

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

OUTCOME PAPER (BOPTTEG) # 28

JANUARY 2005

(1) Topic: **Classification of Financial Instruments**

(2) Issues – see BOPTTEG Issues Paper # 28.

(3) Recommendations:

(i) BOPTTEG members agreed with the basic structure of the instruments classification and the principle of harmonization with the *1993 SNA/MFSM*.

(ii) BOPTTEG members agreed with the proposed terminology and the potential usefulness of the additional items specified in the paper.¹ The additional items were:

- mutual funds;
- money market mutual funds;
- quoted/unquoted shares split;
- financial derivatives split by type (forwards/options);
- financial derivatives split by underlying instrument; and
- trade related credit.

(iii) While recognizing the importance of items, several members expressed concern about adding standard items beyond those in the *1993 SNA/MFSM* classifications. The possibility of conveying the idea of items being “standard, if relevant” or some other term that conveys the idea of consideration based on national circumstances was supported, so that potentially important additional items could be identified, taking into account both the importance and cost of each item.

(iv) Several members strongly supported the adoption of mutual funds and money market mutual funds as standard items, based on their growth, importance, particular characteristics, and separate economic function. (As collective investment schemes, they have some aspects in common with pension funds and life insurance.) In addition, money market mutual funds need to be identified separately for compatibility with monetary statistics.

(v) Though the inclusion of a split between financial derivatives and employee stock options was already decided by the AEG, some members noted that cross-border employee stock options would be trivial or zero in many cases, so that some countries would not be burdened by such an item.

¹ The Issues Paper showed a short-term/long-term split for debt securities, being the counterparts of the money market instruments/bonds and notes items in the *BPM5* instrument classification. Some members wished to extend the breakdown by maturity as part of the instrument classification. However, consistent with the other manuals, maturity splits will be considered as an additional dimension rather than as different instrument classes.

(vi) Several members considered that split of financial derivatives into forwards and options was not very useful.

(vii) Some members thought a split of debt securities into quoted and unquoted would be useful, but there was not agreement on this possibility being included as a standard item.

(4) Rejected Alternatives:

None.

(5) Questions for the Committee:

(1) Does the Committee agree with the broad outline of the classification on:

(a) the debt/equity/other grouping in general and the terms used?

(b) the specific items appearing under each of the debt, equity, and other groupings?

(c) any other issues?

(2) Does the Committee agree with the proposals for supplementary items for:

(a) mutual funds? – see 3(iv)

(b) money market mutual funds? – see 3(iv)

(c) forwards/options splits for financial derivatives? – see 3(vi)

(d) the quoted/unquoted split for shares? – see 3(vii)

(e) the underlying instrument split for financial derivatives?

(f) trade-related credit?

(g) any other issues?

Should any of these be made standard items, in particular mutual funds and money market funds as suggested by some BOPTTEG members under (iv) above?

(3) Should the term “supplementary items” be used or should some other term be adopted? – see 3(iii)