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TASK FORCE ON THE COORDINATED PORTFOLIO INVESTMENT SURVEY

Report of the Task Force to Consider Issues Relating to the Repeat of the 1997 Coordinated Portfolio Investment Survey

International Monetary Fund
Statistics Department

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EXECUTIVE SUMMARY

The Task Force was established by the national compilers of the CPIS at their meeting of March 24–26, 1999, to report to the IMF Committee on Balance of Payments Statistics at its October 1999 meeting on the results of the 1997 Coordinated Portfolio Investment Survey (1997 CPIS) and the need for, feasibility of, and timing of, a second CPIS. In the event that the Task Force was to recommend a second CPIS, it was to advise on steps that would be needed to facilitate its implementation. The Task Force met on June 7–8, 1999, in Washington D.C.

The Task Force concluded that the 1997 CPIS had made a significant contribution towards improving the methodological standards followed by countries in collecting data on long-term portfolio investment assets, in shaping best practices in the design of collection systems, and in promoting bilateral data exchange. In so doing, it had improved the coverage of portfolio investment assets in international investment position statements, and provided a basis for improved reporting of related financial account transactions and investment income flows. In light of this assessment, and of the rapid growth, internationalization, and volatility of securities markets, the Task Force concluded that, after an appropriate transition period, the CPIS should be conducted on a regular basis, and preferably annually by a core group of countries. The Task Force also recommended an expansion in the coverage of portfolio investment assets to include short-term instruments.

The Task Force concluded that a major effect should be made to build on the success of the CPIS by expanding participation to include those industrial countries that did not participate in the 1997 CPIS, a broader representation of other countries, and major offshore centers. Recommendations are also made regarding steps that can be taken to improve the coverage of portfolio investment abroad by households. To allow time for including this wider constituency, and to provide for gearing up for the second CPIS as the first of a series of regular, and in many cases annual, surveys, the Task Force recommended that the second CPIS be conducted for end-December 2001.

MAIN FINDINGS AND RECOMMENDATIONS

The Task Force main findings and recommendations are summarized below:

1. Frequency

- that a second CPIS be conducted as at December 31, 2001, and that the CPIS should thereafter become a triennial or annual survey. A strong preference was expressed for an annual survey, but countries unable to run annual surveys should be asked to conduct such surveys on a triennial basis. A core group of countries should be identified that would commit to conducting annual surveys and to providing their partners with an estimated geographical attribution of portfolio assets on an annual basis (paragraphs 27–29);

- that SEFER become an annual exercise, in order to supplement the CPIS (paragraph 12);

2. Coverage

- that the list of CPIS “mandatory” items be extended on the portfolio asset side to include short-term debt instruments (paragraph 31);

- that an “encouraged” category be introduced to include a country breakdown of securities holdings entrusted to resident custodians by nonresident households. This is intended to be for the benefit of compilers in partner countries and to increase the coverage of the household sector. The designation of this as “encouraged” reflects the view that many countries would be unable, for legal and other reasons, to provide this information. The Task Force agreed to undertake further work to clarify what information custodians can report (paragraphs 34–38 and 62);

- that a “voluntary” category be introduced covering portfolio investment liabilities (equity securities, long-term debt securities, and short-term debt securities). These terms were treated as non-mandatory in the 1997 CPIS; the designation of them as “voluntary” reflects the predominant view that existing collection systems are unlikely to produce a reliable breakdown of portfolio liabilities by country of foreign holder (paragraph 32).

- that the CPIS should focus only on portfolio investment positions and should not be expanded beyond portfolio investment (i.e., to include financial derivatives, direct investment, and other investment—such as trade credits and loans). This reflected the predominant view that there were no major spin-offs to be won by expanding the survey in this way (paragraph 33);

- thus the instrument coverage of the next CPIS should be:

    - *Mandatory category*: portfolio investment assets in equity securities; long-term debt securities; short-term debt securities;
    - *Encouraged category*: securities holdings entrusted to resident custodians by non-resident households;
    - *Voluntary category*: portfolio investment liabilities;

- that the growing user need for a classification by residual maturity, as compared with the classification by original maturity recommended for the next CPIS, raises questions on the future direction of the CPIS; If recommended by the Committee, an additional item could be included in the “encouraged” category to include a *supplementary* breakdown by residual maturity. However, there was some doubt as to the usefulness of applying residual maturity to debt securities, and many countries would not be able to provide this information readily. (paragraphs 53 and 63);

3. Country Participation

- that in order to optimize the coverage of the next CPIS, an effort should be made to encourage new participants among major investing countries and offshore centers. However, participation in the CPIS of other countries is important to ensure a wider application of best practice. In this regard, the Task Force acknowledged the crucial role that could be played by the Fund, regional organizations, and neighboring countries (paragraphs 39–41 and 46);

- that, regarding the participation of offshore centers, every effort be made to include them in the next CPIS and that the design of reporting by offshore centers be tailored to their needs; that in the event of confidentiality concerns by some offshore centers, any data collection from these centers could be reported on a basis, similar to that adopted for the SEFER survey, that would ensure the confidentiality of data reported by the individual centers; that the IMF arrange visits to the key centers to negotiate the design of report forms, and establish what prudential or informational benefit offshore centers would get from inclusion in such a high visibility survey; and that this undertaking be built on the current focus by the BIS to expand its bank creditor reporting system to include key offshore centers (paragraphs 42–45);

4. The Way Forward

- that annual data on portfolio assets broken down by country of issuer should be included as an encouraged item to the proposed International Investment Position (IIP) requirement now under consideration for Fund's Special Data Dissemination Standard (SDDS) (paragraphs 47 and 67);

- that the Task Force should recommend changes that will be needed in the *Survey Guide* in support of the decisions made by the Committee. To this end, and subject to the Committee's agreement that the CPIS be repeated, the Task Force should hold a meeting, provisionally scheduled to take place in January 2000, to determine what changes in the *Survey Guide* are needed and to assign further work to its members (paragraph 62);

- that efforts be made, by the IMF, the ECB, and the BIS, to promote the development of national and international securities databases. To this end, the Task Force recommended that, as a first step, consideration be given to an approach whereby the IMF, together with the ECB and BIS, would take the initiative in establishing standardized codes, naming conventions, and best practices for such international databases. The aim would be to facilitate the development of compatible national securities databases and the exchange of information. Some Task Force members considered that the IMF, ECB and BIS should assume responsibility for establishing and maintaining a central security database, based on these standards, on which their member countries could draw (paragraphs 57–60 and 65);

REPORT

I. INTRODUCTION

1. At the direction of the national compilers of the CPIS at their meeting March 24–26, 1999, at Fund Headquarters in Washington D.C., it was agreed that a Task Force be formed to report to the October 1999 meeting of the IMF Committee on Balance of Payments Statistics (the Committee) on: (1) the results of the 1997 Coordinated Portfolio Investment Survey (1997 CPIS); and (2) the need for, feasibility of, and timing of, a second CPIS, and set its direction. In the event that the Task Force was to recommend a second CPIS, it was to advise on steps that would be needed to facilitate its implementation. A second phase of the work, to begin following the October meeting of the Committee, would address these steps in more detail. Following this recommendation, the Task Force was established under the chairmanship of Mr. Gunnar Blomberg (Sveriges Riksbank) and a broad representation of national compilers. To facilitate its work, the Task Force held a meeting at Fund Headquarters on June 7–8, 1999. Those who attended the meeting are indicated by * in the following list of Task Force members: Mr. Gunnar Blomberg (Chairman)*, Michael Andreasch (Austrian National Bank)*, Jean-Francois Carbonneau (Statistics Canada)*, Michael Davies (Australian Bureau of Statistics)*, Marcelo Dinenzon (Ministry of Economy and Public Works and Services, Argentina)*, John Fitzpatrick (Central Statistical Office, Ireland), William Griever (Board of Governors of the United States Federal Reserve System),* Francesco Loi (Ufficio Italiano dei Cambi), Guido Melis (National Bank of Belgium)*, Helga Michalik-Ringenaldus (Deutche Bundesbank)*, Rikuichi Niikawa (Bank of Japan), Balfour Ozer (Bank of Israel)*, Dominique Rouges (Banque de France), Eduardo Rodriguez Tenes (Banco de Espana), Colin Yeend (Office for National Statistics, United Kingdom)*, Yeo Cheng Yan (Bank Negara Malaysia)*, Ayse Bertrand (OECD), and Peter Neudorfer (European Central Bank)*. The Secretariat comprised Simon Quin*, Marco Committeri*, and John Joisce*, all of the IMF Statistics Department.

2. Since one meeting would not be sufficient to adequately address all important issues, it was agreed that the mandate (and the Task Force report) should aim to highlight the main issues and propose a way forward for consideration by the Committee. At this meeting, it was agreed that the mandate should be interpreted to include the question of whether future CPIS surveys should be conducted on a regular basis. It was agreed that the report should focus on issues related to extending the coverage of the CPIS, both in terms of instruments and participating countries, and its periodicity. If needed, the issues could be addressed in more detail by the Task Force following the October 1999 meeting of the Committee. The second stage could address, inter alia, the need to review steps that have to be taken before the next CPIS, including a review of the *Coordinated Portfolio Investment: The Survey Guide (Survey Guide)*, and the resource implications for both the Fund and compiling countries. The Task Force could approach areas that need revisiting, such as: (1) an examination of the most effective means of collecting the data; (2) the treatment of repos; (3) issues related to reporting by resident custodians on securities held on behalf of nonresidents, especially of households, for the benefit of compilers in the countries of the nonresidents; (4) issues related to distinguishing long from short-term instruments; and (5) steps that could be taken to promote the development of international securities databases.

3. This report is divided as follows: the next section (Section IV) summarizes the outcome of the 1997 CPIS; Section V outlines the outcome of SEFER (Securities held as Foreign Exchange Reserves); Section VI reviews the benefits that the CPIS has brought at the national and global level; Section VII discusses considerations for assessing the needs for further surveys; Section VIII examines issues regarding the timing and scope of a second CPIS; Section IX examines issues related to the encouragement of other countries to participate in another CPIS; Section X discusses the role of the Fund and other international organizations in connection with the CPIS; Section XI discusses problems areas that need to be reviewed; and Section XII looks at the way forward.

II. SUMMARY OF THE OUTCOME OF THE 1997 CPIS

4. The CPIS was undertaken in response to recommendations in *Report on the Measurement of International Capital Flows* (the *Godeaux Report*) which sought, among other things, to obtain a better measure of the levels of financial assets and liabilities between and among countries, thereby helping to address the imbalances in measured international financial flows. The breakdown of holdings and liabilities by counterpart country was seen as an important step in assisting bilateral data exchange. Participation in the survey was voluntary and was intended to be as broad as possible, encompassing both advanced and emerging economies. Twenty-nine countries provided the Fund with data. Table 1 lists the countries. These countries accounted for approximately 80 percent of the estimated international holdings of equities and long-term debt securities.

5. Prior to conducting the survey, four meetings were held to establish the standards for measurement and reporting as well as of coverage. As a result, the *Survey Guide* was prepared under the supervision of Ms. Lucie Laliberté of Statistics Canada. It was agreed that equity and long-term debt security assets (excluding direct investment) would be treated as "mandatory" (that is, the minimum for participation in the exercise) and that short-term debt security and financial derivative assets[1] and equity, long- and short-term debt securities and financial derivatives liabilities would be treated as "non-mandatory" (i.e., countries could report if they chose). Fifteen countries provided data on short-term debt security assets, eight provided data on equity and long- and short-term debt security liabilities, and two provided data on financial derivatives. See Table 1. While the basic conditions for a coordinated approach were adopted (e.g., on timing and valuation, and the treatment of reverse repos transactions), given the variety of experience (from very practiced to first time) it was decided that no survey approach should be prescribed. Rather it was felt that national circumstances should determine what was the most appropriate approach. That is, countries were free to adopt an aggregate approach, a security-by-security approach, to approach end investors only, custodians only, or a combination of both. For those countries intending to adopt a security-by-security approach, the securities database created by the *Ufficio Italiano dei Cambi* was made available. Most countries conducted the survey under existing legislation that gave the

[1] At the time the survey was conducted, financial derivatives were still included in *portfolio investment* in the Balance of Payments Financial Account and the International Investment Position. Since then, a new functional category has been created for them.

compiler authority to require respondents to comply. In some countries the legal basis for requesting the information was insufficient, in which cases it was conducted on a voluntary basis. (See Table 1. The *Country Implementation Report* provides more details.)

6. Total holdings of nonresident equity and long-term debt securities of countries participating in the CPIS exercise amounted to nearly US$ 5.2 trillion at the end of 1997 (Table 2, Col. (c)). As expected, United States, United Kingdom, and Japan were the largest investing countries, accounting for almost 68 percent of such holdings. The shares of the Netherlands, Italy, and France each were within a range of 4-6 percent of the total; Sweden, Ireland, Canada, Bermuda, and Belgium each were within a 1-3 percent range. Holdings of foreign short-term debt securities contributed some additional US$100 billion, a small fraction (3.7 percent) of total portfolio assets for countries that collected both mandatory and non-mandatory data.

7. To derive a total global estimate of the value of equity and long-term debt security assets, information from other sources was added, to generate totals which could be compared with calculated liabilities outstanding. These other sources comprised: (1) SEFER (discussed further in Section III), which sought information from countries on the geographical breakdown of their holdings of equities and long-term debt securities held as part of their reserve assets as at December 31, 1997; (2) similar information on the asset holdings of large international organizations, such as the IMF, the United Nations and the World Bank (both for operational and pension fund purposes); (3) data from the BIS database on international securities issues. Table 2 provides summary information on these results. These sources added geographically detailed data on holdings of nonresident long-term securities of almost US$750 million, predominantly concentrated in debt instruments. As a result, overall portfolio holdings of the countries participating in the CPIS, together with the supplementary information from other countries and institutions, were estimated to amount to nearly US$6.1 trillion.

8. By summing countries' IIPs and/or cumulating flows, the Fund staff have estimated that outstanding global portfolio investment liabilities in both equity and long-term debt securities reached approximately $8.9 trillion by the end of 1997, while identified global holdings of portfolio investment assets were estimated to be approximately $6.56 trillion (a difference of $2.34 trillion[2]). This estimate was compared with the information provided by the combined CPIS, SEFER, BIS, other international organizations (IO) exercise (in paragraph 7), together with an estimate of securities held as reserves in those countries that did not participate in SEFER. (Approximately 60 percent of the newly identified assets were equities.) Identified global holdings were found to be $800 billion higher than the $6.56 trillion estimated by summing flows and using published IIPs.

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[2] By comparison, the *Godeaux Report* estimated that, at the end of 1988, measured global assets in cross border bonds amounted to $1,209 billion, about 75 percent of measured cross border liabilities of $1,618 billion (after adjusting for liabilities constituting foreign authorities reserves), an imbalance of $409 billion. See *Godeaux Report* pp. 44-45.

TABLE 1. COLLECTION STRATEGIES AND DATA AVAILABILITY

Country	Previous national experiences			Kind of Survey run				Compulsory or Voluntary?	CPIS data availability								
				Aggregate approach		Sec-by-sec approach			Assets					Liabilities			
									1	2		3	4	5	6	7	8
	First Survey	Same repeat	Different repeat	End-investors	Custodians	End-investors	Custodians		Equity	Long-term debt	O/W: SEFER (*)	Short-term debt	Derivatives	Equity	Long-term debt	Short-term debt	Derivatives
Argentina	●	-	-	(1)	-	(1)	-	N/A	●	●	(S)	●	-	-	-	-	-
Australia	-	-	●	●	-	-	-	C	●	●	(S)	●	-	●	●	●	-
Austria	-	●	-	-	-	●	●	C	●	●	(I)	-	-	-	-	-	-
Belgium	●	-	-	●	●	-	-	C	●	●	(I)	●	-	-	-	-	-
Bermuda	●	-	-	●	●	-	-	V	●	●		-	-	-	-	-	-
Canada	●	-	-	(2)	-	●	●	C	●	●	(S)	●	-	-	-	-	-
Chile	●	-	-	-	●	●		V	●	●	(S)	-	-	-	-	-	-
Denmark	-	-	●	●	●	-	-	V	●	●	(I)	-	-	-	-	-	-
Finland	-	-	●	●	●	-	-	C	●	●	(S)	●	-	-	-	-	-
France	-	-	●	-	-	-	●	C	●	●	(S)	-	-	-	-	-	-
Iceland	●	-	-	●	●	-	-	C	●	●		-	-	-	-	-	-
Indonesia	●	-	-	●	●	-	-	V	●	●	(S)	●	-	●	●	●	-
Ireland	●	-	-	●	-	-	-	C	●	●	(S)	-	-	-	-	-	-
Israel	-	-	●	●	-	-	●	C	●	(6)	(S)	-	●	●	(6)	-	●
Italy	●	-	-	-	-	●	●	C	●	●	(S)	●	-	-	-	-	-
Japan	-	●		(3)	●	-	-	C	●	●	(S)	●	●	●	●	●	●
Korea	●	-	-	●	●	-	-	C	●	●	(I)	●	-	-	-	-	-
Malaysia	●	-	-	-	-	●	●	C	●	●		●	-	●	●	●	
Netherlands	-	-	●	-	(4)	-	-	C	●	●	(S)	-	-	●	●	-	-
New Zealand	●	-	-	●	●	-	-	C	●	●	(S)	-	-	-	-	-	-
Norway	●	-	-	●	●	-	-	C	●	●	(S)	-	-	-	-	-	-
Portugal	-	-	●	-	-	(5)	●	C	●	●	(S)	●	-	●	●	●	
Singapore	-	-	●	●	●	-	-	C	●	●	(S)	●	-	-	-	-	-
Spain	-	-	●	-	-	●	●	C	●	●	(S)	-	-	●	●	●	-
Sweden	-	-	●	●	●	-	-	C	●	●	(S)	●	-	-	-	-	-
Thailand	●	-	-	●	●	-	-	V	●	●	(S)	-	-	-	-	-	-
United Kingdom	-	-	●	●	-	-	-	C/V	●	●	(S)	●	-	-	-	-	-
United States	-	●	-	-	-	●	●	C	●	●	(I)	-	-	-	-	-	-
Venezuela	●	-	-	-	-	●	-	V	●	●	(S)	●	-	-	-	-	-

(*) The symbol ‘S’ is used to indicate that data on reserves have been provided separately from CPIS data; the symbol ‘I’ is used to indicate that data on reserves have been included in CPIS data. (1) Mixed, depending on the available information. (2) Banks. (3) Only institutional investors. (4) Banks. (5) Only when the reporting responsibility is not delegated in a bank or in another depositary institution. (6) Includes long-term and short-term debt securities.

TABLE 2. PORTFOLIO INVESTMENT ASSETS OF COUNTRIES PARTICIPATING IN THE CPIS
(Millions of US Dollars)

Countries	Equity securities (a)	Long-term debt securities (b)	Total (a + b) (c)	country share	Short-term debt securities (d)	Financial derivatives (e)	**Total (c+d+e)**
Argentina	10,090	18,050	28,140	0.54%	1,551	-	29,691
Australia	32,870	7,449	40,319	0.77%	1,217	-	41,537
Austria	11,502	39,421	50,922	0.97%	-	-	50,922
Belgium	64,830	86,668	151,499	2.89%	10,786	-	162,285
Bermuda	46,861	82,934	129,795	2.48%	-	-	129,795
Canada	105,920	17,491	123,411	2.35%	4,859	-	128,270
Chile	390	137	527	0.01%	-	-	527
Denmark	21,751	21,346	43,096	0.82%	-	-	43,096
Finland	3,122	7,849	10,971	0.21%	591	-	11,562
France	99,604	205,938	305,542	5.83%	-	-	305,542
Iceland	386	82	468	0.01%	-	-	468
Indonesia	26	701	726	0.01%	398	-	1,124
Ireland	36,506	59,144	95,650	1.83%	-	-	95,650
Israel	1,057	2,117	3,174	0.06%	-	6	3,180
Italy	75,233	172,239	247,473	4.72%	10,391		257,863
Japan	158,771	712,161	870,932	16.62%	31,324	4,406	906,662
Korea	976	8,101	9,077	0.17%	4,428	-	13,505
Malaysia	1,385	348	1,733	0.03%	55	-	1,788
Netherlands	127,314	115,425	242,739	4.63%	-	-	242,739
New Zealand	5,002	1,448	6,450	0.12%	-	-	6,450
Norway	9,282	25,395	34,676	0.66%	-	-	34,676
Portugal	4,765	14,145	18,911	0.36%	366	-	19,277
Singapore	16,199	4,527	20,726	0.40%	2,061	-	22,788
Spain	22,308	24,771	47,079	0.90%	-	-	47,079
Sweden	52,367	16,451	68,819	1.31%	2,739	-	71,557
Thailand	232	43	275	0.01%	-	-	275
United Kingdom	461,553	483,354	944,908	18.03%	27,080	-	971,987
United States	1,197,446	542,898	1,740,344	33.21%	-	-	1,740,344
Venezuela	36	2,384	2,420	0.05%	555	-	2,975
Total CPIS	**2,567,785**	**2,673,016**	**5,240,801**	100.00%	**98,401**	**4,411**	**5,343,613**
Supplementary data *	32,033	716,950	748,983				748,983
Grand total	**2,599,818**	**3,389,966**	**5,989,784**		**98,401**	**4,411**	**6,092,596**

(*) Foreign long-term securities (equity and debt) held as reserve assets by the monetary authorities of countries participating in the SEFER survey, plus BIS data relating to holdings of nonresident debt securities of banks resident of Germany, Hong Kong SAR, Luxembourg, and Switzerland, plus equity and long-term debt securities held by selected international organizations mainly in respect of pension funds operations for their staff.

Global Portfolio Investment Assets and Liabilities
(End-December 1997, trillions of U.S. dollars)

	Assets	Liabilities	Assets-Liabilities
(a) estimate based on available IIP and/or cumulated BOP data	6.56	8.9	-2.34
(b) revisions to basic estimate due to combined CPIS, SEFER, IO, and BIS information	+0.8	+0.49	-0.31
Final estimate (a)+(b)	7.36	9.39	-2.03

Sources: CPIS, BIS, IMF, and other international organizations.

9. The CPIS data also permitted a check on whether total portfolio liabilities of partner countries (as measured by available IIP/BOP data) were consistently larger than those identified by CPIS participants. If not, the original IIP/BOP data were replaced with CPIS information: this permitted the identification of new liabilities of some $0.5 trillion, a large part of which was related to emerging market countries. Overall, the measured gap between portfolio investment assets and liabilities fell by about $300 billion. Assuming that the liability estimate is correct, and in light of the assets reported by Bermuda, a significant part of the gap may be explained by portfolio holdings of offshore centers, portfolio instruments held for residents of CPIS participating countries by third party custodians, and portfolio investments of other major investing countries not captured in the available IIP/BOP statistics. However, at this point, it is not possible to be more precise.

III. THE SEFER STUDY

10. Long-term debt securities (and, to a much lesser extent, equities) are often held as part of a country's reserve assets and are recorded in that functional category (under foreign exchange in the standard components of *BPM5*). The counterpart liability is recorded under portfolio investment, which, without making any adjustment, would leave a global imbalance in the flows and positions data in that latter category. To help overcome this problem at the aggregate level of portfolio investment, the Fund requested major reserve holding countries to provide information on their holdings of foreign long-term securities (the SEFER survey). The information was collected on the same basis as the CPIS with respect to valuation and geographical breakdown and was provided on a confidential basis, as many countries are reluctant to make this information publicly available. Of the 46 countries approached, 38 provided data. These 38 countries accounted for 66 percent of world foreign exchange reserves. Of the 8 countries that did not provide data, only 4 could be considered significant.

To maximize the amount of geographic detail to be disseminated from the SEFER survey it was decided to merge the data on international organizations and reserves and to combine bonds and equities to avoid confidentializing some information.

11. In addition, to fill another gap in the global data, large international organizations (IOs), such as the United Nations, the World Bank, as well as the Fund, were asked to provide similar information on their holdings of long-term securities (including pension funds as well as operational accounts).

12. If a decision were made to repeat the CPIS or set it up on an on-going basis, the SEFER and the collection of information from international organizations would need to be repeated on a continuing basis. If possible, attempts should be made to extend the coverage to those countries (with major securities' holdings in their reserve assets) that did not participate in the 1997 survey. In addition, attempts should be made to encourage countries (and perhaps "offshore centers") to include their reserve assets holdings of portfolio securities holdings in the next CPIS, instead of having all the information included in one single vector of assets. Were such information available, it would further assist each creditor country to disaggregate its total portfolio investment assets by individual debtor country and, conversely, would facilitate the creation of a more complete picture of each CPIS participant's liabilities vis-a-vis each creditor country.

IV. BENEFITS OF THE CPIS AT A NATIONAL AND GLOBAL LEVEL

13. There have been several benefits from the CPIS. The main ones are that it has: (1) proved that a coordinated effort could be successfully organized across a large number of countries with respect to the scope, coverage, timing, definitions and concepts used in the compilation of data on portfolio investment; (2) provided an effective and efficient vehicle for establishing and spreading world-wide good methodological standards; (3) facilitated access to budgetary support as a result of the higher visibility given to a coordinated cross-country approach; (4) facilitated a greater understanding of country practices with respect to survey design and alternative approaches to data collection and the exchange of experience in this regard; (5) allowed countries to gain confidence in the data; and (6) facilitated data exchange. In all of this, it has served to spread awareness of *BPM5* and promote and facilitate its implementation.

14. As indicated in the previous section, the exercise has resulted in a narrowing of the asset/liability gap and, if only partly, has improved liability attribution. The exercise proved to be effective in assisting some countries to address problems of asset under-counting.

15. Although asset under-count is likely to continue, the exercise will help improve liability attribution. The 1997 CPIS allowed some countries to undertake a survey of their holdings of long-term securities for the first time, a not inconsiderable achievement, with many countries undertaking annual or semi-annual surveys on a continuing basis. The benefits of having better data include an improved understanding of where residents are investing their funds and improved measures of income credits. The exchange of information has enabled countries to detect the investing countries on their liability side. Calculations have been made

by the Austrian National Bank as well as the Fund to adjust for the absence of important investing countries (such as Germany, Luxembourg and Switzerland). Such calculations indicated that, had these countries participated in the 1997 CPIS, the coverage of portfolio investment liabilities of their partners (mainly European countries) would have increased substantially. Thus, the results of the 1997 CPIS together with these calculations have provided a more complete picture in making it possible to track investing countries on the liability side and provide a basis for country attribution of portfolio income flows. In addition, the CPIS has assisted countries to cross check financial flows with their data on positions. The coordinated approach has allowed countries to adopt, where possible, best practices for valuation and coverage.

16. At the international level, the coordinated survey has meant that, for the first time for measures of cross border holdings of financial assets, a consistent methodological approach has been used. Harmonization of statistical methods and standards and availability of countries' metadata are very important when trying to identify where possible imbalances in global data may arise and how to deal with them (so that like can be compared with like). An appreciation of the importance of having positions data has been fostered among many countries. This has been reinforced by the financial crises in 1997 and 1998. In addition, there have been the benefits that flow when countries are in a position to exchange views on, and adopt, best practices. Given the underlying reason for undertaking the CPIS in the first place—global imbalances in financial flows and stocks—the results are an encouraging first step. Even so, there are several areas where improvements can be made and these are discussed in Section XI.

V. CONSIDERATIONS FOR ASSESSING THE NEED FOR FURTHER SURVEYS

17. There are three kinds of factors to be considered when assessing the need for further internationally coordinated portfolio investment CPIS surveys.

18. First, the original purpose of the exercise was to address the global imbalances of the measured outstanding portfolio assets and liabilities and the commensurate imbalances in financial and income flows. Even though the 1997 CPIS has increased the coverage of portfolio assets for many countries, the need to address these global imbalances continues, perhaps even more so than at the time of the Godeaux Report. One of the reasons for the increased global imbalances, as described earlier, was the rapid internationalization of the securities markets and fast growing international portfolio investment positions during the 1990s, and the problems within the statistical field to keep up with those developments. This clearly supports the need for further internationally coordinated portfolio investment surveys.

19. Second, the 1997 CPIS has substantially improved the level of statistical work within the international investment position and balance of payments field. The first CPIS was overwhelmingly considered by the national compilers to have been a success. The criteria for success included the following: (1) for many countries, the measures of portfolio investment holdings of equities and long-term debt has improved. For 15 countries, these holdings were measured for the first time; (2) increased knowledge among compilers of *BPM5* methodologies and practices in other countries, so that experiences can be shared and best

practice adopted for each country; (3) identification of significant holdings previously unrecorded; (4) increased awareness among compilers and respondents of the need for such data; and (5) opportunities for national compilers to improve national international investment positions, financial flows and income data and, by bilateral comparisons, track the debt holders.

20. Third, since the mid 1990s, the volatility of international financial flows, and the increased vulnerability of some countries to exchange rate crises, has radically increased the need for good information concerning outstanding positions of portfolio investment. For governments, financial market players and analysts the need for good information on positions, as well as flows data, strongly confirms the usefulness of continuing the CPIS. Improved asset positions data are useful in supporting work on the measurement of external debt, providing creditor side information on portfolio liabilities, to supplement the BIS' banking creditor data. They can also enhance attention to macroprudential considerations and measures for organizations involved in financial stability issues. In particular, geographical details are perceived to be important for macro-prudential supervision policies.

21. These considerations for continuing the CPIS also provide some indication of the direction that future work should take.

22. The first and most important consideration must be concern to ensure the quality of the data. The quality of data is affected by a variety of factors, including deficiencies in country participation, the omission or lack of coverage of some sectors and/or institutional units, especially as regards the household sector. Another consideration is the correct attribution of the portfolio concept and country assignment as well as other problems such as valuation. The use of portfolio investment positions data in support of macro prudential considerations underscores the importance of improving the quality of data in any future CPIS. The Task Force has, as described later in the report, made a number of proposals to address the quality of the CPIS.

23. In approaching the quality issue, the Task Force also considered the various methods of collecting portfolio asset positions data. While recognizing each country's responsibility for designing its national survey, most Task Force members considered that the security-by-security approach is likely to produce the best results in terms of quality.

24. The reasons for drawing this conclusion were that such an approach: (1) enhances exchange of data and provides more rigorous data checking: (2) allows the derivation of detailed information on terms to maturity, sector classification of issuer, and currency denomination; and (3) would be less onerous in the long run on the respondent (who is required only to provide its database on holdings without a breakdown by country of issuer). Against this, it was recognized that the security-by-security approach is very much more expensive for the statistical agency than is the aggregate approach.

25. In view of this overall assessment, the Task Force recommended that the IMF, together with other international organizations, take the initiative to support the setting up of international securities databases for statistical use, thereby encouraging, in the long-term, a gravitation towards adopting the security-by-security approach. In making this

recommendation, it was recognized that, for some countries, such an approach may be impractical for the time being for political, legal, or resource considerations.

26. Another consideration that affects the quality of the data is the periodicity of the survey. The Task Force has judged the developments in the late 1990s of increased international portfolio positions and increased vulnerability to rapid shifts in international investment flows and positions as evidence of the need for conducting the survey on a regular and more frequent basis. This consideration is also influenced by the fact that, the more frequently CPIS surveys are conducted, the better the quality of the resulting data. With the CPIS, as with other surveys, compiling agencies and their respondents learn from experience. Closely related to this consideration is the fact that many countries have made a substantial investment in undertaking the first CPIS and obviously have a strong incentive to realize the potential benefits from this by undertaking future surveys on a regular basis.

VI. THE TIMING AND SCOPE OF A SECOND CPIS

A. Timing and Periodicity

27. Regarding the timing of the next survey, the Task Force considered that further work is necessary to maintain the impetus and to capitalize on the results achieved. As already noted, data for a one-off survey, or even for a first time survey, are of a lower quality than those from repeats. On the other hand, the Task Force considered it necessary to provide enough time for the preparation of the next survey. Amending the *Survey Guide*, preparing an annual survey among compilers, advising respondents, securing budgetary resources, setting up computer systems, developing or expanding databases (where appropriate), will take time. In order to maximize the potential of success for the next survey, the Task Force recommended end-December 2001 as the reference date.

28. The Task Force deemed it necessary to consider the periodicity of future surveys and not leave this to a future decision. Considering the two alternatives of annual and triennial surveys, the Task Force was convinced that an effort should be made for the December 2001 Survey to become the first exercise in what would then become an annual CPIS. This conclusion was drawn in recognition of the developments of the late 1990s, emphasizing the need for improved global statistics in terms of quality, coverage, and periodicity, as referred to earlier. Conducting the CPIS on a triennial basis would, apart from providing the information at a low periodicity, also impair the quality and cost efficiency of the survey. The Task Force noted the fact that conducting a CPIS every three or four years is equivalent to starting afresh each time. It was noted that staff either move on or turn to other issues, and the institutional memory involved in editing and analyzing the data may be lost. For similar reasons, respondents may well be better served by reporting on an annual basis, as less periodicity may involve larger set-up costs (particularly for computer systems). Hence, for both compilers and respondents, setting up a system that will be used on an on-going basis would be much more cost effective.

29. The Task Force concluded that countries should be invited to undertake a CPIS on a regular periodic basis after the next survey, preferably on an annual basis. However, it needs to be recognized that not every country will be in a position to conduct an annual survey of portfolio holdings. Some countries, such as the United States, are not at this time in a position to commit to annual surveys. Those countries that may not be able to participate on an annual basis should be invited to take part every third year with the aim of conducting the CPIS annually as quickly as possible. It might also be useful to introduce the notion of a transition period (of several years) that would allow countries to commit to the goal of an annual survey, while recognizing that they may need time to gear up to it. The Task Force concluded that it would be useful to identify a core group of countries (such as the United States, Canada, Japan, the United Kingdom, the euro area countries, and Switzerland) that should work towards undertaking the survey annually and that, as resources permit, other countries should be encouraged to join the annual undertaking. However, it was acknowledged that, at the present time, the United States, Japan, and Switzerland may not be in a position to commit to participation in an annual survey starting end-December 2002. Assuming that countries that can commit to an annual survey do so, it was proposed that other countries should be invited to provide annually estimates of the geographical attribution of their portfolio assets.

B. Instrument Coverage

30. The Task Force considered that the next CPIS should be clearly focused on covering portfolio investment assets positions.

31. Notwithstanding the objections of Germany, the Task Force recommended that the "mandatory" items in the first CPIS (holdings of equities and long-term debt securities) be extended to include holdings of short-term debt securities. The Task Force recognized that a more complete coverage of debt securities would be useful in developing external debt statistics, including partner country exchange of data, and for use in vulnerability analysis. It could also improve comparisons of the total of debt securities in cases where respondents have difficulties in correctly separating short-term from long-term securities. On the whole, extending the survey to short-term securities would, for most countries, add only limited costs to undertaking the survey.

32. Portfolio investment liabilities were a voluntary category in the 1997 CPIS. Eight countries took the opportunity to report portfolio liabilities. Difficulties in identifying the country of residency of the nonresident holder were recognized by the Task Force as the reason why many countries would be unable to report a geographic breakdown of their portfolio investment liabilities. It was noted that, for many countries, nonresident holdings of issues by resident entities were estimated as a residual by deducting estimated holdings of residents from total issues. On the other hand, for those countries that found themselves in a position to track the holders of their debt, this information was considered useful to facilitate bilateral comparison. For these reasons, the Task Force concluded that the reporting of a geographic breakdown of portfolio investment liabilities should be on a "voluntary" basis. Even if counterpart country information is not available or is not sufficiently robust, the Task Force recommended that countries be "encouraged" to report their portfolio investment

liabilities in aggregate as such information will be valuable in its own right and reflects the Godeaux Report's recommendation to improve measures of portfolio investment liabilities as well as portfolio investment assets.

33. Concerning other functional categories (such as direct investment, financial derivatives or other investment items such as trade credits and loans), the Task Force recommended against including these in the next CPIS. The Task Force considered that the focus of the next survey should be to fill the existing reporting gaps and to include short-term portfolio investment assets. In particular, it was concluded that the reporting population for direct investment is very different from that related to portfolio investment, being predominantly non-financial corporations. Therefore, there were little gains in terms of cost-effectiveness in combining the two categories in a unified survey aimed at collecting a country breakdown of both portfolio and direct investment assets. In any event, it was recognized that most countries already have well established direct investment surveys that were used in the 1997 CPIS to check against double-counting.

C. The Coverage of Households

34. The Task Force examined issues related to the coverage of the household sector in the CPIS. As noted in the previous section, direct holdings of portfolio investment assets by households is a major gap in many countries' data. As a result of ready and low cost access to international financial markets, households are frequently in a position to acquire securities abroad with little difficulty. Many countries at the national compilers meeting in March 1999, expressed the view that these holdings were significant, and that their exclusion from the 1997 CPIS had weakened the value of the results. This would apply to some European countries, such as Germany and Italy, and was likely to be significant for many countries with exchange controls or underdeveloped financial infrastructure.

35. The Task Force noted that the compiler in the country in which the household is resident usually lacks authority under their statistical legislation to approach nonresident financial institutions. On the other hand, the compiler probably does have authority to survey the domestic household sector. However, asking households to report their direct holdings of foreign portfolio investment abroad, has proved to be very difficult. This is evidenced by the fact that only two countries (Spain and Norway) reported that they have obtained data from domestic households.

36. The Task Force examined the potential for collecting information on portfolio holdings by non-resident investors deposited directly by domestic custodians (so-called third party holdings) in order to address the problem of undercoverage of the household sector in the CPIS. In examining this issue, the Task Force noted the risk of double counting. If third party holdings reported in country A covered holdings by all sectors of country B, and if at the same time the compiler in country B collected, through the CPIS, holdings that domestic investors held abroad, including those in country A, the information on country B's holdings by custodians in country A would appear to be of little value. The third party holdings of country A will be partly covered in the CPIS of country B and the compiler in country B would not be able to make use of the information in improving its own data as the risk of potential double counting could not be determined.

37. In order to avoid this risk of double counting and in order to focus on the collection on problematic areas, the Task Force recommended that the reporting of third party holdings would need to be confined to holdings of the household sector. However, many Task Force members doubted that custodians would be able to report the relevant information. In particular, it was recognized that many compilers are at present not in a position to request the information as they may lack legal authority. Furthermore, such details are not needed for their own compilation purposes. For these reasons, information on third party holdings appears to be not collected at present. It was concluded that the Task Force should assign further work to its members to clarify what information custodians can report.

38. Since all information on third party holdings of the household sector would contribute to improving the coverage of the CPIS, the Task Force recommended introducing such reporting as an "encouraged" category in the next survey. The Task Force recognized that third party reporting would be more complex, covering two dimensions (residency of the nonresident households as well as residency of the issuer). The lack of legal authority to collect the information will, in some cases, imply a collection on a voluntary basis. Thus, it is not likely that the third party holdings reported in the next CPIS would cover all portfolio investment assets deposited abroad by households. On the other hand, even partial information would be of great value, since it could give an indication of the magnitude of such holdings. Furthermore, for neighboring countries with close financial relations and integrated markets, the lack of such reporting could be a significant gap in the coverage of portfolio investment assets held abroad. The Task Force therefore concluded that an effort should be made to provide such data in the next CPIS for the benefit of partner countries.

VII. WAYS TO ENCOURAGE INCREASED COUNTRY PARTICIPATION

39. The experience of the 1997 CPIS shows clearly that one of the major obstacles in closing the gaps between outstanding portfolio investment assets and liabilities was the lack of participation of important countries. The Task Force considered that the highest priority should be given to efforts to ensure a wider participation of countries.

40. In order to optimize the impact on the coverage of the next CPIS, the Task Force concluded that a determined effort should be made to encourage participation by major investing countries. In that context, the Task Force discussed two categories of countries: (1) major investing countries not involved in the 1997 CPIS; and (2) offshore centers.

41. Among the major investing economies that were not involved in the CPIS were Germany, Luxembourg, Switzerland and Hong Kong. Germany has indicated its willingness to participate in a future CPIS based on voluntary reporting by resident custodians under the existing survey. The Task Force considered that ensuring the participation of the other above-mentioned countries in a future CPIS to be very important. The Task Force made no specific recommendation on how to achieve this, but generally it considered that the Fund has an important role to play in actively involving those countries. The Task Force also noted that, where relevant, the importance of influence exerted by regional organizations, such as ECB, and that of neighboring countries. Furthermore, the Task Force concluded that the possible

benefits to participants should be clearly specified in discussions with non-participating countries. It noted that such benefits include the use of the CPIS as building block for the balance of payments/international investment position accounts, as this would make it possible to check the balance of payments flows and calculate investment income. Additional benefits would derive from exchanging data with CPIS partners, thereby identifying the residency of the foreign investors who hold their portfolio liabilities.

42. As to the offshore centers, the available evidence is that they are major holders of international securities assets. The large size of banking activities (debt securities issued abroad and loans from banks reporting to the BIS exceeded US$1.2 trillion at the end of 1997) suggests that non-bank financial intermediaries located in such centers could be managing even larger portfolio investments. Bermuda's holdings of securities were $130 billion at the end of 1997. Other important offshore centers (Bahamas, Cayman, the Virgin Islands (UK and US), the Channel Islands and the Netherlands Antilles) may well be major holders.

43. Offshore centers have their own judicial, administrative, and fiscal systems. For such centers, no balance of payments (let alone CPIS) data are generally available, though some balance sheet data may be available. The Task Force noted that there were potentially fewer benefits and greater costs of participation in the CPIS by offshore centers in comparison with the benefits and costs to countries. Notwithstanding this, the Task Force concluded that steps that could be taken to ensure their participation in the CPIS should be explored further. One approach would be to point to Bermuda's CPIS as a model for other offshore centers to follow. Another would be to design a survey of their portfolio investment assets so as not to violate their "secrecy" traditions, which are often related to the identity of their customers. It could be pointed out to offshore centers that the CPIS could be a vehicle for drawing attention to the size and sophistication of offshore financial markets. This could appeal to them from a marketing perspective. It was noted that in many instances, these centers advertise their services on the Internet and compete with each other to attract funds from abroad.

44. The Task Force considered various steps that could be undertaken to stimulate the participation of offshore centers. One such step would be for the Fund to approach offshore centers along the lines of the SEFER survey. The offshore centers could be asked to provide data that would be maintained in strict confidentiality by the Fund and would be aggregated with those reported by other offshore centers. Another option recognized by the Task Force was that the design of reporting by offshore centers could be tailored to their needs or circumstances. These alternatives could be combined, allowing for an agreed format for presenting consolidated data for all participating offshore centers. The Task Force considered that, although these options may result in the loss of counterpart country information, it was nonetheless an important step to identify portfolio investment assets.

45. The Task Force recommended that, to carry this process forward, visits to the key centers should be arranged to determine the benefits and cost of participation, and in light of these, propose the design of suitable report forms for offshore centers. Such visits could also serve to establish what prudential or informational benefit offshore centers would receive from inclusion in such a high visibility survey. The Task Force considered that an attempt should be made to build on the current focus by the BIS to expand its bank creditor reporting system to include key offshore centers. More generally, it considered that an attempt should

be made to explore whether there were possible synergies in linking up participation of offshore centers in the CPIS with BIS work related to global financial architecture issues.

46. Besides emphasizing the importance of encouraging major investing countries and offshore centers to participate in the next CPIS, the Task Force considered that efforts to encourage other countries must not be neglected. Even smaller countries will contribute to the coverage of the CPIS, although not at the same magnitude as the major investing countries. It was noted that the widest possible country participation will bring about a wider application of good methodologies and best practice, as well as greater transparency in assessing country exposure to global markets.

47. Finally, in seeking ways to encourage countries to take part in future coordinated portfolio investment surveys, the Task Force considered the possibility of reviewing the statistical requirements of the Special Data Dissemination Standard (SDDS) that are issued and administered by the IMF. The Task Force noted that in the Second Review of the SDDS that has taken place over the past year, there was a particular focus on the review of data standards in the external sector. This has resulted in new standards (as regards coverage, periodicity and timeliness) for international reserves and related data, external debt, and international investment position statistics. Following a transition period, monthly data for international reserves according to the new guidelines will be published for April 2000 and subsequently (with a one month lag); annual data for the international investment position will be published for 2001 (with a six month lag); and a separate category for quarterly external debt will be introduced drawn from elements of the international investment position with a breakdown by institutional sector, and with further breakdowns, as necessary, including by maturity. The Task Force acknowledged that the focus of the SDDS on the transparency of national statistical practices is somewhat different from the purpose of the CPIS in promoting improved quality and data exchange on portfolio investment positions. However, the Task Force recognized that linking the CPIS with the SDDS would give greater recognition to the CPIS as part of a wider circle of international initiatives in the statistical area, and may serve to facilitate the budgeting of resources. Since the SDDS requires the international investment position category to be compiled for the same period as the next proposed CPIS, the Task Force concluded that the opportunity should be taken to identify the mandatory CPIS data as an encouraged component of the SDDS international investment position requirement.

VIII. THE ROLE OF THE FUND AND OTHER INTERNATIONAL ORGANIZATIONS

48. The Task Force considered that the benefits of a coordinated approach have been clearly demonstrated. Without Fund involvement, attempts to improve national data will become diffused; exchange of data will be limited (for example, timing and conceptual approaches may diverge); and the likelihood of reducing global discrepancies reduced.

49. The Task Force acknowledged that the *Survey Guide* had provided an excellent vehicle for making best practices widely available, and the various opportunities provided for bilateral contact between compilers had been actively utilized. The support of the IMF had been extremely useful in carrying the process forward and also in bringing the importance of the subject to the attention of country's ministries of finance and central banks (through country's

executive directors to the Fund). The role played by other international organizations (such as OECD) in working with their country constituencies had also been important, as had the ECB in linking up the CPIS with its efforts to develop a euro area balance of payments and international investment position statistics. The Task Force concluded that the role of the Fund as a coordinator of the CPIS and as a vehicle for publishing the results should continue.

IX. PROBLEM AREAS TO BE REVIEWED

50. There were several problem areas identified by the Task Force, many of which may need further consideration in guidelines. These were: valuation problems; distinguishing short-term from long-term debt instruments; distinguishing direct investment from portfolio investment; the treatment of repurchase agreements and like transactions; reporting thresholds; and the need for a central securities database.

51. *Valuation problems:* While most countries were able to provide data at market prices, closing market prices and exchange rates will vary across time zones. In order to establish complete price comparability, the closing price in the last markets to close on December 31 would appear appropriate—which would be those in the United States. However, it was not altogether clear that is the appropriate price for countries to use for their own purposes (specifically for the international investment position). At the same time, it was not clear that security databases have consistent closing times and market values. A similar case could be made for the conversion of reported values into a common currency. Some compilers noted problems, but there seemed to be no general prescription to be made in this regard. While this represents a relatively unimportant global difference, it may be important for some securities that are traded on two markets (e.g., in London and New York)

52. Distinguishing *long-term from short-term:* Some countries experienced difficulty in separating short-term from long-term securities, largely because of misreporting by respondents. It was recognized that a security-by-security approach linked to the use of a securities database was the most effective way of ensuring that long and short-term instruments are correctly identified. On the other hand, the introduction of short-term debt securities as mandatory in the CPIS could ease this problem somewhat. The total holdings of debt securities would not be affected by an incorrect separation of short-term from long-term securities in the CPIS reporting.

53. The Task Force also discussed the growing user need for a classification by residual maturity. However, as the *BPM5* concept remains that of original term to maturity, and as the first CPIS was based on that concept, the Task Force recommended that original term to maturity be the basis for the next CPIS. Some Task Force members questioned the usefulness of applying residual maturity to debt securities. Notwithstanding these concerns, the Task Force noted the growing user need for a classification by residual maturity and the implications of this for the future direction of the CPIS. The Task Force concluded that a decision by the Committee would be needed on this. One approach would be to consider, at best, a supplementary classification by residual maturity. If data by residual maturity are to be included, the Task Force considered that these additional data should be treated as an

"encouraged" category, in recognition of the fact that only countries that have adopted the security-by-security approach would be readily able to provide the additional information.

54. *Distinguishing direct investment from portfolio investment:* For some countries, distinguishing direct investment from portfolio investment was part of the process by which the data were collected—the data sources for direct investment were used to check against double-counting in the CPIS. However, for other countries, where these checks were not so readily made, the possibility of double counting remained.

55. *Treatment of "reverse transactions" (repurchase agreements and like transactions):* The *Survey Guide* indicated that repurchase agreements and like transactions should be recorded as collateralized loans, where possible. Hence, in the case of transactions relating to repurchase agreements, no change of ownership should be reported in the underlying security. This is consistent with most countries' practice for balance of payments, international investment position, and monetary statistics purposes. However, the experience of many countries was that where security registers were being used and where custodian reporting was involved, it was not always possible to identify repoed securities. For these reasons, it could not readily be confirmed whether the instructions in the *Survey Guide* had always been followed. The Task Force therefore recommended that increased efforts be made to ensure that they are reported on that basis for any future CPIS[3]. To this end, the Task Force recommended that more guidance to compilers may be needed and that this could be facilitated if some countries would undertake a voluntary survey of custodians to determine their treatment of reverse transactions.

56. *Reporting thresholds:* Reporting thresholds pose a problem for bilateral comparisons where these are substantially different. The importance of these imbalances is not known. Most countries have a threshold below which reporting is not required. Therefore, if there are significant holdings by "non-core" respondents (core correspondents being the large holders who are required to report all their holdings by counterpart country) in a counterpart country's securities, the usefulness of these data for that counterpart country (in using the data to construct its liabilities held abroad) is limited. However, it is probable that this issue is less important for most countries than are missing household holdings.

57. *The need for a central securities database:* The Task Force considered that the security-by-security approach is generally likely to produce an outcome of better quality than an aggregated approach because, in for the most part, it allows far more rigorous checking of data. Recognizing that the decision to choose an aggregated or security-by-security approach lies with the national compiler, who would also take into consideration the overall cost/benefit, the Task Force examined ways of supporting the use of a security-by-security approach. The Task Force recognized that a key element would be the development of a central securities database. In addition to supporting the security-by-security approach, such a

[3] A Fund paper recommending the definitive treatment of reverse transactions will be considered by the IMF Committee on Balance of Payments Statistics and by the expert group reviewing the Manual on Monetary and Financial Statistics.

database would serve to facilitate (1) the generation of data on residual maturity, currency composition, nominal values, ultimate debtor, related accrued income, future debt interest servicing, all of which would be relevant for external debt needs; (2) the reconciliation of partner country asset data with reporting country liabilities; and (3) the development of flows of funds accounts that would help in understanding the dynamics of securities markets and allow the monitoring of conditions from a systemic risk standpoint. For some countries that do not follow the security-by-security approach, the Task Force recognized that existing reporting systems cannot realistically be improved to capture these data, while for others, the necessary enhancements can become very unwieldy.

58. The Task Force considered that the development of a global securities database would be a major improvement as most such databases are not comprehensive and have different codes. Consequently, the Task Force considered the potential role of international and regional organizations in facilitating the development of a central securities database.

59. First, the IMF, together with other international organizations (such as ECB and BIS), could help establish standards for the maintenance of security databases to facilitate the development of compatible national security databases and the potential exchange of information. These standards could take into account statistical needs not only for the CPIS but for other purposes as well, such as balance of payments, international investment position statistics, external debt and financial and securities statistics. Such standards could cover coding systems, naming conventions, attributes to maintain software packages, and best recording and dissemination practices. The Task Force strongly recommended that the IMF take the initiative in this field, and invite the BIS and ECB to be involved in the development of these securities database standards.

60. Second, many Task Force members considered that there could also be a role for these international organizations in taking responsibility for establishing and maintaining a central security database based on the standards outlined in the previous paragraph and currently available official and commercial sources. Such a database would contribute significantly in helping countries to set up security-by-security surveys and at the same time add to the quality of the data fed back to these international organizations. However, it was acknowledged that this would be a major undertaking, even if limited to the ten major investing countries. On the other hand, if ECB and BIS were to embark upon this task, the Task Force would encourage the Fund to be supportive of such initiatives.

X. THE WAY FORWARD

61. Implementation of the recommendations made by the Task Force concerning the undertaking of a second CPIS for end-December 2001, will require that full advantage be taken of the two years that are available for the necessary preparatory work. Efforts will be required to address gaps in reporting by participating countries and to ensure the participation of countries and offshore centers that did not participate in the first survey. This agenda will require commitments by both countries and international organizations if improvements in global and country coverage are to be achieved.

62. To this end, the Task Force should recommend changes that will be needed in the *Survey Guide* in support of the decisions made by the Committee. To do this, the next meeting of the Task Force (provisionally scheduled to take place in January 2000, subject to the Committee's agreement that the CPIS be repeated) should review such issues as: (1) the treatment of repurchase and like transactions and their impact on custodial reporting; (2) reporting by resident custodians on securities held on behalf of nonresident households; (3) distinguishing long from short-term portfolio investment assets; (4) valuation and threshold problems; and (5) a review of gap filling techniques (building on the initial work by Fund staff and the Austrian National Bank). For all these issues, the Task Force will assign further work to its members (e.g., these include Belgium and a number of task force members who will be approached to conduct a survey of resident custodians to help determine what information on third party holdings is kept by custodians or could be collected by them).

63. Subject to a decision by the Committee that data by residual maturity should be included as an encouraged category, the Task Force should assign further work by its members on the feasibility of compiling data by both original and residual maturity.

64. A decision would need to be made on how to approach important investor countries to ensure their participation (such as Switzerland and Luxembourg), including whether a joint or coordinated approach to such countries by several international organizations (e.g., IMF, ECB, BIS, and OECD) would be appropriate. A similar decision may be needed for offshore centers, although, for them, there would seem to be a case for participation by countries that are represented on the Task Force as well as by international organizations. For offshore centers, it would be necessary to pay attention to how confidentiality issues could be addressed and the scope for adopting a more limited reporting format. As offshore centers do not have significant levels of saving, a balance sheet approach covering both assets and liabilities may be appropriate. Other countries would need to be approached to ensure a more complete regional participation; in such cases, international organizations might be supported by countries represented on the Task Force. The composition, timing and sequence of such approaches would need to be determined in sufficient time to allow newly participating countries and offshore centers to have adequate time for preparation for the 2001 CPIS.

65. Further work would be required on the development of international securities databases, including elaboration of the potential role of the IMF and other international and regional organizations in facilitating the development of standards for the maintenance of security databases, and facilitating the development of compatible national security databases and the potential exchange of information. The Task Force could be a vehicle for facilitating this work, as well as for identifying steps that could be taken by the major investing countries, both over the short and longer term, in the development of compatible national securities databases.

67. The IMF would need to take steps in preparation of a SEFER for end-December 2001, including the inclusion of important non-participating countries.

68. The IMF would need to propose to its Executive Board the inclusion in the SDDS of an encouraged category for portfolio investment assets broken down by the country of issuer within the data category for the international investment position. The opportunity could be

taken to seek support from countries at the policy level for conducting the CPIS on a regular ongoing basis, and also highlight the links with current initiatives in global statistical architecture, including enhancing data transparency in the area of international reserves, external debt, international investment position statistics, balance of payments accounts, and sector balance sheets.

69. Work in all these areas should be initiated within the period November 1999 –October 2000, with a view to the Task Force providing a report to the October 2000 meeting of the Committee on: (1) initiatives taken following recommendations made by the October 1999 meeting of the Committee; (2) the likely participation of countries and offshore centers in the 2001 CPIS; and (3) firm proposals for revising the *Survey Guide*.