IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

RESERVE ASSETS TECHNICAL EXPERT GROUP (RESTEG)

ISSUES PAPER (RESTEG) # 1

CLARIFICATION OF PLEDGED ASSETS

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December 2005

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CLARIFICATION OF PLEDGED ASSETS

1. Reserve assets are, first and foremost, liquid or marketable assets readily available to the monetary authorities. These assets can be viewed as assets in the most unconditional form. However, monetary authorities sometimes arrange for the pledging of assets to third parties that makes them unavailable to the creditor until the maturity of the arrangement, which prior to maturity is not marketable. These pledged assets are not readily available and therefore should not to be included in reserve assets.

2. This paper considers that the fifth edition of the *Balance of Payments Manual (BPM5)* provides wording on pledged assets that can be improved. Text can be adopted from the *Data Template on International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template* (*Guidelines*).

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

3. *BPM5* states in paragraph 426 that "… assets that are pledged, committed, earmarked, set aside in sinking funds, sold forward, or otherwise encumbered by the holders are nonetheless existing and are not precluded on those grounds alone from being included in reserve assets…." The same paragraph goes on to suggest that supplementary information concerning the arrangements would be useful.

4. The *Guidelines* provides clear guidance on the treatment of pledged assets in international reserves: "Assets pledged are typically not readily available. If clearly not readily available, pledged assets should be excluded from reserves" (paragraph 72).

5. Paragraph 72 of the *Guidelines* gives examples of what it means by pledged assets, such as assets used as collateral for third-party loans and third-party payments, and assets pledged by the monetary authorities as a condition for the investors to invest in securities issued by domestic entities. The paragraph goes on to suggest that reserve assets lent by the monetary authorities to a third party, which are not available until maturity, and prior to maturity are not marketable, should be excluded from reserve assets.

6. The *Guidelines* make it clear that pledged assets should be differentiated from reserve assets that are encumbered under security lending arrangements and repurchase agreements (repos). In some cases, there may be similarities with pledged assets such as if a foreign investor lends foreign exchange under a repo, but encumbers some of the dollars as additional security in the transaction. The treatment of assets under repos and securities lending arrangement is re-examined in Issues Paper 8.

II. Issues arising from the current treatment of pledged assets

7. In *BPM5* the exclusion of pledged assets from reserve assets is implicit from the general principles governing the classification of assets as reserve assets and the wording of paragraph 426. Indeed, the text of this paragraph focuses on the exceptions and speaks only very generally of pledged assets. Further, the assessment at the end of paragraph 426 does not specify where the supplementary information should be included, and specially it is not clear as to whether supplementary information would be of any use to achieve a better understanding of what is reported as pledged assets.

8. On the other hand, in the *Guidelines* it is clearly stated that pledged assets are typically not readily available and if clearly not readily available should be excluded from reserve assets. This discussion is complemented with examples. However, the Data Template in Section IV provides for the reporting of pledged assets should they be included as part of reserve assets. While the inclusion of this section is justified on transparency grounds, and is not an alternative treatment, it is nevertheless potentially misleading. So, specific and clear guidance is needed in the new *Manual*.

III. Possible treatments

9. Pledged assets that are encumbered by a nonresident party (such as collateral for a third party loan) should be excluded, as stated in paragraph 72 of the *Guidelines* because these assets that are not readily available in the most unconditional form. Also, it could be added that pledged assets should only be excluded to the extent of the value of the pledge—in other words if the pledge is valued at 100, the maximum amount to be excluded from reserve assets is 100.

10. The principle set out in paragraph 72 of the *Guidelines* could apply to other arrangements (including other forms of encumbrance) that restrict the usability of foreign currency assets held by monetary authorities. In the light of country experience, further examples of pledged assets and collateral guarantees to those discussed in the Data Template could be added.

11. On the other hand, assets that are encumbered by the monetary authorities for prudential purposes (such as sinking funds) but are readily available in the event of a balance of payments need can be included in reserve assets, as stated in *BPM5* paragraph 426.

12. Thus, it is proposed that the new *Manual* adopt the principle and wording of paragraph 72 of *Guidelines*' text and add a reference to the maximum amount that can be excluded. Some additional examples could be added, based on country experience, and account should be taken of the wording in paragraph 426 with regard to the exceptions.

IV. Points for discussion

13. Is the proposal set out in paragraph 12 acceptable?

14. Should amounts excluded be separately reported as a memorandum or supplementary item to the IIP?

15. Are there further examples of assets that are pledged, committed, earmarked, set aside in sinking funds, blocked, sold, forward, or otherwise encumbered by the holders that require discussion in the new Manual?

References

BPM5, paragraph 426

Guidelines, paragraphs 72, 85–88

Balance of Payments Textbook, paragraph 641

Annotated Outline, paragraph 5.56