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SOVEREIGN WEALTH FUNDS AND RESERVE ASSETS: A STATISTICAL PERSPECTIVE

Prepared by the Statistics Department
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A Statistical Perspective[1]

I. Introduction

1. In 2006, following the 2005 issues paper[2] on investment funds prepared for the consideration of the Reserve Assets Technical Expert Group (RESTEG),[3] the IMF Committee on Balance of Payments Statistics (the Committee) agreed the methodology to be included in the sixth edition of the *Balance of Payments and IIP Manual (BPM6)* for determining whether foreign assets held in sovereign wealth funds (SWFs) should be included in reserve assets or not.

2. Recently the number and type of SWFs has continued to increase. Given this background, this paper looks again at SWFs in the light of recent developments. It does not question the key outcomes from the previous work.

II. Recent Statistical Work and Perspectives on Sovereign Wealth Funds

3. The main conclusion of the 2005 issues paper on SWFs (called investment funds in the 2005 paper) was that the key criteria to determine whether foreign assets in a SWF could be considered reserve assets should be the same as for any other asset owned or controlled by the monetary authorities. Further guidance was suggested to cover issues such as on whose books the assets were held, emphasizing the importance of any specific or legal or administrative impediments of using the assets in the fund to raise liquidity in case of a balance of payments need. In essence, this advice was incorporated into the draft *BPM6* (see attached).

4. To support transparency of SWFs, the idea of a memorandum or supplementary item to the IIP was also proposed for those external assets not considered reserve assets but owned by a SWF. The Committee agreed to a supplementary item at its meeting in Frankfurt, but the issue was discussed as part of a general discussion of possible memorandum or supplementary items arising from RESTEG's work and was not discussed separately.

5. The recent literature on SWF has focused on: (a) issues of transparency in the external and government accounts, (b) their long term investment horizon, and (c) the focus on "return" rather than on "liquidity for balance of payments needs." In addition, the link to

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[1] The primary authors of this paper are Robert Heath and Antonio Galicia.

[2] RESTEG, Investment Funds, Issues Paper #5, December 2005. Available at: http://www.imf.org/external/np/sta/bop/resteg.htm.

[3] RESTEG advises the IMF Committee on Balance of Payments Statistics in the process of revising *BPM5* for reserve assets.

reserve assets has been noted as relevant. Further, one role of the Committee is to bring to the attention of the IMF new developments that impact on the compilation of statistics of cross-border transactions or related stocks of financial assets and liabilities, and work with the IMF in determining how these activities should be treated in accordance with the Balance of Payments Manual. In comments on the draft *BPM6*, three Committee members and one international organization requested that the Committee look at SWFs. This request is against the backdrop of an increasing number of SWFs in IMF member countries.

6. Against this background, Section III elaborates on recent developments on SWFs, Section IV sets out some proposals for the Committee to consider regarding the conceptual and dissemination advice in *BPM6*, and Section V includes points for discussion.

III. Recent Developments Concerning Sovereign Wealth Funds

7. Although there are distinctions of purpose among SWFs, such as stabilization funds, savings funds, and reserve investment corporations, "sovereign wealth funds" is a term that is passing into general usage. SWFs encompass budgetary and extra budgetary saving funds. Several authors conclude that commodity funds originally established through commodity exports, owned or taxed by the government, have served different purposes, such as to stabilize fiscal revenues and/or the balance of payments, and accumulate savings for future generations. But due to the recent increase in commodity prices, governments of commodity-producing countries, among others, are converting stabilization funds into saving funds.

8. Without a doubt, the most recent visible development on SWFs has been the increase in their numbers. China, for example, recently established the China Investment Corporation (CIC); Timor-Leste created in 2005 the Timor-Leste Investment Fund; Korea created the Korean Investment Corporation (KIC) in 2005; Mauritania created the National Fund for Hydrocarbon Revenues in 2006; and Australia established the Australian Future Fund in 2006.

9. Two SWFs stand out for expansion; the Chilean pension fund, re-formulated in 2006 with previous and current proceeds from copper exports, and Russia's Oil Stabilization Fund, which is to be split, with a Savings Fund for future generations introduced in 2008, making it a fund with two tiers. Finally, the 57-nation organization of the Islamic Conference announced it will launch a $10 billion fund to fight poverty in its member countries.

10. Further, advice on SWF, or, alternative uses of reserve assets, has been provided by the IMF as part of technical cooperation missions or by addressing specific requests from countries including Poland, Honduras, India, Panama, Timor-Leste, Trinidad and Tobago, Botswana, and Equatorial Guinea, as well as BEAC.

A. Modalities of Arrangements Emerging

11. The different types of arrangements that are emerging can broadly be accommodated by those managed by (a) the central bank, and/or (b) an independent agency. In some countries, there are also tiers of accounts, that is, separate funds for different purposes. In some instances, the central bank transfers funds to the SWF, while in others funds are transferred to the central bank for management purposes. The direction of these flows can be explained in part by the technical expertise of central banks and their willingness to manage external government assets with the aim to generate higher returns. Some country examples below provide some information on different types of arrangements that are emerging.

China

12. Early in 2007 China announced the creation of a SWF to manage around $200 billion of its US$1.4 trillion of reserve assets. The CIC was launched at end-September 2007 and is a separate agency from the People's Bank of China (PboC). The acquisition of foreign exchange from the PboC was funded by 1.55 tn yuan of domestic bonds.[4]

Korea

13. Korea is an example in which the central bank has transferred funds to an independent agency under the control of the monetary authorities.[5] The perceived intent of this modality is to achieve higher rates of return while still maintaining the foreign assets in the newly created SWF as part of reserve assets. It is modeled on Singapore's GIC.

14. The bill that created the KIC put the agency in charge of US$20 billion of reserve assets. The decision body of the KIC is its Steering Committee that includes among its members the Minister of Finance and Economy and the Governor of the Central Bank of Korea. KIC's assets are required to be part of official reserve assets and so the monetary authorities could use them at any time to meet a balance of payments need. Although no information is available on the liquidity of the financial instruments that it holds, the KIC is allowed to invest in a wide spectrum of financial products such as equity, bonds with credit ratings above BBB, and financial derivatives.

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[4] Prior to the Finance Minister's decision to issue the bonds, the National People's Conference (China's Parliament) approved the creation of CIC and the bond issue.

[5] Paragraph 21 the Guidelines for Data Template (*Guidelines*), supported as well by paragraph 514 of *BPM5,* mentions that monetary authorities is a functional concept that encompasses the central bank and certain operations usually attributed to the central bank, but sometimes carried out by other government institutions or commercial banks.

Norway

Norway's Government Pension Fund-Global is an example of a long-established SWF owned by the government but managed by the central bank through a separate unit, Norges Bank Investment Management. Each year it discloses its investment portfolios and returns. Norway's law is specific in not considering the SWF's external assets as part of official reserve assets. In this case, it is clear that the objective is to keep a long-term fund for future generations separated from official reserve assets regardless of the possibility that the fund could indeed be part of reserve assets, if other conditions would apply. Information on the fund is provided at http://www.norges-bank.no/Pages/Article____41137.aspx

Russia

15. Russia established in 2004 the Oil Stabilization Fund (OSF) as a fiscal stabilization fund to use when the oil price fell below a determined cut-off price. The fund was created with the aim of absorbing excessive liquidity, reducing inflationary pressure, and insulating the economy from volatile commodity export earnings. The OSF receives revenues from the export duty on crude oil and the resource extraction tax on oil. Originally established in rubles, the government purchased part of the Central Bank's official reserve assets with these revenues to fund the OSF.

16. The OSF is managed by the Ministry of Finance pursuant to procedures defined by the Government. Some functions of the asset management are delegated to the Bank of Russia in accordance with its agreement with the government.[6] In conformity with the OSF objectives, its capital is invested in foreign sovereign debt securities, whose eligibility criteria is subject to the government's approval. The Ministry of Finance establishes the fund's currency composition and its strategic asset allocation in line with the investment policy for the fund's management. From a list of eligible countries, the issuer should have a long-term credit rating of AAA/Aaa level. The Ministry of Finance publishes each month a report in the media on the fund's accumulation, spending, and balance.

17. According to the new budget code, known as GOR Regulation Num. 229, the OSF will be replaced in 2008 and split into a Stabilization Fund and a Savings Fund (National Welfare Fund). The collection of energy revenues will first add to the stabilization fund to achieve resources of 10 percent of GDP and to the budget to finance the non-oil deficit. The rest will be transferred to the Savings Fund.

18. The law is specific regarding the intent of the Savings Fund, which is designed to save a portion of oil and gas revenue for future generations, and to ensure fiscal sustainability over a long-term horizon. The law further stresses that the Saving Fund asset management

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[6] Budget code of the Russian Federation, Chapter 13.1, Article 96.4.

should be aimed at the highest possible return within certain acceptable risk levels. While the asset management of the Stabilization Fund is undertaken by the Central Bank of Russia, the new Saving Fund is anticipated to be managed by Russia's new Bank of Development.[7] Officials have mentioned in several occasions that in the next 3-5 years both funds should be invested outside Russia.

IV. Conceptual Advice

A. Current Advice Given in the Draft *BPM6*

19. The March draft of *BPM6*, paragraphs 6.83-6.88,[8] provided guidance on assessing whether foreign assets held in SWFs should be part of international reserve assets, or not. Little comment was received on these paragraphs in the worldwide comments, this note does not propose to reopen these issues. However, the recent developments have thrown up additional questions, and these are addressed ahead.

B. Title

20. Sovereign Wealth Funds (SWF) is now a common term used by experts and market participants. In the draft *BPM6*, these funds are described as special purpose investment funds. In the new draft of *BPM6* it is proposed that we continue to use the term "special purpose investment fund"[9] but add that they are "*usually* called sovereign wealth funds." *Does the Committee agree with this approach?*

C. Description, Coverage, and Sector Allocation

Description

21. The description in the draft *BPM6* is that some governments create special purpose investment funds to hold assets of the economy for long-term objectives. There were no comments from world-wide consultation on this description.

22. Further clarification could be provided to the description. Such clarification could include ideas such as that such funds are typically managed for the benefit of the economy, separate from other public funds; the authorities have considerable leeway in determining the specific objectives of the funds; SWFs predominantly own, and/or have significant ownership of, foreign currency claims on nonresidents; and are typically funded from foreign currency resources (such as reserve assets or budgetary surpluses related to exports).

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[7] The Bank of Development is not subject to the Central Bank's supervision and is regulated by a special law. A cabinet-appointed supervisory council chaired by the Prime Minister will oversee the Bank of Development.

[8] These paragraphs are included in the annex to this document.

[9] They are "special" because they do not fully meet the definition of investment funds.

23. *The views of Committee members on such ideas for clarification are welcome.*

Coverage

24. An additional issue arises regarding the scope of the coverage. Should SWF include those owned by the monetary authorities and central government only, or cover the wider general government (such as at state level)?

25. The argument in favor of monetary authority and central government only is the link to reserve assets: decisions on the allocation of assets between reserve assets and SWFs are most likely to be made at this level. In other words, state governments may create such funds but are likely to do so independent of decisions at the monetary authority level on reserve allocation. Also, the term "sovereign wealth funds" implies central government involvement.

26. But from press and other reports it is clear that some state governments are among the owners of some of the largest SWFs due to foreign currency revenue sources, and are relevant in analyzing the growth (or contraction) of these funds globally.

Sector allocation

27. Finally, if a SWF fund is held within the balance sheet of the government or the central bank, its sector and subsector classification is clear.

28. If the SWF is a separate institutional unit—that is, able to own assets in its own right, take economic decisions, incur liabilities, and have a complete a complete set of accounts—it's sector classification needs to be determined. It could be classified as a financial corporation, if it is a market producer, which is within "other sectors"in the external accounts, or it could be classified and consolidated as part of the general government sector. If the SWF is incorporated in another economy from the government, it is always a separate institutional unit (*BPM6*, September draft, paragraph 4.19).

29. The sub-sector classification in the case of a financial corporation is not clear.[10] The SWF might be considered a financial intermediary if it can borrow, or as an other financial institutions other than ICPF (renamed "captive financial institutions and money lenders" in the draft *SNA* and *BPM6*). The sub-sector classification is important because debt claims on financial affiliates are classified as direct investment or not depending on whether the SWF is included as a "captive financial institution" or as a "financial intermediary," respectively.

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[10] If SWF resources are managed by a commercial financial institution—that is an institution not specifically set up to hold the SWF assets—that invests the funds at its own risk, then the balance sheet of the government/central bank shows only a financial claim on the commercial institution. The balance sheet of the commercial institution would include the various assets held.

30. The IMF's Statistics Department is considering the sector and subsector classification issues and intends to produce a "decision tree" similar to Figure 4.1 in the draft *System of National Accounts* Revision 1 to help compilers determine sector and subsector classification.

31. *What are the Committee's views on whether coverage should be limited to SWFs' created by monetary authorities and central government, or whether SWFs created by other general government entities should also be covered? What are the views of the Committee on the sector and subsector classification for units that are separate legal entities?*

D. Dissemination

32. From the RESTEG discussions, the paper from RESTEG to last year's Committee meeting included the idea of a memorandum item or supplementary item depending upon whether the SWF assets were in reserves assets (memorandum item) or not (supplementary item).[11]

33. The Committee did not discuss this issue but agreed to a supplementary item for this and some other similar proposals from RESTEG. In the comments on the draft *BPM6*, the United States, Japan and UK have asked the Committee to look at this matter.

34. While the RESTEG paper did not go into detail on the reasons for additional detail to the IIP, two can be mentioned.

- Additional information would make clear that the funds are included in the external accounts, outside of reserve assets. There can be uncertainty as to whether the foreign assets in these funds are in the accounts and whether the assets are in reserves or not. So additional information covering SWF funds that are not in reserve assets would thus support greater transparency and understanding of the impact of these funds on the external position.

- The level of reserve assets is an important indicator. While assets in many SWFs do not meet the definition of reserve assets when they are not readily available, they also provide an indication of the external financial wealth of an economy. In other words, if reserves assets "fall" due to a transfer of assets from reserves to SWFs, from a separate item it can be seen that this decline in reserve assets is not due to adverse circumstances but a sign of strength in the future. This may be particularly important if there are significant transfers of funds from reserve assets to the SWF.

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[11] The Issues Paper # 5 of RESTEG stated that "to support transparency, the IIP could also include as a memorandum or supplementary item the data on those foreign assets of the authorities that are not part of international reserves but are owned by long-term investment funds created by the government."

35. Other arguments have also been advanced. First, additional information could facilitate cross checking with Section I.B. in the Data Template, if a country included SWF assets in this section. Second, as noted above, data reported by member countries with such funds would help analysts monitor the growth (or contraction) of these funds globally.

36. Further, the IMF has been encouraging member countries to compile and disseminate balance of payments and International Investment position (IIP) data as these data sets continue to play a crucial role in Fund surveillance, both bilaterally and multilaterally. Information on the foreign assets held in SWFs that are not classified as reserve assets would support this work.

37. On the other hand, while SWFs data are to be collected in the context of the IIP, the IIP framework, based on a functional character, does not call for their specific identification. It was against this background, the Committee agreed to voluntary disclosure — supplementary item—so leaving it to countries to judge whether the benefits from additional disclosure, as described above, outweighed any costs that might arise.

38. Also, in considering the issue, the Committee should also be aware of the question relating to paragraph 7.68 of the March draft of *BPM6.* This question is regarding whether the reserve related liability (RRL) item included as a memorandum item to the IIP should cover short-term RRL only, as proposed in the text, or provide the comprehensive coverage of the authorities foreign currency position (Table V in Appendix VII of the September draft). If the latter approach is adopted by the Committee then SWFs classified as part of the monetary authorities/central government will be indistinguishably covered in this memorandum item (unless classified as a financial corporation).

39. *What are the Committee members' views on additional information to the IIP covering SWF's foreign assets?*

E. Offshore SWFs

40. The current discussion has been focused on SWF that are incorporated in the reporting economy. However, there may be cases in which the authorities own a nonresident incorporated SWF. In such circumstances, it is only the actual claims of the monetary authorities on the nonresident incorporated SWF that should be counted as a foreign asset. It seems unlikely that the equity claim on the SWF would be classified as reserve assets—are the authorities likely to sell the equity claim to meet a balance of payments need?—rather it should be classified as direct investment (see also next section ahead). The claim would be recorded in any additional information on foreign assets not included in reserve assets held in SWFs.

41. If these SWFs are used to borrow for fiscal purposes then, as agreed by the AEG and the Committee, any borrowing should be imputed to government (*BPM6,* September draft,

paragraph 8.25). If the government lends to its offshore SWF, this transaction is classified as a direct investment debt instruments transaction.

F. Reserves and FDI

42. Another issue that the growth of SWFs (held within reserves) has potentially raised relates to the hierarchy in the balance of payments and IIP between direct investment and reserve assets. If a monetary authority purchases traded equity in sufficient quantities to create a direct investment relationship, should this equity investment be classified in reserves or direct investment? This issue has not been explicitly addressed in existing manuals and guides.

43. The argument in favor of classifying such assets in reserves is that the funds could be readily available if the equities are publicly traded.[12] On the other hand, by its nature, direct investment relationships tend to involve a lasting relationship, although sometimes they can be short-term. Besides if a direct investment relationship is established, it is recorded as such in the balance of payments and IIP. Indeed, it seems most likely that the authorities would sell all or part of the stake when it was appropriate from the viewpoint of the direct investment, rather than when a balance of payments need dictates, given that control/influence is affected. Also, the sale of a direct investment stake by a direct investor to meet a balance of payments need, which by its nature could be sudden, is most likely to significantly affect the value of the asset, although the impact could be less in deep and liquid markets. So we propose that direct investment be ranked above reserves assets in deciding upon the classification of equity securities when the monetary authorities have established a direct investment relationship.

44. The classification regarding debt securities held under a direct investment relationship is less clear. If they are included within portfolio investment, because both parties are financial corporations (*BPM6,* September draft, paragraph 6.27), then classification within reserves seems appropriate, the same as any portfolio investment that meets the definition of reserves.

45. If the debt securities are classified under direct investment, and they are liquid and readily available, it could also be argued that they be included in reserves—the decisions when to sell might be more influenced by a balance of payments need than by the direct investment relationship, as selling does not directly affect control/influence over the direct investment enterprise. So, on balance, though equity and debt securities would be classified differently in the accounts (as with debt securities between two affiliated financial corporations), debt securities that meet the definition of reserve assets should perhaps be classified as reserve assets ahead of direct investment in the functional category hierarchy. If

[12] If the equity invested is not readily available, then the issue does not arise.

so, clearly the counterpart liability would be recorded outside reserve assets, creating an asymmetry of classification that exists for all instruments included in reserve assets.

46. So the proposal for such cases is that in the hierarchy of the balance of payments and IIP between direct investment and reserve assets, equity securities should be classified as direct investment ahead of reserve assets, and debt securities should be classified as reserve assets ahead of direct investment.

47. *The views of the Committee are welcome*.

G. Link with the Data Template

48. Parallel to the discussion on the balance of payments and IIP, assets in a SWF that meet the criteria but are not classified as reserve assets, should be included in the Data Template on International Reserves and Foreign Currency Liquidity (Data Template). These assets would need to be reported in Section I.B., "Other foreign currency assets" within the appropriate investment category. For example, foreign assets of Chile's SWF are recorded in Section 1.B of the Data Template.

H. Coverage in External Accounts Data

49. As noted above, there can be uncertainty as to whether the foreign assets of SWFs are included in the external accounts or not. Table 1 sets out the information as available to the IMF's Statistics Department. It is clear from the table that our knowledge is far from complete.

50. Given that an important aspect of the work of the Committee (indeed one of the catalysts for its creation) and of the IMF's Statistics Department is to help ensure that global financial flows are comprehensively captured, *would Committee members support work by STA to confirm our understanding and populate the missing elements of Table 1.* One approach would be to write to the authorities in the IMF member countries with SWFs asking for confirmation and/or information on the coverage in the external accounts of the foreign assets in their SWFs. The issue of sector classification could also be raised. This would be a metadata exercise trying to understand where the assets are recorded and not a data collection exercise.

51. If agreeable, we would report back to the Committee with an updated table for its meeting in 2008.

52. In the Coordinated Portfolio Investment Survey (CPIS) and upcoming Coordinated Direct Investment Survey (CDIS), SWFs should be covered in the survey frame. For instance, if SWFs have direct investment enterprises, and if they are a direct investment enterprise themselves, that is established in another economy from their owners, they are within scope of the CDIS.

V. Points for Discussion

- *Do Committee members support the proposal to continue to use the term "special purpose investment funds" in the new BPM6, but add that they are usually called Sovereign Wealth Funds?(Paragraph 20)*

- *The views of Committee members on the ideas for clarification of the description are welcome. (Paragraph 23)*

- *What are the Committee's views on whether coverage should be limited to SWFs' created by monetary authorities and central government, or whether SWFs created by other general government entities should also be covered? What are the views of the Committee on the sector and subsector classification for units that are separate legal entities? (Paragraph 31)*

- *What are the Committee members' views on additional information to the IIP covering SWF's foreign assets? (Paragraph 39)*

- *Do Committee members have any views on the treatment of those SWF incorporated outside the reporting economy? (Paragraph 40)*

- *What are the views of the Committee on the hierarchy of classification when FDI positions also meet the definition of reserves assets? (Paragraph 47)*

- *Based on Table 1, do Committee members support the Secretariat following up with IMF member countries with SWFs to confirm, and fill gaps in, the table? (Paragraph 50)*

- *Are there other issues related to SWF that need to be addressed?*

Table 1. Selected Sovereign Wealth Funds[13] [14]

Country Fund Name	SDDS/GDDS Country	SWF in Reserves[15]/ Data Template	Data in BOP/IIP[16]	Data in CPIS[17]
Oil and Gas Exporting Countries				
Azerbaijan State Oil Fund	GDDS	No/No Data Template Production	Yes	n/a
Brunei Brunei Investment Authority General Reserve Fund	GDDS	No/No Data Template Production	No BOP/IIP dissemination	n/a
Iran Foreign Exchange Reserve Fund	Neither	No IFS data/ No Data Template Production	No	n/a
Kazakhstan National Fund	SDDS	No	Yes	No
Kuwait Kuwait Investment Authority General Reserve Fund and Future Generations Fund	GDDS	No/ No Data Template Production	SWF not included in IIP to STA Flows in Balance of Payments	No
Malaysia Khazanah Nasioanl BHD	SDDS	No	Only flows in Balance of Payments/No functional breakdown in IIP	No
Norway Norwegian Government Pension Fund - Global	SDDS	No	Yes	Yes
Oman State General Reserve Fund	GDDS	No/No Data Template Production	Yes, in reserves, flows only	n/a
Qatar Qatar Investment Authority	GDDS	No/No Data Template Production	No BOP/IIP dissemination	n/a
Russia Oil Stabilization Fund	SDDS	Yes	Yes in Reserves	No
Saudi Arabia	Neither	No/ No Data Template Production	No IIP dissemination Flows in the balance of payments	No
Trinidad and Tobago Reserve Stabilization Fund	GDDS	No/No Data Template Production	No	n/a
UAE Abu Dhabi Investment Authority	Neither	No/ No Data Template Production	No BOP/IIP dissemination	n/a
Venezuela FIEM	GDDS	No/No Data Template Production	Yes	Yes

[13] Other economies known to have SWF include: Kingdom of Bahrain, Canada (Alberta), Chad, Ecuador, Equatorial Guinea, Gabon, Ireland, Libya, Mauritania, Mexico, Sudan, Taiwan Province of China, Timor-Leste, and USA (Alaska).

[14] The information presented in this table was that available to Fund staff at the time the paper was drafted, and may be subject to revision as more information becomes available.

[15] Reserves pertain to position data reported to *IFS.*

[16] A further question is whether, if included in the balance of payments and/or IIP data, are the assets classified by instrument within the functional categories, or not.

[17] n/a (not applicable) in this column refers to economies that do not participate in the CPIS.

Other Countries				
Australia Australia Future Fund	SDDS	Not disclosed	Not disclosed	No
Botswana Pula Fund	GDDS	Yes/No Data Template Production	Yes, in reserve flows/no IIP production	n/a
Chile Economic and Social Stablization Fund Pension Reserve Fund	SDDS	No/In Section I.B. of the Data Template	Yes	No
China China Investment Corporation	GDDS	Established in September 2007	Established in September 2007	n/a
Kiribati Revenue Equalization Fund	GDDS	No information	No BOP/IIP dissemination	n/a
Korea Korea Investment Corporation	SDDS	Yes	Yes in Reserves	No
Singapore Government Investment Corporation Temasek	SDDS	No	Yes, but no functional category breakdown	No

Annex 1.

BPM6 Draft—Chapter 6, March 2007, paragraphs 6.83-6.88, pp.132-133

Selected cases

Special purpose investment funds

6.83. Some governments create special purpose investment funds to hold assets of the economy for long-term objectives. The funds to be invested commonly arise from commodity sales or the proceeds of privatizations. The establishment of special purpose investment funds raises the issue of whether or not the assets held in the fund should be included in reserve assets.

6.84. A key determination is whether there is some legal or administrative guidance that results in the assets being encumbered in a way that precludes their ready availability to the monetary authorities.

6.85. If the special purpose investment funds' external assets are on the books of the central bank, or an agency of the central government, that allows control over the disposition of funds, then the presumption is that the assets are international reserves (provided all other criteria for being a reserve asset are met). On the other hand, if the funds are held in a long-term fund separately incorporated, the presumption is that they should not be included in reserves, not least because the ready availability criterion is less likely to be met.

6.86. In some cases, while assets are invested in a separate investment corporation there may be an agreement that such assets can be readily called back if needed. In other cases, funds could be withdrawn during the annual budgetary process.

6.87. Any final determination of whether an asset can be classified as a reserve asset or not, depends upon a close examination of the circumstances: namely, is the asset readily available to the monetary authorities and is there a liquid claim of a resident entity on a nonresident in foreign currency? But in the absence of legal or administrative impediments, and given the fungibility of assets, even assets that had been earmarked as part of a special purpose investment fund but could be used to meet balance of payments financing and other needs, are reserve assets (subject to the other criteria being met including, importantly, the control of the monetary authorities over the disposition of the funds).

6.88. Assets held in special purpose investment funds that meet the definition of reserve assets are classified within reserve assets depending upon their nature. So, if the special purpose investment funds hold deposits, securities, and other reserve assets, these are classified as such within reserve assets. Assets held in a resident special purpose investment fund that are claims on nonresidents but do not meet the criteria to be classified as reserve assets are classified in the financial account under the appropriate instrument and functional category.