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The USA's Plans and Difficulties in Compiling the CPIS Enhancements

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The U.S. status as an SDDS Plus reporter requires submitting to the CPIS on an accelerated schedule (within seven months of the as-of date of the report) and semi-annual reporting (data for end-June as well as end-December). Additionally, the new CPIS enhancements encourage reporting of more detailed breakdowns by country and sector of domestic holder, by country and sector of foreign issuer, and (for a selection of identified countries) by both domestic holder and foreign issuer.

The size of the U.S. cross-border data collection exercise presents both a challenge and an opportunity for meeting these additional reporting requirements and enhancements. The U.S. is the largest CPIS reporter (in terms of market value of cross-border holdings of securities). A typical annual survey of our cross-border holdings involves collecting and processing roughly 1.25 million records of data at the underlying security (CUSIP or ISIN) level. The collection, review, and verification of this data is thus very costly and resource intensive. However, the size of the U.S. data exercise allows publication of more granular cuts of data, because the large number of data records in any given breakdown is likely to exceed the confidentiality minimum.

Earlier submission and semi-annual reporting

The most complete data source for the U.S.'s CPIS submission continues to be the comprehensive, security-level annual surveys collected as-of end December. Given budgetary constraints and the existence of a similar annual security-level cross border liabilities survey collected as of end-June, the U.S. has decided it is not feasible to conduct a security-level claims survey on a semi-annual basis. Moreover, given the size of the claims survey, preliminary data from the survey are typically not published until end-August, later than the seven-months-time frame for the accelerated CPIS reporting. Thus, to meet the semi-annual and earlier submission requirements, the U.S. has (effective with the June 2013 submission) relied on data collected on the TIC form SLT, a relatively new monthly report collected from essentially the same panel of respondents as the annual surveys, albeit aggregated by foreign bonds, foreign equity, and country of issuer. Reporter-level comparisons of SLT data and survey filings make us confident in the data quality of the monthly SLT. Short-term securities for the preliminary and June CPIS submissions are similarly obtained from aggregate monthly and quarterly TIC B and C forms.

To prepare the encouraged currency breakdowns for both the June and initial December CPIS submissions, we allocate the aggregated TIC SLT, B, and C data by currency according to the detailed information from the most recent annual survey. The U.S. intends to use this approach to likewise allocate holdings by country according to sector of issuer and sector of holder, as that information is also only available in the detailed annual surveys. Because we have found that basic allocations do not change much from year to year, we are confident that this approach will produce data acceptable for CPIS submissions. Although the December CPIS submission must be initially submitted using the method described above, we will revise CPIS submissions when we have received the more granular, detailed December survey data.

Data Challenges

In addition to the new SDDS Plus reporting requirements, the new CPIS encouraged enhancements present substantial changes to the CPIS submissions. While some requested reporting, including data on short positions, are not collected under the TIC system, other requested data breakdowns are feasible but present various challenges, addressed below.

Currency breakdowns

Currency breakdowns, which are available only from the annual surveys, present challenges regarding the handling of depositary receipts for equity and the growing issuance of similar “repackaged” debt securities. Many stocks owned by U.S. investors are held in the form of American depositary receipts (ADRs), which while technically denominated in U.S. dollars, more properly reflect exposure to the currency of the underlying equity security, because price changes for these securities are inclusive of exchange rate movements reflected in the prices of the underlying shares. Thus our security-level database, which correctly categorizes ADRs as U.S. dollar-denominated foreign equity, understates the true foreign currency exposure of U.S. investors. Due to the understatement of currency risk, the U.S. is not comfortable providing a currency breakdown for U.S. holdings of foreign equity.

We have also noticed increased holdings of emerging market economy local currency sovereign debt that has been repackaged and issued as dollar-denominated notes. How to correctly handle reporting of this growing phenomenon is potentially more problematic. For analysis and interpretation of emerging trends and potential vulnerabilities, the distinction between dollar and local currency debt is particularly important. For such repackaged

depository notes, we classify these securities as reflecting the currency of the underlying bond, and devote considerable resources to ensuring that currency assignment.

Country-level holdings by sector of domestic investor

The U.S. is supportive of the aim to collect data on the sector of holder to be able to assess exposures and vulnerabilities. Indeed, the U.S. revised the annual claims survey forms for data as-of December 2014 to collect more detailed holder information, adding requirements to identify if individual securities are held by depository institutions, by managed funds other than mutual funds and pension funds, by other types of non-bank financial institutions, and by non-financial institutions (the U.S. previously collected, and continues to collect, information on holdings by mutual funds, by insurance companies, and by pension funds). These additional sector breakdowns were first collected for the December 2014 survey and are still under review to assess accuracy of reporting prior to publication. We are optimistic that the data quality is going to be acceptable and that the U.S. will be able to provide this information in the CPIS submissions going forward. However, we are not at this time able to commit to providing a sector of holder breakdown for the December 2014 data.

Two caveats to our ability to report the full desired breakdown by sector of U.S. holder are that our report forms do not break out holdings by monetary authorities and the general government, or the holdings by money market funds (MMFs). In both cases, we regard any potential benefits to providing this level of detail as outweighed by the associated increase in reporter burden to provide this information as well as the cost to compilers in processing this additional level of detail. The exclusion of reserve holdings in CPIS submissions limits the potential for holdings by the monetary authority and the general government sectors. In rare cases where the U.S. monetary authority could have sizable non-reserves holdings (as was the case with holdings in the Federal Reserve's Maiden Lane III facility), the U.S. has the ability to identify such holdings, but the ability to provide such information in the CPIS submission will necessarily depend on the extent to which this information is made publicly available. As regards non-reserves government holdings, we note that the majority of these are of government pension funds and are thus classified as pension fund holdings.

We are similarly unable to provide a breakout of money market funds (MMF) holdings in our CPIS submission. While the U.S. recognizes that assets held by MMFs can be of interest, we do not ask for identification of holdings of MMFs separately from regular mutual funds in our report form, largely because detailed information on the assets of MMFS is already

collected by the Securities and Exchange Commission on report form SEC N-MFP. Furthermore, the SEC filings indicate that the majority of securities held by U.S. MMFs that are potentially of interest – in particular, holdings of securities issued by different parent nationality banking institutions – are not in fact cross-border holdings. Rather, they are issued by U.S. subsidiaries and thus would not be reported on the U.S. CPIS. It also worth noting that we do parse out information on regulated mutual funds in order to be able to collect information on other types of managed funds (i.e., hedge funds), which we expect to be a more important source of cross-border investment.

Country level holdings by sector of foreign issuer

The U.S. also supports the collection and reporting of information on holdings by sector of foreign issuer. In theory, this information can be identified from the characteristics of the security level data in the annual surveys. In practice, however, we have found this task to be somewhat challenging. We are currently reviewing the reliability of vendor data to assign industry codes (using the NAICS identification system) to the large volume of securities reported in the annual surveys; preliminary indications suggest that at least some manual assignment will be necessary. Furthermore, we are discovering that it is easier to determine the sector of issuer for some types of securities than others. For example, sovereign debt is generally easy to identify, but it is harder for vendors or analysts to correctly classify debt issued by public-private enterprises. Additionally, it can be difficult to distinguish between debt issued by financial institutions and debt issued by financing arms of non-financial institutions.

Nonetheless, once we are comfortable with the basic sector of holder and sector of issuer information, it should not be difficult for the U.S. to additionally provide more detailed breakdowns by country, crossed by both holder and issuer. This is an instance where the magnitude of the U.S. cross-border holdings in both market value and in number of data records will work to our advantage in being able to provide this additional granularity.

Concluding comments

One final point worth noting is that in addition to the CPIS submission, the U.S. currently publishes considerable detail on its cross-border security holdings in annual survey reports, including information on different types of equity and debt securities held and currency breakdowns for debt securities by country. Reports are available from the [Treasury Department](#). As the U.S. moves towards providing the additional data enhancements to our

CPIS submissions, we will likewise work towards providing this information in our annual survey reports.

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