

**Thirteenth Meeting of the
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Report of the Task Force on the Coordinated Portfolio Investment Survey

**Prepared by the Statistics Department
International Monetary Fund**

**Report of the CPIS Task Force to the
IMF Committee on Balance of Payments Statistics**

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1. INTRODUCTION

The Task Force was established by the national compilers of the Coordinated Portfolio Investment Survey (CPIS) at their meeting of March 24–26, 1999, with a remit to report to the IMF Balance of Payments Committee (Committee) on the results of the 1997 CPIS and the need for, feasibility of, and timing of, a second CPIS. In the event that the Task Force was to recommend a second CPIS, it was to advise on steps that would be needed to facilitate its implementation. The Task Force held its first meeting on June 7–8, 1999 in Washington D.C., and reported to the meeting of the Committee in Santiago in October 1999.

Following the decision of the Committee to undertake the 2001 CPIS, the Task Force held two meetings in 2000, the first in Washington D.C. on January 18–19, 2000, and the second in Stockholm on June 14–16, 2000. These meetings: (i) reviewed steps that could be taken to improve the country participation in the 2001 CPIS; (ii) reviewed deficiencies in coverage that were experienced with the 1997 CPIS; (iii) addressed other methodological and compilation issues; and (iv) completed a revision of the Survey Guide that took into account countries' experiences with the 1997 CPIS. The Stockholm meeting was its final meeting and resulted in the following report to the Committee.

2. RECOMMENDATIONS TO THE IMF BALANCE OF PAYMENTS COMMITTEE

- *That the Committee strongly endorses the CPIS becoming an annual survey from 2001.*
- *That, subject to the Committee's comments on the draft, the revised Survey Guide should be made available electronically as a working document on the Fund's web site. If possible, an edited hard copy publication should be published by the end of the year.*
- *That the Committee welcomes the newly participating countries and jurisdictions in the 2001 CPIS and approves continued action to expand participation by offshore financial centers and ensure a more complete regional participation.*
- *That the Committee endorses the recommendations of the Task Force regarding further work that is needed, which should be undertaken by national compilers and Fund Staff, and on which an initial report should be made to the Committee at its October 2001 meeting. The work would include issues related to; (i) third party holdings; (ii) repurchase agreements and securities lending; and (iii) trusts.*

On (i), a pilot group of national compilers should be established that would be to propose a coordinated approach to providing access to data available to non-resident custodians that would fill gaps in data sources of partner countries for cross-border portfolio investment by households. If

possible, the framework should include participation by offshore financial centers.

On (ii), the objective would be to find ways of collecting the data needed for reporting repurchase agreements and securities lending as collateralized loans without the risk of doublecounting.

On (iii), the objective would be to propose a review of the treatment of assets held by a trust and administered by a trustee, especially in circumstances where the parties involved are resident in different jurisdictions.

- *That the Committee endorses the recommendation of the Task Force that meetings of national compilers should be arranged in early 2001.*
- *That the Working Group on Securities Databases continue its work in determining the modalities for a coordinated approach to data sharing between countries that are using securities databases that will benefit those countries using the security-by-security approach to the compilation of portfolio investment statistics.*

3. RECOMMENDATIONS OF IMF BALANCE OF PAYMENTS COMMITTEE AT ITS OCTOBER 1999 MEETING

At its October 1999 meeting in Santiago, the Committee reached the following decisions regarding the coverage of the 2001 CPIS: (i) the 2001 CPIS should **require** the inclusion of *cross border holdings of portfolio investment assets*, comprising stocks of equity and long and short-term debt instruments by geographical counterpart of residence of issuer; (ii) the 2001 CPIS should **encourage** the inclusion of *cross-border holdings of portfolio investment liabilities*, comprising equity and long and short-term debt instruments by geographical counterpart by the country of the holder. It was decided that the 2001 CPIS should **exclude** *financial derivative positions, direct investment abroad, and holdings of other investment assets*.

A number of coverage issues were left for the Task Force to make recommendations as to whether they should be included as **encouraged items**. These were the need for additional information on: (i) the *institutional sector of the issuer*; (ii) the *currency of denomination and/or market in which the security is issued*; (iii) the *institutional sector of the holder*; and (iv) a *breakdown of portfolio investment assets by remaining maturity*.

The Committee requested the Task Force to take steps to encourage the participation of important investing countries that did not participate in the 1997 CPIS and offshore financial centers, and to produce a revised Coordinated Portfolio Investment Survey Guide (revised Survey Guide). It was concluded that the revised Survey Guide should take into account the lessons of the 1997 CPIS, address new issues in methodology, developments in the use of securities databases, and aim to provide assistance to the

much wider group of countries/jurisdictions that are expected to participate in the 2001 CPIS (such as offshore financial centers). It was also concluded that the CPIS should be continued at least on a three-year cycle, and preferably on an annual basis with a start date to be determined.

4. COVERAGE AND COUNTRY PARTICIPATION IN THE 2001 CPIS

Invitations to Participate in the 2001 CPIS

There were a number of countries/jurisdictions whose participation in the 2001 CPIS was considered essential by the Task Force to secure a significant improvement in coverage as compared with the 1997 CPIS. These included Germany, Switzerland, Luxembourg, and a greater participation by offshore financial centers. Of these, Germany and Switzerland have confirmed that they will participate and discussions with Luxembourg are continuing. The participation by offshore financial centers is indicated in the table. Malaysia and Singapore have confirmed that their offshore financial centers will be included as resident entities for the purposes of the 2001 CPIS.

The Task Force concluded that a broad regional participation in the 2001 would serve to promote the adoption of best practices in the collection of portfolio investment data, establish a broader constituency base, and improve the quality of the CPIS database. Accordingly, the Task Force recommended that, in addition to targeting the main investing countries, letters of invitation be sent to all countries that reported outward portfolio investment in the Fund's Balance of Payments Statistics Yearbook for 1999.

As a result, on the basis of replies received by [September 25, 2000], and on the assumption that the 29 countries that participated in the 1997 CPIS will also participate in the 2001 CPIS, the total number of participating countries currently stands at 62.

Newly Participating Countries in the 2001 CPIS

Major investing countries	Germany
Offshore financial centers	Aruba, Bahamas, Barbados, Cayman Islands, Isle of Man, Hong Kong SAR, Guernsey, Jersey, Macao SAR, Netherlands Antilles, Turks and Caicos
Other Europe	Bulgaria, Cyprus, Estonia, Hungary, Malta, Romania, Slovakia, Turkey, Ukraine
Other Asia	Bangladesh, China, Philippines, Pakistan
Other Western Hemisphere	Brazil, Costa Rica,
Other Africa	Mauritius, Nigeria, South Africa, Uganda, Zimbabwe
Other Middle East	Egypt, Lebanon, United Arab Emirates

Consultations with Offshore Financial Centers

The Task Force reviewed the report of the secretariat on their consultations with selected offshore financial centers (OFCs) regarding their participation in the 2001 CPIS (which is tabled as a separate document for the Committee). It was agreed that the report should be sent to all OFCs that were invited to participate in the 2001 CPIS.

The Task Force noted a widespread willingness among OFCs to participate in international statistical collections such as the CPIS, and concluded that an aggregate end-investor survey could readily be conducted for their financial services sector (likely to account for the bulk of their holdings of cross-border portfolio investment assets). The Task Force concluded that the main issues for OFCs to address were the need to recognize international standards for determining the residency of producing units for statistical purposes, which could be achieved by using the principle of legal domicile as a basis for establishing residency, and the need for guidance on the treatment of providers of trust services. It was agreed that these issues should be fully addressed in the revised Survey Guide.

Pilot Project on Third Party Holdings

The Task Force reviewed steps that could be taken to address deficiencies in tracking cross-border portfolio investment by households that use the services of non-resident custodians, considered by many countries to be a serious deficiency in the 1997 CPIS. The Task Force decided that further work was needed before a judgement could be made as to the potential usefulness of reporting by non-resident custodians (third party reporting).

The Task Force concluded that, for countries for which this problem of under-reporting is acute, it would help to have a clearer view of the size of under-reporting in their CPIS of portfolio investment by households. Better knowledge of practices regarding the use of non-resident custodians and the countries where such investments are likely to be held is also desirable. There are indications that third party problems also occur in connection with trust business. From the side of third party reporting by custodians, more work was needed to clarify how many countries can report direct holdings by non-residents, what approach to choose, and whether direct holdings by non-resident individuals, small companies, and non-profit organizations can be identified. It would also be useful to clarify whether a summary breakdown by country of residence of non-residents would be useful to get a clearer idea of the orders of magnitude involved and to gain experience in the field of the collection of data for third party holdings. For this purpose, the Task Force recommends that a pilot project be established with a view to making recommendations for third party reporting as an encouraged item in a subsequent CPIS (but not the 2001 CPIS).

5. CONTENT AND METHODOLOGY OF THE 2001 CPIS

The Treatment of Encouraged items

The Task Force decided that the encouraged items should be confined to data on the institutional sector of the holder, and data on portfolio investment liabilities. For data on the institutional sector of the holder, the sectorization should follow the SNA (at least for the financial sector), or if not available, BPM5. Data on the institutional sector of the holder should be classified by instrument (equities, long-term debt securities, short-term debt securities) and country of residence of the issuer. Data on portfolio investment liabilities should be classified by instrument (equities, long-term debt securities, short-term debt securities) and the country of residence of the holder. The latter data should be reported even if they do not accord completely with the debtor/creditor principle. The data reporting matrix should be designed to include these encouraged items. Participating countries should be asked to indicate which parts of the encouraged items they will be able and willing to report. More specifically:

On portfolio investment liabilities, the Task Force decided to include a breakdown of portfolio investment liabilities by instrument as an encouraged item in the 2001 CPIS. It was recalled that the inclusion of portfolio investment liabilities was a critical part of the design of the 1997 CPIS and was intended to facilitate bilateral data exchange. However, the outcome was that deficiencies in coverage had limited the usefulness of bilateral data exchange. Nonetheless, it was concluded that this should remain a goal for the 2001 CPIS, as there should be an interest in analyzing divergences between partner country data based on the debtor/creditor principle and reporting country sources based on the transactor principle.

On the institutional sector of the holder, the Task Force decided to include this as an encouraged item in the 2001 CPIS, and that the SNA institutional sector classification should be followed. If a full sectorization were not possible, it was agreed that a partial sectorization, especially within the financial sector, would be useful. It was recognized that these data would provide a useful supplement to BIS banking statistics, assist in the compilation of national sectoral balance sheets, provide insights into the investment strategies of different institutional sectors, and support work on contagion analysis. For countries that did not wish to reveal their reserve holdings in a separate central bank/monetary authorities sector, it was agreed that they be requested to complete the SEFER survey. This would serve to protect the confidentiality of reserves for countries that wished to do so, and facilitate the compilation of tables in which reserve holdings are shown in a separate column matrix (and thus facilitate cross-country comparisons).

On third party reporting, the Task Force decided not to include this as an encouraged item in the 2001 CPIS.

On residual maturity, the Task Force decided not to include this as an encouraged item in the 2001 CPIS. While some Task Force members were in favor of including residual maturity as an encouraged item, most were opposed on the grounds that it would add

significantly to respondent burden for countries not using a security-by-security approach.

On the institutional sector of the issuer, the Task Force decided not to include this as an encouraged item in the 2001 CPIS. It was recognized that, for many countries, these data are difficult to collect, and that they served a less pressing need than the institutional sector of the holder.

On the distinction between international and domestic issues, the Task Force decided not to include this as an encouraged item in the 2001 CPIS. It was concluded that, although this distinction has been made in the past in a number of collection systems, with the growing globalization of financial markets, it had become more difficult and less useful to make.

On the distinction between domestic and foreign currency issues, the Task Force decided not to include this as an encouraged item in the 2001 CPIS, partly because of concern about over-extending the data reporting matrix. Because a breakdown by major currency would be useful for the estimation or verification of transactions, both on the creditor and the debtor side, it was agreed that countries should be encouraged to provide a currency breakdown of their cross-border holdings of portfolio investment assets *and* liabilities as supplementary data for use in analysis of IIP and BOP data.

These recommendations are summarized in the table below:

RECOMMENDATIONS ON ENCOURAGED ITEMS

ASSETS														
Country of Issuer	Equity securities					L-T debt securities					S-T debt securities			
	Sector of holder					Sector of holder					Sector of holder			
	S ₁	S ₂	...	S _N	S ₁	S ₂	...	S _N	S ₁	S ₂	...	S _N		
C ₁														
C ₂														
...														
C _H														
Total														
by currency	X ₁													
	X ₂													
	...													
	X _m													

LIABILITIES			
Country of Holder	Equity securities	L-T debt securities	S-T debt securities
C ₁			
C ₂			
...			
C _H			
Total			
by currency	X ₁		
	X ₂		
	...		
	X _m		

Mandatory
 Encouraged

The Treatment of SEFER in the 2001 CPIS

The Task Force decided that those countries willing to disclose their reserve holdings by identifying a central bank/monetary authorities sector would not be required to complete the SEFER survey since this information could easily be put together by the IMF. Users of the 2001 CPIS would be free to review the results for all countries, in which reserves are shown in a separate column matrix without country attribution, and also to review the

results for particular countries in which reserve holdings are separately identified. Thus SEFER should only be completed by those countries not willing to disclose their reserve holdings in a central bank/monetary authorities sector.

The Treatment of Repos and Trusts

The Task Force discussed the outcome of the two questionnaires on repurchase agreements (repos) that had been sent out, one on March 7, 2000, to Task Force members seeking information from countries on what data they collected on repos, reverse repos, and securities lending, and their statistical treatment, and the other on May 25, 2000, to members of the IMF Committee on Balance of Payments, which reviewed possible ways of expanding the collateralized loan approach to the treatment of repos, reverse repos, and securities lending, and the implications for data collection.

It was agreed that the revised Survey Guide should address conceptual issues, the design of collection systems, accounting practices, and practical reporting issues. The revised Survey Guide should provide an assessment of what details can be provided by the main sources used (such as custodians, end-investors, investment managers, and securities registers), and review ways of avoiding double-counting and issues of data availability.

However, the Task Force recognized that there remained a significant and possibly growing risk of double-counting or more of holdings of portfolio investment assets due to transactions of securities under a repo.

On trusts, the Task Force decided that the revised Survey Guide should include a section on the treatment of trust service providers, drawing on the discussion in the *Manual on Monetary and Financial Statistics* and the experiences of Task Force members. The Task Force reviewed issues of residency with regard to trustees and beneficiaries, and issues related to the identification of institutional units. It was recognized that, although there are no international supervisory standards specifically for trust service providers, international accounting standards would provide guidance as to what should be reported on or off-balance sheet. Since the provision of trust services is a particular feature of OFCs, it was agreed that the discussion of trusts in the revised Survey Guide should include a focus on reporting issues faced by OFCs. It was concluded that further work is required regarding the treatment of trusts in circumstances where the trustees and the beneficiaries are resident in different jurisdictions.

6. THE USE OF SECURITIES DATABASES IN THE 2001 CPIS

The Task Force decided that, as ESCB's Centralized Securities Database was unlikely to be available in time for the 2001 CPIS, countries using the security-by-security approach should be helped in much the same way as was followed for the 1997 CPIS. However, countries with a securities database that are planning to adopt the security-by-security approach for the 2001 CPIS were urged to share their data with UIC and offer to review the UIC database for the accuracy of data for issues by their residents. Full use should also be made of the offer by the BIS to make available to the central banks of

participating countries their database on international bond issues (and to statistical agencies on a case-by-case basis).

7. THE REVISION OF THE SURVEY GUIDE

The Task Force reviewed an initial draft of the revised Survey Guide. It was agreed that the main changes to the earlier publication should be to: (i) provide guidance on the treatment of the mandated and encouraged items in the 2001 CPIS; (ii) update/address methodological issues such as repurchase agreements and securities lending and the treatment of trusts; (iii) address problem areas, such as portfolio investment by households that do not use the services of resident custodians or are not covered by end-investor/household surveys, difficulties in identifying repoed securities); (iv) provide guidance to the broader range of countries that are expected to participate (such as OFCs); and (v) describe the experiences of countries that participated in the 1997 CPIS, both thematically and in country specific terms (largely by drawing on the Country Implementation Report that was prepared last year). In view of the fact that the ESCB Centralized Securities Database is unlikely to be available in time for the 2001 CPIS, it was decided not to introduce major new material on securities databases.

8. THE PERIODICITY OF THE CPIS

The Scope for Compiling a Summary CPIS for 1998-2000

The Task Force discussed whether there was sufficient data available for 1998-2000 to justify the Fund creating a summary annual CPIS database. The Task Force concluded that a case had not been made (which would have required the Fund to set up a reporting matrix by which a simplified CPIS database could be assembled). The available information was regarded as insufficient to establish such a database. However, as many countries were publishing these data, the IMF should draw attention in its CPIS web site to country data sources for annual series for cross-border portfolio investment assets broken down by the country of residence of the issuer, even if these only provided a summary presentation.

The Periodicity of the CPIS following the 2001 CPIS

The Task Force considers that, in light of experience with the 1997 CPIS, the case for an annual CPIS is stronger than before. However, it remains a question whether the first annual CPIS should be for end-December 2002 or end-December 2003 (to coincide with the ECB requirement for a full geographic breakdown of extra-euroarea positions). Most Task Force members support the proposal that the first annual CPIS should be for end-December 2002, as this would ensure that the momentum is maintained and allow the CPIS database to be expanded to include time series data. It was concluded that if systems are to be set up by participating countries to support an annual CPIS starting with a 2002 CPIS, a decision by the IMF Committee on Balance of Payments Statistics would have to be taken at its October 2000 meeting. A recommendation by the Committee might also help countries to decide.

9. FUTURE ACTIONS IN PREPARATION FOR THE 2001 CPIS

Closing Date for Participation in 2001 CPIS

The Task Force decided that the closing date for countries to notify their participation in the 2001 CPIS should be in early October 2000 although allowance would need to be made to important countries that are late in reporting. This would allow three months for participating countries to take the necessary steps to plan for the national compilers meetings that are targeted for January and February 2001.

Plans for Meetings of National Compilers in 2001

In the knowledge that the number of participating countries in the 2001 CPIS would be significantly larger than the 29 that participated in the 1997 CPIS, the Task Force considers that it would be necessary to host two or three meetings of national compilers in January/February 2001. The recommendation of the Task Force is to hold these meetings on a regional basis, possibly hosted by Task Force members. For example, one could be held in Europe, one in Asia/Pacific, and one in the Caribbean (targeted at OFCs). Because new participants may use the compilers meetings to choose a collection system, it was recommended that each compiler meeting address the full range of options discussed in the Revised Survey Guide. Hence, a thematic approach was rejected (such as one focusing on the security-by-security approach and another on the aggregate approach).

Preparations for Dissemination of revised Survey Guide

The Task Force decided that to ensure the availability of the revised Survey Guide to participating countries as soon as possible, it should be made available electronically on the Committee's web site. Editorial revisions could be included in the published hard copy, which should be targeted for publication by end-December 2000.

Modalities for Data Reporting and Documentation to the Fund

The Task Force decided that the modalities for data reporting to the Fund should be the same as for the 1997 CPIS, with the additional requirement that the standardized report forms include all the encouraged items. It is intended that the results from the survey be provided to the IMF by the end of September 2002, at the latest.