IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

RESERVE ASSETS TECHNICAL EXPERT GROUP (RESTEG)

ISSUES PAPER (RESTEG) # 6

TREATMENT OF POOLED ASSETS

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TREATMENT OF POOLED ASSETS

1. Pooled asset arrangements are collective investment schemes under which funds collected from participants are held in an investment vehicle that conducts investments. The participants have a claim on the collective investment scheme. As a means of reserve assets management, there are examples of groups of central banks/monetary authorities cooperatively investing through such schemes. Recent examples of pooling arrangements include the Asian Bond Fund (ABF) and the Asian Bond Fund 2 (ABF2) agreed by the EMEAP (Executives' Meeting of East-Asia and Pacific Central Banks) member central banks and monetary authorities.[1]

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

2. Neither the fifth edition of the *Balance of Payments Manual (BPM5)* nor the *Data Template on International Reserves and Foreign Exchange Liquidity: Guidelines for a Data Template (Guidelines)* provide explicit guidance on the treatment of pooled assets in reserve assets, although the principles of the *Guidelines* can be applied.

II. Issues arising from the current treatment

3. As there is no explicit guidance at present, it will need to be developed. In determining whether these assets are reserve assets or not, the principles of *Guidelines* can be applied. In particular, the assets need to be foreign currency claims on nonresidents, that are liquid or marketable, are readily available for use to meet an external need, and are under the effective control of the monetary authorities. If the asset meets these criteria there is a presumption that it is a reserve asset.

4. However, in order to assess whether claims on such pooled asset arrangements can be regarded as reserve assets, or not, a close examination of the legal and institutional arrangements is needed for each case, rather decided *a priori,* with the key consideration being whether these assets can raise external liquidity to meet an external payments need.

5. Given the central concepts of liquidity or marketable, and ready availability, the kind of issues that can arise are whether the assets in the collective investment scheme are really marketable, that is can they be sold with minimum time and cost; the extent to which the

[1] See EMEAP's press releases http://www.emeap.org/press/02june03.htm and http://www.emeap.org/press/16dec04.htm. EMEAP members are central banks or monetary authorities of the following countries/regions: Australia, China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, and Thailand.

funds of the collective investment scheme are invested in resident liabilities; and whether the claims represent a claim denominated in a country's own currency.

6. Regarding marketability, the type of issues to address are as follows: Do the arrangements for redemption affect the ability of the monetary authority to sell the assets with minimum time and cost to meet a balance of payments financing need, and so make it inappropriate to classify the asset as a reserve asset? Will the redemption value reflect the market value of the underlying assets? If not, there is doubt over whether these are reserve assets because it is questionable whether the assets can be valued at market price. Are redemptions by the investor to be linked to the sale of any specific underlying domestic assets? If so, there is doubt over whether external liquidity is being raised. In other words, what are the arrangements under which claims on the collective investment schemes can be sold, both de jure and de facto.

7. Regarding the investment strategy, it will be important to discuss in which circumstances the strategy is defined and the possibility of the claim on the collective investment scheme effectively being on domestic assets. For any individual country if there was country concentration of the underlying assets in domestic assets to an extent that would constrain the use of the pooled asset to generate external liquidity, or if the underlying assets were concentrated in domestic currency assets to the extent that the pooled assets could sustain a significant loss of value in a crisis affecting the domestic currency, significant doubts would arise over the classification of the assets as reserve assets.

8. For instance, if a monetary authority invested in domestic assets by creating an special purpose entity (SPE) in another economy there would be a strong presumption that the claims on the SPE are not to be classified as reserve assets. Not only is it an investment effectively in domestic assets but also it would de facto be difficult for the monetary authority to sell their claim with minimum time and cost as they are the only investor.

9. Finally, are the assets truly foreign currency claims, in that the scheme might be structured such that the monetary authority has a claim in the domestic currency, in which instance it is inappropriate to classify the asset as a reserve asset. (Issues paper 3 looks more closely at the issue of currency of denomination).

10. Also, transparency for this type of arrangement can be important, particularly in the Data Template. Examples of transparency include including a memorandum or supplementary item to the IIP on the amount of investment in pooled assets, and the amount of re-investment of these pooled assets in the country's own liabilities.

III. Possible treatments

11. The new *Manual* could include paragraphs that provide a description of pooled asset arrangements, explain the standard principles that need to be applied in determining their classification as reserve assets, provide extra guidance along the lines of paragraphs 4 to 9 that is specific to pooled asset arrangements, and highlight the importance of transparency in

such cases including a memorandum or supplementary item to the IIP on the amount of investment in pooled assets.

IV. Points for discussion

12. Are there any other issues to be discussed on pooling assets schemes than treated in paragraphs 4~9?

13. Do RESTEG members agree with the proposal set in paragraph 11?

References

BPM5, paragraph 424-431

Guidelines, paragraphs 65-69, 129

Annotated Outline, paragraphs 5.55