

Currency Union Technical Expert Group

Draft Follow-up Paper (Cuteg) # 15

CLASSIFICATION OF THE CLAIMS/LIABILITIES RESULTING FROM THE INITIAL TRANSFER OF RESERVE ASSETS TO THE CUCB

1. Current international standards for the statistical treatment of the issue

1. *BPM5* recommends that the reserve assets of a currency union be attributed to member countries. Assets transferred by a member country to a CUCB are assumed to generate a claim on the reserve assets of the currency union. *BPM5* provides guidance on the treatment of capital subscriptions to international monetary organizations (where they may be designated as reserve assets if appropriate) and international nonmonetary organizations (where they should be classified as other investment/other assets of the monetary authorities/general government—paragraph 422).

2. Concerns/shortcomings of the present treatment

2. In the list of actions for the next meeting, CUTEG outcome paper #15 proposed the following action: *“The group provisionally agreed that claims/liabilities resulting from the initial transfer of reserve assets from the CU NCBs to the CUCB should be recorded in national balance of payments under Other Investment Assets/Monetary Authorities/Currency and Deposits. Fund staff will reflect on the instrument classification before the next meeting of the CUTEG. The group did not regard remuneration according to a predetermined interest rate as an essential prerequisite for the proposed classification.”* This paper addresses the issue of instrument classification on the assumption that such claims should not be treated as reserve assets in the national balance of payments statement.

3. Proposed treatments

3. Classification is dependent on the nature of the claim and this will be highly dependent on the specific arrangements within each CU. However, if the transfer of assets to the CUCB can only be withdrawn in the event of withdrawal from the monetary union, they are illiquid claims. As such, an appropriate treatment would be to classify them under *Other Investment Assets/Monetary Authorities/Other Assets*. The reason for treating them as currency and deposits appears to reflect the characteristics of the instruments transferred to the CUCB, which are likely to have been currency and deposits. It is possible that the CUCB would have a claim on a member country should that country not transfer the full amount it has contracted to provide.

4. **Points for discussion**

- *Any initial transfer of reserve assets by a member country to the CUCB should be treated as **Other Investment Assets/Monetary Authorities/ Other Assets** if they are illiquid such as they can only be withdrawn in the event of withdrawal from the CU. Do you agree that this reflects the nature of the claim on the CUCB?*
- *In the event that a member country does not fully meet its obligations to transfer reserve assets to the CUCB, the CUCB may report a claim on the member country. Such claims should be reported as **Other Investment Liabilities/Monetary Authorities/Other Liabilities**.*