2. Official Reserve Assets and Other Foreign Currency Assets (Approximate Market Value)

Section I of the Reserves Data Template

58. This chapter provides guidelines to assist countries in reporting data on the authorities' foreign currency resources (comprising reserve assets and other foreign currency assets) in Section I of the reserves data template. Items I.A.(1) through I.A.(5) are used to report information on reserve assets and Section I.B., on other foreign currency assets. All items in Section I refer to outstanding assets (stock) on the reference date. As noted in paragraph 42, to facilitate liquidity analysis, it is recommended that information on special features of the reporting country's reserves management policy and major sources of funds for reserve assets and other foreign currency assets be described in country notes accompanying the template data. To enhance data transparency, it is also important to indicate in country notes specific changes in the reporting country's exchange rate arrangements (for example, the implementation of dollarization) and their impact on the level of the country's reserve assets.

Disclosing Reserve Assets and Other Foreign Currency Assets

59. "*Reserve assets*" are those external assets that are readily available to and controlled by the 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 (*BPM6,* paragraph 6. 64*)*. "*Other foreign currency assets*" refer to liquid foreign currency assets of the monetary authorities that are not included in reserve assets, as well as such assets by the central government (excluding social security funds). Foreign currency assets of the central government (excluding social security funds) that are not materially significant are sometimes excluded from the reserves data template, for practical reasons.

60. *BPM6* provides the international guidelines for the compilation of reserve assets; the *BPM6* defines reserve assets as the monetary authorities' foreign currency claims on nonresidents. Reviews of data reported by selected member countries to the IMF[20]indicate, however, that the coverage of countries' data on international reserves varies because (1) some countries do not fully disclose their international reserves; and (2) countries may define reserve assets differently for operational purposes, for example, maintaining part of their reserve assets as deposits in resident financial institutions or as investment in securities issued by resident institutions and including such claims on residents in their reserve assets.[21]

61. As a tool for liquidity management, the reserves data template aims to enhance the

[20]Countries' data on reserve assets are reported to the IMF for publication in the IMF's monthly *International Financial Statistics* the annual *Balance of Payments Statistics Yearbook, and on the Fund's website on international reserves and foreign currency liquidity: http://www.imf.org/external/np/sta/ir/IRProcessWeb/colist.aspx.*

[21] In *BPM6*, claims denominated in foreign exchange in resident banks are excluded from reserves assets but are presented as a supplementary item in the IIP.

transparency of existing dissemination practices of countries on reserve assets and facilitates the compilation of such data to meet reserves management and balance of payments reporting needs. To facilitate reporting countries' disclosure of the operational coverage of reserve assets, while maintaining the underlying concept of reserve assets as set forth in the *BPM6* for balance of payments reporting purposes, the template calls for the identification of the monetary authorities' foreign currency deposits in resident financial institutions and their holdings of foreign currency securities issued by the foreign branches and subsidiaries of institutions that have their headquarters in the reporting country. (See later in this chapter, "Identifying Institutions Headquartered in the Reporting Country and Institutions Headquartered Outside the Reporting Country.")

62. The *BPM6* does not allow the inclusion of the monetary authorities' foreign currency deposits in resident entities in reserve assets. Under the *BPM6,* foreign currency securities issued by entities "headquartered in the reporting country but located abroad" are external assets. Foreign currency securities issued by entities "headquartered and located in the reporting country" are not external assets and should not be included in official reserves. Foreign currency deposits and foreign currency securities that are reserve assets should be reported in Section I.A. of the template. Those that do not meet the criteria for reserve assets but are liquid should be included in Section I.B. (See later discussion on reporting "other foreign currency assets.") In certain cases, for prudential reasons and because of creditworthiness considerations, the monetary authorities place foreign currency deposits with institutions located in the reporting country or hold foreign currency securities issued by institutions located in the reporting country, as part of their reserves management policy. Such assets should be reported in Section I.B. of the template under "other foreign currency assets

63. The rest of this chapter:

- examines key considerations in reporting reserve assets as set forth in the *BPM6,* clarifies certain *BPM6* concepts, and notes the need to promote comparable data reporting among countries on international reserves;
- considers the treatment of the different types of financial instruments in reserve assets;
- elaborates on the treatment of external assets held in resident financial institutions;
- discusses the concordance between the reserves data template data on reserves and the major components of reserve assets as set forth in the *BPM6,* with a view to facilitating the use of the reserves data template data for purposes both of balance of payments reporting and reserves management;
- identifies information that can be reported under the data category "other foreign currency assets"; and
- provides guidelines for the derivation of approximate market values for reserve assets and other foreign currency assets.

Defining Reserve Assets

64. Chapter 1 provided the definition of reserve assets as set forth in the *BPM6.* For easy reference, it is repeated here. Reserve assets are "*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)*[22]" (*BPM6*, paragraph 6.64) Countries have interpreted "readily available" and "controlled by" in varying ways when applying the concept in practice. Some guidelines for implementing the concept in reporting data on reserve assets in the reserves data template are provided below.[23]

Guidelines for Implementing the *BPM6* Concept on Reserves

65. Underlying the *BPM6* concept of reserves are the notions of "effective control" by the monetary authorities of the assets and the "usability" of the assets to the monetary authorities. Accordingly, reserve assets are, first and foremost, liquid assets denominated and settled in foreign exchange and readily available to the monetary authorities.[24]

66. If the authorities are to use the assets for the financing of payments imbalances and to support the exchange rate, *the reserve assets must be foreign currency assets.*

67. Furthermore, to be liquid *such foreign currency assets must be in convertible foreign currencies (BPM6*, para. 6.72), that is, freely usable for settlements of international transactions.[25] A corollary is that *assets redeemable only in nonconvertible foreign currencies cannot be reserve assets. For the purposes of the reserves data template, convertible foreign currencies include gold and SDRs* (*BPM6*, paragraph 6.72).

68. In general, only external claims actually owned by the monetary authorities are regarded as reserve assets. Nonetheless, ownership is not the only condition that confers control. In cases where institutional units (other than the monetary authorities) in the reporting economy hold legal title to external foreign currency assets and can only transact in these assets on terms specified by the monetary authorities or only with their express approval; the authorities have access on demand to these claims on nonresidents to meet balance of payments financing needs and related purposes; and there is a prior law or an otherwise legally binding contractual arrangement confirming this agency role of the resident entity that is actual and definite in intent, such assets can be considered reserve assets. This is because such assets are under the direct and effective control of the monetary authorities. To be counted in reserves, such assets are to meet other criteria as set forth above, including

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[22] For fully dollarized economies (i.e., economies that have adopted a foreign currency--typically the U.S. dollar, the Euro, or another widely traded international currency--as their legal tender), the need to hold reserves for the purpose of intervention in foreign exchange markets is not relevant.

[23] Only financial assets, including gold bullion, controlled by the monetary authorities can be classified as reserve assets.

[24] A liquid asset refers to an asset that can be bought, sold, and liquidated with minimum cost and time, and without unduly affecting the value of the asset. This concept refers to both nonmarketable assets, such as demand deposits, and marketable assets, such as securities for which there are ready and willing sellers and buyers. "Readily available" assets are assets that are available in the most unconditional form.

[25] As noted in *BPM6*, the term "freely usable" is not used in a restrictive sense to cover the currencies in the SDR basket only.

availability to meet balance of payments needs (see paragraph 6.67 in *BPM6*).

69. In addition, in accordance with the residency concept in the *BPM6*, "external" assets refer to *claims of the monetary authorities on nonresidents.* Conversely*, the authorities' claims on residents are not reserve assets.* (See also paragraph 62.) As will be clarified later, foreign currency claims of the monetary authorities on residents are "other foreign currency assets" of the monetary authorities and should be reported as such in Section I.B. of the reserves data template.

70. Some loans to the IMF, such as long-term loans to IMF trust accounts, which are readily repayable to meet a balance of payments need, are reserve assets, but other long-term loans provided by the monetary authorities to nonresidents, which would not be readily available for use in times of need, are not reserve assets but are recorded in Section II (item 1) if they have a residual maturity of one year or less. Short-term loans to nonresidents, however, may qualify as reserve assets if available upon demand by the authorities.

71. Transfers of foreign currency claims to the monetary authorities by other institutional units in the reporting economy just prior to certain accounting or reporting dates with accompanying reversals of such transfers soon after those dates (commonly known as "*window dressing*") should not be counted as reserve assets. If such transfers are included in reserves, they should be disclosed in country notes accompanying the data.

72. Assets pledged are typically not readily available. If clearly not readily available, pledged or encumbered assets should be excluded from reserves. An example of pledged assets that clearly would not be readily available are assets that are blocked when used as collateral for third-party loans and third-party payments. Other examples of assets that are to be excluded from international reserves include assets set aside by the monetary authorities to investors as a condition for the investors to invest in securities issued by domestic entities (such as central government agencies). Also to be excluded from reserve assets are assets lent by the monetary authorities to a third party, which are not available until maturity, or prior to maturity, are not marketable. If pledged assets are included in reserves, their value should be reported in Section IV under "pledged assets." Pledged assets are to be differentiated from reserve assets that are used under securities lending arrangements and repurchase agreements (repos). The reporting of repos and related transactions is discussed in paragraphs 85–88. (Pledged assets are separately identified from securities lent or repoed and gold swapped in Section IV—memo items—of the reserves data template. See Chapter 5 for detail.) Pledged assets should only be excluded at most to the value of the pledge.

73. *Reserve assets must actually exist.* Lines of credit that could be drawn on and foreign exchange resources that could be obtained under swap agreements are not reserve assets because they do not constitute existing claims. (Such lines of credit are, however, to be reported in Section III of the reserves data template and are discussed under contingent foreign exchange resources in Chapter 4.)

74. Real estate owned by the monetary authorities is not to be included in reserve assets because real estate is not considered a liquid asset.

Reporting Financial Instruments in Reserve Assets

75. Reserve assets may include any category of financial instrument. The *BPM6* lists among reserve assets these instruments: monetary gold, special drawing rights (SDRs), reserve position in the IMF, and other reserve assets. In the reserves data template, "monetary gold" corresponds to "gold (including gold deposits and, if appropriate, gold swapped)[26]" and "other reserve assets" corresponds to the two items, "foreign currency reserves (in convertible foreign currencies)" and "other reserve assets." "Other reserve assets" in the reserves data template has subcategories for financial derivatives, loans to nonbank nonresidents, and other.

76. Monetary gold, SDR holdings, and reserve positions in the IMF are considered reserve assets because they are owned assets readily available to the monetary authorities in unconditional form. Currency and deposits and other claims in many instances are also readily available and therefore may qualify as reserve assets. Below are guidelines for reporting data in the reserves data template on these instruments.

Foreign Currency Reserves—Item I.A.(1) of the Reserves Data Template

77. The reserves data template presents financial instruments in a different way than does the International Investment Position (IIP) in *BPM6*. For example, the reserves data template lists securities and deposits under the category, "foreign currency reserves". The IIP in *BPM6* does not have a category called foreign currency reserves. A full reconciliation of these presentational differences between the *BPM6* and the reserves data template is provided later in this chapter.

78. Currency is not identified as a separate component of the reserves data template. The rationale for this treatment is that currency usually is not a major component of countries' reserve assets; in reporting data in the template, currency should be included in deposits with central banks in item I.A.(1)(b)(i). For financial derivatives, the reserves data template calls for the separate reporting of their net, marked-to-market values under items I.A.(5), I.B., and IV.(1)(e), as appropriate. (See later discussion in this chapter and Appendix III.*)*

Securities—Item I.A.(1)(a) of the Reserves Data Template

79. Securities should include highly liquid, marketable equity and debt securities;[27] liquid, marketable, long-term securities (such as 30-year U.S. Treasury bonds) are included. Securities not listed for public trading are, in principle, excluded unless such securities are

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[26] Gold comprises gold bullion and unallocated gold accounts with nonresidents that give title to a claim for the delivery of gold.

[27] Equity securities include stocks and shares and similar instruments . Also included are participating preferred shares , mutual funds and investment trusts. Debt securities cover (1) bonds and notes, debentures; and (2) money market instruments (such as treasury bills, commercial paper, bankers' acceptances, negotiable certificates of deposits with original maturity of one year or less) and short term notes issued under note issuance facilities.

deemed liquid enough to qualify as reserve assets.

80. Only foreign currency securities issued by nonresident entities should be included in this item of the reserves data template. It therefore follows that the category "*of which, issuer headquartered in reporting country*" should be used to report only foreign currency securities that are issued by institutions "*headquartered in the reporting country but located abroad*." As mentioned earlier, foreign currency securities issued by institutions "*headquartered and located in the reporting country*" are excluded; they are to be reported in Section I.B. of the reserves data template if they are liquid assets. Likewise, holdings of foreign currency securities issued by the domestic government are not reserve assets. Foreign currency securities issued by foreign governments can be reserve assets. (See the discussion on "other foreign currency assets" later in the chapter.) (See also para. 62.)

81. When securities reported in the reserves data template include both securities held directly and securities held under repurchase agreements (repos) and security lending agreements,[28] this should be indicated in country notes accompanying the data. *The template also calls for the reporting of securities lent and repoed in item IV(1)(d).*

82. The term *"repurchase agreements"* (repos) in the reserves data template refers to both repos and reverse repos. A repurchase agreement is one in which a party that owns securities acquires funds by selling the specified securities to another party under simultaneous agreement to repurchase the same securities at a specified price and date.[29] A reverse repo is one in which a party provides funds by purchasing specified securities pursuant to a simultaneous agreement to resell the same securities at a specified price and date.[30]

83. *Securities lending* is considered to be similar to repos. Securities lending involves the lending of securities collateralized by highly liquid securities or in exchange for cash.

84. Accounting practices differ among countries for the treatment of securities under repos/reverse repos and security lending. Some countries, for example, record repos as transactions in securities, in which the securities are deducted from the balance sheet and the funds acquired are added to the balance sheet. Others, however, do not deduct the securities on the balance sheet; instead, they show the funds obtained from the repo transaction as an asset on the balance sheet, counterbalanced by a liability (a collateralized loan) shown on the balance sheet for the funds acquired that need to be repaid. *In light of the different treatments for repos, the reserves data template requires that countries provide information on the accounting treatment used. Such information is to be disclosed in country notes accompanying the data on repos.*

[28] Including sell/buybacks and other similar collateralized arrangements. Gold swaps are reported under item I.A.(4) of the reserves data template.

[29] Or on demand, for some contracts.

[30] Or on demand, for some contracts.

85. Against the background of different accounting practices among countries, the reporting of repos, reverse repos, and related activities should aim to give an accurate picture of a country's foreign currency liquidity position. In this regard, it is essential to characterize accurately the nature of repo transactions and to maintain data transparency. For these reasons, it is recommended that repos and reverse repos be reported in the template as follows:

i. *For a repo*, the funds received should be shown as an increase in deposits among reserve assets (item I.A.1(b). The reporting of the securities sold under the repo depends on whether the securities are "readily available" to the monetary authorities for meeting a balance of payments financing need. In most cases, the party that sells securities in exchange for cash (with a promise to repurchase them at a later date) cannot use the securities for meeting a balance of payments financing need during the interval that the securities are under repo, and so the securities would not qualify as a reserve asset of the seller during this interval. However, in some cases, the party that sells the securities may be able to reclaim them, such as by providing another type of collateral for the repo. In the unusual circumstance where the securities can be reclaimed by substituting collateral that *does not qualify as a reserve asset*, or the securities can be reclaimed without substituting any replacement collateral at all, then the securities (as well as the cash received under the repo) should continue to be recorded in reserves. This does not result in double counting of reserve assets, because both the cash and the securities are available for meeting the balance of payments financing needs of the party who engaged in the repo. When both the securities and the cash are recorded in reserves, a predetermined future drain also exists (to be reported in II.3 of the template, outflows related to repos). If only the cash received (and not the securities sold) is recorded in reserves, then no predetermined future drain exists (because the repurchase of the securities will result in offsetting changes in reserves – a decrease in deposits and an increase in securities). If additional securities are provided under the repo (perhaps because of a margin call), the treatment in the template is the same for the initial transaction. (See also Chapter 3 for the reporting of foreign currency inflows and outflows related to repo activities.)

ii. *For a reverse repo*, the funds provided to the counterparty should be shown as a decrease in deposits among reserve assets (item I.A.1(b)), unless the lender's domestic currency was used. The reporting of the securities purchased under the repo depends on whether the securities are "readily available" to the monetary authorities for meeting a balance of payments financing need. If the securities can be used for meeting a balance of payments financing need during the interval that the securities are held by the party who undertook the reverse repo (i.e., the purchaser of the securities), then the securities qualify as a reserve asset of the purchaser during this interval. However, if the securities acquired are not liquid and not available on demand to the purchaser, a future predetermined cash inflow associated with the return (i.e., resale) of the securities should be recorded in item II.3 of the template. If the securities acquired under the reverse repo are regarded as off-balance sheet items, they should be reported under item IV.(1)(d) under “borrowed or acquired but not included in Section I.”

86. Where the monetary authorities undertake a reverse repo and subsequently repo out the securities (obtained in the reverse repo) for cash, this should be reported in the following way: a reverse repo transaction is first reported, as illustrated in para. 85 (ii) above; this is followed by the recording of a repo transaction, as discussed in para. 85 (i) above; and the values of the securities involved are disclosed separately under reverse repos and repos in item IV(1)(d) of the template. (See also Appendix III.)

87. Where the monetary authorities undertake a reverse repo and subsequently sell the securities received, this should be reported as follows: a reverse repo transaction is first reported, as illustrated in para. 85 (ii) above; this is followed by the recording of the funds received from the sale of securities under item I.A.1 (b). A future predetermined foreign currency outflow associated with the return of the securities to the repo counterparty should be reported in item II.3 of the reserves data template.

88. The same treatments described above should be applied to securities lent/borrowed in exchange for cash. Where securities are lent/borrowed with other securities used as collateral and no cash is exchanged, the transaction should not be reported in Section I of the reserves data template but recorded in item IV(1)(d) under securities lent or on repos, with accompanying country notes indicating that securities are acquired as collateral in security lending activities. (See Appendix III, item (9).) The rationale for this approach is that collateral generally is not freely available to the holder nor recognized on the collateral holder’s balance sheet. In cases where securities are lent/borrowed with other securities used as collateral and such activity is accomplished through methods synonymous with first undertaking a repo and subsequently undertaking a reverse repo, such a transaction can be recorded in Section I.A. to show a decrease in “securities,” counterbalanced by an increase in repo assets to be shown in item I.A.(5) under “other reserve assets,” provided that the repo assets so acquired are liquid and that they meet the criteria of reserve assets. The recording of such securities lending activities in Section I.A. of the reserves data template is to be clearly stated in country notes accompanying the data.

89. To be readily available to the authorities to meet balance of payments financing and other needs under adverse circumstances, reserve assets generally should be of high quality (investment grade).[31] If reserve assets include securities below investment grade, this must be indicated in country notes accompanying the data.

90. For the recording of securities issued by entities headquartered in the reporting country, see the next section “Identifying Institutions Headquartered in the Reporting Country and Institutions Headquartered Outside the Reporting Country.”

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[31] Information available from rating agencies can be supplemented by other criteria (including the creditworthiness of the counterparty) to determine the quality of the securities.

Total Deposits—Item I.A.(1)(b) of the Reserves Data Template

91. Deposits refer to those available on demand; consistent with the liquidity concept, these generally refer to demand deposits. Term deposits that are redeemable upon demand or at very short notice without unduly affecting the value of the deposit can also be included.

92. Deposits included in reserve assets are those held in foreign central banks, the Bank for International Settlements (BIS), and other banks. The term “banks” generally refers to deposit taking corporations[32] and encompasses such institutions as “commercial banks, savings banks, savings and loan associations, credit unions or cooperatives, building societies, and post office savings banks or other government-controlled savings banks (if such banks are institutional units separate from government)” (2008 *SNA*).

93. Because short-term loans provided by the monetary authorities to other central banks, the BIS, the IMF, and depository institutions are much like deposits, it is difficult in practice to distinguish the two. For this reason, by convention, the reporting of *deposits in reserve assets should include short-term foreign currency loans, which are redeemable upon demand, made by the monetary authorities to these nonresident banking entities.* Short-term foreign currency loans, that are available upon demand, made by the monetary authorities to nonresident nonbank entities and long-term loans to IMF Trust Accounts that are readily repayable to meet a balance of payments financing need can be disclosed in “other reserve assets” under I.A.(5) in the reserves data template.

94. As discussed earlier, currency holdings are to be reported in total deposits under item I.A. 1.(b) (i). Currency consists of foreign currency notes and coins in circulation and commonly used to make payments (commemorative coins are excluded).

95. *For the recording of deposits with institutio*ns headquartered in the reporting country, see the next section, “Identifying Institutions Headquartered in the Reporting Country and Institutions Headquartered Outside the Reporting Country.”

IMF Reserve Position—Item I.A.(2) of the Reserves Data Template

96. IMF reserve position is the sum of (1) the “reserve tranche,” that is foreign currency amounts that a member country may draw from the IMF at short notice[33] and (2) any

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[32] The *BPM6* (paragraph. 4.71) defines “deposit taking corporations except the central bank” in the financial corporations sector. Included are institutional units engaging in financial intermediation as a principal activity and having liabilities in the form of deposits or financial instruments (such as short-term certificates of deposits) that are close substitutes for deposits. Deposits include those payable on demand and transferable by check or otherwise usable for making payments and those that, while not readily transferable, may be viewed as substitutes for transferable deposits.

[33] Reserve-tranche positions in the IMF are liquid claims of members on the IMF that arise not only from the reserve asset payments for quota subscriptions but also from the sale by the IMF of their currencies to meet the demand for use of IMF resources by other members in need of balance of payments support. Repayments of IMF resources in these currencies reduce the liquid claim of the member whose currency was supplied. In Section IV 2(a) on currency composition, the reserve positions in the IMF should be classified as denominated in an “SDR basket currency.”

indebtedness of the Fund (under a loan agreement) in the General Resources Account that is readily available to the member country including the reporting country's lending to the IMF under the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). Claims on the IMF that are denominated in SDRs are regarded as foreign currency claims.

Special Drawing Rights (SDRs)—Item I.A.(3) of the ReservesTemplate

97. SDRs are international reserve assets the IMF created to supplement the reserves of IMF member countries. SDRs are allocated in proportion to the countries' respective quotas.

Gold (Including gold deposits and, if appropriate, gold swapped)—Item I.A.(4) of the Template

98. Gold in the reserves data template refers to gold the authorities own, and includes gold bullion and unallocated gold accounts[34]. Gold held by monetary authorities as a reserve asset (i.e., monetary gold) is shown in this item.[35] Other gold held by the authorities (e.g., gold bullion that is not pure, i.e., does not have a purity of at least 995/1,000) is not monetary gold. (In some circumstances, gold that does not qualify for reporting as a reserve asset may qualify for reporting under "other foreign currency assets" in Section I.B. of the reserves data template.) In addition, holdings of silver bullion, diamonds, and other precious metals and stones[36] are not reserve assets and should not be recorded in the template. The term "gold on loan" used in the reserves data template refers to gold deposits (and gold swapped, if the swap is treated as a collateralized loan; see below).

99. *Gold deposits of monetary authorities representing claims on nonresidents are to be included in gold and not in total deposits.*[37] In reserves management, it is common for monetary authorities to have their bullion physically deposited with a bullion bank, which may use the gold for trading purposes in world gold markets. Private placements sometimes also occur. The ownership of the gold effectively remains with the monetary authorities, who earn interest on the deposits, and the gold is returned to the monetary authorities on maturity of the deposits. The term maturity of the gold deposit is often short, up to six months. To qualify as reserve assets, gold deposits must be available upon demand to the monetary authorities, and should be of a high quality. For instance, to minimize risks of default, monetary authorities can require adequate collateral (such as securities) from the bullion bank.[38]

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[34] Unallocated gold accounts are accounts give title to claim the delivery of gold (see paragraphs 5.76-5.77 and 6.78-6.83 in *BPM6).*

[35] Such gold is treated as a financial instrument because of its historical role in the international monetary system.

[36] These precious metals and stones are considered goods and not financial assets.

[37] Sometimes known as gold lending transactions or gold loans.

[38] If the securities received as collateral are repoed out for cash, a repo transaction should be reported, as discussed earlier under "securities."

100. In reserves management, monetary authorities also may undertake gold swaps.[39] In gold swaps, gold is exchanged for cash and a firm commitment is made by the monetary authorities to repurchase at a future date the quantity of gold exchanged. Accounting practices for gold swaps vary among countries. Some countries record gold swaps as transactions in gold, in which both the gold and the cash exchanged are reflected as offsetting asset entries on the balance sheet. Others treat gold swaps as collateralized loans, leaving the gold claim on the balance sheet [40] and recording the cash exchanged as two offsetting asset and liability entries on the balance sheet.[41]

101. For the purpose of the reserves data template, it is recommended that *gold swaps the monetary authorities undertake be treated in the same ways as repos and reverse repos*. (See paragraph 85 and Appendix III.)

Other Reserve Assets—Item I.A.(5) of the Reserves Data Template

102. "Other reserve assets" include assets that are liquid and readily available to the monetary authorities but not included in the other categories of reserve assets. These assets include the following:

- the net, marked-to-market value of financial derivatives positions (including, for instance, forwards, futures, swaps, and options) with nonresidents, if the derivative products pertain to the management of reserve assets, are integral to the valuation of such assets, and are under the effective control of the monetary authorities. Such assets must be highly liquid and denominated and settled in foreign currency. Forwards and options on gold are to be included in this item. "Net" refers to asset positions offset by liability positions.[42]

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[39] Such gold swaps generally are undertaken between monetary authorities and with financial institutions.

[40] These two different ways of accounting for gold swap transactions are discussed in *BPM5* (para. 434) and *BPM6* (para. 5.55).

[41] This treatment applies only when an exchange of cash against gold occurs, the commitment to buy back the gold is legally binding, and the repurchase price is fixed at the time of the spot transaction. The logic is that in a gold swap the "economic ownership" of the gold remains with the monetary authorities, even though the authorities temporarily have handed over the "legal ownership." The commitment to repurchase the quantity of gold exchanged is firm (the repurchase price is fixed in advance), and any movement in gold prices after the swap affects the wealth of the monetary authorities. Under this treatment, the gold swapped remain as a reserve asset the cash received a repo deposit (See *BPM6*, paragraph 6.82). Gold swaps commonly permit central banks' gold reserves to earn interest. Usually, the central banks receive cash for the gold. The counterparty generally sells the gold on the market but typically makes no delivery of the gold. The counter-party often is a bank that wants to take short positions in gold and bets that the price of gold will fall or is one that takes advantage of arbitrage possibilities offered by combining a gold swap with a gold sale and a purchase of a gold future. Gold producers sell gold futures and forwards to hedge their future gold production. Treating gold swaps as collateralized loans instead of sales can obviate the need to show frequent changes in the volume of gold in monetary authorities' reserve assets, which, in turn, would affect world holdings of monetary gold as well as the net lending of central banks.

[42] See also Chapter 5 for a discussion on reporting of marked-to-market values of financial derivatives in the template, including "netting by novation."

- short-term foreign currency loans redeemable upon demand provided by the monetary authorities to nonbank nonresidents
- other financial assets not included elsewhere but that are foreign currency assets that are available for immediate use (such as nonnegotiable investment funds shares/units arising from pooled asset schemes).[43]
- repo assets that are liquid and available upon demand to the monetary authorities. (See also para. 85(ii).)

Identifying Institutions Headquartered in the Reporting Country and Institutions Headquartered Outside the Reporting Country

103. To enhance the comparability of data across countries and provide additional insight into factors that may affect the liquidity of reserve assets, *the reserves data template distinguishes between institutions headquartered and not headquartered in the reporting country.* In the template, "institutions headquartered in the reporting country" refer to domestically-controlled institutions, as opposed to foreign-controlled institutions. The latter are referred to as "institutions headquartered outside the reporting country." One rationale for this distinction is that assets held in institutions headquartered in the reporting country may not be liquid or available to the authorities in times of a financial crisis. Another is that in crisis situations the monetary authorities could be constrained by concerns about the impact of their foreign exchange operations on the liquidity situation of domestically-controlled institutions. Yet another reason is that the authorities conceivably could influence the disposition of assets held in institutions headquartered in the reporting country.

104. The term "headquartered in the reporting country" refers to institutional units that consist of a headquarters unit in the reporting country together with its branches and subsidiaries[44] in the reporting country and abroad. The term "headquartered in the reporting country but located abroad" refers to the foreign branches and subsidiaries of the headquarters unit.

105. The term "headquartered outside the reporting country" refers to institutional units that consist of a headquarters unit outside the reporting country together with its branches and subsidiaries outside the reporting country and in the reporting country. The term "headquartered abroad but located in the reporting country" refers to resident branches and subsidiaries of such headquarters unit.

Guidelines for Compiling Items I.A.(1)(a), I.A.(b)(ii), and I.A.(b)(iii) of the Reserves Data Template

106. The headquartering distinction applies to reserve assets in the form of deposits in banks and, to a lesser extent, securities. For the sake of simplicity, such detail is not required for the data category on item I.A. (5) "other reserve assets" unless sizable assets are held in institutions headquartered in the reporting country, in which case they are to be reported in

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[43] For further details on pooled asset schemes, see *BPM6*, paragraphs 6.99-6.101.

[44] Branches" refer to unincorporated entities wholly owned by the parent (headquarters) institution; and subsidiaries, to incorporated entities more than 50 percent owned by the parent institution.

separate lines, or in “country notes”.

107. Deposits in banks are to be separately reported under the headquartering distinction. However, under the residency concept set forth in the *BPM6,* monetary authorities’ deposits held in resident banks (including banks “headquartered and located in the reporting country” and banks “headquartered abroad but located in the reporting country”) do not constitute external claims on nonresidents and are not considered reserve assets.

108. The identification of institutions headquartered in and outside the reporting country provides important information. Thus, *line I.A.(b) (ii), “banks headquartered in the reporting country,”* should be used to report the monetary authorities’ deposits in domestically-controlled banks; the line *“of which located abroad*,” should be used to report the monetary authorities’ deposits in foreign branches and subsidiaries of domestically-controlled banks. *Line I.A.(b)(iii), “banks headquartered outside the reporting country”* should be used to disclose deposits in foreign-controlled banks; the line “of which located in the reporting country” should be used to report deposits in foreign-controlled banks’ branches and subsidiaries located in the reporting country. In cases where the monetary authorities have ownership stakes in institutions headquartered and located outside the reporting country, the monetary authorities’ deposits in such nonresident institutions should not be included in reserve assets. If they are nonetheless included despite this guidance, the amounts should be clearly stated in country notes accompanying the data.

109. Under the *BPM6,* holdings of foreign currency securities issued by entities “headquartered and located in the reporting country” represent the authorities’ claims on residents; such assets, therefore, are not considered external assets; where such assets are liquid and readily available, they should be reported under Section I.B. of the template. (See para. 62.) Holdings of securities issued by entities “headquartered in the reporting country but located abroad” can be included in reserve assets if they meet the relevant criteria; these securities should be reported under item I.A.(1)(a). Holdings of domestic government’s securities denominated in foreign exchange are not official reserve assets.

Reconciling the Reserves Template Data and the *BPM6* Concept of Reserves

110. *In principle, official reserve assets specified in Section I.A. of the data template should correspond to the data on international reserves countries compile for balance of payments purposes under the guidelines of the BPM6.* The definition of official reserves should be consistent across all macroeconomic statistics sets in the member country. Where countries do not now adhere to the *BPM6*, the operational guidelines provided in this document are intended to promote countries’ adherence to such an international standard and the full disclosure of their operational coverage of reserve assets. (See also paragraph 62.)

111. Official reserve assets shown in Section I.A. of the template and the *BPM6* components of reserve assets can be reconciled through a concordance of the two presentations as discussed below.

112. The *BPM6* lists types of reserve assets in this order: monetary gold, special drawing rights (SDRs), reserve position in the IMF, currency and deposits, securities, financial derivatives, and other claims. In the data template, reserve assets are identified to include foreign currency reserves (viz., securities and deposits), IMF reserve position, SDRs, gold, and other reserve assets. The reordering of the components as shown in the data template reflects the prominence of foreign exchange in reserves management in today's global financial environment. As noted earlier, the components of foreign currency reserves and other reserve assets in the data template together correspond closely to the BPM6 coverage. (See Table 2.1.)

113. Since countries report currency in total deposits in the reserves data template, item I.A.(1)(b) corresponds to currency and deposits under reserve assets listed in the *BPM6.*

114. In deriving deposits in reserve assets under the *BPM6* concept, one generally would include only these items shown in Section I.A. of the template: (1) deposits with other central banks, the BIS, and the IMF, (2) deposits held in foreign branches and subsidiaries of domestically-controlled banks, and (3) deposits in banks "headquartered and located outside the reporting country." The *BPM6* does not allow deposits in resident banks to be included in reserve assets.[45]

115. With respect to securities, holdings of foreign currency securities issued by nonresident entities to be included in I.A.(1)(a) and net, marked-to-market values of highly liquid financial derivatives positions with nonresidents to be included in I.A.(5) of the template, taken together, correspond to "securities" and financial derivatives listed in reserve assets in the *BPM6.* (See Table 2, footnote.)

116. Given the coverage of items I.A.(1) under "foreign currency reserves" and I.A.(5) under "other reserve assets" of the reserves data template, these two items correspond to currency and deposits, securities, financial derivatives, and other claims in reserve assets shown in the *BPM6.*

117. Both the *BPM6* and the reserves data template prescribe market valuation of reserve assets. There should be no difference in the value of reserve assets reported under the *BPM6* and that shown for official reserve assets under Section I.A. of the data template. Countries should apply consistent valuation methods for balance of payments and IIP reporting purposes and for compiling the template data.

Defining Other Foreign Currency Assets in Section I.B.

118. The foreign currency liquidity of a country is assessed by comparing its total foreign currency resources with its short-term predetermined and contingent drains on such resources. Foreign currency resources include reserve assets and other foreign currency assets of the authorities. A key definitional difference between other foreign currency assets and official reserve assets is that other foreign currency assets can emanate from positions by residents with other residents. Based on this liquidity concept, *"other foreign currency*

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[45] See the exception discussed in paragraph 68.

assets," like reserve assets, *must be liquid foreign currency assets* that meet the criteria of being available for use by the authorities in times of a crisis. Pledged assets that are clearly not readily available should be excluded.

Other Foreign Currency Assets—Item I.B. of the Reserves Data Template

119. Like reserve assets, these assets must be in convertible currencies so that they can be available on demand to meet foreign currency needs of the authorities.

120. Like reserve assets, these assets must represent actual claims; credit lines and swap lines are not to be included.

121. Like reserve assets, these assets must be settled in foreign currencies; foreign currency assets settled in domestic currencies should be disclosed in Section IV under memo items.

122. Unlike reserve assets, *these assets do not need to be external assets; they can be claims on residents*.

123. Liquid foreign currency claims on nonresidents not included in reserve assets should be included in "other foreign currency assets."

124. These assets should be reported both for the monetary authorities and for the central government (excluding social security funds). As noted earlier, in view of the difficulties of collecting information from the central government, only assets of these entities that are materially significant should be included.

125. Examples of "other foreign currency assets" include:

- The authorities' foreign currency deposits in banks "headquartered and located in the reporting country" not included in reserve assets.
- The authorities' foreign currency deposits in banks "headquartered abroad but located in the reporting country."
- The authorities' investment in foreign currency securities issued by entities "headquartered and located in the reporting country."
- Gold bullion with a purity of less than 995/1,000 which should be excluded from reserve assets.
- Net marked-to-market values of highly liquid financial derivatives that represent (1) net claims of the monetary authorities on residents, and (2) net claims of the central government (excluding social security funds) on residents and nonresidents.
- Working balances abroad of government agencies available for immediate use. Nonetheless, if these balances are not large and reporting would entail a significant administrative burden, they could be omitted.

- Liquid foreign currency assets that are readily available and controlled by the central government and are of material significance, such as assets held in Special Purpose Government Funds and which are not included in official reserves assets.[46]

126. In reporting "other foreign currency assets" in the reserves data template, countries need to specify the major categories of such assets.

127. If assets are reclassified from reserve assets to other foreign currency assets or vice versa, this should be explicitly stated in country notes accompanying the reserves data template.

Applying Approximate Market Values to Reserve Assets and Other Foreign Currency Assets

128. In principle, "reserve assets" are to be valued at market prices. For purposes of the template, "other foreign currency assets" of the authorities should be valued on a similar basis. In practice, however, accounting systems may not generate actual market values on all reporting dates for all classes of instruments. In these cases, approximate market values may be substituted. In valuing reserve assets and other foreign currency assets, interest earnings, as accrued, on such foreign currency resources should be included.

Guidelines for Applying Market Valuation on Assets

129. *The market valuation should be applied to* reserve assets and other foreign currency assets outstanding (that is, the stock of the assets) on the *reference date (that is, at the end of the appropriate reporting period).* If necessary, the stock of assets on the reference date can be approximated by adding the net cumulating flows during the reference period to the stock at the beginning of the reference period.

130. Periodic revaluations of the different types of assets should be undertaken to establish benchmarks on which future approximations can be based. It is recommended that such benchmark revaluations be undertaken at least on a quarterly basis. For each reporting period, at a minimum, the value of foreign currency instruments should be adjusted using the market exchange rates applicable on the reference date to arrive at an approximate market value of the assets.

Securities

131. The stock of *equity securities* of companies listed on stock exchanges can be revalued based on the midpoint of the quoted buy and sell prices of the shares on their main stock exchange on the reference date.

[46] Depending on national circumstances, the liquid foreign currency assets of Special Purpose Government Funds, usually called Sovereign Wealth Funds, may be in official reserves assets or not. For more guidance on the classification of foreign currency assets of Special Purpose Government Funds see *BPM6*, paragraphs. 6.73-6.98.

132. For *debt securities*, the market price is the midpoint of the buy and sell prices at the close of business on the reference date and includes accrued interest. If that value is not available, other methods of approximation include yield to maturity, and discounted present value.

Currency, Deposits and Loans

133. The market value of currency, deposits and loans generally is reflected in their nominal (face) value.[47]

Financial Derivatives

134. *Financial derivatives* reported in Section I are to reflect their market values. For futures contracts, this involves marking to market. Given the daily settlement of gains and losses on futures exchanges, it is unlikely that prices of futures contracts will be reported. The market value of swap and forward contracts is derived from the difference between the initially agreed contract price and the prevailing (or expected prevailing) market price of the underlying item. The market values of options depend on a number of factors including the contract (strike) price, the price and price volatility of the underlying instrument, the time remaining before expiration of the contract, and interest rates. (See also Chapter 5.)

Monetary Gold

135. *Monetary gold* is valued at the current market price of commodity gold. The basis of valuation (such as the volume and the price used in the computation) is to be disclosed. (The sample form in Appendix II provides the specific reporting of the volume of gold, with the expectation that the price could be deduced from the reported data.)

SDRs

136. *SDRs* are valued at an administrative rate determined by the IMF. The IMF determines the value of *SDRs* daily in U.S. dollars by summing the values, which are based on market exchange rates, of a weighted basket of currencies. The basket and weights are subject to revision from time to time.

Reserve Position in the IMF

137. *The reserve position in the IMF* is valued at a rate reflecting current exchange rates (of the SDR against the currency used to report the reserves data template for the reserve tranche position, and of the currency in which loans by the reporting country to the IMF are denominated in the case of outstanding loans by the reporting country to the IMF that meet the definition of a reserve asset).

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[47] Consistent with *BPM6* arrears of interest and principal are included in the value of the investment. Nonetheless, if arrears are persistent, the asset may no longer be considered of generally high quality (see paragraph 89), and so may not qualify for inclusion in reserves.

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Table 2.1 Concordance Between Classifications of Reserve Assets in *BPM5* and the Template

BPM5		Template
Reserve Assets	Corresponding to Template Item	Official Reserve Assets
Monetary gold	I.A.(4)	I. A. Official reserve assets
Special drawing rights	I.A.(3)	(1) Foreign currency reserves (in convertible foreign currencies)
Reserve position in the Fund	I.A.(2)	(a) Securities
Foreign exchange	I.A.(1), I.A.(5)	*of which:*
Currency and deposits*	I.A.(1)(b)	issuer headquartered in reporting country
With monetary authorities	I.A.(1)(b)(i)	(b) Total deposits with:
With banks	I.A.(1)(b)(ii), (iii)	(i) other central banks and BIS
Securities	I.A.(1)(a)	(ii) banks headquartered in the reporting country
Equities		*of which:*
Bonds and notes		located abroad
Money market instruments		(iii) banks headquartered outside the reporting country
Financial derivatives**	I.A.(5)	*of which:*
Other claims***	I.A.(5), I.A.(1), I.B.	located in the reporting country
		(2) IMF reserve position
		(3) SDRs
		(4) Gold (including gold on loan)
		(5) Other reserve assets (specify)

*Excludes deposits in banks located in the reporting country unless certain restrictive conditions are met (see text).

**Showing a separate line for financial derivatives is a provisional guideline in BPM5 and subject to review.

***Only to the extent that working balances abroad of government nonmonetary agencies or assets that are held by banks and subject to the control of the monetary authorities are recorded under "other claims" in BPM5.

Table 2.1 Concordance Between Classifications of Reserve Assets in *BPM6* and the Template

BPM6		**TEMPLATE**
Reserve Assets	**Corresponding to Template Item**	**Official Reserve Assets**
Monetary gold Gold Bullion Unallocated Gold Accounts *Of which* Monetary gold under swap for cash collateral Special drawing rights Reserve position in the IMF Other reserve assets Currency and deposits * Claims on monetary authorities Claims on other entities Securities Debt securities Short-term Long-term Equity and investment fund shares Of which Securities under repo for cash collateral Financial derivatives Other claims	I.A.(4) I.A.(3) I.A.(2) I.A.(1), I.A.(5) I.A.(1)(b) I.A.(1)(b) (i) I.A.(1)(b)(ii), (iii) I.A.(1)(a) I.A.(5) I.A.(5), I.A.(1).	I. A. Official reserve assets (1) Foreign currency reserves (in convertible foreign currencies) (a) Securities *of which:* issuer headquartered in reporting country (b) Total deposits with: (i) other central banks and BIS (ii) banks headquartered in the reporting country *of which:* located abroad (iii) banks headquartered outside the reporting country *of which:* located in the reporting country (2) IMF reserve position (3) SDRs (4) Gold (including gold deposits and, if appropriate, gold swapped) (5) Other reserve assets (specify)

* Excludes deposits in banks located in the reporting country.