

CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

DRAFT FOLLOW UP PAPER (CUTEG) # 15 - 2

(1) Topic: **Intra Currency Union Claims and Liabilities arising from subscription to the Currency Union Central Bank**

(2) Issues – see CUTEG Issues Paper #15

Introduction

1. The CUTEG members discussed the treatment of the intra currency unions (CU) claims and liabilities (C/L) under two aspects: (1) the intra CU C/L corresponding to the balances of CU national central banks (NCBs) /CU central bank (CB) resulting from participation in the CU clearing and settlement arrangements, and (2) the intra CU A/L resulting from the CU NCB's participation in the CU CB's capital. Whereas the discussion was conclusive on point (1), the CUTEG agreed to further elaborate on point (2). Against this background, this note aims at discussing the BOP/IIP treatment of the capital subscription to a CUCB.

Possible solutions

2. In principle, the CUTEG was of the opinion that participation to a CUCB capital should be recognized as a financial claim (regardless of the type of income it provides the holder with). Accordingly, it should be recorded in the BOP/IIP under Other Investment / Assets / Monetary Authority / Other. However the CUTEG further reflected on the nature of such transactions when the agreement backing the participation to the CU does not imply that, in case of leaving the union, there is an actual claim of the national monetary authorities on the CUCB for the capital subscription. In the case of a country leaving the union, if the CUCNB (or its government) has no contractual claim on the CUCB, the CUTEG could consider that recording a capital subscription as a capital transfer is more appropriate.¹ Because *BPM5* (paragraph 422) just makes reference to the notion of “capital subscription to international organizations,” and recommends recording it under other investment (claim) without entering into the issue of whether such subscription actually gives origin to a claim on the CU, the CUTEG could propose that the revised Manual should clarify that a link should exist with an actual claim before the transaction is recorded as a financial account transaction.

3. Allowing for a capital subscription to be recorded as a financial claim and, at the same time, not recognizing any claim if (for instance) the creditor (the holder of a financial

¹ The logic of this argument would also mean that under the circumstances of the CUNCB (or its government) not having a contractual claim on the CUCB, if the CUCB was wound up and the capital returned on dissolution, this transaction would be recorded as a capital transfer.

claim) leaves the union is very problematic on conceptual grounds. The *1993 System of National Accounts (SNA 93)* refers to financial assets as those assets on which “the claim is extinguished when the liability is discharged by the debtor paying a sum agreed in the contract.” (*SNA 93*, para 10.4). On the contrary, it is not necessary that the creditor to receive interest payments. The *2000 Monetary and Financial Statistics Manual (MFSM 2000)* follow closely the *SNA 93* line of reasoning. It further adds that “...These contracts (financial assets) are the basis for the creditor/debtor relationship through which asset owners acquire unconditional claims on economic resources of the other institutional unit. The creditor/debtor relationship imparts asset and liability dimensions to a financial instrument.” (*MFSM 2000*, para 119)

4. Based on the experience of some CUTEg members, it appears that the capital subscription to the CUCB (which is necessary prerequisite for the CUNCB’s participation in it) does not include any contractual obligation on the CUCB to extinguish its liability with the CUNCB (or its government). In other words, there is no real claim on the CUCB.²

5. Against this background, there are two possible alternative solutions for classifying the CUNCB’s capital contribution to a CUCB:

- If the contractual agreement supporting the capital contribution **clearly indicates** that there is a specific (value) claim of the CUNCB (or its government) on the CUCB (to be extinguished in the event of the country leaving the CU), then the contribution should be classified as financial claim of the CUNCB (or government);
- If the contractual agreement supporting the capital contribution does not indicate any specific (value) claim of the CUNCB (or its government) on the CUCB (to be extinguished in the event of leaving the CU), then the contribution should be classified as capital transfer.

Issue for discussion

- *Do CUTEg members agree with the two possible alternative solutions described in paragraph 5?*

² Some documents seem to indicate the seignorage income in a CU is pooled and allocated to the participating CU NCBs in accordance with their respective paid-up shares in the CU CB. The fact that the paid-up share in the CU CB is the basis for reallocating monetary income does not imply that this share constitute a financial claim.