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**International Conference on the Coordinated Portfolio Investment Survey (CPIS):
A Summary**

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Introduction

Almost 15 years after the Godeaux report highlighted the presence of substantial asymmetries between the data on global credits and debits in the financial account, and once the Coordinated Portfolio Investment Survey has been running for several years, the Banco de España, in collaboration with the International Monetary Fund organized an international conference on the CPIS in Madrid on 1-2 March 2006.

The program and the presentations are publicly available in the Banco de España website¹

The conference had two main aims: first, to contribute to the dissemination of the Survey among users and thereby to promote the use of the data it provides; and second, to identify potential improvements enabling increasingly useful information to be made available. From the objectives it is easy to deduce that the targeted audience was very wide and diverse: compilers, financial and economic analysts, academic researchers... The response was very positive and almost 120 persons attended the conference.

The conference was organised in five sessions: i) Presentation by the IMF of the CPIS initiative and its main results and available data ii) the use of the CPIS by data compilers, iii) the use of the CPIS for economic/financial analysis, iv) a round table: CPIS- Uses, limitations and potential improvements, and v) other international statistics initiatives (CSDB and CDIS).

To achieve these objectives, 17 experts with the different backgrounds mentioned above presented the use they are currently making of the CPIS data. On the producers' side, the CPIS has contributed to improve the way the portfolio investment data were compiled and also to enhance the quality of the data produced. And on the users' side, the CPIS has provided rich information that allowed meeting important users' demand and some gaps still existing were identified.

The use of the CPIS by data compilers

In this section, statisticians from the ECB, the Bank of Japan, the Banco de España and the Federal Reserve showed how the CPIS is being used by the people involved in the compilation and production of external statistics.

The ECB presentation focused on the ECB's statistical uses of the CPIS data in the euro area IIP. Two main uses were mentioned: first, to estimate the geographical breakdown of the liabilities in the IIP, and second, to check IIP data compiled from usual sources (overall liabilities).

¹ <http://www.bde.es/homee.htm> under "Conferences and Seminars", "Past conferences" or directly in http://www.bde.es/doctrab/confere/confee_7.htm

The Japanese presentation (“Lessons from Japan’s CPIS”) gave a detailed overview of the current compilation method used for producing the IIP and the CPIS, as well as a description of the available information on stock of portfolio investment data and the main conclusions obtained from the analysis of the Japanese CPIS data. These can be summarized as follows: i) trust accounts acting of behalf of pension funds held 70% of foreign equities at the end of 2004, ii) in trust accounts’ total investment, assets in US account for 50% of the total, iii) Cayman Islands is the third country recipient of Japanese foreign equity holding, after US and UK, iv) Japanese foreign long-term debt securities are mainly owned by the bank sector (30%), and a high proportion is also in Cayman Islands, and finally, v) Japanese non-financial sectors have the largest long-term debt securities holding in International Organizations.

The Spanish presentation also gave a brief description of the new portfolio investment compilation system used by the Banco de España since 2002 to report to the CPIS in order to show how the CPIS exercise had contributed to enhance the way the Banco de España obtains the portfolio investment data, both flows and stocks, by a security-by-security system, and has allowed to estimate the geographical composition of the end-investors in Spanish negotiable securities. The majority of the presentation focused in the analysis of the Spanish CPIS data, both assets and liabilities, in order to identify their main characteristics. Regarding the figures of Spain’s portfolio investment abroad, it was observed: i) a high concentration in long-term debt securities, mainly in those issued by residents in euro area countries (this area is overweighted in the Spanish foreign holdings of securities compared with the weight of the euro area market on the global market, in both equity and debt), ii) the largest investors are the financial institutions, particularly mutual funds, and iii) the non-financial sector foreign holdings are more diversified between equity and debt than the financial sector ones. Concerning the stock of foreign portfolio investment in Spain the main results are: i) a high concentration in long-term debt, ii) the euro area residents are the main end-investors in Spanish securities (the geographical detail is obtained aggregating the creditor to Spain information reported to the CPIS by the participated countries), and finally, iii) holdings of euro area countries are more concentrated in debt securities than the non-euro area residents’ ones. Therefore, it can be concluded that Spain shows a low risk exposure to external shocks.

To close this section, a statistician from the Federal Reserve, as the Japanese representative gave a detailed explanation on the US collecting system. The presentation focused on the description of the US asset survey (the US contribution to the CPIS). According to her presentation, this survey is a valuable tool for US data compilers because: i) it provides a detailed information on foreign securities held by US investors, ii) it allows making a more accurate estimation of valuation adjustments and relative contributions of flows, price and exchange rate changes to the evolution of the IIP, iii) it gives an idea about the foreign exposure of the US economy, and finally, iv) it helps identify sources of reporting errors, such as missing reports in data transactions. Although the US asset survey offers a good quality data, the CPIS data on holdings of US securities are used by US data compilers for: i) checking total portfolio investment liabilities, ii) comparing US liabilities data against other countries’ asset data, identifying sources of error and allowing for better country allocation of holdings, iii) uncovering the ultimate holders of US securities (a high custodial bias in US data is identified), and iv) identifying the ultimate owners of US bearer bonds.

The use of the CPIS for economic/financial analysis

Not only members of central banks, but also representatives of international organisations (such as OECD) and private institutions gave presentations about the use of the CPIS data in their institutions.

The Federal Reserve showed how the detailed data from both the US asset survey and the CPIS can be used to explore factors behind the US portfolio investment behaviour and to answer questions about global investors and global portfolios developments. In the context of US current account deficit in record levels, questions such as the willingness of foreign investors to continue acquiring US assets gain relevance. To answer this question, information on foreign investors’ total securities portfolio is needed as well as on holdings of domestic securities. The analysis of the available information points to: i) all countries have

home bias, ii) most countries are underweight in US securities with respect to foreign securities, iii) there is room in foreign portfolios to continue acquiring US assets.

In a similar way, of the participation of the Research Department of IMF and the CEPR showed an interesting economic research using portfolio investment survey data. In this case, the main issue was the CPIS as a key tool for the analysis of financial integration. The information on bilateral holdings can be used to investigate the allocation of foreign equity portfolios. The analysis of the CPIS data confirms that the US equity market is, in general, underweighted in the foreign equity of euro area residents holdings and it also shows the importance of offshore centres. Additionally, the CPIS data allow investigating the factors behind the bilateral equity investment. In this case, the results find a very strong correlation between bilateral equity investment and bilateral trade in goods. Moreover, informational links measured by common language, legal origin and currency union are also very important. On the contrary, there is not evidence of beta-type investment decision. Besides, the CPIS can be used to derive the global and regional portfolio investment liabilities and a comparison with a liabilities survey took place in some countries such as US and Ireland to identify discrepancies. In a similar way, the ECB representative gave a presentation which emphasizes the role of the CPIS in a context of increasing global financial integration. According with the results, the home bias in the equity markets has decreased from 1997 (the beginning of the CPIS) to 2003 (the last published CPIS data) in the main areas: euro area, the US and Japan. However, this reduction has been slower when we look at the individual euro area countries. The home bias decrease has been even weaker for bonds securities only for the euro area, but not for the US and Japan. Regarding regional financial integration there is empirical evidence about the role of the adoption of the euro currency in enhancing financial integration in both equity and bond markets in the euro area countries.

A very different perspective about the potential uses of the CPIS was pointed out by the OECD speaker, who highlighted the possible use of the CPIS to develop globalisation indicators related to portfolio investment based on the portfolio investment positions data, both assets and liabilities, and on bilateral data (also including regional aggregates), and to measure the extent of investment protection by international agreements. This presentation gave a detailed description of the OECD's globalisation indicators disseminated in the OECD Handbook on Economic Globalisation indicators and, mainly, of those related to FDI.

Along with members of public institutions, related or not with monetary policy institutions, a representative of the private sector (Citigroup) showed how important it is to have portfolio investment data to understand the monetary aggregates behaviour and the exchange rate trends. To estimate M3 "adjusted" for portfolio shifts is needed to properly assess the underlying trends in euro area liquidity pattern and to take the right monetary policy measure. Nevertheless, the portfolio data should be supplemented with information on bank deposits as a potential source of international capital flows. Regarding foreign exchange trends understanding, knowledge about massive growth in global financial assets and liabilities, diminishing of home bias, expectation about sustainability of US external imbalances, and so on, are important to identify which factors drive exchange rate movements. Although the CPIS is a good tool to calculate IIP, to help policy-makers and regulators to analyze sustainability of external imbalances and to identify trends in international capital flows, for business purposes it still shows weaknesses.

Round table: CPIS- Uses, limitations and potential improvements

Users of portfolio investment data, both flows and stocks, from private and public institutions were invited to the conference to identify the main gaps between the available and the required statistics.

The main points highlighted in these presentations are summarised as follows: i) the lack of detailed data of portfolio investment of mutual funds in developing countries implies that any research based on these data need to dedicate a great effort and time to build a proper database. In this context, the CPIS is a step in the good direction but an additional advance is needed (OECD); ii) any analysis on the evolution of financial markets in developing economies requires a complete set of data. In this context, an improvement on the coverage of the CPIS

data was demanded, not only regarding the countries (such as China and India) but also about the instruments (such as “private equity”) (International Financial Services London-IFSL); iii) the recent developments in international markets (such as increasing volatility, increasing diversity) claim for additional enhancements not yet incorporated into the CPIS (such as a currency breakdown, confidentiality issues-SEFER, cross-checking and sharing data with other securities databases-BIS-CSDB, timeliness, frequency, IT improvement to send and share the CPIS data.) (BIS); and finally, iv) the limitations of the CPIS regarding its coverage and the current effort done to solve this have been explicitly mentioned (“third-party holdings”). Additionally, the advantage to use security-by-security systems to compile portfolio investment BoP and IIP data was also pointed out (ECB).

The views of the CPIS users allow for compilers to identify gaps that should be eliminated in the near future.

Other international initiatives: Centralised Securities Data Base (CSDB) and the Coordinated Direct Investment Survey (CDIS)

The ECB and the IMF presented the current situation and the future plans regarding two important projects: the CSDB and the CDIS. The ECB mentioned that the CSDB tries to meet an users' demand (this due to large innovations in securities markets, security-by-security database needed to satisfy different user needs), and described its main features (It holds debt and equity securities, it focuses on issues of the euro area and EU residents, but its scope goes beyond). The two main functions of the CSDB are to provide: i) an ESCB-wide reference database on individual securities and issuers to be operated by security-by-security data collection systems, and ii) the basic information to compile many (aggregated) statistics (BoP and IIP, statistics on securities issues, investment funds statistics, euro area financial accounts...).

On the other hand, the IMF explained what the CDIS is and the results of the questionnaire filled by the potential participants in the project. A 90% out of the 89 countries that received the questionnaire sent their responses to the IMF. All of them indicated their willingness to participate in a CDIS collecting data on inward Direct Investment (DI), but only 75% of them agreed on outward data. Most countries supported the proposed Book Value valuation criteria and the reference date to provide DI data. To proceed with the CDIS start: i) a new Task Force will be created, ii) guidance on concepts and implementation will be set out, iii) reporting of additional information on UBO/UD geographical allocation will be discussed, iv) a survey guide will be prepared in 2006, v) a workshop will be conducted in 2007, vi) results will be sent towards end-2010 and will be published in 2011, and finally, vi) a decision will be taken on the convenience of repeating the survey on a annual basis since 2012.

Main conclusion

During the final session the main conclusions of the CPIS during the conference were summarised:

1. The CPIS is a very useful tool for statistical compilation and monetary, economic and financial analysis. The usefulness of the survey in providing information on the holders of the liabilities of different countries and economic areas has been highlighted, for example, by the importance given by the ECB to the analysis of who is financing whom in an integrated information system for monetary policy and in some of the studies on financial integration and home bias presented during the Conference and also in relation to the globalization indicators.
2. With the release of data for 2004 a few weeks after the conference the CPIS data are available for the years 2001 to 2004, in addition to the data of the pilot experience in 1997. The availability of this consistent set of data will probably be followed by an increase in their use accompanied by further demands and the need to improve their quality.

3. During the Conference some points for improvement have been identified: i) timeliness: at present data are available in about 15 months; ii) periodicity: quarterly data instead of annual data would be advisable; iii) coverage: some small economies with financial centres and some economies with important holdings (oil producing countries, China), some important countries do not report reserve assets in the SEFER exercise and the coverage of the household sector is a problem in many countries, ; iv) Identification of transactions and valuation and exchange rate changes between two sets of data; v) currency breakdown; vi) identification of some instruments that may have a prominent role in the development of the markets, e.g. private equity or securitisation; and vi) lessening the effect of the confidentiality problem in the level of detail provided for the CPIS database.
4. In some cases, the use of monthly or quarterly BoP and quarterly IIP and databases on securities issues could serve as a complementary tool to these demands. To make this possible it would be necessary to increase the consistency of BoP and IIP data with the CPIS contributions and the linkages with the “external debt hub” and other related databases.
5. Some other important points that may affect the quality of the data have been mentioned. Most of them are recurrent issues when analysing the CPIS results: i) use of residency/country risk to allocate the holdings; ii) “look through” possibility in cases of Special Purpose Entities involved in securities dealings or to avoid “round tripping”; and iii) improving knowledge on investments by households held in foreign custodians (“third party holdings”).
6. Increasing the promotion of the CPIS not only among analysts but also among policy makers is also needed. This conference can be seen as step in this direction.
7. Given its success, the CPIS can be seen as a first step in the use of global solutions to the challenges that globalisation poses to statisticians in terms of providing relevant and accurate information. Some other steps like the generalisation of centralised securities databases are under way and the project of a Coordinated Direct Investment Survey would be another step forward.