BOPCOM-06/28

Nineteenth Meeting of the
IMF Committee on Balance of Payments Statistics
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RESERVES ASSETS TECHNICAL EXPERT GROUP (RESTEG) SUMMARY PAPER

Prepared by the Statistics Department
International Monetary Fund

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Reserve Assets Technical Expert Group
Summary Paper[1]

I. Introduction

1. The IMF Committee on Balance of Payments Statistics (the Committee) established the Reserve Assets Technical Expert Group (RESTEG) in June 2005 to advise the Committee on reserve assets in the process of revising the fifth edition of the *Balance of Payments Manual (BPM5)*. This paper reports to the Committee on the work to date, including the outcome of RESTEG's May 2006 meeting, and outlines the way ahead. Comments from Committee members are welcome on the issues below seeking the Committee's advice.

II. Overview of the Work to Date

2. Drawing on the issues set out in the paper presented to the Committee in June 2005 (BOPCOM 05/70), in December 2005 the IMF circulated 11 issues papers for comment by RESTEG members. Arising from the comments received, a discussion meeting was held during May 11–12, 2006 at IMF headquarters in Washington, D.C. RESTEG comprises 25 members representing monetary authorities involved in the compilation of balance of payments statistics and international reserves, as well as participants from other international agencies, and other departments of the IMF involved in the analysis of international reserves. Eleven RESTEG members from IMF member countries attended the meeting in Washington.(see Appendix I for the list of participants and list of issues).

3. For the meeting in May, a paper setting out the issues for discussion was prepared and discussed. After the meeting, outcome papers were drafted, based on a summary of discussions that was circulated *ad-referendum* to RESTEG members. The Issues Papers, the paper setting out the issues for discussion, and the Outcome Papers are posted on RESTEG's home page on the IMF's website: http://www.imf.org/external/np/sta/bop/resteg.htm.

III. Summary of Issues on International Reserves

4. This section sets out the outcomes reached: Section A describes the outcomes for issues where a conclusion was reached, while Section B describes those issues on which RESTEG seeks the guidance of the Committee. The issue of reserve-related liabilities (RRL) is the subject of a separate paper (BOPCOM 06/29).

5. Preliminary wording pertaining to outcomes of the RESTEG discussions is included in Chapter 5 of the draft *Manual* provided to Committee members. References to paragraphs

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[1] This paper was primarily drafted by Antonio Galicia.

in the draft *Manual* are included in the following sections for ease of identification. The draft text was reviewed and commented on by RESTEG members.

6. Section C presents those items identified for possible inclusion in the new *Manual* as memorandum/supplementary items. (See *Annotated Outline (AO),* April 2004, paragraph 1.20 for guidance on the inclusion of such items.)

A. Issues that Reached Conclusions

Clarification of pledged assets

7. RESTEG agreed to use wording from the *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template* (*Guidelines*) on the treatment of pledged assets in the new *Manual*. The *Guidelines* (paragraph 72) state that "assets pledged are typically not readily available. If clearly not readily available, pledged assets should be excluded from reserves." However, RESTEG requested further explanation on those assets that are fully encumbered and on assets given as collateral, e.g., collateral guarantees for lines of credit. Wording on pledged assets is included in paragraphs 5.178–5.180 of the draft *Manual*.

8. RESTEG considered that, if pledged assets given as collateral are to be included in reserves, a memorandum item to the international investment position (IIP) could be considered, so that the amount of pledged assets in reserves were identified. If, however, pledged assets were to be excluded from reserves because they are encumbered, a supplementary item to the IIP could be considered, indicating the amount of assets excluded. The discussion of the inclusion of such items is contained in Section C ahead.

Clarification of foreign currency

9. RESTEG members supported the principle of including only assets in convertible currencies in reserve assets and that the term "convertible" be further clarified by "freely usable for the settlements of international transactions." "Freely usable" was preferred to "widely traded" as the latter might rule out currencies that are convertible but not widely traded. "Freely used" was not being used in a restrictive manner to include only the SDR basket currencies.

10. The discussion of the inclusion in reserve assets of currencies of neighboring countries was inconclusive. On the one hand, there was a firm view among RESTEG members that exceptions should not be made and that if a currency was not convertible, assets in that currency should be excluded from reserve assets. On the other hand, neighboring currencies may play a significant role in the balance of payments, and particularly trade, of reporting countries. Therefore, it could make sense from a risk management viewpoint to hold some assets in such currencies as reserves. RESTEG agreed that the secretariat would come up with some wording suggestions to deal with this issue,

taking account of the ideas discussed. Draft wording is included in paragraphs 5.147 and 5.148.

11. Some members emphasized the importance of information on the currency composition of holdings of foreign exchange currencies to indicate the extent to which assets that are not held in SDR basket currencies are included in reserve assets. RESTEG considered that there was a good case for the inclusion as a memorandum item to the IIP of the presentation of the currency composition as set out in the item IV.2 (a) of the Reserves Template. This was already required of SDDS subscribers at least annually and would thus be extended to all IIP reporters if included. The discussion of the inclusion of such items is in Section C ahead.

Clarification of currency of denomination

12. The majority view was to exclude from reserves, assets denominated or indexed to the domestic currency but settled in foreign currency. The main consideration was that in a crisis situation the value of these assets would decline along with the domestic currency. However, a significant minority disagreed. Given the majority view, in the draft *Manual* reserve assets only include only those assets denominated and settled in foreign exchange, as set out in paragraph 5.149.

Marketability (Liquidity)

13. RESTEG agreed that the draft *Manual* should provide a further and clearer description of the characteristics of readily availability, along the lines set out in paragraph 8 of the Issues Paper.[2] RESTEG considered that the description should cover both securities and deposits, noting that some assets such as deposits can be liquid but not marketable, and vice versa. However, RESTEG cautioned against too detailed a specification, particularly with regard to the concept of minimum cost. Rather, general principles should be set allowing some flexibility in application. RESTEG agreed that an explicit time limit in determining readily available should not be provided in the new *Manual* but considered that some further explanation could be provided.

14. On creditworthiness of the counterpart (or assets), RESTEG agreed that a general reference to the high quality of reserve assets should be included in the new *Manual*, but there should not be a specific reference to a specific rating or grade.

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[2] The relevant sentences in paragraph 8 state: "In providing guidance on what is meant by liquidity or marketability the new *Manual* could draw on the *Guidelines*' text on marketability (in line with footnote 19 of the *Guidelines*), and the definition of market liquidity in the *FSI Guide* to come up with a single criterion. This criterion would emphasize the ability to buy, sell, and liquidate an asset for foreign currency (cash) with minimum cost and time."

15. Draft wording is included in paragraphs 5.144 and 5.145.

Investment funds[3]

16. RESTEG members considered that the key criteria used to identify official reserve assets should apply to assets held in investment funds. In particular, RESTEG stressed the need for the monetary authorities to have control over investment funds and that the assets are readily available to meet a balance of payments financing need in order to be included in reserve assets.

17. It was emphasized that legal or administrative considerations that limited the use of the assets to meet a balance of payments need were relevant criteria to be considered in determining whether assets in investment funds should be in reserve assets or not. Some members mentioned the importance of practical arrangements as well. However, the intended use of the assets in the investment fund, such as for future generations, should not be a criterion in determining whether assets in investment funds should be in reserve assets or not.

18. RESTEG also stressed the fungibility of assets, and noted that in the absence of legal or administrative impediments, even assets that had been earmarked as part of an investment fund, but could be used to meet a balance of payments need, were reserve assets (subject to the other criteria being met).

19. Regarding the questions of the assets invested in a separate investment corporation that could be readily called back if needed to meet a balance of payments need, and the treatment of funds withdrawn during the annual budgetary process, RESTEG considered that the general principles agreed should be applied.

20. Clarification in the draft *Manual* regarding investment funds can be found in paragraphs 5.165–5.170. These funds are entitled *special purpose investment funds* in the draft chapter to distinguish them from the general asset class of investment funds.

Treatment of pooled assets

21. RESTEG agreed to the inclusion of text on pooled assets in the draft *Manual* as reflected in paragraphs 5.171–5.173. In determining the inclusion of pooled assets in reserves or not, RESTEG emphasized the importance of who has control over the pooled assets, the legal framework of the arrangements, and the liquidity of, and the ability of, a participant to withdraw their claim. The ability to raise foreign exchange funds would also be a critical aspect.

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[3] In the draft *Manual*, these funds are called "special purpose investment funds" because the term "investment funds" is used as an instrument classification for mutual funds.

22. RESTEG discussed the quality and country concentration of the underlying assets and of underlying investments in assets denominated in domestic currency. It was agreed that a concentration of the underlying assets in claims that constrained the ability of that country to generate external liquidity and/or would result in the value of the instrument being adversely affected in a time of crisis would cause considerable doubt as to whether the instrument could be included in reserve assets.

23. For both investment funds and for pooled assets, included in Section C are proposals for memorandum/supplementary items.

Treatment of gold swaps and gold deposits

24. RESTEG agreed to include a clearer description of the treatment of gold swaps and gold deposits/loans drawing as appropriate on the relevant text in the *Guidelines*. RESTEG considered that the statistical treatment of gold swaps and gold deposits needed to be addressed from the viewpoint of whether allocated or unallocated gold was involved.

25. As an important outcome, RESTEG agreed that the statistical treatment of gold deposits/loans of allocated gold should be the status quo. That is, if the deposited/loaned gold is available upon demand to the monetary authorities, it can be included in reserve assets as monetary gold (paragraph 99 of the *Guidelines*). However, if the gold is not available upon demand, it should be removed from reserve assets, and also from the IIP (demonetization).

26. The meeting was informed that gold swaps primarily involve unallocated gold, and the secretariat was asked to investigate further the implications of this, and produce an additional paper (Issues Paper #11.1) for the consideration of RESTEG through correspondence. The work included appropriate bilateral discussions to discover practices on gold swaps and deposits/loans among central banks, especially those via unallocated gold.

27. An important conclusion was that the majority of RESTEG members that commented preferred to treat unallocated gold consistently with the AEG recommendation as foreign currency denominated deposits, rather than as monetary gold, and include these deposits in reserve assets if the reserves criteria are met. In this treatment, unallocated gold accounts held with residents (such as bullion banks) are excluded from reserve assets. The additional drafting on gold was included in paragraphs 5.155, 5.158, and 5.159 of the draft *Manual*.

28. On the treatment of gold swaps, the majority preferred to retain the asset on swap in reserve assets and record the swap loans in RRL if with a nonresident. However, there was a general view that this issue should be considered in the context of reverse transactions more generally (see ahead).

Question for the Committee

- *Does the Committee have any comments on the outcomes for the issues that have reached conclusions?*

B. Issues Seeking Guidance from the Committee

Treatment of bank deposits in resident banks

29. There was general support in RESTEG for the approach of excluding claims on bank deposits in resident banks from the BOP and IIP given that the BOP/IIP covers transactions and positions with nonresidents. However, some members considered that even with such an approach these deposits should be included in the Reserves Template as part of Section IA, Reserve Assets. Others considered that the reserves data in IIP and Section IA should be the same and that these deposits should be in Section IB.

Present guidance

30. Although *BPM5* and the *Guidelines* are explicit in making reference to the resident concept, there is one key exception in both manuals allowing deposits held in resident banks, including those with headquarters abroad but located in the reporting country, to be included in reserve assets under restrictive conditions. *BPM5* states in paragraph 429 that "… if banks hold legal title to foreign assets but are permitted to deal in such assets only on the terms specified by monetary authorities or only with their express approval, such assets would be considered subject to authorities' direct and effective control." This would permit their inclusion in reserve assets provided the other criteria to be a reserve asset are met.

Including bank deposits in resident banks in reserves assets

31. Some RESTEG members are of the view that a criterion of reserve assets based on the residency status of banks does not appear to be very meaningful, especially in international financial centers, where substantial deposits may be placed with foreign banks which are headquartered overseas but located domestically. The argument is that major banks have global networks and tend to manage their exposures on a global basis. These banks typically operate as branches rather than subsidiaries in various locations and the recourse to these banks is to the home country of the bank rather than the host country. Thus, ownership and control might be a better criteria than residency since the banks act as financial intermediaries.

32. It was mentioned, for example, that in Singapore the monetary authority's foreign currency deposits with resident banks are used to ensure sufficient liquidity for forex intervention in the context of its exchange rate-centered monetary policy regime. Thus, in Singapore, these deposits can be readily withdrawn by the monetary authority for liquidity management purposes.

33. Another view expressed during the RESTEG meeting was that claims on resident bank deposits be included as reserve assets in the BOP/IIP (and the Reserves Template, Section IA) with a contra-entry created in the BOP and IIP to identify and subtract such claims to avoid double counting.

Conditions under which claims of resident banks on nonresidents can be included in reserve assets

34. Uncertainty over the specific conditions that need to be met appears from experience to have led some countries to expand the restrictive conditions set out in *BPM5*, so that bank deposits in resident banks are included in reserve assets whether or not the restrictive conditions are met (see for instance paragraph 108 of the *Guidelines*). The *Guidelines* make clear in paragraphs 69 and 107 that the authorities' claims on residents are not considered reserve assets, except under the restrictive circumstances in *BPM5*, and insist upon transparency.

35. Issues Paper #7 (attached) proposed clarifying conditions to be met under which claims of resident banks on nonresidents over which the monetary authorities have control but the banks have legal title could be included in reserve assets:

- the resident banks can only transact in these claims on nonresidents on the terms specified by monetary authorities or only with their express approval, and

- the authorities have access to these claims on nonresidents on demand to meet a balance of payments financing need, and

- there is a prior law or an otherwise legally binding contractual arrangement confirming this agency role of the resident banks that is actual and definite in intent.

36. Similarly, Issues Paper #7 stated that claims of resident banks on nonresidents where there is no such law or otherwise legally binding contractual arrangement should not be included in reserve assets.

37. Further, it was considered in Issues Paper #7 that if countries include these commercial bank assets in reserves, the data should be collected directly from commercial banks and not by proxy through central bank claims on resident banks. If data are collected as a proxy for the commercial bank holdings on nonresidents, in the balance of payments statistics, the commercial banks' claims on nonresidents should be reduced by a corresponding amount.

Excluding deposits in resident banks from reserve assets

38. A basic principle of the balance of payments and IIP is to statistically summarize the economic transactions and positions of residents of an economy with the rest of the world.

The inclusion in reserve assets of deposits with resident banks departs from this basic principle, the deposits do not raise external liquidity, and the question arises as to how far should this departure go. In particular, how should liabilities to residents associated with the deposits be treated?

39. For instance, if it is agreed that under repo transactions the security remains in reserve assets and that banks deposits with resident banks can be included in reserve assets, the classification of the repo loan liability arises. If the foreign currency claim on a resident bank arising from the repo is included in reserve assets, the logic would be that the associated foreign currency repo loan liabilities to a resident bank should also be included, so matching the claim on resident banks with the associated liabilities. But why stop at repos? What about any foreign currency liabilities of the monetary authority to a resident bank? And then why stop at just the monetary authorities sector. The clear distinction to be drawn between residents and nonresidents would be violated.

40. A "clean solution" not open to interpretation, as the restrictive conditions set out in *BPM5* have been, would be to exclude all claims on resident banks on the grounds that these assets are claims on residents. To address the interest in information on foreign currency claims on resident banks, inter alia, Appendix 3 of the reserve-related liabilities paper (BOPCOM 06/29) proposes that the new *Manual* include a memorandum/supplementary table that provides a broad measure of foreign currency assets of the monetary authorities, including claims on and liabilities to residents as well as nonresidents. Also, in the Reserves Template, Section 1B covers resident bank deposits (paragraph 125).

Questions for the Committee

41. Paragraph 5.140 presents the current drafting on this issue in the draft *Manual*, which states that deposits in resident banks should not be considered reserve assets. However, in view of the strong positions expressed by some RESTEG members the Committee could consider the following questions:

- *What are the views of the Committee on the general principle of the inclusion or not of bank deposits on resident banks in the reserves assets data of the balance of payments and IIP? Does the Committee favor a "clean solution" not open to interpretation?*

- *What are the views of the Committee on the strict conditions proposed in Issues Paper # 7 for including claims of commercial banks on nonresidents as reserve assets?*

- *Are there any other issues that should be taken into account?*

Treatment of reverse transactions

42. There were mixed views among RESTEG members on the proposed treatment of excluding securities out on repo from reserve assets and reclassifying them as portfolio investment assets (see Issues Paper # 8 attached). Those in favor highlighted their concern over the double counting of reserve assets, while those who disagreed pointed to the asymmetric treatment that would arise with securities acquired under reverse repos (i.e., these are not classified as reserve assets).

43. RESTEG members who disagreed with the proposed treatment of excluding securities out on repo from reserve assets favored the inclusion of the repo loan in reserve-related liabilities (so leaving net reserves unchanged before and after the repo), but others noted that if this repo loan was from a resident, such as a bank, there would be an increase in net reserves arising from such a repo, on the assumption that such loans are not included in the BOP/IIP because they are resident-to-resident.[4]

44. RESTEG members agreed that the treatment of securities under securities lending should be the same as securities underlying repos, but it was recognized that securities under security lending could be readily available and included in reserves if they could be called back at very short notice.

Present guidance

45. The *Guidelines* follow the advice in *BPM5* stating that the economic nature of a repo is similar to that of a collateralized loan, but in paragraph 85 notes the importance of avoiding overstating the liquidity position, as both the funds received and the securities repoed remain with the security provider. Paragraph 85 provides two alternative treatments for both those monetary authorities under taking repo transactions.

46. For repos, paragraph 85 (i) states that the security provider should record the funds received as an increase in deposits among reserve assets, and the securities provided removed from reserve assets;[5] while the alternative in paragraph 85 (iii) allows both the funds and the securities to be recorded as reserve assets but requires the recording of a predetermined drain in Section II. 3 relating to when the repo matures and the cash is to be returned.

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[4] If the Committee agrees to the proposal to include a foreign currency/domestic currency split into the IIP, such loans would result in a reduction of foreign currency assets of the banks, counterbalancing the increase in reserve assets.

[5] In the IIP, such assets would be reclassified to portfolio investment as they remain on the balance sheet of the security provider.

Difference between Balance of Payments and Reserves Template frameworks

47. Unlike the balance of payments framework, the framework of the Reserves Template captures the liquidity drain associated with the approach of retaining the security in reserve assets. The possibility of capturing repo liabilities in reserve-related liabilities is discussed in reserve-related liabilities paper (BOPCOM 06/29) and, depending on the outcome, the associated liabilities to the cash borrowed under a repo will or will not be identified in the main accounts. But regardless, liabilities to residents are excluded.[6] In short, there is a concern that including the securities in reserve assets would allow double-counting of reserves, and even creation, if the transactions are undertaken with a resident.

Question for the Committee

48. In the *Manual*, the preference would be to agree a single solution to support consistency of treatment across countries. At present the text in the draft *Manual* (paragraph 5.161) is as follows:

> *Securities that have been transferred under repurchase agreements, securities lending agreements,[7] or similar agreements by the monetary authorities are assets of the original authorities and are either (1) included as reserve assets of the original owner, with the respective loan generated under a repurchase agreement reported as a reserve-related liability if a liability to a nonresident OR (2) are reclassified as portfolio investment assets with the loan included within "other investment."[8] [To be discussed by BOPCOM] In the case of reverse repos, if a claim (i.e., repo assets) is liquid and available upon demand to the monetary authorities it is considered part of the reserve assets, in "other reserve assets" (or "deposits" if classified in national measures of broad money, see paragraph 5.xx.) Securities that have been received by monetary authorities under repurchase agreements, securities lending agreements, or similar agreements are not included as reserve assets of the receiving party. (See paragraphs 6.xx-xx on the general treatment of reversible transactions such as repos and securities lending.)*

- *What are the views of the Committee on the classification of securities under repo?*

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[6] The supplementary table in Appendix 3 of the same paper proposes that repo loan liabilities (and assets) of the monetary authorities and central government be identified.

[7] Under securities lending agreements where securities are lent/borrowed, other securities may be provided as collateral by the borrowing party.

[8] Under this second approach, securities lent under security lending arrangements could be classified as reserve assets if callable at short notice.

Liability aspects of SDRs

49. At the January AEG meeting, and following consultation with the Committee and RESTEG, it was agreed that the SDR allocation be recognized as a liability.

50. Within RESTEG various views were expressed on the classification of the SDR allocation as equity, debt, or other. RESTEG members were divided on whether the allocation should be classified as debt or "other" (neither equity nor debt). Subsequent to the meeting, further discussion was conducted within the Fund and the proposal in the draft *Manual* is that the allocation be classified as debt, not least given the need to pay interest. As a consequence, in the draft *Manual* SDRs are described under debt instruments.

Question for the Committee

- *Is the classification of the SDR allocation as debt acceptable?*

Reserve-related liabilities (RRL)

51. A separate BOPCOM paper (BOPCOM-06/29) has been prepared for the Committee's consideration. The draft *Manual* text is included in paragraphs 5.184–5.187.

C. Inclusion of Memorandum/Supplementary Items

52. During the discussions in RESTEG, proposals for some memorandum and supplementary items were identified. In each instance, the intention is to provide more information on the composition of reserves or on assets that are close to being included in reserve assets.

53. RESTEG did not come to a consensus view, considering the addition of memorandum and supplementary items as being in the remit of the Committee.[9] As background, at the time of writing two items are proposed as memorandum items to the standard components, nonperforming loans and arrears, although a third, foreign currency derivative positions in the IIP statement, is also for consideration by the Committee (BOPCOM 06/06).

Currency composition of reserve assets

54. The currency composition of reserves between currencies in the SDR basket and currencies not in the SDR basket needs to be disseminated at least once a year in Item IV.2. (a) of the Reserves Template. Such a breakdown could be included as a memorandum

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[9] Paragraph 1.20 of the *AO* mentions that "The manual will distinguish between (i) memorandum items that are part of the standard components and should be compiled in all cases; and (ii) supplementary items that are raised as options that may be considered when a particular issue is of interest to analysts and policymakers."

item or an "of which" item to reserve assets in the IIP. Such an approach would contribute to standardization of the dissemination requirement for IMF member countries and improve transparency of reserves data.

Special purpose investment funds

55. For analytical purposes, it could be important to identify the amount of assets in these special purpose investment funds that are denominated in foreign exchange, not least as the number and size of such funds continue to increase.

56. RESTEG considered that if investment fund assets are included in reserves, a memorandum item could identify them; if they were excluded, a supplementary item could identify them. The information would be included in the IIP only. The type of information presented in a supplementary item could cover those foreign currency assets that would meet the definition of reserves except for the fact that there are legal or administrative considerations that limit their use.

Pooled assets

57. A provisional view was that the same type of criteria as for investment funds could be considered—if pooled assets are included in reserves, a memorandum item—so that the amount of pooled assets in reserves were identified. If pooled assets are excluded from reserves, a supplementary item could be considered, indicating the amount of assets excluded. The information would be included in the IIP only. The type of information presented in the supplementary item could cover foreign currency assets that are claims on nonresidents and meet the definition of reserves, except for the fact that there are legal and institutional restraints on their ready availability.

Pledged assets

58. RESTEG considered that, if pledged assets given as collateral are included in reserves, a memorandum item to the IIP could be considered, so that the amount of pledged assets in reserves is identified. If, however, pledged assets are excluded from reserves because they are encumbered, a supplementary item to the IIP could be considered, indicating the amount of assets excluded.

59. If pledged assets are included in reserve assets, it is important to know the amounts involved relative to the total size of reserve assets, otherwise the reserves data could be misleading. On the other hand, if pledged assets are excluded but could later be included in reserve assets, again the published data could be misleading.

Questions for the Committee

- *What are the Committee members' views on the presentation of data on currency composition of reserve assets?*

- *Does the Committee consider that any of other proposed tables above be included as memorandum items?*

- *Does the Committee have any objection to any of the proposed tables above being included as supplementary items?*

D. Future Work Program

60. The work schedule of RESTEG set out in BOPCOM 05/70 remains on track (see Appendix II). Pending the reaction to the reserves section of the draft *Manual*, the timing of the second phase of the work to update the *Guidelines* has not been made. Nonetheless, **we would welcome endorsement from the Committee, in principle, for RESTEG to extend its work to Reserves Template Issues.** If agreed, RESTEG will report to the Committee during its next meeting in October 2007 on the discussions toward the revision of the *Guidelines*.

APPENDIX I: Reserve Assets Technical Expert Group—List of Members

Name	Organization
Mr. Robert Heath (Chair) 1/	IMF, Statistics Department
Mr. Antonio Galicia-Escotto (Secretariat) 1/	IMF, Statistics Department
Mr. Hidetoshi Takeda (Secretariat) 1/	IMF, Statistics Department
Mr. Gillmore Hoefdraad (Secretariat) 1/	IMF, Statistics Department
Mr. Mohammed Abdulla A. Karim 1/	Bahrain Monetary Agency
Mr. Fernando Augusto Ferreira Lemos 1/	Banco Central do Brasil
Mr. Jean Michel MONAYONG NKOUMOU	Banque des États de l'Afrique Centrale
Mr. Philippe Mesny	Bank for International Settlements
Ms. Carmen Picón Aguilar 1/ 2/	European Central Bank
Mrs. Saher El-Sherbini Mr. Hamed Abou El Magd Abou El Hamd Mahran 1/	Central Bank of Egypt
Ms. Ursula Schipper 1/	Deutsche Bundesbank
Mr. Kelvin Fan	Hong Kong Monetary Authority
Mr. Christian Mulder 1/	IMF, Monetary and Financial Systems Department
Mr. Jay Surti 1/	IMF, Monetary and Financial Systems Department
Mr. Pedro Rodriguez 1/	IMF, Policy Development and Review Department
Mr. Mihály Durucskó	Magyar Nemzeti Bank
Ms. Reiko Gonokami	The Bank of Japan
Mr. Koichiro Aritoshi 1/ 3/ (cc: Mr. Hiroshi Nishimura)	Japan Ministry of Finance
Mr. Hoseok Yang	Bank of Korea
Mr. Julio Santaella 1/	Banco de México
Mrs. Lydia Troshina 1/	Central Bank of the Russian Federation
Ms. NG Yi Ping	Monetary Authority of Singapore
Mrs. Linda Motsumi 1/	South African Reserve Bank
Ms. Allison Curtiss 1/	Bank of England
Mr. Charlie Thomas 1/	U.S. Federal Reserve Board of Governors

1/ Attendees at the May meeting at IMF headquarters.
2/ In May, Ms. Picón was on secondment to the IMF Statistics Department.
3/ Mr. Dai Saito (former member) attended the May meeting.

Reserve Assets Technical Expert Group—List of Issues

#1	Clarification of Pledged Assets
#2	Clarification of Foreign Currency
#3	Clarification of Currency Denomination
#4	Marketability (Liquidity)
#5	Investment Funds
#6	Treatment of Pooled Assets
#7	Treatment of Bank Deposits in Resident Banks
#8	Treatment of Reverse Transactions
#9	Reserve Related Liabilities
#10	Liability Aspects of SDRs
#11	Treatment of Gold Swaps and Gold Deposits (Loans)

APPENDIX II. Preliminary Timetable for Reviewing Reserve Issues and Updating the Guidelines

Date	IMF	Committee	RESTEG
October 2006		Committee meeting. Discuss recommendations from RESTEG and expect to reach agreement. Agree on next phase of RESTEG work on Sections I.B., II–IV of the Reserves Template.	
November 2006–March 2007	The draft paragraphs to be included in the draft of other chapters of the next *BPM* and released on the IMF's website.		
May 2007			Papers due for a RESTEG meeting on the issues relating to Sections II–IV.
June 2007			Meeting of RESTEG.
July–September 2007			Prepare recommendations to the Committee.
October 2007		Annual meeting. Discuss recommendations from RESTEG; and expect to reach agreements.	
November 2007–June 2008	Draft the update of Reserves Template Guidelines and send to IMF member countries and international agencies for comments (due September 2008).		
October 2008		Committee meeting Discuss comments on the draft guidelines; and expected to reach agreements on outstanding issues	
December 2008	Final draft, subject only to editing, posted on the IMF's website.		
Beginning in January 2009	Prepare hardcopy publication, index, translations.		

ATTACHMENT I:

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

RESERVE ASSETS TECHNICAL EXPERT GROUP (RESTEG)

ISSUES PAPER (RESTEG) # 7

TREATMENT OF BANK DEPOSITS IN RESIDENT BANKS

Prepared by Gillmore Hoefdraad, IMF Statistics Department

December 2005

RESERVE ASSETS TECHNICAL EXPERT GROUP

ISSUES PAPER (RESTEG) # 7

TREATMENT OF BANK DEPOSITS IN RESIDENT BANKS

1. In the fifth edition of the IMF's *Balance of Payments Manual* (*BPM5)*, foreign currency bank deposits in resident banks are not considered reserve assets. However, *BPM5* permits the inclusion in reserves of foreign assets to which commercial banks have title but which can only be transacted on in the terms specified by the monetary authorities or only with their express permission. As recording practices differ from country to country, this paper considers that a tightening up and clarification of the wording in *BPM5* is needed.

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

2. Reserve assets are held by monetary authorities and according to *BPM5* this sector "includes the central bank institutional unit (or currency board, monetary agency, etc.) and certain operations that are usually attributed to the central bank but, in some cases are carried out by other government institutions (or, in some instances, by commercial banks)."

3. Consistent with the above, *BPM5* states in paragraph 429 that "… if banks hold legal title to foreign assets but are permitted to deal in such assets only on the terms specified by monetary authorities or only with their express approval, such assets would be considered subject to authorities' direct and effective control." This would permit their inclusion in reserve assets provided the other criteria to be a reserve asset are met. Effectively this means that the scope of the monetary authorities is expanded to include the resident banks in these particular cases. However, if reserves data in such circumstances are only collected from the central bank and other official institutions, then deposits by these official entities in these resident banks are regarded as proxies for the counterpart claims that the commercial banks hold on nonresidents.

4. The *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template* (*Guidelines)* in paragraphs 69 and 107 is explicit in making reference to the residence concept. Consistent with the residence concept in *BPM5*, "external assets" are claims of the monetary authorities on nonresidents. The authorities' claims on residents are not considered reserve assets. Therefore, deposits held in resident banks (including banks headquartered abroad but located in the reporting country) do not constitute external claims on nonresidents and are not considered reserve assets.

5. However, as stated in footnote 20 and in paragraph 107 of the *Guidelines*, foreign currency deposits in resident entities can be included in reserve assets "under certain restrictive circumstances" (paragraph 107). Paragraph 68 sets out these restrictive circumstances, consistent with the interpretation in paragraph 3 above. Paragraph 62 considers that such assets should be reported in Section I.B of the Data Template (other foreign currency assets and not reserve assets) but separate data (and explanations) is

required for transparency purposes in any circumstances that reported reserves include deposits in domestic banks.

II. Issues arising from the current treatment of bank deposits

6. In *BPM5* deposits in resident banks can only be included in reserve assets under certain restrictive circumstances (paragraph 429). *BPM5* could go further in elaborating the specific conditions that need to be met.

7. The *Guidelines* make clear that the authorities' claims on residents are not considered reserve assets, and in paragraph 62 is explicit that they should be classified outside of reserve assets. However, it does not differ from *BPM5* in permitting deposits at resident banks to be included under restrictive circumstances but insists upon transparency.

8. This uncertainty over the specific conditions that need to be met appears from experience to have led some countries to expand the restrictive condition so that bank deposits in resident banks are included in reserve assets whether or not the restrictive conditions are met (see for instance paragraph 108 of the *Guidelines*).

III. Possible treatments

9. First, the new *Manual* should confirm that reserve assets should only include claims on nonresidents. Claims on residents do not raise external liquidity. So, all claims on resident banks would be excluded on the grounds that these assets are claims on residents. This would be a "clean solution" that would not be open to interpretation.

10. Second, claims of resident banks on nonresidents over which the monetary authorities have control but the commercial banks have legal title could be included under restrictive conditions of control that are clearly stated provided the other eligibility criteria for reserve assets are met. In this instance, the resident bank is performing a quasi-agency role. Effectively this would mean that the scope of the monetary authorities would remain as in *BPM5* (see paragraph 2 above).

11. The conditions that would need to be met would be:

- the resident banks can only transact in these claims on nonresidents on the terms specified by monetary authorities or only with their express approval, and
- the authorities have access to these claims on nonresidents on demand to meet a balance of payments financing need, and
- there is a prior law or an otherwise legally binding contractual arrangement confirming this agency role of the resident banks that is actual and definite in intent.

12. Similarly, it could be stated that claims of resident banks on nonresidents where there is no such law or otherwise legally binding contractual arrangement should not be included in reserve assets.

13. If countries include these commercial bank assets in reserves, the data should be collected directly from commercial banks and not by proxy through central bank claims on resident banks. If data are collected as a proxy for the commercial bank holdings on nonresidents, in the balance of payments statistics, the commercial banks' claims on nonresidents should be reduced by a corresponding amount.

14. If claims on nonresidents of resident banks are allowed under these restrictive circumstances, as in the Data Template, these claims should be separately identified.

15. Clear examples might be added in the new *Manual*.

IV. Points for discussion

- *Are the proposals set out in paragraphs 9, 10, and 11 acceptable?*

- *Would the conditions proposed in paragraph 11 provide watertight safeguards that the relevant nonresident claims of banks would be available to the monetary authorities in the case of a balance of payments financing need? Should the quasi-agency role be specified in the law before such assets owned by commercial banks are included in reserve assets?*

- *What are the group's views on paragraphs 12-15?*

- *Are there any other issues that should be taken into account?*

References

BPM5, paragraph 429

Guidelines, paragraphs 62, 68, 69, 107, and 108

Annotated Outline, paragraph 5.54

ATTACHMENT II:

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

RESERVE ASSETS TECHNICAL EXPERT GROUP (RESTEG)

ISSUES PAPER (RESTEG) # 8

TREATMENT OF REVERSE TRANSACTIONS

Prepared by Gillmore Hoefdraad, IMF Statistics Department

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RESERVE ASSETS TECHNICAL EXPERT GROUP

ISSUES PAPER (RESTEG) # 8

TREATMENT OF REVERSE TRANSACTIONS

1. Because of the conceptual approach to the treatment of reverse transactions in macro-economic statistics, it is important in compiling reserves data to avoid overstating a country's foreign currency liquidity position. The *Guidelines* specify two approaches for dealing with this concern, but given the experience since the *Guidelines* were introduced this paper proposes a single approach.

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

2. The conceptual treatment of reverse transactions is set out in paragraph 418 of *BPM5* when describing the approach to repurchase agreements (repo).[10] This paragraph states that the economic nature of a repo is similar to that of a collateralized loan. Consequently, as practice has emerged, while ownership of the securities change hands, the lender (security provider) and not the borrower (cash provider) keeps these securities on their balance sheet during the life of the repo, with transactions recorded in cash and loan liabilities/assets.

3. The *Guidelines* follow the advice in *BPM5* but in paragraph 85 notes the importance of avoiding overstating the liquidity position, as both the funds received and the securities repoed remain with the security provider. Paragraph 85 provides two alternative treatments for both those monetary authorities under taking repo transactions.

4. For repos, paragraph 85 (i) states that the security provider should record the funds received as an increase in deposits among reserve assets, and the securities provided removed from reserve assets;[11] while the alternative in paragraph 85 (iii) allows both the funds and the securities to be recorded as reserve assets but requires the recording of a predetermined drain in Section II. 3 relating to when the repo matures and the cash is to be returned.

5. For reverse repos, paragraph 85 (ii and iv) states that the funds provided reduces reserve assets and the securities acquired are to be shown in Section IV (1) (d), "borrowed or acquired but not included in Section 1." If the reverse repo claim (repo asset) is liquid and available on demand the decline in deposits should be counterbalanced by a recording of the repo asset in reserve assets (under 1.A (5), other reserve assets) (paragraph 85 (ii)), and if the repo claim is not liquid, a future predetermined inflow associated with the return of the securities should be recorded in section II.3 (paragraph 85 (iv)).

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[10] Reverse transactions cover both repurchase agreements, under which securities are provided in return for cash, and securities lending under which securities are provided, for a fee, but no cash is provided in return.

[11] In the IIP, such assets would be reclassified to portfolio investment as they remain on the balance sheet of the security provider.

6. For security lending, the *Guidelines* consider that the same treatments as for repos should be applied (paragraph 88).

II. Issues arising from the current treatment of reverse transactions

7. Paragraphs 85 (i) and 85 (iii) give two different treatments for classifying repo transactions. The guidance of paragraph 85 (iii) overstates reserve assets because both the funds received from the repo and the security assets are included in reserve assets. While the security assets are out on repo, it cannot be the case that both the funds and the securities are simultaneously liquid and readily available to the monetary authority, as the cash would have to be returned when the repo matures (or is called early).

8. The *Guidelines* provided alternative treatments because the accounting practices differed among countries (see paragraph 84). This paragraph explains that some countries record repos as transactions in securities, in which the securities are deducted from the balance sheet and the funds acquired are added to the balance sheet. Other countries do not deduct the securities of the balance sheet; they show the funds obtained from the repo as an asset counterbalanced with a liability for the funds acquired.

III. Possible treatments

9. First, the treatment in the reserves data of reverse repos, funds acquired under repos, and collateral loans should be made explicit in the new M*anual.*[12]

10. Second, in order to avoid double counting of the security and the funds raised through the repos, the securities involved in the repo agreements should not be included in reserve assets, that is for repos, the new *Manual* should recommend the approach in 85 (i). This should give for a uniform treatment of transactions and improve international comparability of reserve data among countries.

11. Third, the treatment in reserves of transactions relating to reverse repos should be as set out in paragraph 85 (ii) and 85 (iv) depending on whether the repo asset is liquid and available on demand, or not.

12. Four, the same treatments as set out in paragraphs 10 and 11 above should be applied to securities lent/borrowed with other securities used as collateral and no cash is exchanged (paragraph 88 of the *Guidelines*). However, the views of TEG members are welcome on whether there are cases where for the security provider the securities might be readily available, if the securities loan is callable at very short notice.

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[12] In the *Guidelines*, gold swaps are treated similarly to repos and reverse repos (paragraph 101). It is proposed that a separate paper be drafted on this topic, and the related issue of gold deposits, after the Advisory Expert Group on the National Accounts has discussed the paper, "financial asset classification: financial gold" at its January/February 2006 meeting.

13. Five, the new *Manual* could also discuss the cases where repos and reverse repos involve securities that do not meet the criteria to be classified as reserve assets, but the funds involved do e.g., they are dollar assets.

IV. Points for discussion

14. Are the proposals set out in paragraphs 9-13 acceptable?

15. Could securities loan arrangements be callable at such short notice that the securities provided could be considered readily available?

References

BPM5, paragraph 418

Guidelines, paragraphs 85-88

Annotated Outline, paragraph 5.51 (c)