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Improving the Sectorization of Nonresident Issuers in the Context of CPIS Reporting

IMPROVING THE SECTORIZATION OF NONRESIDENT ISSUERS IN THE CONTEXT OF CPIS REPORTING¹

Among the three enhancements to the scope of the CPIS introduced as encouraged items, Table (5) on “Reported Portfolio Investment Assets by Sector and Economy of Nonresident Issuer” is crucial for deriving portfolio investment liabilities by sector. At an economy level, this new table facilitates the identification of the sector of the issuer on a from-whom-to-whom basis. However, the number of CPIS reporters of Table 5 has stagnated since its introduction in 2013 with only 26 economies reporting December 2015 data. BOPCOM members have raised this issue previously enticing the attention of the IAG and the FSB Secretariat² that have recommended seeking the views of BOPCOM as to whether a centralized exchange of information across countries could help improve the sectorization of nonresident issuers in the area of portfolio investment. This note presents some proposals for the establishment of such a centralized exchange of information for the consideration of the Committee and proposes to run a pilot during 2017, with results to be presented to the Committee at its 2017 annual meeting.

I. BACKGROUND

1. At the time of BOPCOM’s Twenty-Eighth meeting in Rio, Committee members coincided that sharing selected data from existing security databases managed by central banks could be helpful for counterpart economies to identify the sector of the nonresident issuer of the security. In this context, the Committee stressed that legal and contractual constraints governing the re-use and sharing of granular data from such databases needed to be examined. The Committee also agreed that the IMF will encourage countries with substantial portfolio investment holdings to collect data on CPIS enhancements.³
2. Committee members who presented papers on the challenges in compiling CPIS enhancements during the last meeting in Rio highlighted, particularly the collection of sector data pertaining to nonresident issuers. For those large economies that are already undertaking steps to collect data to populate Table 5, the main issue has been the large volume of securities. Granular data identification appears to be a major issue as well, since it is easier for data managers to determine the sector of the issuer for some types of securities, such as sovereign debt. Complications in the compilation may start piling up when debt is issued by

¹ Prepared by Antonio Galicia-Escotto, Balance of Payments Division, STA.

² See Appendix I.

³ The three enhancements to the scope of the CPIS data were introduced as encouraged items starting with end-June 2013 data collection: (1) Sector of nonresident issuer of securities; (2) Sector or resident holder cross-classified by sector of nonresident issuer for specific economies, and; (3) short or negative positions.

private and/or public enterprises, not to mention debt issued by branches of nonfinancial institutions.

3. Some of the challenges mentioned above have been sorted out, to a large degree, mainly by economies that are part of the European System of Central Banks (ESCB) and other CPIS reporters of Table 5 such as Malaysia, Mexico, and Costa Rica. Twenty-six economies report Table 5 on the CPIS website. To understand why these 26 economies⁴ can sectorize nonresident issuers, while the rest of the CPIS reporters cannot, consulting their metadata is a good starting point. The great majority of economies in this group collects data through a security-by-security approach, which allows the identification of a large number of attributes within the database, including characteristics like residence and institutional sector.

4. As for economies of the ESCB, a Centralized Securities Database (CSDB) supports the production of external and other financial statistics. It provides fully consistent high quality securities reference data at the level of individual security; sourced from different commercial data providers and also from its members' central banks. Systems in other economies may source data from supervisory entities that are validated with the International Securities Identification Number (ISIN), that provides a wealth of information. Yet even for such a rich database, sectorizing issuers of jurisdictions beyond the European Union may also be quite a challenge.

5. For any jurisdiction, it is simpler by nature sectorizing resident than nonresident units. Therefore, even the group of 26 economies that are already able to sectorize (partly or fully) portfolio assets by sector of nonresident issuer could also benefit from sharing data with other CPIS participants. Besides the evident benefit of covering current data gaps (for those nonresident issuers not yet covered in their securities databases), the use of mirror data could also assist compilers to compare derived data on portfolio investment liabilities by sector with observed data provided by counterparty economies. In this respect, data sharing may contribute to foster consistency and to explain differences among external sector statistics as well as to improve the coverage and quality of the CPIS database.

II. PILOT INITIATIVE TO PROMOTE THE EXCHANGE OF DATA AMONG CPIS REPORTING ECONOMIES

6. The collection of data security-by-security incorporates granular data on securities' ISIN codes (or other individual securities' identifiers), thus, facilitating the identification of nonresident issuers. The proposal which is put forward herewith would consist of a centralized exchange of the list of ISIN codes (or other identifiers) corresponding to the

⁴ The list of tables submitted by CPIS reporters is included in Appendix II.

foreign securities held by national holders.⁵ The said list would be sent to the IMF, which would group together the ISINs/identifiers provided by all participating economies by country of issuance and would eliminate duplications. Each participating economy would then receive back from the IMF the list of ISINs/identifiers corresponding to those issuers resident in their country. Each jurisdiction should then sectorize its own resident issuers⁶ and return the list of ISINs/identifiers together with each corresponding issuer's institutional sector. At the end of the exercise, each jurisdiction would receive back the list of ISINs/securities identifiers provided initially with the institutional sector as provided by the counterpart country where the issuer is located.

7. To participate in the exercise, it would not be necessary to collect information security by security: it would just be necessary to be able to provide an issuing sector to the ISINs/security identifiers received from the IMF. Logically, countries not collecting information security-by-security would not reap the full benefit of being able to sectorize by issuer sector their own holdings of foreign securities. However, they would still be able to know more about the sectorization of their portfolio investment liabilities thanks to the enhanced information on domestic securities in the hands of foreign holders that would be received from the CPIS. Those economies would be able to reap full benefits (i.e., including also the possibility to sectorize resident holdings of securities issued by nonresidents) as soon as they started to collect security-by-security information.

8. The pilot initiative would be open to all CPIS participants. If a number of counterpart economies representing a significant proportion of worldwide securities issuance were to participate in the pilot, the potential benefit to be gathered from the exercise would outweigh the costs of participation. Since the European Union's National Central Banks are connected on-line to the CSDB system, their participation in the exercise could either be on a decentralized bilateral basis or also on a centralized basis via the ECB.

9. If supported by BOPCOM and provided that sufficient internal STA resources can be secured, the pilot project could be initiated as early as in the second quarter of 2017 with end-December 2016 data. STA would invite all CPIS economies to participate following a simple guide. The results of the exercise would aim to measure potential benefits of data exchange, challenges, and limitations. Should the pilot demonstrate the usefulness of the proposed data exchange, it would mark an important milestone that could be applied on a regular basis. In principle, it is foreseen that a periodicity lower than the CPIS', such as on an annual basis, could be sufficient, at least at the beginning.

⁵ Such information (ISINs and issuer IDs) is usually public, so in principle no confidentiality or copyright issues can be envisaged at this stage.

⁶ For instance, Italy would sectorize Italian issuers, US would sectorize US issuers, etc.

III. THE WAY FORWARD

10. Should BOPCOM support the exercise and support launching a pilot along the lines discussed in this note, before January 2017, STA would approach CPIS reporters to promote the pilot, provide a set of instructions and seek their interest to participate in the exercise. A minimum participation would be necessary with a view to being able to extract meaningful conclusions.

11. The results of the pilot exercise would be presented to BOPCOM next year. Should the results of this pilot be sufficiently positive, the possibility to establish a regular exchange of information and institutionalize the cooperation between the economies that report CPIS data could be envisaged. To that aim, STA would also need to study whether sufficient resources may be obtained to be able to run this project on a regular basis.

Questions for the Committee:

1. *Do Committee members agree with the usefulness of establishing a centralized worldwide exchange of information seeking to improve the sectorization of nonresident issuers of securities?*
2. *Do Committee members have specific suggestions as to the characteristics of the exchange of information proposed in this paper?*
3. *Do Committee members have specific suggestions on the proposed pilot initiative to be run next year provided that sufficient internal STA resources can be secured?*

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Appendix I

Data Gaps Initiative Phase 2

Recommendation II.12: Coordinated Portfolio Investment Survey (CPIS) (Priority Area)^{1/}

G-20 economies to provide, on a semi-annual frequency, data for the IMF CPIS, including the sector of holder table and, preferably, also the sector of nonresident issuer table. IMF to monitor the regular reporting and consistency of data, to continue to improve the coverage of significant financial centers, and to investigate the possibility of quarterly reporting.

Lead IAG Member Agency: IMF*

	Target, Actions, and Timeline
IAG Members' Role	<p>IMF to monitor the regular reporting and consistency of CPIS data and to improve coverage of significant financial centers through workshops, technical discussions, and other outreach activities with G-20 economies.</p> <ul style="list-style-type: none"> • IMF to investigate further, possibly in 2016, if it is feasible for the economies to report quarterly CPIS. • IMF, in close coordination with BOPCOM, to consider in due course modalities for a possible country-data exchange to improve sectorization of nonresident issuers in the context of CPIS reporting.
G-20 Economies	<p>The Target for 2021 is for G-20 economies to:</p> <ul style="list-style-type: none"> • Report CPIS data, including the sector of holder table, on a semi-annual frequency and with a maximum six-and-a-half-month timeliness. <p>The more advanced ambitions for 2021 are for G-20 economies to:</p> <ul style="list-style-type: none"> • Report the sector of nonresident issuer (and other encouraged tables) on a semi-annual frequency and with a maximum six-and-half-month timeliness. • Depending on the decision by the IMF on the collection of quarterly CPIS data, start reporting CPIS data on a quarterly frequency.

^{1/} Source: *The Financial Crisis and Information Gaps, Second Phase of the G-20 Data Gaps Initiative (DGI-2), First Progress Report*, Prepared by Staff of the IMF and FSB Secretariat, September 2016.

CPIS: Reporting of Core and Encouraged Items (December 2015)

Economy	Core (Table 1)	ENCOURAGED					
		Currency of Denomination (Table 2)	Sector of Holders (Table 3)	Liabilities (Table 4)	Sector of Issuers (Table 5)	Cross-Sectors Classification ^{1/} (Table 6)	Short or Negative Positions (Table 7)
Albania	✓	✓					
Argentina	✓		✓				
Aruba	✓		✓				
Australia	✓		✓	✓			
Austria	✓	✓	✓		✓		
Bahrain, Kingdom of	✓		✓				
Bangladesh	✓		✓	✓			
Barbados	✓		✓				
Belarus	✓		✓				
Belgium	✓	✓	✓		✓	✓	✓
Bermuda	✓		✓				
Bolivia	✓		✓				
Brazil	✓	✓	✓				
Bulgaria	✓	✓	✓	✓	✓	✓	
Canada	✓						
Cayman Islands	✓	✓	✓				
Chile	✓		✓				
China, P.R.: Hong Kong	✓						
China, P.R.: Macao	✓		✓				
China, P.R.: Mainland	✓						
Colombia	✓	✓	✓				
Costa Rica	✓	✓	✓		✓	✓	
Cyprus	✓	✓	✓	✓	✓	✓	✓
Czech Republic	✓	✓	✓	✓	✓		
Denmark	✓	✓	✓				
Egypt	✓		✓				
Estonia	✓	✓	✓	✓	✓	✓	
Finland	✓	✓	✓		✓	✓	
France	✓	✓	✓		✓		
Germany	✓	✓	✓		✓	✓	✓
Gibraltar	✓						
Greece	✓	✓	✓				
Guernsey	✓		✓				
Honduras	✓	✓	✓		✓		

Hungary	✓	✓	✓		✓	✓	
Iceland	✓	✓	✓	✓			
India	✓	✓	✓				
Indonesia	✓	✓	✓				
Israel	✓	✓	✓	✓			
Italy	✓	✓	✓		✓	✓	
Japan	✓	✓	✓	✓			
Jersey	✓		✓				
Kazakhstan	✓	✓	✓				
Korea, Republic of	✓	✓	✓				
Kosovo, Republic of	✓	✓	✓		✓	✓	
Kuwait	✓	✓	✓				
Latvia	✓		✓	✓	✓	✓	
Lebanon	✓		✓				
Lithuania	✓	✓	✓	✓	✓	✓	
Luxembourg	✓						
Malaysia	✓	✓	✓	✓	✓	✓	
Malta	✓						
Mauritius	✓						
Mexico	✓	✓	✓		✓	✓	
Mongolia	✓	✓	✓	✓			
Netherlands	✓	✓	✓				
New Zealand	✓			✓			
Norway	✓		✓				
Pakistan	✓	✓	✓		✓	✓	
Palau	✓	✓	✓				
Panama	✓		✓				
Philippines	✓	✓					
Poland	✓	✓	✓		✓	✓	
Portugal	✓	✓	✓				
Romania	✓	✓	✓	✓	✓	✓	
Russian Federation	✓	✓	✓				
Saudi Arabia	✓						
Singapore	✓						
Slovak Republic	✓	✓	✓				
Slovenia	✓		✓		✓		
South Africa	✓	✓	✓				
Spain	✓	✓	✓				
Sweden	✓		✓				
Switzerland	✓	✓					
Thailand	✓	✓	✓	✓			
Turkey	✓	✓	✓		✓	✓	

Ukraine	✓	✓	✓		✓		
United Kingdom	✓		✓				
United States	✓	✓					
Uruguay	✓	✓	✓				
Venezuela, Republica Bolivariana de	✓	✓	✓		✓	✓	
West Bank and Gaza	✓	✓	✓	✓	✓	✓	
Total	82	51	68	17	26	20	3

^{1/} Cover data by sector of resident holder and sector of nonresident issuer for specified economies. This encouraged item aims to further enhance the granularity of the CPIS data so users can identify from-whom-to-whom positions according to sectors of both the security-issuing and security-holding economies (as reported by the latter). The reporting structure builds on the sector of resident holder breakdowns by adding a geographical cross-classification by sector of issuer for each of the 25 economies identified by the IMF Executive Board as having systemically important financial sectors.