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Selected Recent Initiatives in Reserve Assets

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EXECUTIVE SUMMARY

1. The IMF Statistics Department (STA) has been extremely active over the past six months in providing advice on reserve assets, to member countries and international organizations as well as within the IMF. Interest in the subject increased sharply following a call by the International Monetary and Financial Committee (IMFC) to strengthen the IMF's lending capacity. The efforts to increase resources have been in several forms, including bilateral loans from member countries, note purchase agreements, and discussion on an expanded and more flexible New Arrangements to Borrow. Separately, the Fund has implemented new SDR allocations in response to the IMFC's call for the Fund to boost global liquidity. STA's work in addressing reserve asset statistical questions is discussed in more detail below.

A. Introduction

2. Following a call by the International Monetary and Financial Committee (IMFC) in April 2009, the IMF looked to increase resources available to assist its members in responding to the global crisis. The IMF's Executive Board had earlier stated that borrowing from the official sector would be the most appropriate approach to temporarily supplement the IMF's resources. In line with the call from the membership for ambitious steps to be taken to aggressively deal with the financial crisis, the IMF took a number of actions with a view to tripling its lending resources to $750 billion. Separately, the IMF put in place two new SDR allocations that totaled about $283 billion. The implementation of these measures has raised many questions about the definition of a reserve asset, and about the correct recording of data in external sector statistics. STA has assumed a leading role in advising on the statistical treatments. It has provided clarifications of statistical standards, and conducted missions to countries impacted by the crisis to help assess and improve the quality of their statistics[1].

3. While permanent increases in IMF resources have traditionally been achieved through increases in quotas, borrowing has often been used to bridge to a general quota increase, mostly because it usually takes considerable time to implement a general quota increase. A range of borrowing modalities is permissible under the IMF's authority to borrow, and some of these raise complicated statistical classification questions. For example, the IMF recently implemented two modalities to augment its lending capacity -- bilateral loan agreements and note purchase agreements – and these have raised classification questions.

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[1] Statistical data are used by the IMF to help evaluate a country's macroeconomic and financial conditions, advising on suitable economic policies, and developing appropriate financing arrangements.

B. Bilateral Loan Agreements

4. During discussions of potential loan agreements with the IMF, questions arose regarding the statistical definition of reserve assets. Under the definition of international reserves, a key requirement is that members' claims be immediately available at the time of balance of payments need, such as through encashability or the existence of a liquid market or of market makers who stand ready to buy and sell at all times.

5. According to the *BPM6*, "*Reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing)...*"

6. If a country would need to wait for a prolonged period of time before being able to convert a claim on a nonresident – such as a loan – to a freely usable foreign currency to address a balance of payments need, then the loan or other claim may not be included in reserves.

7. However, if a country extends a loan to the IMF, and if the loan is immediately encashable when the country experiences a balance of payments need, then the loan may be included in reserve assets, provided that the IMF has the discretion to repay the country in a "freely usable" foreign currency (not in the country's own currency).

C. Note Purchase Agreements

8. The IMF has also entered in a Note Purchase Agreement (NPA) with the People's Bank of China and additional agreements are under discussion. Under such an agreement, the member stands ready to purchase promissory notes from the IMF on demand. The notes represent claims on the IMF, denominated in SDRs.

9. Two classes of notes have been designed, Series A and Series B. These notes are identical, with the exception that Series A notes are eligible for immediate early repayment if the member country experiences a balance of payments need. Thus, Series A notes meet the liquidity criterion for classification as a reserve asset. Series B Notes are encashable as soon as practicable within 12 months. Holders of these notes are not assured that the notes will be immediately encashed at the time of a balance of payments need, and so these notes do not meet the statistical definition of official reserve assets. Series B Notes do represent external claims, and so they should be recorded as "other" external assets (not as reserves) in the external sector statistics of the holder.

10. Another aspect of the discussion of the notes pertained to their exact type of financial instrument, that is, whether they should be classified as securities or as loans. For notes to be classified as securities they must be negotiable. For loans to be reclassified to securities, there

needs to be evidence of secondary market trading, including the existence of market makers (*BPM6* paragraph 5.45). Under this guidance, evidence that a note could, or might, be traded is insufficient for classifying a given note as a security.

D. Allocation of SDRs

11. STA has also clarified the guidelines for the recording of the recent new allocations of SDRs and the implications for other macroeconomic datasets; i.e., for the Monetary and Financial Statistics and for Government Finance Statistics. STA sent letters to central bank governors and balance of payments correspondents to explain the recording of the new allocations in balance of payments and the international investment position (IIP) statistics. In addition, staff prepared a set of FAQs that was posted on the Fund's website at http://www.imf.org/external/np/exr/faq/sdrallocfaqs.htm (see attachment).

12. In issuing the specific guidance, STA recommended that the *BPM6* methodology, rather than the *BPM5* methodology, be followed in recording the SDRs. Under *BPM6*, new allocations of SDRs to participants in the IMF SDR Department are recorded as increases in gross reserve assets and as increases in long-term liabilities. STA recommended that countries reflect these data in their balance of payments and IIP accounts for the third quarter of 2009.[2] The IIP accounts should also reflect all previously outstanding SDRs.

13. These new allocations are very large, and so including them in holdings (assets) and allocations (liabilities) simultaneously will avoid large revisions to the net IIP. Thus, it avoids first increasing the IIP to reflect the amount only in holdings, and then reducing it at some future time to record cumulative allocations in liabilities. In addition, the Executive Board of the IMF has expressed interest in considering SDR allocations (and, particularly, in the use of the allocations) for analytical purposes, including comparability over time and across countries, and it is desirable for the data that are disseminated by countries to consistently and comprehensively record these allocations.

14. Interest charges on SDR allocations are levied at the same rate as paid on SDR holdings, based on a weighted average of yields on risk-free debt, e.g., Treasury bills, of the SDR basket currencies. Countries currently report their data to the IMF for redissemination in the *Balance of Payments Statistics Yearbook* and in *International Financial Statistics* on a *BPM5* basis, which specifies that accrued interest should be shown under "*investment income, other investment*". However, *BPM5* is unclear whether accrued interest on SDR holdings and SDR allocations should be recorded on a gross or on a net basis. With reference to *BPM6*, accrued interest on SDR holdings should be shown on a gross basis under interest

[2] A general allocation of SDR 161.2 billion was implemented on August 28, and a special one-time allocation of SDR 21.5 billion took effect on September 9. These correspond to an allocation of about $250 billion in August and $33 billion in September 2009.

on reserve assets, and interest payable on allocations should be shown gross under other investment interest.

15. Similarly, under *BPM6*, the gross external debt position of a member country should include a debt liability for all SDR allocations. This differs from the *BPM5* methodology and the *External Debt Guide*, which do not recommend recording liabilities (neither equity nor debt) for allocations of SDRs. The *External Debt Guide* will be updated in the coming years, but STA is already working with the World Bank and others to advance the timetable for aligning the data in the IMF/World Bank Quarterly External Debt Statistics (QEDS) database and in the Joint External Debt Hub (JEDH) with *BPM6*. (These changes may be reflected beginning with the Q3 2009 data release of January 2010.)

16. For subscribers of the Special Data Dissemination Standard (SDDS), the increase in SDR holdings should be reflected in reserves assets data reported on the Reserves Template beginning with data for end-August 2009.

17. In regard to reporting of data for redissemination in IMF publications, member countries will receive at end-November 2009 a modified BOP/IIP report form in Excel that accommodates the above recommendations, as well as coded changes for those countries that use a different reporting protocol.

18. It should be recognized that members of the European Union, by law, will be adopting *BPM6* for their external account statistics in 2014. However, to facilitate the IMF's needs for comprehensive and consistent data on the reporting of SDRs, European countries and the ECB will prepare additional information that the IMF needs to record the SDRs in balance of payments, IIP, and external debt statistics consistent with *BPM6*.

E. Missions to Countries Affected by the Crisis

19. STA staff have undertaken a number of missions to countries that were substantially affected by the crisis, to assess and improve the quality of their external sector statistics. For example, in the circumstance where a country may be under consideration for a Stand-By Arrangement or another financial arrangement with the IMF, STA staff may be asked by the country or by an IMF area department to provide assistance, particularly if the country has a large statistical discrepancy in its external sector statistics. STA staff have also provided a heightened level of support by phone and email, in assisting countries in correctly recording balance of payments data items. For example, some countries have experienced large write-offs of loans, which under the statistical standards should be recorded as capital losses and not as ordinary income. These sorts of clarifications can have a substantial impact on important balances, including the current account balance, for some countries.

F. Reserves Data Template—Overview of the Work to Date and Work Ahead

20. The Committee was previously informed that the review of the publication, *International Reserves and Foreign Currency Liquidity: Guidelines For A Data Template (Guidelines)* would start soon after the 21st (2008) meeting; however, progress has not been brisk. This has been largely due to the intensive work on other reserves-related issues that required immediate attention and involved the same staff as that would have been engaged in updating the *Guidelines*. It is expected that the work to update the *Guidelines* could pick up momentum by the middle of 2010. As previously agreed, this work will be conducted in cooperation with the Reserve Assets Technical Expert Group.

21. The Executive Board approved the changes to the Reserves Template that were detailed in last year's document to the Committee (BOPCOM-08/25). In addition, the Board agreed to the IMF staff's proposal to update (not to completely redraft) the *Guidelines* to take account of *BPM6* and of staff experience accumulated in monitoring SDDS subscribers' observance of the Reserves Template.

22. A few changes to the Reserve Template were effective in August 2009, for the reporting of July 2009 data. These changes mentioned bringing consistency between the reporting of financial derivatives in the Reserves Template and the amendment to Annex A of Article VIII Section 5 of the IMF Articles of Agreement, as agreed by the Executive Board in May 2008. These changes did not result in added reporting burden for most compilers.

23. A report on progress will be provided to Committee members at its next meeting.

Attachment

SDR Allocations: Frequently Asked Questions on Their Statistical Treatment[3]

1. How should countries record SDRs (including the recent General and Special Allocations of SDRs) in their macroeconomic statistics? [4]

(a) **External sector statistics**

Under the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6)*, new allocations of SDRs to participants in the IMF SDR Department are recorded as increases in gross reserve assets (holdings of SDRs) and in long-term debt liabilities of the authorities (allocations of SDRs). The guidelines were adopted in 2008 by the United Nations Statistical Commission and the IMF's Committee on Balance of Payments Statistics when they endorsed the *System of National Accounts* (*SNA*) and *BPM6*, respectively. Main changes in the treatment of SDRs under the updated standards are the recognition of the SDR allocation as a long-term debt liability, and to record transactions in both assets and liabilities, instead of valuation adjustments to international investment positions, when there are new allocations of SDRs.

(b) **Monetary and financial statistics**

If the SDRs are held on the balance sheet of the central bank, in line with the *2008 SNA* and the *BPM6*, they will be treated as liabilities to nonresidents (foreign liabilities) and no longer as "shares and other equity". (If the SDRs are held on the balance sheet of the general government, their treatment should be similar, but monetary and financial statistics cover only the central bank and other financial corporations and not the general government sector.) Thus, the new allocations of SDRs will increase claims on nonresidents (foreign assets) and liabilities to nonresidents (foreign liabilities), initially by the same amount.

(c) **Government finance statistics**

If the SDRs are held on the balance sheet of the general government, in line with the *2008 SNA* and the *BPM6*, the allocations will be recorded as a debt liability to nonresidents, with a corresponding entry on the financial assets side showing the SDR holdings. (If the SDRs are

[3] These FAQs are available by clicking on the link in the upper left corner at: www.imf.org/external/np/exr/faq/sdrallocfaqs.htm.

[4] The IMF implemented a $250 billion General Allocation of special drawing rights (SDRs) on August 28, 2009. In addition, under the Fourth Amendment of the Fund's Articles of Agreement, the IMF implemented a Special Allocation of SDRs of $33 billion on September 9, 2009.

held on the balance sheet of the central bank, their treatment should be similar, but government finance statistics generally cover only the fiscal sector and exclude data on public corporations such as the central bank.) Contrary to the recommendations in the *Government Finance Statistics Manual 2001* (*GFSM 2001*), the new allocations should be recorded in transactions and not as other changes in the volume of assets and liabilities. Gross interest income on the SDR holdings and interest expense on the SDR allocation should be recorded as they accrue.

2. What is the justification for the revised statistical standards showing the SDR allocation as a foreign liability*?*

In accordance with the methodology in the *2008 SNA* and *BPM6*, the SDR allocation should be recorded in long-term debt liabilities of the country to the other participants of the IMF's SDR Department. The rationale for the *BPM6* treatment is that: (1) countries are required to pay interest on the allocation they have received, and arrears arise if payments are not made, and (2) a country would be required to repay its allocation of SDRs in certain circumstances, such as upon termination of its participation in the SDR Department or upon liquidation of the SDR Department. The *2008 SNA* and *BPM6* recommendation to record a long-term debt liability applies to the allocation in the balance sheet of the recipient institution (central bank or ministry of finance or treasury), external debt statistics, and balance of payments and international investment position (IIP) statistics, to maintain consistency among macroeconomic data sets.

3. Why is the Statistics Department (STA) urging countries to record the SDR allocation in line with *BPM6* when everything else should be recorded according to *BPM5*?

The premise in this question is not quite correct. STA is urging economies to begin implementing *BPM6* immediately. In 2012 STA intends to convert its statistical publications, including the *Balance of Payments Statistics Yearbook* (*BOPSY*) and *International Financial Statistics* (*IFS*), to a BPM6 *presentational* basis. STA expects that most economies will adopt the *BPM6* standards over the next few years.

It should also be noted that STA has traditionally used the IMF's own data (provided by the IMF's Finance Department (FIN)) for recording *BOPSY* and *IFS* components pertaining to the Reserve Position with the Fund and SDRs. The use of FIN data assures comprehensive and accurate reporting for those data items. Consistent with these current and long-time practices, STA is using FIN data for the August and September 2009 SDR allocations.

4. **What are the changes to be implemented by STA in statistical publications regarding the recent SDR allocation?**

a) In **external sector statistics**, the August 2009 increase in gross reserve assets was reflected in the International Liquidity data that initially were presented in the October 2009 issue of the *IFS*. (The September 2009 allocation will initially be presented in the November 2009 issue of the *IFS*.) The Q3 2009 balance of payments transactions data (and IIP statistics for countries that compile quarterly IIPs) will reflect the new allocations starting with the January 2010 issue of the *IFS*. The *Balance of Payments Statistics Yearbook* will reflect these data starting with the 2010 edition.

b) In **monetary and financial statistics** as published in the *IFS*, effective with August 2009 data, the SDR allocations will be treated as liabilities to nonresidents (foreign liabilities) and no longer as “shares and other equity”. Thus, the SDR allocations will increase claims on nonresidents (foreign assets) and liabilities to nonresidents (foreign liabilities). Foreign liabilities will increase by more than foreign assets, due to the reclassification of allocations made in earlier years from “shares and other equity” to foreign liabilities., initially by the same amount. These changes reclassifications were reflected for the first time in the October 2009 issue of the *IFS*.

c) In **government finance statistics***,* if the SDR allocation is held on the balance sheet of general government, (e.g., by the ministry of finance or treasury), the allocation will be recorded as a debt liability to nonresidents, with a corresponding entry on the financial assets side. (If the SDRs are held on the balance sheet of the central bank, as noted above, their treatment should be similar, but government finance statistics cover only the general government sector and not central banks or other corporations in the financial corporation sector.) These changes were reflected in the *IFS* starting with August 2009 data (released in the October 2009 issue) or Q3 2009 data (to be released in the January 2010 issue), depending on the frequency of data reported by countries.

5. **What changes should be expected in other major sets of macroeconomic statistics, and when do they take effect?**

(a) External Debt Statistics

In line with the *BPM6*, the gross external debt position of a country should include a debt liability for SDR allocations. This differs from the *BPM5* and the *External Debt Guide*, which do not recommend recording liabilities (neither equity nor debt) for allocations of SDRs. The *External Debt Guide* will be updated in several years, but STA is taking steps now by working with the World Bank and others to advance the timetable for aligning with *BPM6* the data in the IMF/World Bank Quarterly External Debt Statistics (QEDS) database and in the Joint External Debt Hub (JEDH). (These changes may be reflected beginning with the Q3 2009 data release in the January 2010 *IFS*.)

(b) Data Template on International Reserves and Foreign Currency Liquidity (Reserves Template)

The increase in SDR assets should be first reflected in the reserves asset data of the Reserves Template beginning with data for end-August 2009. Subscribers to the Special Data Dissemination Standards (SDDS) are required to submit data on the Reserves Template.

6. **Are there any revisions to the time series?**

a) STA intends to revise historical transaction and position data for **external sector statistics** in 2012, when these will be converted in *International Financial Statistics* and the *Balance of Payments Statistics Yearbook* to a *BPM6* presentational basis. At that time, it will also remove the valuation adjustment for the $33 billion of existing allocations, and record the amount instead in transactions in the proper years. Also, interest receipts and payments will be reviewed to ensure that transactions are recorded consistent with *BPM6* guidance.

b) Historical time series for **monetary data** were changed to reflect allocations as long-term foreign debt liabilities in the October 2009 issue of the *IFS*. Further historical revisions will take place subsequently, to achieve full consistency in the sector allocation of the SDRs between the monetary data and government finance statistics.

7. **What is the impact on the Net International Reserves of a country?**

STA does not define Net International Reserves (NIR) in its statistical publications. Other departments in the IMF and some individual countries do have definitions but they are not entirely consistent. In particular, short-term reserve related liabilities, or all reserve-related liabilities, are deducted from gross reserves, depending upon the definition used.

External sector statistics focus on gross, rather than net, international reserves. "Reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing)." (*BPM6* paragraph 6.64, at http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm.)

Gross international reserves of a recipient country would increase with the new allocation, because holdings of SDRs (reserve assets) will increase, and no liabilities (neither short-term nor long-term) are deducted in the calculation.

BPM6 introduces the concept of reserve-related liabilities. The SDR allocation is classified as a long-term reserve-related liability.

8. **What will be the impact of the SDR allocation on the calculation of Net Foreign Assets (NFA) in the balance sheet of the Central Bank?**

Under the revised monetary and financial statistics treatment, in line with the *BPM6*, the new allocations will have no initial impact on net foreign assets (NFA) (because both foreign assets and liabilities increase). As with the external sector statistics, gross international reserves would increase. However, recognition of a foreign liability for previous allocations (instead of equity) will reduce NFA.

9. **Explain the differences in the treatment of SDRs under *BPM5*, *BPM6*, *MFSM*, *GFSM 2001*, and the *External Debt Guide*.**

At present, the treatments differ across the statistical manuals. However, as noted above, the treatments in the statistical manuals are being aligned with the treatment in *BPM6*. See Table below:

Accounting Treatment in Statistical Manuals

	BPM5 (1993)	**BPM6 (2008)**	**MFSM (2000)**	**GFSM 2001**	**External Debt Guide (2003)**
1. Are SDR holdings shown in positions?	Yes, as holdings of SDRs in official reserve assets.	Yes, as holdings of SDRs in official reserve assets.	Yes, as holdings of SDRs (part of "monetary gold and SDRs") in assets.	Yes, if held by general government, as holdings of SDRs (part of "monetary gold and SDRs") in financial assets.	Excludes SDRs from debt instrument assets.
2. Are SDR allocations shown in positions?	No.	Yes, as debt liabilities.	Yes, in "shares and other equity."	Excludes SDRs from debt instrument liabilities.	Excludes SDRs from debt instrument liabilities.
3. Are transactions or "other flows" (valuation adjustments) recorded?	Valuation adjustments (not transactions) in assets (holdings) after each new allocation; no entry in liabilities.	Financial account transactions (not valuation adjustments) in assets and liabilities after each new allocation.	Flows are not applicable to the balance sheet. However, new allocations are recorded in positions in "shares and other equity" on the liability side, and in "SDRs" on the asset side.	New allocations, cancellations, and valuation adjustments, are recorded as "other economic flows".	No; neither transactions nor other flows are recorded.
4. On what basis is interest recorded?	Unclear, but probably recorded net.	Gross, for holdings and allocations separately.	Unclear, but probably recorded net (as a memorandum item).	Unclear, but probably recorded net.	Not applicable.

BPM5 refers to the fifth edition of the *Balance of Payments Manual.*
BPM6 refers to the sixth edition of the *Balance of Payments and International Investment Position Manual.*
MFSM refers to the *Monetary and Financial Statistics Manual.*
GFSM refers to the *Government Finance Statistics Manual*.
External Debt Guide refers to the *External Debt Statistics: Guide for Compilers and Users.*

10. **How should the allocation be recorded on balance sheets if used for budgetary purposes; should it be a liability on the Ministry of Finance balance sheet?**

The fundamental methodological guidance is to treat the allocation as a long-term liability. The IMF does not state on which balance sheet it should be recorded on (i.e. central bank versus a general government entity such as the ministry of finance or treasury). That is, SDR allocations are made to Fund members that are participants in the IMF's SDR Department, and it is left up to those members to determine where to book the asset and liability, based upon their own domestic legal and institutional arrangements and accounting rules.

11. **Is it possible to split the allocations, so that their existing allocation (and holding) is on the central bank's balance sheet, while the new allocation and holding is on the Ministry of Finance balance sheet?**

Although unlikely, countries could split the allocation in their own accounts. SDR allocations are made to Fund members that are participants in the SDR Department. Whether the SDR holdings (and allocations) of the member are to be booked in the financial statements of its central bank or in the financial statements of the general government is a matter determined by the member's own domestic legal and institutional arrangements and accounting rules. Nonetheless, STA urges countries to consistently record their existing and new allocations, to avoid potential distortions and errors, and facilitate macroeconomic analysis.

12. **What specific debit and credit entries should economies record in their balance of payments accounts, and what assets and liabilities should economies record in the IIP, for the increases in SDR holdings and allocations and associated interest accruals?**

	BOP	
	CR.	DR.
Current account		
Other investment Income	accrued interest on on total SDR holdings	accrued interest on total SDR allocations
Financial Account		
Other investment (liabilities)		
Allocations of SDRs	value of the new general and special allocations + accrued but unsettled interest on total outstanding allocations	
Reserve assets		
Holdings of SDRs		value of the new general and special allocations + accrued but unsettled interest on total outstanding holdings

(Column headings reflect *BPM5* terms. Under *BPM6*, the CR. heading for the Financial Account will be replaced by "Net acquisition of financial assets" and the DR. entry will be replaced by "Net incurrence of liabilities".)

IIP	End of period stocks
Other investment (liabilities)	
Allocations of SDRs	Value of (total) allocations including unsettled interest payable.
Reserve assets	
Holdings of SDRs	Value of (total) holdings including unsettled interest receivable.

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