 7 (concerning positions), Chapter 8 (concerning financial account transactions), and Chapter 9 (concerning revaluations); no investment income arises (see paragraph **11.95**).

E. Other Investment

6.61 *Other investment is a residual category that includes positions and transactions other than those included in direct investment, portfolio investment, financial derivatives and employee stock options, and reserve assets.* To the extent that the following classes of financial assets and liabilities are not included under direct investment or reserve assets, other investment includes:

- (a) other equity and equity in international organizations;
- (b) currency and deposits;
- (c) loans (including use of IMF credit and loans from the IMF);
- (d) nonlife insurance technical reserves, life insurance and annuities entitlements, pension entitlements, and provisions for calls under standardized guarantees;
- (e) trade credit and advances;
- (f) other accounts receivable/payable; and
- (g) SDR allocations (SDR holdings are included in reserve assets).

6.62 Other equity and equity in international organizations is included in other investment, when it is not direct investment or reserve assets. Other equity and equity in international organizations, as defined in paragraph 5.26, is not in the form of securities, so it is not included in portfolio investment. Participation in some international organizations (e.g., ownership of currency union central banks) is not in the form of tradable shares and so it is classified in this item. Although equity in some international organizations, such as the BIS, is in the form of unlisted shares, the equity is not tradable by member countries; therefore, it should also be classified in this item. In most cases, equity in quasi-corporations for branches and notional units for ownership of real estate and other natural resources is included in direct investment; however, it is included in other investment if the share of voting power is less than 10

percent. Shares in investment funds are included in other equity and equity in international organizations when they are not negotiable (see footnote 4, paragraph 6.11)

6.62-1 It is noted that transactions/positions in certain debt instruments (e.g., deposits, loans, other accounts receivable/payable) between selected affiliated financial corporations are included under other investment (see paragraph 6.28). In the case of notional cash pooling arrangements, debt instruments associated with such arrangements (e.g., deposits and loans) are recorded as other investment. Cash pooling arrangements including their types are discussed in paragraph 6.xx and Annex 6.

6.63 Other investment may be split by financial asset or liability class, original or remaining maturity, or institutional sector. Information on other investment is included in Chapter 7 (concerning valuation of positions, particularly loans), Chapter 8 (concerning financial account transactions), and Chapter 12 (concerning earned income).

F. Reserves⁸

Reference:

IMF, *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template*.

1. Reserve assets⁹

a. General definition

6.64 *Reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the*

⁸A more complete picture of monetary authorities' international liquidity position is given in *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (Guidelines)*. The *Guidelines* address a number of key issues, and are drawn on in this text.

⁹A more complete picture of monetary authorities' international liquidity position is given in *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (Guidelines)*. The *Guidelines* address a number of key issues, and are drawn on in this text.

*currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing).*¹⁰ Reserve assets must be foreign currency assets and assets that actually exist. Potential assets are excluded. Underlying the concept of reserve assets are the notions of “control,” and “availability for use,” by the monetary authorities.¹¹ The composition of reserve assets and reserve-related liabilities is shown in **Box 6.5**.

b. Residence

6.65 In accordance with the residence concept, reserve assets, other than gold bullion, must be financial claims on nonresidents. Conversely, the authorities’ foreign currency claims on residents, including financial claims on resident banks, are not reserve assets. Nonetheless, foreign currency claims on resident banks can be at the disposal of the monetary authorities and can be readily mobilized to meet demand for foreign exchange. Such financial claims are presented as a supplementary item to the IIP. For the explanation of residence, see Chapter 4, **Section E**.

Box 6.5. Components of Reserve Assets and Reserve-Related Liabilities

Reserve assets

Monetary gold

Gold bullion

Unallocated gold accounts

Special drawing rights

¹⁰For dollarized economies, the need to hold reserves for the purpose of intervention in exchange markets is not relevant for defining the reserve assets of these economies. Dollarization and ^{euroization} are defined in paragraph A3.10.

¹¹Monetary authorities may sometimes employ fund managers to manage reserve assets. In such arrangements, the fund managers are acting as agents and are paid a fee for their services.

Reserve position in the IMF

Other reserve assets

Currency and deposits

Financial claims on monetary authorities

Financial claims on other entities

Securities

Debt securities

Short-term

Long-term

Equity and investment fund shares or units

Financial derivatives

Other financial claims

Reserve-related liabilities to nonresidents (memorandum items)

Short-term (on a remaining maturity basis)

Credit and loans from the IMF

Debt securities

Deposits

Loans

 Repo loans

Other loans

Other short-term foreign currency liabilities to nonresidents

(See also Appendix 14 Table V for additional supplementary items for reserve-related liabilities.)

c. Definition of monetary authorities

6.66 *The functional concept of monetary authorities is essential for defining reserve assets. Monetary authorities encompass the central bank (which subsumes other institutional units included in the central bank subsector, such as the currency board) and certain operations usually attributed to the central bank but sometimes carried out by other government institutions or commercial banks, such as government-owned commercial banks. Such operations include the issuance of currency; maintenance and management of reserve assets, including those resulting from transactions with the IMF; and operation of exchange stabilization funds. In economies in which extensive reserve assets are held outside of the central bank, supplementary information should be provided on the institutional sector of holdings of those reserve assets.*

d. Control

6.67 In general, only external financial claims actually owned by the monetary authorities can be classified as reserve assets. Nonetheless, ownership is not the only condition that confers control. In cases in which institutional units (other than the monetary authorities) in the reporting economy hold legal title to external foreign currency assets and are permitted to transact in such assets only on terms specified by the monetary authorities or only with their express approval. In such cases, the assets can be considered reserve assets because they are under the direct and effective control of the monetary authorities. To be counted in reserve assets, the conditions to be met are that:

- the resident entity can transact only in those financial claims with nonresidents on the terms specified by the monetary authorities or only with their express approval; and
- the authorities have access on demand to these financial claims on nonresidents to meet balance of payments financing needs and other related purposes; and
- a prior law or an otherwise legally binding contractual arrangement confirms this agency role of the resident entity that is actual and definite in intent.

6.68 If such assets are included under reserve assets, to avoid double counting, they should not also be classified as assets, or transactions in assets, in other components of the IIP and balance of payments. They are classified within reserve assets depending on their nature (e.g., deposits and securities are classified as such). Except in unusual circumstances, direct and effective control is not to be construed as extending beyond assets owned by deposit-taking corporations.

e. Availability for use

6.69 Reserve assets must be readily available in the most unconditional form. A reserve asset is liquid in that the asset can be bought, sold, and liquidated for foreign currency (cash) with minimum cost and time, and without unduly affecting the value of the asset.¹² This concept refers to both non-marketable assets, such as demand deposits, and marketable assets, such as securities for which there are ready and willing sellers and buyers. The ability to raise funds by using the asset as collateral is not sufficient to make an asset a reserve asset. Some deposits and loans can be liquid and included in reserve assets, although they are not necessarily marketable.

6.70 To be readily available to the authorities to meet balance of payments financing needs and other related purposes under adverse circumstances, reserve assets generally should be of high quality.

f. Further clarifications on reserve assets

6.71 As a consequence of their purpose of meeting balance of payments financing needs, and supporting the exchange rate, reserve assets must be both denominated and settled in foreign currency. Denominated is defined to mean the currency in which the contract is specified. (Currency of denomination and currency of settlement are discussed in paragraphs **3.98–3.103**.)

¹²No time limit is provided, but to qualify as reserves, an asset should be available in a very short period of time given the speed at which experience suggests a foreign exchange need can arise in adverse circumstances.

6.72 Furthermore to be liquid, reserve assets must be denominated and settled in convertible foreign currencies, that is, currencies that are freely usable for settlements of international transactions.¹³ In addition, assets denominated in gold and SDRs may qualify as reserve assets.

6.73 In some instances, economies may hold assets denominated in the currency of a neighboring economy because the economy's risk exposures are closely related to their neighbor given the composition of their international trade, even though the currency may not be widely traded. These assets should be excluded from reserve assets (and included under the appropriate functional category and instrument) if the currency does not meet the definition of a convertible foreign currency set out in paragraph 6.72, but supplementary data can be provided. Such circumstances are envisaged when an economy is highly dependent on a larger regional neighbor for its international trading activity.¹⁴

6.74 Assets that are denominated in or indexed to the domestic currency but settled in foreign currency cannot be reserve assets, because the value of such assets would decline along with the domestic currency in the circumstance of a domestic currency crisis.

6.75 An existing asset that is committed for a future use but not encumbered can be included provided that the asset is readily available to meet a balance of payments financing need (and other related purposes stated in paragraph 6.64). An asset should not be denied as a reserve asset simply because the use to which the asset is to be put is a foreseeable one. However, when an asset is not readily available—such as an asset whose use is blocked—the asset should not be counted as reserve assets.

g. Classification of reserve assets

¹³The term “freely usable” is not used in a restrictive sense to cover the currencies in the SDR basket only.

¹⁴It is possible but unlikely that such dependence could arise with an economy that is not a neighbor.

6.76 Reserve assets consist of monetary gold, SDR holdings, reserve position in the IMF, currency and deposits, securities (including debt and equity securities), financial derivatives, and other financial claims (loans and other financial instruments).

6.77 Monetary gold, SDR holdings, and reserve position in the IMF are considered reserve assets because they are assets readily available to the monetary authorities in unconditional form. Currency and deposits, securities, and other assets in many instances are equally available and therefore qualify as reserve assets.

6.78 *Monetary gold is gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as reserve assets.* It consists of gold bullion (including gold coins, ingots, bars with a purity of at least 995/1,000, and gold bullion held in allocated and pool allocated gold accounts, regardless of the location of the account)¹⁵ and unallocated gold accounts with nonresidents that give title to claim the delivery of gold.¹⁶ Gold bullion is usually traded on organized markets or through bilateral arrangements between central banks. To qualify as reserve assets, gold accounts must be readily available upon demand to the monetary authorities.

6.79 **Allocated, pool allocated and unallocated gold accounts** are to be distinguished from accounts that are linked to gold (accounts indexed to gold) but do not give title to claim delivery of gold. The latter are classified as currency and deposits and are included within reserve assets provided they meet the criteria of reserves.

6.80 If the monetary authorities deposit gold bullion in an unallocated gold account, the gold bullion is demonetized (see **paragraph 9.18 (f)**) and this is recorded in the other changes in assets account of the monetary authorities. If the account is with a nonresident, a transaction in nonmonetary gold is recorded in the goods and services account. However, transactions in gold bullion as

¹⁵However, transactions with residents in gold bullion are not recorded in the balance of payments (see **paragraph 9.18**).

¹⁶See **paragraphs 5.76–5.77** for definitions of allocated, pool allocated, and unallocated gold accounts.

reserve assets between monetary authorities and with international financial institutions are recorded as transactions in gold bullion and are not recorded as other changes in assets. If the unallocated gold account is with a nonresident and available on demand, a transaction is recorded in currency and deposits, and if held by a monetary authority as a reserve asset the position is subsequently reclassified to monetary gold (unallocated gold accounts) via other changes in the volume of assets.¹⁷ However, if the deposit is with another monetary authority or an international financial institution, a transaction in unallocated gold accounts is recorded.

6.81 To minimize risks of default in gold lending transactions,¹⁸ monetary authorities can require adequate collateral instead of cash (such as securities) from the depository. Such securities collateral received should not be included in reserve assets or portfolio investment as the original owner maintains the economic ownership of the securities. This prevents double counting as the gold lent remains an asset of the monetary authorities.¹⁹

6.82 Allocated and unallocated gold accounts with nonresidents out on swap by the monetary authorities for cash collateral are excluded from reserve assets and either demonetized (gold bullion) or reclassified as other investment, currency and deposits, assets (unallocated gold accounts), if the gold accounts are not readily available for meeting balance of payments financing needs²¹ (or available for meeting balance of payments financing needs only if a substitute reserve asset has to be provided as collateral). A loan liability to a nonresident²² from a gold swap is recorded in “other investment,” with the foreign currency received (provided it is a financial claim on a nonresident and meets

¹⁷Similarly, interest accruing on unallocated gold accounts is recorded as a transaction in currency and deposits within reserve assets by the monetary authority. If national practice is to include such interest under monetary gold, the amount of interest accruing is reclassified in the other changes in assets account.

¹⁸Sometimes known as gold deposits or gold loans.

¹⁹If the securities received as collateral are repoed out for cash, a repo transaction should be reported.

²¹ Same principle applies to gold lending.

²²If the liability is to a resident, the liability is not in the balance of payments or IIP, but it is reported under repo loans in other foreign currency liabilities (see [Table V](#) in Appendix 14).

the criteria for reserve assets) being recorded as an increase in currency and deposits within reserve assets.

6.83 Any unallocated gold account liabilities of resident entities to nonresident monetary authorities are to be classified as other investment, currency and deposits.

6.84 **SDR holdings** are reserve assets created by the IMF and are equivalent to liquid balances in convertible currencies in nearly every respect. Further information on SDRs is provided in paragraphs 5.34–5.35.

6.85 **Reserve position in the IMF** is the sum of (a) the “reserve tranche,” that is, the foreign currency (including SDRs) amounts that a member country may draw from the IMF at short notice;²⁴ and (b) any indebtedness of the IMF (under a loan agreement) in the General Resources Account that is readily available to the member country, including the reporting country’s lending to the IMF under the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). While a member country must present a declaration of balance of payments–related need to make a purchase in the reserve tranche (reduction in reserve position), the IMF does not challenge a member’s request for reserve tranche purchases. Convertible currencies from a reserve tranche purchase may be made available within days.

6.86 **Deposits** refer to those available on demand; deposits with a fixed term that are redeemable on demand or at very short notice without unduly affecting the value of the deposit can be included. Deposits included in reserve assets are those held in foreign central banks, the BIS, and other nonresident deposit-taking corporations, and deposit agreements with IMF Trust Accounts that are readily callable to meet a balance of payments financing need. Because short-term loans provided by the monetary authorities to other central banks, the BIS, and other deposit-taking

²⁴Reserve-tranche positions in the IMF are liquid claims of members on the IMF that arise not only from the reserve asset payments for quota subscriptions but also from the sale by the IMF of their currencies to meet the demand for use of IMF resources by other members in need of balance of payments support. Repayments of IMF resources in these currencies reduce the liquid claim of the member whose currency was supplied. In [Table A9-I-1 in Appendix 14](#) on currency composition, the reserve tranche positions in the IMF should be classified in the “SDR basket.” The domestic currency component of the quota is considered in economic terms to be of a contingent nature and so is not classified as an asset or liability in the international accounts.

corporations are much like deposits, it is difficult in practice to distinguish the two. For this reason, by convention, and consistent with the treatment of interbank positions (see paragraph 5.42), the reporting of deposits in reserve assets should include short-term foreign currency loans that are redeemable upon demand, made by the monetary authorities to these nonresident deposit-taking corporations when there is uncertainty between a loan and a deposit. Foreign currency loans that are available on demand without unduly affecting the value of the asset, and made by the monetary authorities to nonresident non-deposit-taking corporations, and loans to IMF Trust Accounts that are readily repayable to meet a balance of payments financing need can qualify as reserve assets (“other financial claims”). But other loans by the monetary authorities to nonresidents not readily available to meet balance of payments financing needs are not reserve assets.

6.87 Securities include liquid and marketable equity and debt securities issued by nonresidents; long-term securities (such as 30-year U.S. Treasury bonds) are included. Unlisted securities (i.e., securities not listed for public trading) are, in principle, excluded unless the securities are liquid enough to qualify as reserve assets.

6.88 Securities that have been transferred under reverse transactions (e.g., repos) by the monetary authorities in exchange of cash collateral remain assets of the original authorities. However, they are generally not readily available for meeting balance of payments financing needs. Therefore, such securities should be excluded from reserve assets and reclassified as portfolio investment assets through the end of the transaction. In regard to foreign currency received, provided it meets the reserve assets criteria it should be recorded as an increase in currency and deposits within reserve assets, while a loan liability should be recorded under “other investment”.²⁶

6.89 In the case of reverse repos, the funds provided to the counterparty should be recorded as a decrease in currency and deposits within reserve assets, but if the financial claim (i.e., repo asset) is

²⁶ If the liability is to a resident, the liability is not in the balance of payments or IIP, but it is reported under repo loans in other foreign currency liabilities (see **Table V** in Appendix 14)

liquid and available upon demand to the monetary authorities, then it is considered part of the reserve assets in “other financial claims” (or “deposits” if classified in national measures of broad money).

6.90 When securities are lent or borrowed in exchange for other securities and no cash is exchanged, no transaction should be reported.²⁷ Securities lent are the assets of the original authorities, and securities collateral received are not included as reserve assets of the receiving monetary authorities.

6.91 Financial derivatives are recorded in reserve assets only if the derivatives pertain to the management of reserve assets, are integral to the valuation of such assets, and are under the effective control of the monetary authorities. Because they pertain to the management of assets, these transactions and positions are recorded on a net basis (assets less liabilities) at market value.

6.92 Other financial claims include loans to nonresident non-deposit-taking corporations, long-term loans to IMF Trust Accounts such as the Poverty Reduction and Growth Trust (PRGT), Resilience and Sustainability Trust (RST) (see Annex 9 for details on these facilities) that are readily repayable to meet a balance of payments financing need (see paragraph 6.86), loans arising from a reverse repo (unless classified as deposits) (paragraph 6.89), and other financial assets not included previously but that are foreign currency assets that are available for immediate use (such as nonnegotiable investment fund shares or units as described in paragraph 6.101).

6.92-1 Reserve asset may be presented as per the component details in Box 6.5. Further information on reserve asset is included in Chapter 7 (concerning positions), Chapter 8 (concerning financial account transactions), and Chapter 12 (concerning earned income).

h. Selected cases

²⁷ If the securities are not readily available, they should be reclassified to portfolio investment.

Special purpose government funds

6.93 Some governments create special purpose government funds, usually called sovereign wealth funds (SWFs). *Created and owned by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets. The funds are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports.* The establishment of a special purpose government fund raises the issue of whether or not the external assets held in the fund should be included in reserve assets.

6.94 A key determination is whether some legal or administrative guidance results in the assets being encumbered in a way that precludes their ready availability to the monetary authorities.

6.95 If the special purpose government fund's external assets are on the books of the central bank, or an agency of the central government, that allows the monetary authorities control over the disposition of funds, then the presumption is that the assets are reserve assets (provided all other criteria for being a reserve asset are met). On the other hand, if the funds are held in a long-term fund with a separate legal identity, the presumption is that they should not be included in reserve assets, not least because the ready availability criterion is less likely to be met.

6.96 In some cases, while assets are invested in a separate investment corporation, there may be an agreement that such assets can be readily called back if needed. In other cases, funds could be withdrawn during the annual budgetary process.

6.97 Any final determination of whether an asset can be classified as a reserve asset or not, depends on an examination of the circumstances: namely, is the asset readily available to the monetary authorities and is there a liquid claim of a resident entity on a nonresident in foreign currency? But in the absence of legal or administrative impediments, and given the fungibility of assets, even assets that had been earmarked as part of a special purpose government fund—but that could be used to meet balance

of payments financing needs and other related purposes—are reserve assets (subject to the other criteria being met, including, importantly, the control of the monetary authorities over the disposition of the funds).

6.98 Assets held in special purpose government funds that meet the definition of reserve assets are classified within reserve assets depending on their nature. So, if the special purpose government funds hold deposits, securities, and other reserve assets, these are classified as such within reserve assets. Assets held in a resident special purpose government fund that are financial claims on nonresidents but do not meet the criteria to be classified as reserve assets are classified in the financial account and IIP under the appropriate instrument and functional category. If special purpose government funds own direct investment equity and debt securities that could be classified in either direct investment or reserves assets, as general guidance, in the hierarchy of the balance of payments and IIP between direct investment and reserve assets, the equity securities should be classified as direct investment ahead of reserve assets, and debt securities should be classified as reserve assets ahead of direct investment (see also [paragraph 6.22](#)).

Pooled assets

6.99 As a means of reserve assets management, monetary authorities from different economies might cooperatively invest through an asset pool. Such pooled asset arrangements are collective investment schemes under which funds provided by participants are held in an investment vehicle (usually nonresident of the participants' economies) that conducts investments. The participants have a financial claim on the collective investment scheme. Some pooled asset arrangements may have features that constrain the use of the financial claim as a reserve asset. To determine whether the financial claim on the pooled asset arrangement meets the definition of reserve assets, as with special purpose government funds, an examination of the legal and institutional framework of the arrangement is needed.

6.100 As with other reserve assets, the financial claim on the asset pool needs to be readily available to the monetary authorities and to be a liquid claim in foreign currency on nonresidents. In addition, other factors should be considered in determining whether the financial claim is a reserve asset. These include the following:

- **The ability to use pooled assets to raise external liquidity in foreign currency.** Even if the claim is in foreign currency, a high concentration of the underlying assets in claims on the domestic economy that constrains the ability of that economy to generate external liquidity or that results in the foreign currency value of the instrument being significantly affected in a time of crisis (such as a high concentration in domestic currency assets) would cause considerable doubt as to whether the instrument could be included in reserve assets.
- **Whether the assets are truly foreign currency claims.** An asset pool might be structured such that, while the assets are denominated in foreign currency, the monetary authority has a de facto claim in the domestic currency. In this instance, it is inappropriate to classify the asset as a reserve asset for the reasons described in paragraph 6.74.

6.101 Pooled assets are classified within reserve assets depending on their nature. For instance, if the participant can readily transact in these financial claims only by selling its claim back to the investment vehicle, the financial claim might need to be classified as a nonnegotiable investment fund share (an “other financial claim”). Pooled assets that are financial claims on nonresidents but that do not meet the criteria to be classified as reserve assets are classified in the financial account according to their nature (most probably an equity asset) under the appropriate functional category.

Central bank swap arrangements

6.102 Assets created under reciprocal facilities (swap arrangements) for the temporary exchange of deposits between the central banks of two economies warrant mention. These swap arrangements typically do not conform fully to a standard currency swap on financial market. These off-market central bank currency swap arrangements should be recorded as an exchange of deposits

with maintenance of value once the arrangement is activated and the money is drawn by either party.. Following this approach, each central bank acquires a foreign asset in foreign currency, and creates a foreign liability in domestic currency. Since the liability deposit account in domestic currency is fully indexed to a foreign currency (the currency of the partner economy), the liability in domestic currency should be treated as being denominated in that foreign currency (see paragraph 3.101). To accomplish this treatment, periodic revaluation adjustments to the liability should be carried out to reflect the total amount of domestic currency needed to buy the foreign currency to be delivered, including any interest payment.

6.102-1 Deposits (in foreign exchange) acquired by the central bank initiating the arrangement are treated as reserve assets if the exchange provides the central bank with assets that **fully meet the reserve assets criteria**. If the criteria are not met (for example, if the funds are not readily available because they are subject to authorization by the counterpart central bank), the funds would not conform to the definition of reserve assets and the deposit should be recorded as “other investment”. Reciprocal deposits acquired by the partner central bank also are considered as reserve assets, as long as they meet the general criteria for being reserve assets, including being denominated and settled in a convertible currency.

6.102-2 If the swap arrangement has the characteristics of a standard (market priced) swap contract, it is recorded as a standard currency/foreign exchange swap. Namely, an exchange of deposits with the simultaneous creation of a forward contract.

6.103 Reciprocal currency arrangements between central banks may also take the form of a securities repurchase agreement. In this case, one central bank transfers securities (sometimes denominated in its domestic currency) to another central bank in exchange for foreign currency, with the transactions later reversed, typically three months in the future. Such transactions should be treated as collateralized loans, with the central bank that initiated the transaction paying

corresponding interest on the foreign currency received. The cash-taking central bank can therefore include the foreign currency received in its reserve assets if the criteria for reserve assets are met. The cash-receiving central bank should reclassify the repoed out securities from reserve assets to portfolio investment, if they were included in reserve assets prior to the repo transaction but they are no longer readily available for meeting balance of payments financing needs (or available for meeting balance of payments financing needs only if a substitute reserve asset has to be provided as collateral). The cash-providing central bank should not include the securities received as collateral in its reserve assets as the securities are treated as not having changed economic ownership (see [paragraph 5.54](#)). See also paragraph [6.90](#) on securities lending or borrowing transactions in reserve assets.

6.104 When a central bank acquires or disposes of a liquid foreign currency claim on a nonresident from a domestic bank (e.g., through an exchange of foreign and domestic currency deposits, a change in reserve requirements on foreign currency deposits, or other domestic transactions that increase or change the composition of reserve assets), this is recorded through the other changes in volume account. It is not recorded in the balance of payments, given that the transaction is between two residents (see [paragraph 3.6](#)).

i. Foreign assets that do not qualify as reserve assets

6.105 Lines of credit (including the arrangements with IMF such as the Flexible Credit Line (FCL) and the Precautionary and Liquidity Line (PCL)) that could be drawn on and foreign exchange resources that could be obtained under swap agreements are not reserve assets because they do not constitute existing financial claims. (see paragraphs xx, Annex 9 for additional details on FCL and PLL). Real estate owned by the monetary authorities is not to be included in reserve assets because real estate is not considered a liquid asset. Silver bullion, diamonds, and other precious metal and stones are not included in reserve assets because they are considered goods and not financial

assets. Further, crypto assets without corresponding liabilities should not be included in reserve assets as they are treated as nonproduced nonfinancial assets.

6.106 Capital subscriptions to international organizations that are not readily available to the monetary authorities do not meet the definition of reserve assets. These subscriptions are included in other investment, other equity and equity in international organizations.

6.107 Pledged assets are typically not readily available. Those pledged assets that are encumbered and therefore are not readily available should be excluded from reserve assets.

6.108 An example of pledged assets is collateral used for third-party loans and third-party payments. If these assets are encumbered, they should be excluded from reserve assets. However, assets may be pledged as collateral to provide guarantees in the event of default by another entity, or for lines of credit, and may not be encumbered until events occur to trigger the pledge. Such assets can be included in reserve assets until encumbered. Other examples of pledged assets that are to be excluded from reserve assets include (a) assets pledged by the monetary authorities to investors as a condition for the investors to invest in securities issued by domestic entities (such as central government agencies), if such pledged assets are considered encumbered; (b) assets lent by the monetary authorities to a third party that are not available until maturity; and (c) assets provided as collateral under reverse transactions (e.g., repos) that are not readily available for meeting balance of payments financing needs.

6.109 The pledged assets should be excluded only to the extent of the value of the pledge; in other words, if the pledge is valued at 100, the maximum amount to be excluded from reserve assets is 100.

6.110 In some circumstances, assets held as reserve assets may be “frozen,” such as by a foreign government or international organizations (in the case of SDR holdings and reserve positions in the IMF) within whose jurisdiction the assets are located, restricting their availability. In such circumstances, the reserve assets that are affected are to be reclassified to the relevant functional category,

such as “portfolio investment” or “other investment” if securities, bank deposits, SDR holdings, and the reserve position in the IMF are “frozen.” If monetary gold is “frozen”, either it is demonetized (gold bullion) or reclassified as other investment, currency and deposits, assets (unallocated gold accounts).

6.111 Foreign currency claims that are transferred to the monetary authorities by other institutional units in the reporting economy just prior to certain accounting or reporting dates, with accompanying reversals of such transfers soon after those dates (commonly known as “window dressing”), should not be counted as reserve assets.

6.112 Net creditor positions in regional payments arrangements that involve reciprocal lines of credit—a characteristic of loan arrangements (see paragraph 5.51)—are classified as loans in other investment²⁸ and are not included in reserve assets, except in circumstances in which they are considered readily available to the monetary authorities to meet a balance of payments need and other related purposes. Net asset balances in bilateral payments agreements have much in common with other types of tied loans that authorities make to stimulate exports, provide aid, or further other aspects of government policy. Such bilateral payments agreement balances are therefore conventionally excluded from reserve assets. Also, owing to their nature, working balances of government agencies are not included in reserve assets.

j. Other issues

6.113 Assets owned by the monetary authorities that do not meet the criteria to be classified as reserve assets are classified in the financial account and IIP under the appropriate instrument and functional category.

²⁸Net debtor positions in such arrangements are also classified as loans.

6.114 Currency unions and economies that adopt another currency (such as dollarization and euroization) raise specific issues for the concept of reserve assets. These issues are discussed in Appendix 3.

2. Reserve-related liabilities

6.115 *Reserve-related liabilities are defined as foreign currency liabilities of the monetary authorities that can be considered as direct claims by nonresidents on the reserve assets of an economy.* Though not identified as such in the standard components of the balance of payments and IIP, where they are included in other categories (notably portfolio and other investment), reserve-related liabilities are important to monitor. Reserve-related liabilities can be presented by instrument and maturity (see Appendix 14, **Table V**). Short-term reserve-related liabilities on a remaining maturity basis are a memorandum item to the IIP (as shown in Box 6.5). Some economies may choose to present the full table of foreign currency assets and liabilities in Appendix 14, **Table V**, separately identifying the short-term reserve-related liabilities.

6.116 The value of the SDR allocation and loans from the IMF to monetary authorities are included in reserve-related liabilities. Other liabilities covered include:

- Foreign currency loan and deposit liabilities of the monetary authorities to nonresidents, including those arising from foreign currency swaps with other central banks, loans from BIS, and from other deposit-takers;
- Foreign currency loan liabilities to nonresidents associated with securities that the monetary authorities have repoed out;
- Foreign currency securities issued by the monetary authorities and owed to nonresidents; and
- Other foreign currency liabilities to nonresidents, including foreign currency accounts payable and financial derivatives—recorded on a net basis (liabilities less assets)—settled in foreign currency and associated with, but not within the definition of, reserve assets (see paragraph

6.91). Such financial derivatives could include those that are not sufficiently liquid or are not integral to the valuation of reserves assets.

Liabilities to residents and liabilities that are both denominated and settled in domestic currency are not included.

BOX 6.6. Net International Reserves¹

The concept of Net International Reserves (NIR) is widely used as an indicator of a country's external vulnerability. This BOX presents a standard statistical definition of NIR based on the conceptual framework of this *Manual* and the *Guidelines for the International Reserves and Foreign Currency Liquidity Template (IRFCL Template)*. This statistical definition provides a comprehensive approach aimed to inform reserve adequacy assessments and macroeconomic policy advice. However, country-specific considerations remain paramount in the design and monitoring of IMF supported programs. The introduction of this standardized statistical definition of NIR should not limit the flexibility to adjust the measurement of NIR considering country specific conditions and circumstances.

- **Net International Reserves = Reserve assets minus predetermined short-term net foreign currency drains**

NIR are calculated as reserve assets (RA) minus predetermined short-term net foreign currency drains (FCD). FCD are predetermined contractual foreign currency obligations (foreign currency outflows net of inflows) scheduled to come due during the 12 months ahead recorded at cash-flow value when the flows take place, as defined in Section II, *IRFCL Template*. FCD include short-term on- and off-balance sheet (e.g., financial derivatives, guarantees are not included) foreign currency obligations to residents and nonresidents. This is because RA will be used regardless of whether the drain arises from residents or nonresidents. FCD also include short-term on- and off-balance sheet foreign currency obligations of the central government, as payment of these obligations would usually involve the use of RA.

In cases where short-term foreign currency outflows/inflows vis-à-vis the domestic currency from forwards and futures are scheduled in FCD (*IRFCL Template*, Section II, 2), corresponding market values of the derivative contracts recorded in RA (Section I.A (5) of the *IRFCL template*) should be excluded in the calculation of NIR to avoid double counting.² Only market values of foreign exchange forwards/swaps, for which notional values are recorded in Section II.2, should be excluded; market values of other types of derivatives (e.g., options) should remain in RA in the calculation of NIR. In cases where notional values of non-deliverable forwards (NDFs) are included in FCD, they should be excluded in the calculation of NIR as the payment at maturity would only involve the market value of the contract (the market value is included in RA if the contract is settled in foreign currency).

These concepts and data are already covered in this *Manual* and the *Guidelines for the IRFCL Template*. The definition of RA on a gross basis is based on this *Manual*. Although the concept of FCD goes beyond the residence concept of this *Manual*, Section II of the IRFCL Template covers these data.³ At the time of drafting this *Manual*, the compilation of the IRFCL Template is a requirement to subscribe to the IMF's Special Data Dissemination Standard (SDDS) and to adhere to the SDDS Plus. Even if the country does not compile the IRFCL Template yet, the same information could be collected from the authorities based on the *Guidelines for the IRFCL Template* to calculate NIR.

1 The statistical definition of NIR goes beyond the general scope of this Manual (the balance of payments framework does not cover transactions and positions with residents). However, this Manual provides guidance on this issue considering that it is an essential concept widely used to assess external vulnerability of a country and that there are strong needs for a standardized definition as a benchmark to define country specific NIR. The IRFCL Template should play the central role in collecting data related to NIR. The Guidelines for the IRFCL Template provide a comprehensive framework to collect data related to reserve assets encompassing positions with residents and nonresidents, on- and off-balance sheet items, and those for the monetary authorities and the central government (including guarantees, credit lines, and options), as well as financial instruments denominated in foreign currency and settled in domestic currency.

2 This exclusion should only apply to the calculation of NIR. The recording of RA in the BOP, IIP, or the recording of items in the *IRFCL Template* should not change. The treatment of financial derivatives in reserve assets of balance of payments and IIP are described in [paragraph 6.xx](#).

3 Section II in the IRFCL template allows for total pre-determined short-term drains to be decomposed between those of the monetary authorities and the central government, although in practice in most cases this decomposition is not provided. In the very rare case, where the central government has sufficient short-term FX assets, held overseas, then the short-term liabilities of the central government would not be included in the predetermined short-term drains in the calculation of NIR (the liabilities still need to be recorded in the IRFCL Template).