

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

OUTCOME PAPER (BOPTTEG) # 13

JANUARY 2005

(1) Topic: **Traded Loans - Criteria to Become Securities**

(2) Issues – see BOPTTEG Issues Paper # 13 and Background Paper to Issues # 12/13

(3) Recommendations:

(i) There was a strong view towards not reclassifying traded loans as debt securities. A number of members noted that, because of the contracts between parties, loans have particular characteristics of their own and that their reclassification to debt securities will lose important information on them. Reclassification also raises practical problems. Some members suggested that loans could be broken down into traded and nontraded loans. There were different views on whether this distinction should be based on “ex-ante” or “ex-post” criteria, but some members felt that given the distinction between securities and loans on the basis of ex-ante criteria (see outcome paper # 12), traded loans could also be determined on an ex-ante basis. BOPTTEG members also noted a need to clarify the link with loan valuation.

(ii) Noting that the market for traded loans is expanding, some members suggested that restrictions imposed by the lender on whether the borrower can buy back the debt could be considered a key test for determining whether traded loans can become debt securities. However, the issue of symmetry and practical problems was noted for reclassifying traded loans.

(4) Rejected Alternatives:

None.

(5) Questions for the Committee:

- (i) *Does the Committee agree that traded loans should not be reclassified to debt securities?*
- (ii) *If yes, does the Committee agree that loans should be broken down between traded and nontraded loans?*
- (iii) *If yes, what is the view of the Committee on whether the distinction should be based on ex-ante or ex-post criteria?*

See 3(i) above for all questions.