

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

OUTCOME PAPER (BOPTTEG) # 12

JANUARY 2005

(1) Topic: **Untraded and formerly traded securities**

(2) Issues – see BOPTTEG Issues Paper # 12

(3) Recommendations:

(i) BOPTTEG reviewed the “functionality” of portfolio investment: whether liquidity is the essential element for inclusion of instruments, or whether portfolio investment implicitly represents a residual security instrument category, capturing all those securities that do not meet the criteria for inclusion in either direct investment or reserve assets. Though a majority of BOPTTEG did not favor labeling portfolio investment as a residual category, it was also considered that classification solely on the grounds of liquidity would be too difficult. Some members felt that tradability should be the determining characteristic.

(ii) BOPTTEG concluded that loans and securities should be distinguished on their characteristics *ex ante*. Therefore, the classification of the instrument would not change during the lifetime of the financial instrument, and the existing guidelines for traded loans to be reclassified as securities based on subsequent developments should be changed (see also Issue #13). However, it was recognized that this proposal would require consultation with financial statisticians.

(iii) BOPTTEG also discussed whether a split (as in the *1993 SNA* as a supplementary item in the case of equity securities) between quoted and unquoted securities should be included in the new balance of payments manual, given the probable differences in valuation techniques. Most members felt that such a split was desirable for equity securities as a supplementary item but should not be standard. Most members thought that such a split was not necessary for debt securities (consistent with BOPTTEG’s view on the Classification of Financial Instruments (Outcome paper #28).

(4) Rejected alternatives

Adoption of liquidity and tradability as the defining features of the portfolio investment.

(5) Question for the Committee

(i) Does the Committee agree that portfolio investment should not be considered as a residual instrument category (i.e. for all securities that are not otherwise classified either to direct investment or reserve assets)? Is this conclusion compatible with the lack of a clearcut (not subject to interpretation) distinctive criterion between portfolio and other investment? See 3(i) above.

(ii) Does the Committee agree that the classification of an instrument should be made on its characteristics ex ante? See 3(ii) above.

(iii) Does the Committee agree that the new manual should not include a split between quoted and unquoted equity securities within portfolio investment as a standard item but as supplementary? Does the Committee agree that the split not be made for debt securities. See 3(iii) above.