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**THE COORDINATED PORTFOLIO INVESTMENT SURVEY – A MODEL TO
FOLLOW?**

Paper submitted by IMF

I. INTRODUCTION

1. Unprecedented growth in the volume and complexity of international financial transactions occurred during the 1980s and 1990s. The net annual acquisition of cross-border financial assets rose from some US\$0.5 trillion in 1980 to some US\$4.0 trillion in 2000. Changes in international capital markets created additional avenues for raising capital, investing, and hedging risk, and a broad range of new participants entered the markets. As a result there was a commensurate growth in the portfolio investment component of international financial flows and stocks. Within total financial flows in 2000, portfolio investment flows comprised about a third, some US\$1.3 trillion, which compares with some 20 percent of total financial flows in 1980. As a result of these large flows in portfolio investment (together with the effects of changes in market prices on the value of holdings of securities), the total stock of portfolio investment assets at current market prices, as reported by the 2001 Coordinated Portfolio Investment Survey (2001 CPIS), stood at US\$12.8 trillion at end-December 2001 (see Table 1). Of this total, US\$5.2 trillion comprised equities and US\$7.7 trillion comprised debt securities.

2. During these decades, countries experienced difficulty in adjusting their data collection systems to these developments. The globalization of financial markets required compilers to develop new data

¹ French and Russian versions of this paper can be found on the ECE Statistical Division's website. The French and Russian translations were provided by IMF.

sources (such as information reported by “custodians,” i.e., financial institutions that hold securities on behalf of investors, and the development of databases that record characteristics of each security issued) and new methods of compilation. Moreover, as new instruments (such as financial derivatives) were introduced, new methods of tracking and recording these instruments had to be found. Evidence of such difficulties can be found in an analysis of global imbalances in balance of payments financial account statistics (for transactions) and global international investment position statistics (for positions). Through the 1980s, there was a global imbalance in annual financial flows of some US\$40 billion (reflecting larger reported inflows in financial account liabilities than reported outflows in financial account assets). The global imbalance on financial account rose sharply through the 1990s to reach some US\$210 billion in 2000. Through 1997, the imbalance on portfolio investment flows was a significant contributor, amounting to US\$170 billion in 1997, but has subsequently been much less, being close to zero in 2001². From an analysis of the results of the 2001 CPIS, there is also a pattern of liabilities being greater than assets when data for global portfolio investment asset positions are compared with data for global portfolio investment liability positions³. As shown in Table 1, at end-December 2001, total holdings of portfolio investment liabilities stood at US\$14.9 trillion, some US\$2.0 trillion larger than holdings of portfolio investment assets as reported in the 2001 CPIS.

II. WHAT IS THE COORDINATED PORTFOLIO INVESTMENT SURVEY?

3. The CPIS has its origins in the findings and recommendations of the *Godeaux Report*⁴, a report of a working party, convened by the IMF and consisting of senior statisticians and policymakers, that investigated the principal sources of discrepancy in global financial account statistics. The working party drew attention to the increasing importance of cross-border investment, the measurement difficulties, and the scale of imbalances. It suggested a number of initiatives that could be taken by national compilers to address these imbalances with a view to better meeting user needs. One of these was to organize a coordinated benchmark survey of international assets and liabilities among the major countries. To oversee the various initiatives, the working party recommended the establishment of a small standing committee of senior balance of payments compilers. The latter recommendation led to the establishment of the IMF Committee on Balance of Payments Statistics in 1992, which in turn decided to promote the idea of an internationally-coordinated benchmark survey of cross-border portfolio investment holdings, classified by partner country, to facilitate cross-country comparisons, permit data exchange, and encourage standardization and best practice.

² Data for global imbalances for recent periods should be interpreted with caution as there tend to be significant revisions.

³ For this calculation, data for global portfolio investment assets include the results of the CPIS. Data for global portfolio investment liabilities comprise reported data (when reported data are greater than CPIS partner country data) and partner country data (when CPIS partner country data are greater than reported data).

⁴ *Report on the Measurement of International Capital Flows*, International Monetary Fund, September 1992.

4. The CPIS collects data on cross-border holdings of securities valued at market prices separately for equities, long-term debt securities, and short-term debt securities, and broken down by the country of residence of the issuer. Supplementary information is requested, if available, on the institutional sector of the holder, the currency of denomination, and portfolio investment liabilities broken down by the country of residence of the holder. The CPIS excludes holdings of securities that comprise direct investment—generally holdings that comprise a minimum of 10 percent of the shares of the entity that issues the securities.

5. Twenty-nine (mostly industrial) countries participated in the first CPIS. That is, 29 countries conducted benchmark surveys for end-December 1997 using standardized methodologies. Sixty-seven countries (covering all country groups except some oil-exporting countries), listed in Table 2, conducted benchmark surveys for the second CPIS for end-December 2001. Nearly all of these have agreed to participate in the CPIS on an annual basis henceforth.

III. WHAT HAS THE COORDINATED PORTFOLIO INVESTMENT SURVEY ACHIEVED?

6. The CPIS has achieved many of the objectives that were envisaged in the *Godeaux Report* and by the IMF Committee on Balance of Payments Statistics.

- Facilitated the development and implementation by national compilers of best practices in conducting benchmark surveys of portfolio investment asset positions with the result that the coverage of countries' international investment position (IIP) statistics for portfolio investment has been significantly improved.
- Provided national compilers (in all, not just participating, countries) with partner (creditor) country data sources for their portfolio investment liabilities broken down by the country of residence of the holder. For all countries, partner country data for portfolio investment liabilities have provided a useful check on reported data. This is especially so for those countries for which partner data indicate larger figures for portfolio investment liabilities than reported data.
- Provided users with a global database for cross-border holdings of securities broken down by both the country of residence of the holder and the country of residence of the issuer, to the extent possible in accordance with international methodological standards and drawing on best practices in the design of collection systems. Users thus have access to individual economy data for both portfolio investment assets and liabilities in a database that allows them to analyze the data at both the economy and global level. The data should be useful in studies of regional concentration, financial integration, spillover effects between countries (contagion), and globalization and provide a useful complement to the Bank for International Settlements (BIS)

International Banking Statistics and the Joint BIS-IMF-OECD-World Bank statistics on external debt (which pulls together creditor country data on the external debt of debtor countries).

- Will provide compilers over time with an annual CPIS database that should facilitate their efforts to improve the estimation of portfolio investment transactions and associated income flows.

IV. WHAT REMAINS TO BE DONE TO ENHANCE THE GLOBAL COVERAGE OF THE SURVEY?

7. The global coverage of the CPIS is not complete. A rough estimate of holdings not included in the CPIS was made by comparing CPIS data with other reported data for countries with major financial markets (responsible for the bulk of international issues of securities)⁵. First, data for their portfolio investment liabilities were derived from the CPIS by summing the amounts that their partner countries reported on holdings of their securities. Second, a figure for their total portfolio investment liabilities was obtained by summing reported totals for these countries. Their reported portfolio investment liabilities exceeded the CPIS partner country data by an amount of about U.S. \$1.8 trillion. About half of this discrepancy can be attributed to nonresidents' holdings of U.S. securities not included in the 2001 CPIS, and much of this can be directly attributed to holdings by countries that did not participate in the 2001 CPIS, such as Middle East oil exporting countries.

8. Further work is planned to address these gaps in the coverage of the CPIS. This includes efforts to expand the coverage of reporting by custodians to include securities held on behalf of nonresidents (third party reporting); efforts to expand the participation of countries in the CPIS, for example to include Middle East oil exporting countries; and efforts to improve the coverage of offshore financial centers.

V. WHAT WAS THE ROLE OF THE IMF IN THE COORDINATED PORTFOLIO INVESTMENT SURVEY?

9. The IMF took steps to both facilitate and coordinate the efforts of interested national compilers to conduct a benchmark portfolio investment assets survey for the same reference period.

- Task forces of national CPIS compilers were organized in support of both the 1997 CPIS and the 2001 CPIS, both of which reported to the IMF Committee on Balance of Payments Statistics. The first task force, chaired by Lucie Laliberté of Statistics Canada, with the IMF acting as secretariat, was established in 1994 to determine the objectives, scope, and modalities for conducting the 1997 CPIS. Under the supervision of this task force, the first *Coordinated*

⁵ These are the member countries of the European Union, Canada, Japan, Switzerland, and the United States.

Portfolio Investment Survey Guide was published in August 1996. The *Guide* documented best practices by drawing on relevant country experience, provided guidance on concepts and principles, practical issues, and addressed problems that compilers are likely to encounter. National compilers of the participating countries met three times to prepare for and to review the results of the 1997 CPIS.

- A second task force, chaired by Gunnar Blomberg of the Central Bank of Sweden, also with the IMF acting as secretariat, was established in 1998 to determine the objectives, scope, and modalities for conducting the 2001 CPIS. Under the supervision of this task force, the *Coordinated Portfolio Investment Survey Guide, Second Edition*, was published in 2002. This second edition took full account of countries' experiences in conducting the 1997 CPIS.
- In support of the 2001 CPIS, the IMF conducted regional workshops of newly participating countries both before and after the 2001 CPIS. These were organized for Asian countries, Latin American countries, European countries, and small economies with international financial centers.
- Some of the more intractable problems faced by national CPIS compilers were addressed through the work of the IMF Committee on Balance of Payments Statistics. These included finding ways of resolving problems faced by national CPIS compilers regarding the treatment of securities held under repurchase and securities lending agreements; expanding reporting by custodians to include securities held on behalf of nonresidents that could usefully fill gaps in other countries' collection systems (third party reporting); and finding ways of helping national CPIS compilers develop securities databases through exchange of information with other CPIS compilers and access to commercial securities databases. More details of these activities are given below.
 - Working closely with interested countries, the IMF is addressing the risk of doublecounting that may arise when repurchase agreements and securities lending agreement are treated as collateralized loans in the CPIS. Particular attention has been given to current international accounting standards, differences in national accounting practices, and reliance on reporting by custodians (who may not know of repurchase and securities lending contracts entered into by their clients). Short of a change in accounting practices or in balance of payments methodology, this issue remains largely unresolved.
 - The IMF is working with interested countries (mainly the United States and the member countries of the European Union) to explore the possibility of introducing third-party reporting by custodians.

- o A Working Group on Securities Databases has been established, chaired by the IMF, comprising the BIS, the European Central Bank, Japan, the United Kingdom, and the United States, to advise on steps that can be taken to make a centralized securities database available to CPIS compilers.
 - To supplement the surveys conducted by national CPIS compilers, the IMF conducted a survey of central banks to report their holdings of securities that comprise part of their foreign exchange reserves. This was done on a strictly confidential basis to ensure that no information for any single country would be revealed, even to national compilers. The IMF also conducted a survey of international organizations to report their holdings of securities.
10. Steps were taken to ensure widespread access to the data and metadata provided by countries.
- The IMF plays an active role in making the CPIS database available to both compilers and users. The database resulting from the 1997 CPIS and the 2001 CPIS is now
 - freely available in spreadsheet form on the IMF's external website (<http://www.imf.org/external/np/sta/pi/datarsl.htm>).
 - In support of the CPIS, last year the IMF distributed a CPIS Metadata Questionnaire. The completed questionnaires are now being shared with national CPIS compilers. When finalized, the completed questionnaires together with summary tables drawn from them will be placed on the IMF external website. This is expected to be done later this year. The metadata are intended to provide a tool to allow compilers and users assess the quality of individual country data.
 - The IMF is exploring the feasibility of developing interactive software tools that can be made available to users of the CPIS data and metadata through the Fund's external website.
 - A publication on the results of the 1997 CPIS was released in 2000 and a *Guide to Users of the CPIS Database* will be released in 2003.

VI. ARE THERE LESSONS FROM THE CPIS THAT CAN BE APPLIED TO OTHER PROJECTS?

11. This experience points to a number of lessons that can be applied to other projects in which an international agency can play a facilitating and coordinating role in working directly with interested national compilers to improve national and global statistics.
- **Start by identifying users' needs and major gaps in national data.** The *Godeaux Report* highlighted a number of user needs that it considered were not adequately met by national balance of payments statistics. These concerns formed the initial agenda of the IMF Committee

on Balance of Payments Statistics. In this work, data for global imbalances in balance of payments transactions and positions were used as preliminary indicators of areas where there may be major problems in the coverage and classification of national data, without identifying the countries. Particular emphasis was given to the need for geographic breakdowns of balance of payments financial account positions data to facilitate comparisons of reported and partner country data.

- **Involve national compilers from the outset.** This should be done through meetings of interested national compilers that then comprise a core group that can be expanded to include other countries that wish to be involved. Much of the follow-up work, both with the international organization and between national compilers can be handled through the use of electronic media. These exchanges should aim to identify potential deficiencies in national data; identify the need for clarification of methodology; identify best practices in data collection/compilation; and provide guidance on the more difficult problems that compilers are likely to face.
- **Release synergies by coordinating the efforts of national compilers.** This should be done by facilitating interaction and information sharing between national compilers. Funding for national efforts may become easier to come by when these are seen as part of a collective effort across countries that brings additional benefits to participating countries. The use of a common reference date for a coordinated survey gives compilers access to potentially useful partner country data, and gives users access to a global database.

VII. WHAT OTHER AREAS OF STATISTICS COULD THIS APPROACH BE APPLIED TO?

12. Other areas of the balance of payments financial account would be particularly suitable because of the potential benefit to both balance of payments and international investment position statistics. Such an approach would be suited to foreign direct investment statistics, financial derivative statistics, and external debt statistics. In some measure, it has already been applied by the BIS to international banking statistics.

Table 1. Global Imbalances in Portfolio Investment, 1997-2001^{1/}
(In billions of U.S. dollars)

	1997	1998	1999	2000	2001
Portfolio investment transactions					
Residents' net acquisition of securities issued by nonresidents					
Comprising portfolio investment assets	737	1,058	1,367	1,290	1,207
Comprising securities held as reserves	21	80	95	129	67
Total net acquisition of securities	758	1,138	1,462	1,419	1,275
Equities	226	388	645	724	496
Debt securities	532	750	817	695	779
Nonresidents' net acquisition of securities issued by residents					
Comprising portfolio investment liabilities	968	920	1,593	1,500	1,282
Equities	245	381	719	729	515
Debt securities	723	539	834	771	767
Global imbalance (liabilities > assets shown as +)	210	- 217	131	81	7
Equities	19	-7	74	5	19
Debt securities	191	-210	57	76	-12
Portfolio investment positions (end of period)					
Residents' net acquisition of securities issued by nonresidents					
Comprising portfolio investment assets					11,555
Comprising securities held as reserves					1,282
Total net acquisition of securities					12,837
Equities					5,159
Debt securities					7,678
Nonresidents' net acquisition of securities issued by residents					
Comprising portfolio investment liabilities					14,867
Equities					5,917
Debt securities					8,950
Global imbalance (liabilities > assets shown as +)					2,030
Equities					758
Debt securities					1,272

Source: For transactions, data are taken from *IMF Committee on Balance of Payments Statistics, Annual Report, 2002*. For positions, data are taken from *A Guide to the CPIS Database*, IMF, 2003 (forthcoming).

^{1/} Securities comprising reserve assets are included with portfolio investment assets to facilitate comparison with portfolio investment liabilities (which include liabilities constituting foreign authorities' reserves).

Table 2. Economies that participated in the 2001 CPIS

Argentina *	Japan *
Aruba	Jersey
Australia *	Kazakhstan
Austria *	Korea, Republic of *
Bahamas, The	Lebanon
Bahrain	Luxembourg
Belgium *	Macao SAR of China
Bermuda *	Malaysia *
Brazil	Malta
Bulgaria	Mauritius
Canada *	Netherlands *
Cayman Islands, The	Netherlands Antilles
Chile *	New Zealand *
Colombia	Norway *
Costa Rica	Panama
Cyprus	Philippines
Czech Republic	Poland
Denmark *	Portugal *
Egypt	Romania
Estonia	Russian Federation
Finland *	Singapore *
France *	Slovak Republic
Germany	South Africa
Greece	Spain *
Guernsey	Sweden *
Hong Kong SAR of China	Switzerland
Hungary	Thailand *
Iceland *	Turkey
Indonesia *	Ukraine
Ireland *	United Kingdom *
Isle of Man	United States *
Israel *	Uruguay
Italy *	Vanuatu
	Venezuela, República Bolivariana de *

* Participated in the 1997 CPIS