

**Twenty-Fourth Meeting of the
IMF Committee on Balance of Payments Statistics
Moscow, Russia
October 24–26, 2011**

Update of the Reserve Assets Template Guidelines

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

I. INTRODUCTION

1. This paper provides the IMF Committee on Balance of Payments Statistics (the Committee) with a report on the update of the *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (Guidelines)* since the Committee's meeting of October 2010 in Washington, D.C., and outlines the way ahead. This note is provided primarily for information, and focuses on the main comments received and outstanding issues on the update of the *Guidelines*.

2. After the Reserves Assets Technical Expert Group (RESTEG)¹ was reconvened in September 2010, the proposed timetable for updating the *Guidelines* has been updated (see Appendix I). The target date for posting a pre-publication draft of the *Guidelines* on the IMF external website remains end-December 2011, whereas some of the dates for interim steps have been adjusted.

II. OVERVIEW OF THE WORK TO DATE

3. The main actions completed according to the timetable were:

- a. Updating the core text of the *Guidelines*: Most of the paragraphs in the five chapters of the *Guidelines* were edited, mainly to improve their clarity.
- b. Updating the five original appendices included in the *Guidelines*
- c. Drafting of three new appendices for the *Guidelines*, and
- d. Posting of the complete material (core text and all eight appendices) on the Fund's website for word-wide consultation. This material was shared in parallel with RESTEG members for comments.² Comments on the material were requested by September 7.

4. As explained to the Committee previously, the core text of the *Guidelines* maintains the current numbering of paragraphs in each chapter. However, the *Guidelines* are being revised to include three new appendices entitled: Reserve Assets and Currency Unions; Statistical Treatment of Lending to IMF Managed Trusts and Special Drawing Rights; and Frequently Asked Questions on the Characteristics of Reserve Assets. These three new appendices address many issues that are not currently considered in the *Guidelines*, or where the guidance is scattered across several chapters and therefore may be hard to find.

¹ The list of agencies represented is attached in Appendix II.

² The webpage of the Update to the *Guidelines* is available at: <http://www.imf.org/external/np/sta/ir/IRProcessWeb/dataguide.htm>. The draft material (core text and all eight appendices) are available at this site.

III. MAIN CHANGES INCLUDED IN THE FIRST DRAFT (CORE TEXT)

5. The update to **Chapter 1** on the Overview of the Data Template is focused on bringing the principles of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* into the *Guidelines*. Concepts such as international reserves and foreign currency liquidity were updated and clarified in *BPM6*. The Reserves Data Template will include recommendations on the reporting of currency unions. The introductory section on the treatment of financial derivatives activities in this chapter was further clarified. The concepts of valuation and time horizon in the Reserves Data Template are consistent with *BPM6*. Further, several clarifications were made to more clearly indicate the relationships between the four sections of the template.
6. Official reserve assets and other foreign currency assets, which are the main parts of Section I of the Reserves Data Template, are covered in **Chapter 2**. This chapter includes a section on “Implementing the *BPM6* Concept on Reserves.” Many updates were made to this chapter to make references to *BPM6*, such as to text on convertible foreign currencies, availability to meet balance of payments financing needs, and the treatment of Fund accounts in official reserve assets (lending to the Fund is further explained in a new appendix). The section on repos and reverse repos included in this chapter was revised to take into account suggestions from member countries before the current consultation.
7. The recording of gold holdings is expanded in *BPM6*, and the update to Chapter 2 clarifies issues related to gold bullion, such as purity. In regard to Section I.B. (which defines “other foreign currency assets”, i.e., foreign currency assets that do not qualify for recording in reserves), further clarifications are provided to highlight definitional differences with official reserve assets. Also, the recommendations on applying market valuation to the components of official reserves were reinforced with recommendations contained in *BPM6*.
8. The update to **Chapter 3**, on predetermined short-term net drains on foreign currency assets (which pertains to Section II of the Reserves Data Template), emphasizes that only predetermined net drains derived from existing assets and liabilities should be included in this section. It also clarifies that Section II of the template should be recorded on a due for payment basis and not on an accrual basis. This chapter is an important complement to the recommendations for recording repo transactions in Chapter 2. A number of the references to financial instruments recorded in Section II have been updated with text from *BPM6*.
9. In general, contingent net drains in **Chapter 4** were considered well explained in the existing version of the *Guidelines*. However, clarifications are introduced to the definition of collateral guarantees, and on their treatment in the Reserves Data Template. In addition, “other contingent liabilities” are defined in the same chapter as uncalled contractual obligations that give rise to potential or contingent net drains. At the Seventh Review of the Fund’s Data Standards Initiative in 2008, Section III of the template itself was slightly modified, and the ordering of some items was changed. The text of the *Guidelines* has now been updated to reflect the changes. Some clarifications are now also introduced in regard to the reporting of lines of credit. The treatment of options was basically left unchanged in the updated draft text.

10. **Chapter 5** of the *Guidelines* covers Section IV of the Data Template, which is named Memorandum Items. Section IV of the template includes a number of data items necessary to cross-check or further elaborate upon data that are reported in the other sections of the template. Section IV of the template itself was modified during the Seventh Review of the Fund's Data Standards Initiative in 2008. This modification expanded the coverage of the item on financial derivatives denominated in foreign exchange but settled in domestic currency, and the revised text for Chapter 5 is consistent with the modification to the template itself. In regard to the comment above about cross-checking, Chapter 5 now elaborates on the recording of financial derivatives at market value and the treatment of repo and reverse repo transactions that are compared with data included in Sections I and II of the template. In addition, the section that pertains to financial derivatives with residual maturity greater than one year was clarified. Finally, the need to report the currency composition of reserves at least once a year was clarified (previously, it was clear that data on the currency composition of reserves should be disclosed, but it was not clear how frequently these data were to be disclosed).

IV. MAIN CHANGES IN THE APPENDICES

11. The wording of the current five appendices was improved. For example, Appendix III, which provides guidelines for the reporting of certain specific transactions on the template, was redrafted to enhance understanding of the interconnections between the four sections of the template.

12. Regarding the three new appendices, the appendix on Reserve Assets and Currency Unions provides methodological guidance that is not contained in the existing *Guidelines* (but that is contained in *BPM6*) on the reporting of reserve assets for an economy that is a member of a currency union (CU). This appendix draws primarily from Appendix 3 of *BPM6*, "Regional Arrangements: Currency Unions, Economic Unions, and Other Regional Statements." This appendix addresses questions that arise in a CU concerning what is a domestic or foreign currency, what claims on nonresidents qualify for reserve asset treatment, and what are reserve-related liabilities.

13. The appendix on the Statistical Treatment of Lending to the IMF Managed Trusts and Special Drawing Rights aims at clarifying the statistical treatment of lending to the IMF, lending to IMF managed trusts, and Special Drawing Rights (SDRs), in the Reserves Data Template. In these cases, the IMF is actively engaged as a principal, manager, or administrator of positions or transactions.

14. Finally, the appendix on Frequently Asked Questions on the Characteristics of Reserve Assets provides questions and answers to assist countries in identifying reserve assets under the updated international standards, consistent with the recommendations of *BPM6*. Issues are clarified in a number of circumstances, such as whether claims denominated in foreign exchange on domestic banks can be regarded as reserve assets, how to record lending to the Fund in reserve assets, and the differences in the meaning of terms such as convertible currencies, usable currencies, and freely usable currencies. (STA intends to maintain the list of Frequently Asked Questions on its website and to update it as necessary.)

V. SUMMARY OF MAIN COMMENTS RECEIVED

15. The initial public comment period ended on September 7, 2011. The same deadline was applied to RESTEG members. However, the RESTEG Secretariat will try to accommodate comments that are received after that date. The mailbox for sending comments is available at: reservesguidelines@imf.org. In general, the comments from RESTEG members and experts world-wide have been supportive of the proposed changes in text.

16. Among the comments received was a suggestion to clarify through numerical examples the treatment of repos and reverse repos, financial derivatives, transactions in SDRs and loans to the IMF. Another comment was that the language on Sovereign Wealth Funds (SWF) is still too ambiguous, and the commentator suggested strengthening the statement that, when the foreign currency activities of SWF are material, they should be included in the Reserves Data Template. (Also, it was suggested that holdings of SWFs should be separately disclosed in the Memo Section of the Reserves Data Template.) On collateral guarantees, some experts called for a fuller explanation of the distinction between collateral guarantees and pledged assets. There also was a request to discuss the meaning of “convertible currency” further.

17. Some experts have suggested that gold swaps should be treated in the same way as repos and reverse repos, and suggested continuing with the current treatment of reverse transactions. Another said that the treatment of gold should be further clarified. (In particular, in the case of gold bullion, according to an expert, the Guidelines should refer to the Bullion Markets Association Standard known as “London Good Delivery” bullion.) A general comment was made that a clearer definition of the assets that qualify as “other foreign currency assets” is desirable. Another comment was to clarify the treatment of claims on IMF Trust Accounts, and to more clearly differentiate between loans and donations involving these accounts. Some experts from Asia noted that the swap arrangements under the Chiang Mai Initiative may not be good examples of unconditional credit facilities, and therefore suggested considering modifying the language now in the *Guidelines*.

18. Some comments on the eight appendices have reinforced the call to maintain the *status quo* treatment of repos and reverse repo transactions. There also was a comment that the treatment of gold swaps in the *Guidelines* may not be fully consistent with *BPM6*. In this regard, there is support to apply the guidance given in *BPM6* (which also appears in *BPM5*) to treat reverse transactions as collateralized loans or deposits. Some experts have expressed concern about a possible methodological inconsistency between the treatment of gold on repo and the treatment of unallocated gold accounts, and have suggested reviewing these treatments. Comments received were generally very supportive of the new appendix on the treatment of transactions with the Fund, because it provided additional information. Some experts have mentioned that, rather having the FAQ appendix, they would prefer if the information in the FAQs were presented in the form of text (to present the same material in a more formal way). They noted that the FAQ format could be displayed on the IMF website, and could be used in the future to incorporate further clarifications on issues that are complex or unclear.

19. The other comments received were mainly editorial and nonsubstantive.

VI. WORK AHEAD

20. The work is on track for preparation of a pre-publication draft at end–December 2011. A second draft of the core text and appendices is being prepared now, to reflect comments received on the first draft. The second draft is expected to be shared with RESTEG members in early November. Countries that are not RESTEG members and who do not report on the template generally did not provide comments during the first round of world-wide consultations, and so a formal second round of world-wide consultations is not considered essential (comments will continue to be invited via the web-site).
21. A report on progress will be provided to Committee members at its meeting in 2012.

Question for the Committee:

Do members of the Committee have comments on the progress on the update of the *Reserves Template Guidelines*?

Appendix I

Revised, September 22, 2011

TIMETABLE FOR UPDATING THE *RESERVE TEMPLATE GUIDELINES (GUIDELINES)*

Actions	Timetable
Reconvene RESTEG: Contact current RESTEG members and based on feedback, fill vacancies as needed	September 2010 (Completed)
Report to BOPCOM on plans for updating the <i>Guidelines</i>	October 2010 (Completed)
Prepare the first draft of updated <i>Guidelines</i> (updates to the core text) and share it with RESTEG members	January/February 2011 (Completed)
Share/post on website the updates to the core text for world-wide comments	February 2011 (Completed)
Prepare the first draft of new appendices and updates to the current appendices	June /July 2011 (Completed)
Share the first draft of new appendices and updates to the current appendices with RESTEG	July 2011 (Completed)
Share /post on website the first draft of new appendices and updates to the current appendices for world-wide comments	August 2011 (Completed)
Receive RESTEG and worldwide comments on first draft	May 6, 2011 (core text) September 7, 2011 (appendices) (Completed)
Prepare second draft and share it with RESTEG members	October 2011
Receive comments from RESTEG on second draft	November 2011
Prepare pre-publication draft in the form of a PDF file posted on the IMF website (w/o index; nonsubstantive editing required)	December 2011
Inform the IMF Board of the update and availability of pre-publication draft	December 2011
Prepare hardcopy (including index) in all Fund languages	Based on EXR and TGS schedules*

* EXR-IMF External Relations Department; TGS- IMF Technical and General Services Department.

Reserves Assets Technical Expert Group—List of Agencies Represented**Organization**

IMF

Central Bank of Bahrain

Banco Central do Brasil

Bank for International Settlements

European Central Bank

Deutsche Bundesbank

Hong Kong Monetary Authority

Magyar Nemzeti Bank

Bank of Japan

Japan Ministry of Finance

Bank of Korea

Banco de México

Central Bank of the Russian Federation

Monetary Authority of Singapore

South African Reserve Bank

Bank of England

Board of Governors of the Federal Reserve System