

**Twentieth Meeting of the
IMF Committee on Balance of Payments Statistics
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**RESERVE ASSETS TECHNICAL EXPERT GROUP (RESTEG):
SUMMARY REPORT**

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

Contents

	Page
I. Introduction.....	3
II. Overview of the Work to Date.....	3
A. Reverse Transactions	3
B. Reserve-related Liabilities.....	4
C. Monetary Gold	4
D. Sovereign Wealth Funds	5
III. Review of Comments on Reserves from the Worldwide Consultation on <i>BPM6</i>	5
A. Specific Questions Included in the Worldwide Consultation	5
B. Other Issues	6
IV. Issues Seeking Guidance from the Committee	7
A. Treatment of Bank Deposits of the Monetary Authorities with Resident Banks.....	7
B. Reserve-related Liabilities: Standard Component or Memorandum Item	7
C. Including Nonconvertible Neighboring Countries' Currencies in Reserves	8
V. Way Forward: Update of the <i>Guidelines</i>	9
 Appendices	
I. Reserve Assets Technical Expert Group—List of Members.....	10
II. Issues for Possible Review on the Guidelines, Other than Section 1.A	11
III. Preliminary Timetable for Reviewing Reserve Issues and Updating the <i>Guidelines</i>	14

Reserve Assets Technical Expert Group¹ Summary Report

I. INTRODUCTION

1. This paper provides the IMF Committee on Balance of Payments Statistics (the Committee) with an update on RESTEG's work since the Committee's meeting of October 2006 at the European Central Bank in Frankfurt, and outlines the way ahead. *Comments from Committee members are welcome on the issues included in Section IV of this paper.*

2. The following sections of the paper include: II) an overview of RESTEG's work to date; III) review of comments on reserves from the world-wide consultation; IV) issues seeking the Committee's advice, and; V) the work to be undertaken to revise the *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (Guidelines)*.

II. OVERVIEW OF THE WORK TO DATE

3. At its October 2006 meeting, the Committee reviewed the outcome of RESTEG's discussions and considered RESTEG's proposals on 11 issues relating to the reserves section of the *Balance of Payments and International Investment Position Manual (BPM6)*. Most of the proposals were agreed, some of them without the need for discussion. For those issues where agreement was not reached, the Committee asked for follow-up work to agree as far as possible common ground before the posting of the first draft of the *BPM6* (draft *BPM6*) on the IMF's website in March 2007.

4. The following issues were discussed by IMF staff and considered by RESTEG and, in some instances, by Committee members, in early 2007, with the resulting agreements reflected in the draft *BPM6*.

A. Reverse transactions²

5. On the recording of securities held in reserve assets and used in reverse transactions with cash collateral, Committee members had split views in Frankfurt. A small majority was in favor of leaving securities in reserves and including a loan in reserve-related liabilities (RRL), rather than reclassifying the securities as portfolio investment. However, the Chair was concerned about double counting of reserve assets (that is, recording both cash and securities), not least when the repo was with a resident.

¹ RESTEG's list of members is included in Appendix I.

² See BOPCOM paper 06/28: *Reserves Assets Technical Expert Group: Summary Paper*

6. Following further discussion after the Committee meeting, the solution agreed was to add lines within the standard components for the International Investment Position (IIP) for securities under repo with cash collateral and monetary gold under swap for cash collateral. The simple addition of such lines is consistent with the approach in the *Data Template on International Reserves and Foreign Currency Liquidity (Data Template)* (securities on repo is shown as a memorandum item) and could allow either securities under repo to be in reserves (and hence in the amounts shown in the new line) or excluded (in which case nothing is shown). Such a line would be neutral with regard to whether the repo is with a resident or nonresident, as classification of the security within reserves reflects on the nonresident status of the issuer.

B. Reserve-related Liabilities³

7. There were also split views among Committee members on the recording of reserve-related liabilities in the external accounts. After an extensive discussion in Frankfurt a small majority favored a memorandum item in the IIP rather than the inclusion of reserve-related liabilities (RRL) as a standard component.

8. Two options for the memorandum item were proposed to RESTEG and the Committee in early 2007: (1) a short-term RRL category (on a remaining maturity basis), with the full table of foreign currency assets and liabilities of the authorities a supplementary item (see the draft *BPM6*, pages 358 to 360), or (2) the full table of foreign currency assets and liabilities. The views within RESTEG and the Committee were again split, while within the IMF the preference was for the memorandum item to cover short term RRL only. The latter proposal was included in the draft *BPM6*, with a specific question included in paragraph 7.68 to gauge the world-wide opinion as to whether option (1) or (2) was preferred.

C. Monetary Gold

9. On monetary gold, the issue of the treatment of unallocated gold accounts was not fully resolved at the Committee meeting in Frankfurt. To expedite consensus, in early 2007 there was a meeting between Fund staff and members of RESTEG in Europe that commented on the RESTEG paper on the subject. The outcome, following further consultation with the Committee and RESTEG, was to include in the draft *BPM6* two items within monetary gold for both BOP/IIP data: gold bullion (including allocated gold accounts) and nonresident unallocated gold accounts. A specific question was included in paragraph 6.73 to gauge the world-wide response.

³ See BOPCOM paper 06/29: *Reserve-Related Liabilities: Presentation in the International Accounts Framework*.

10. This outcome also affected the national accounts, and hence the revision of the *System of National Accounts 1993 (SNA)*. The proposal for the SNA to include a total for monetary gold (F1.1), with two subcategories (F1.1.1 (gold bullion) and F.1.1.2, (nonresident unallocated gold accounts) was accepted by the Advisory Expert Group on National Accounts at its meeting in New York during March 2007.

D. Sovereign Wealth Funds

11. In 2006, following the 2005 issues paper⁴ on special purpose investment funds prepared for the consideration of RESTEG, the Committee agreed the methodology to be included in the draft *BPM6* for determining whether foreign assets held in these special purpose investment funds (usually known as sovereign wealth funds (SWFs)) should be included in reserve assets or not. This methodology was not commented upon during the world-wide consultation on the draft *BPM6*.

12. Subsequently further issues have arisen regarding foreign currency claims of SWF on nonresidents, including both conceptual and presentational issues. These are the subject of a separate paper. At its meeting in 2006, the Committee agreed that the total of foreign currency claims of SWFs on nonresidents that are not included in reserves be included as a supplementary item to the IIP.

III. REVIEW OF COMMENTS ON RESERVES FROM THE WORLDWIDE CONSULTATION ON *BPM6*

13. During the world-wide consultation, relatively few comments were received on the reserves section. After the comment period had closed, a revised draft of the section, taking account of the comments received was reviewed by RESTEG and is included in the revised draft *BPM6* (revised draft) provided to the Committee for its meeting in October 2007. This section sets out the response to the specific questions raised in the draft *BPM6* and the other significant issues raised in the world-wide consultation.

A. Specific Questions Included in the Worldwide Consultation

14. The draft *BPM6* included three specific questions relating to reserves. These pertained to the issues of bank deposits (paragraph 6.55), monetary gold (paragraph 6.73), and reserve related liabilities (paragraph 7.68).

15. Regarding **resident bank deposits**, the question asked for views about the draft *BPM6*'s proposed exclusion of resident bank deposits from reserve assets. Few comments were received, with one against the proposed exclusion and three in favor, one a little reluctantly. The main argument made against excluding resident bank deposits is that such

⁴ RESTEG, Issues Paper #5: *Investment Funds* available at: <http://www.imf.org/external/np/sta/bop/resteg.htm>

deposits held with resident banks are readily available and highly liquid: “in the countries where global financial center is located, resident banks including branches of foreign banks can provide high liquidity with their deposits received.” This issue is raised in Section IV.

16. On **monetary gold** the few comments received on the draft *BPM6* treatment were positive. Unless Committee members have additional views, we propose that this issue be considered resolved.

17. Finally, on **reserve-related liabilities**, the three comments received favored the second option, the full table of foreign currency assets and liabilities of the authorities, although this table falls beyond the functional classification of the balance of payments. The IMF remains of the view that only short-term reserve related liabilities should be included in the recommendations of *BPM6*. The issue is also raised in Section IV.

B. Other Issues

18. Perhaps the most significant comments received were those on paragraph 6.63, the treatment of neighboring country currencies that are not widely traded. The idea that such currencies could be included in reserves under certain conditions continued to receive a negative response (three comments). The issue is raised in Section IV.

19. In paragraph 6.54 of the *draft BPM6*, a member country of the Fund raised the idea that the definition of reserves “for intervention in exchange markets to affect the currency exchange rate, and for other related purposes” should say “and/or” not “and,” as only one condition needs to be met for the asset to be classified as reserves not all three. *BPM5* spoke of “and/or,” but the *Guidelines* speaks of “and” (paragraph 59). This particular comment came from a “dollarized” economy—such economies presumably do not intervene to affect the currency exchange rate. RESTEG had been cautious about changing the text of the *Guidelines* in this regard, but the logic of using “and” only is that the three conditions need to be met. Subsequent discussion within RESTEG has indicated support for the new proposal, while the IMF also considers that the member country has a relevant point. So the draft text before the Committee has been changed to “and/or”. Unless Committee members have additional views, we propose that this change be highlighted when the revised draft text of *BPM6* is posted on the Fund’s external website early next year.

20. In the world-wide consultation, one member raised the point that *BPM5* includes a reference to “net creditor positions in regional payments arrangements that involve reciprocal lines of credit” (paragraph 432) but *BPM6* excluded such a reference. Following consultations with Fund staff, it was agreed to include additional text (paragraph 6.107 in the revised draft *BPM6*), treating such net creditor positions consistent with the guidance for reserves, classifying them as loans in other investment⁵ and not in reserve assets, except in

⁵ Net debtor positions in such arrangements are also classified as loans.

circumstances where they are considered readily available to the monetary authority to meet a balance of payments need and other related purposes. The new text was reviewed by RESTEG with one comment, in favor, and unless Committee members have additional views, the issue is considered agreed to be included in revised draft text of *BPM6* to be posted on the Fund's external website early next year.

21. There were no comments on the treatment of reverse transactions, so like monetary gold, unless Committee members have additional views, we propose that this issue be considered resolved.

IV. ISSUES SEEKING GUIDANCE FROM THE COMMITTEE

22. Most of the reserves issues that have arisen during the drafting of *BPM6* have now been resolved. However, there are three issues on which the opinions of the Committee are requested: resident bank deposits; reserve related liabilities; and neighboring countries currencies. These issues have been discussed by RESTEG and the views received are reflected in the discussion ahead.

A. Treatment of Bank Deposits of the Monetary Authorities with Resident Banks

23. At the Committee meeting in Frankfurt, while a range of views were expressed, the Chair concluded that there was overwhelming support among Committee members to exclude resident bank deposits from reserves.⁶ Such an approach is consistent with the conceptual framework—external accounts relate to transactions and positions with nonresidents. Nonetheless, given the concerns of some countries, further consultation was needed, and so a specific request to reviewers to provide comments was included in the draft *BPM6*. As noted above, there was relatively little feedback received and that received tended to favor the approach in the draft *BPM6*. Given this,

- *Does the Committee have views on the exclusion of resident bank deposits from reserves?*

B. Reserve-related Liabilities

24. As noted above, the three comments received favored the full presentation of foreign currency assets and liabilities as the memorandum item over the short-term RRL. Within the IMF, we remain of the view that only short-term reserve-related liabilities should be included as a memorandum item, with the full table as supplementary. Such an approach allows the memorandum item to be a subcomponent of the (short-term) drains section in the *Data Template on International Reserves and Foreign Currency Liquidity (Data Template)*

⁶ Also there was agreement to tighten the conditions for the inclusion of foreign currency external assets of non-monetary authority sectors in reserve assets.

(although the RRL table proposed covers only nonresidents, whereas the drain section in the data template also covers residents).⁷ But countries can provide the full presentation if they wish. There is also a view that disseminating short-term RRL data is likely to be more achievable for many countries than the full table. As noted in paper BOPCOM 07/08, there is a possible overlap with the issue of a memorandum item for foreign assets of sovereign wealth funds, if the memorandum item covers the full table.

- *What are the Committee's views on the coverage of the memorandum item for RRLs?*

C. Including Neighboring Countries' Currencies in Reserves

25. Regarding the classification of neighboring countries' currencies that are not widely traded, as noted above *BPM6* reviewers did not provide positive feedback. This is consistent with previous comments received from some members of RESTEG. Those commenting are concerned that the draft *BPM6* created a loophole by diverging from the general conceptual framework of reserve assets pertaining to convertible currencies.

26. The concern is probably best summed up by the comments from Uganda: "paragraph 6.63 implies that in the case of Uganda we could include kshs (Kenyan Shillings) currency holdings and deposits as reserves. I think this may be confusing in as far as the principle of convertibility is concerned. I do not think that we would be able to settle our obligations elsewhere besides Kenya using kshs. This should in my view remain the guiding principle on what to include in reserve assets."

27. Fund staff have redrafted the text as follows to tighten up the wording: "In some instances, economies may hold assets denominated in the currency of a neighboring country because the economy's risk exposures are closely related to their neighbor given the composition of their international trade, even though the currency may not be widely traded. These assets may be included in reserve assets if, for the reserve holding economy, the neighboring country's currency is freely usable for settlements of a large portion of its international transactions, and can effectively be used to support imports from the neighboring country."

28. In comments from RESTEG members on this text, there was some who found the tighter wording helpful and others who were still concerned by the loophole.

29. The Fund originally placed this issue on the RESTEG agenda⁸ because of its experience in developing countries. In some cases, a small economy may conduct a large

⁷ This means that there may be a difference between the figures for repo loans in this short-term RRL category and for securities on repo line proposed for the standard components. However, this difference would itself be of analytical interest as it would largely represent repo activity with residents.

⁸ See RESTEG Outcome Paper #2: *Clarification of Foreign Currency*

portion of its international expenditures with a neighboring larger economy, whose currency is not considered to be convertible. But because of the trade the smaller economy maintains a large holding of larger economies' currency and indeed may be pegged to it. The wording in the revised draft of *BPM6* is attempting to capture such activity without creating a loophole.

- *What are the Committee members' views on including neighboring countries currencies in reserves?*
- *Does the Committee feel that the tightening of the text does enough to avoid creating a loophole from the general concepts?*

V. WAY FORWARD: UPDATE OF THE *GUIDELINES*

30. At the 2006 meeting, the Committee concurred that RESTEG continue its work, and expressed its preference for finalizing the work on reserves in the new *BPM6* first. RESTEG could then proceed with the revision of the *Guidelines*. With the text on reserves in *BPM6* nearly completed, RESTEG intends to start work on the *Guidelines*.⁹

31. First, it is proposed to update, i.e. make changes/clarify the existing text where appropriate, not redraft the *Guidelines*. Some changes will arise from the new *BPM6* reserves section. As for the other sections of the Data Template, a list of issues was provided to the Committee in the paper that created RESTEG (BOPCOM paper 05/70). These issues are set out in the attached document and have been updated for new issues that have subsequently arisen where further clarity seems needed (Appendix II). The new issues are italicized.

32. The intention is to start the update of the *Guidelines* soon after the Committee meeting in October this year, when the pending reserves issues of *BPM6* are agreed. The intention is to have a draft of the updated *Guidelines* available in the first half of 2008 for a first review by RESTEG members. The proposed timetable is set out in Appendix III.

33. If considered necessary after receiving feedback, a meeting of RESTEG could be convened around May next year. One event that could potentially affect the update is the planned seventh review by the IMF Executive Board of the IMF Data Standards Initiative in the second half of 2008, given that the Data Template is an integral part of the Special Data Dissemination Standard.

34. RESTEG will inform the Committee in 2008 of its work.

- *Does the Committee have comments on the work program?*
- *Any comments on the updated list of issues in Appendix II?*

⁹ Under RESTEG's terms of reference changes to the Data Template are considered out of scope.

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

Name	Organization
Mr. Robert Heath (Chair)	IMF, Statistics Department
Mr. Antonio Galicia-Escotto (Secretariat)	IMF, Statistics Department
Mr. Mark Van Wersch (Secretariat)	IMF, Statistics Department
Mr. Gillmore Hoefdraad (Secretariat)	IMF, Statistics Department
Mr. Mohammed Abdulla A. Karim	Bahrain Monetary Agency
Mr. Fernando Augusto Ferreira Lemos	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	European Central Bank
Mrs. Saher El-Sherbini	Central Bank of Egypt
Mr. Hamed Abou El Magd Abou El Hamd Mahran	
Ms. Ursula Schipper	Deutsche Bundesbank
Mr. Kevin Chow	Hong Kong Monetary Authority
Mr. Christian Mulder	IMF, Monetary and Capital Markets Department
Mr. Jay Surti	IMF, Monetary and Capital Markets Department
Mr. Pedro Rodríguez	IMF, Policy Development and Review Department
Mr. Mihály Durucskó	Magyar Nemzeti Bank
Ms. Reiko Gonokami	Bank of Japan
Mr. Koichiro Aritoshi	Japan Ministry of Finance
Mr. Hoseok Yang	Bank of Korea
Mr. Julio Santaella	Banco de México
Mrs. Lydia Troshina	Central Bank of the Russian Federation
Ms. NG Yi Ping	Monetary Authority of Singapore
Mrs. Linda Motsumi	South African Reserve Bank
Ms. Stephen Sabine	Bank of England
Mr. Charlie Thomas	U.S. Federal Reserve Board of Governors

Appendix II

Issues for Possible Review on the *Guidelines*, Other than Section I.A.¹⁰

In addition to the revision of Section I.A. Official Reserve Assets, some other sections of the *Guidelines* should be reviewed before the *BPM6* is finalized.

This attachment presents issues that could be discussed. They are drawn from the feedback and questions STA has received on the Data Template.

1. Section 1

- (1) It should be elaborated in the *Guidelines* that foreign currency claims on the monetary authorities and central government should be excluded from Section I. B., for example central bank purchases of central government Eurobonds. This should be elaborated in the *Guidelines*. The treatment of claims on other parts of the public sector should be clarified.
- (2) The concept of working balances abroad of government agencies in Section I.B. (paragraph 125), and their impact on reserve assets and other foreign currency assets needs to be clarified.

2. Sections II and III

- (1) It should be clarified what predetermined means (future receipts from sale of commodities, scheduled disbursements of loans, arrears, claims in disputes, claims on liquidating units, etc.). In particular, the future disbursement of funds are excluded—paragraphs 140 and 166 of the *Guidelines* have been misinterpreted and led to a number of countries to include the future disbursement of funds in Section II.
- (2) Timing, valuation, and conversion issues should be clarified. Drains should be recorded, not on an accrual basis, but on a due for payments basis. The recording in circumstances where it is known with certainty that the payments (inflows or outflows) will take place, but no asset or liability is yet recorded in the books of the creditor/debtor, should be clarified, e.g. disbursement of loans.
- (3) The distinction between predetermined and contingent (sections II and III) could be clarified—for example for deposits held under reserve requirements (such as paragraphs 161 and 197).
- (4) The accounting for guarantees, with and without collateral could be clarified, (paragraphs 193-195 of the *Guidelines*).

¹⁰ New additions in italics to the version originally included in BOPCOM-05/70.

- (5) A description of the relationship between reserve liabilities and Section II (predetermined net drains) and III (contingent net drains) could be considered.
- (6) *Clarify the treatment of foreign currency swaps by central banks with residents.*
- (7) *Be clear that maturity depends upon when the contract falls due irrespective of whether the expectation is that it will be rolled over (paragraph 139).*
- (8) *Further clarification could be added on why non deliverable forwards should be clearly identified in the country notes (paragraph 176 of the Guidelines).*
- (9) *A further explanation could be added in section III on the treatment of unconditional credit facilities arising from membership by countries of regional pooling arrangements (paragraph 216 of the Guidelines).*
- (10) *Is further clarification needed on the reporting of repos in Section II and explanation on the use of the signs (+/-) (paragraphs 151 and 152 of the Guidelines)?*

3. Section IV

- (1) The relationship between reporting of derivatives in Sections I, II, III, and IV could be elaborated as the relationship among sections can be used as a cross-check.
- (2) The recommended treatment in 85 (ii) of the *Guidelines* for reverse repo and a repo asset results in recording one transaction in both “I.B. Other Foreign Currency Assets” and “IV. (1). (d) (securities) borrowed or acquired but not included in Section I.” when the relevant securities are liquid and available upon demand to the authorities. This description is not contradictory but could be further clarified.
- (3) Should gold swaps be separately identified as a footnote to Section IV (1)? The *Guidelines* mention the recording of gold swaps in the Data Template in paragraphs 98, 100-101, 178, 258, however detailed information on swapped gold is not required.
- (4) Should country risk be addressed through encouraging the provision of more detailed information on reserve composition through country notes?

4. Other issues

(1) Currency unions

- Definition and allocation of reserve assets in a currency union is discussed in CUTEG (issues paper #10). Should reserve related issues on currency unions be elaborated in the *Guidelines*?

(2) Dollarization

- Should the *Guidelines* discuss recording issues for countries for which the dollar (or another foreign currency) is legal tender. Should dollarized economies be treated

differently from others? Should reserve related issues in dollarized economies be separately elaborated?

- How should dollar denominated assets be treated in Section I, and foreign currency drains in Section II and III in dollarized economies?

(3) Alternative treatments

- For a number of issues, the reserves template accepts plural treatments and requires descriptions on specific treatments in country notes. This may impair comparability of the data. In addition, since country notes are often insufficient or not provided, the transparency of the data could be impaired.

(4) Introduction of “dual template”

If data of monetary authorities and central governments are reported separately, such issues as the consolidation vs. aggregation of drains, and positions between monetary authorities and central government could be addressed.

**APPENDIX III: Proposed Timetable for Reviewing Reserve Issues
and Updating the Guidelines**

Date	IMF	Committee	RESTEG
October 2007		Annual meeting. Discuss recommendations from RESTEG; and expect to reach agreements.	
November 2007– April 2008	Update of Reserves Template Guidelines.		
Around May 2008			Possible RESTEG meeting to agree on a draft version (around May 2008).
June 2008– September 2008	Following review by RESTEG, send the draft Guidelines to IMF member countries and international agencies for comments, and post on external Fund website.		
Second Half 2008	IMF Data Standards Initiative Executive Board Meeting.		
October 2008		Inform the Committee.	
First half 2009	Final draft, subject only to editing, posted on the IMF's website.		Final draft to be reviewed by RESTEG
	Prepare hardcopy publication, index, translations.		