2. Scope and Modalities

This chapter sets out the scope and modalities of the CPIS, SEFER, and SSIO.

I. Scope of the CPIS

A. Participation

2.1 All countries are welcome to participate. The IMF has invited the participants of the 1997 CPIS; 41 other major investing countries that were invited on the basis of the size of reported portfolio investment in their IIPs or balance of payments statistics; and 16 SEIFiCs (in addition to Bermuda, which participated in the 1997 CPIS). Other IMF members have been advised of the 2001 CPIS and are welcome to participate if they wish.

2.2 Each participating country will conduct its own national survey at the **reference date of end-December 2001.**[9] To meet the objectives set by the IMF Committee, each national survey must incorporate certain mandatory features. These mandatory features constitute the framework for the conduct of the CPIS and are incorporated in the model survey forms contained in Appendices I–V. Because the model forms meet the objectives of the CPIS, they may be used to conduct the national survey.[10]

B. Mandatory Items

(i) Date

2.3 The national survey is to be conducted in respect of portfolio investment positions as at close of business, December 31, 2001.

(ii) Assets

2.4 The national survey must cover portfolio investment assets of domestic residents; that is, securities issued by nonresidents and owned by residents[11]—outward investment.

(iii) Type of securities

2.5 The national survey must cover equity securities, debt securities with an original maturity of over one year (long-term), and debt securities with an original maturity of one year or less (short-term) issued by nonresidents and owned by residents of the compiling economy. Equity securities must be reported **separately** from debt securities, and short-term debt instruments should be reported separately from long-term debt instruments. These categories of securities are more fully defined in Chapter XIX of the *BPM5* and in Appendix VI of this *Survey Guide*. Note that the inclusion of short-term debt instruments as a mandatory requirement is a change from the 1997 CPIS, when short-term instruments were not mandatory. Table 3.1 indicates the range of instruments covered by the participants in the 1997 CPIS.

2.6 Unlike the 1997 CPIS, financial derivatives are **not** included in the 2001 CPIS. The three major reasons for this are as follows:

- In the 1997 CPIS, of the 29 countries that participated, only 2 provided any results, and there is the possibility that for the 2001 CPIS, at least, additional information may not be forthcoming.

[9]Where reference is made in this *Survey Guide* to the 2001 CPIS, it should be taken to cover any future CPIS as well, until such time that this *Survey Guide* is superseded.

[10]The forms are not mandatory: they are proposals that countries may use in their entirety, in part or not at all, depending on the situation in each participant's own country. The forms are drawn from the countries with experience in conducting similar surveys.

[11]*Residence* is an important concept in the CPIS and should not be confused with nationality. The economy in which an entity has its center of economic interest is where it resides. Residents need not be nationals of the economy in which they are located. The country of legal incorporation—or in the absence of legal incorporation, legal domicile—is one practical method of determining residence of corporate entities. See Chapter 3, Section III, for further discussion on residence.

- At the time of the 1997 CPIS, financial derivatives were included in *portfolio investment;* since then a new functional category, *financial derivatives,* has been created in *BPM5.*[12] Consequently, as the CPIS is a survey of portfolio investment, financial derivatives do not qualify.
- The IMF Committee felt that it was important to keep the survey to a single, discrete undertaking. For the same reason, direct investment and other investment were excluded.

(iv) Country breakdown

2.7 To enable data exchange, a full geographic attribution of securities issued by nonresidents and owned by residents is a necessary feature of the CPIS. In other words, securities are to be allocated geographically by the country of residence of the issuer, by type of security. In some instances, to reduce respondent burden, a threshold of holdings may be used so that any holdings below that threshold need not be reported separately.

2.8 The country breakdown is to be based on the International Standards Organization (ISO) code 3166. Securities issued by international organizations (IOs) are **not** to be allocated to the country in which the IO is located but rather to a separate IO category. Guidance on geographic attribution is provided in Chapter 3; the model survey forms in Appendices I–V contain the ISO country breakdown.

(v) Methodology

2.9 The concepts and principles underlying the CPIS conform with those contained in *BPM5.* The most important of these, for the conduct of the CPIS, are discussed in Chapter 3 of this *Survey Guide.* When compilers apply the concepts and principles to their surveys, practical reporting issues will arise for which consistent treatment across countries is required. Guidance is provided in Chapter 4. It is important for purposes of data exchange that methodology be applied as consistently as possible across countries.

C. Encouraged Items

2.10 Several elements of the survey are not considered mandatory; countries are encouraged to report these elements if they want to extend the scope of the national survey beyond the mandatory requirements of the CPIS, although, in doing so, the compilers would increase the complexity of the exercise. Hence, it is important that national compilers consider the objectives and scope of their national survey at the outset. Some of these elements are different from encouraged items for the 1997 CPIS.

(i) Liabilities

2.11 Compilers might consider extending the national survey to include securities issued by residents and owned by nonresidents (that is, portfolio investment liabilities of residents—inward investment). The national survey would then cover both outward and inward investment. Compilers could compare the data from the inward survey with that received from the data exchange. However, it is recognized that collecting geographic data on liabilities on the correct basis—the *debtor/creditor* principle—may not be possible. Frequently, countries can only collect information on a *transactor* basis. The *debtor/creditor* principle will attribute the liability to the correct country of holder whereas the data collected on the *transactor* basis are likely to record the country of residence of the first party to acquire the security. Any subsequent trading between nonresidents will not be recorded because the national compiling system may not be capable of obtaining this information. Nonetheless, the comparison may still be useful to indicate the nature and size of discrepancies resulting from the two approaches.

(ii) Currency breakdown

2.12 The national survey could be extended to include a currency breakdown of securities (by type of instrument, not by counterpart country) issued by nonresidents and owned by domestic residents. This provides compilers with more scope to verify income data using position data because the yields calculated will be more accurate if they are computed by currency. However, for countries that do not have or cannot make use of a securities database, or which are collecting data on an aggregate basis (versus a security-by-security approach), it may not be possible to obtain such additional information without substantial additional cost and increased respondent burden.

(iii) Sectoral breakdown

2.13 National compilers may want to identify in their national survey the economic sector of domestic investors: for instance, collective investment schemes

[12] See IMF, *Financial Derivatives: Supplement to the Fifth Edition of the Balance of Payments Manual* (Washington, 2000).

(mutual funds, unit trusts), pension funds, and insurance companies. This would provide analytically useful information. However, the information may be impractical to collect where custodians are the primary source of information. The sectoral breakdown is explored further in Chapter 3.

II. Modalities of the CPIS

2.14 Because a considerable degree of complexity is involved in organizing a portfolio investment survey—no matter which approach is taken—compilers undertaking the survey for the first time are strongly recommended to undertake initial investigations with financial market participants before deciding which approach to take. This issue is discussed in Chapter 4.

2.15 In determining the approach to take, national compilers must focus on two key issues: whom to survey (**coverage**) and the **degree of detail** to request. This will determine the collection methods to use. Guidance on how to make these important decisions is provided in Chapter 4, drawing on practical experiences of countries involved in previous surveys of portfolio investment. Chapter 5 guides compilers on some of the other practical applications and Chapter 6 presents some of the practical experiences countries had compiling the 1997 CPIS. Appendices I–V provide model survey forms.

A. Coverage

2.16 National compilers will have to investigate how to achieve comprehensive coverage of resident investment in securities issued by unrelated nonresidents. They should be mindful that the population of investors is not necessarily the population to be surveyed. Decisions will have to be made on which entities should be surveyed. The possibilities are

- primarily **end-investors** (e.g., banks, security dealers, pension funds, insurance companies, mutual funds, nonfinancial corporations, households);
- primarily **custodians,** who hold or manage securities on behalf of others; and
- a **combination of end-investors** and **custodians.**[13]

[13]An alternative approach is to survey investment managers. Operating within specific contractual guidelines, and in return for the payment of a fee, investment managers buy and sell securities on behalf of their clients to maximize the goals set out under the contract. The investment managers do not take these assets on to their own balance sheets. Surveying investment managers is complex, and this approach is recommended only when compilers have experience in conducting such surveys. For countries interested in exploring this approach further, a discussion of the advantages and disadvantages is presented in Chapter 4, Section II.C.

2.17 The advantages and disadvantages of each approach are explained in Chapter 4. No matter which approach is taken, it is important that national compilers have a degree of understanding of the relationship between domestic investors and survey respondents, so as to avoid undercounting or double counting.

B. Degree of Detailed Information

2.18 The data required to meet the objectives of the CPIS can be collected through either a **security-by-security approach**—where survey respondents provide information on each holding of securities issued by nonresidents owned by individual instrument held—or an **aggregated approach**—where securities issued by nonresidents owned are reported by survey respondents in aggregate for each counterpart country, in a common (usually domestic) currency.

2.19 The advantages and disadvantages of the two approaches are given in detail in Chapter 4. Whichever approach is taken, it is important that good control checks be established in order to ensure high-quality data (see also Chapters 5 and 6).

C. Other Modalities

2.20 Considerable other preparation is required for a portfolio investment survey: namely, establishing a timetable, taking account of legal and confidentiality considerations, developing a mailing list of survey respondents, choosing and developing computer software to process the data provided, and maintaining quality-control checks. Chapter 5 provides guidance on these modalities.

D. Network of National Compilers

2.21 The Task Force recognized that national compilers, as they prepare for their national survey, might require advice in addition to that provided in this *Survey Guide.* To assist national compilers, a network of contacts has been established, designating compilers with considerable expertise in conducting portfolio investment surveys. This network will be coordinated by the IMF. National compilers who require advice can contact any of the members of the IMF Task Force on the 2001 Coordinated Portfolio Investment Survey, shown at the front of this document, or:

Task Force on the 2001 Coordinated Portfolio Investment Survey
Balance of Payments and External Debt Division I
Statistics Department

International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.
Telephone number: (202) 623-7930
Facsimile number: (202) 623-6033
E-mail address: cpis@imf.org

E. Data Exchange

2.22 After the survey data have been collected, validated, compiled, and checked for quality, national compilers will supply them to the IMF, which will facilitate exchange of data among countries. Data can be denominated either in domestic currency or in U.S. dollars (countries will be asked to indicate which has been used). Details regarding data exchange are not included in this *Survey Guide,* but will be finalized before the reference date of end-December 2001. To help ensure international comparability and for future reference, each country will be required to provide documentation—for instance, survey forms or metadata (describing the coverage, approach, collection methods, computer systems, etc.)—to the IMF on how it conducted the survey, in the same fashion as was done with the Country Implementation Reports for the 1997 CPIS.[14] An understanding of the survey procedures and of the overall coverage and reliability is important, not only for users of the data, but also because counterpart countries may wish to use the data in constructing their liability positions. Providing as much detail as possible is essential for that assessment, and countries will be encouraged to be as comprehensive as possible. Moreover, to the extent that there may be data exchange bilaterally, any particular elements of the data that may affect any particular counterpart country should be identified. Data exchange has strong potential benefits between two countries, but each country must be able to provide the other country with additional information—while, at the same time, being able to ensure that any confidentiality concerns are adequately addressed.

F. Timeliness

2.23 It is intended that the results from the 2001 survey be provided to the IMF by the end of September 2002 at the latest. If final data are not available by that date, preliminary estimates will be acceptable. It is expected that the results of the survey, in conjunction with results from SEFER, will be published by the IMF by the end of 2002 or early in 2003. Subsequent surveys will follow the same timeliness.

[14]Country Implementation Reports were prepared by all the participating countries in the 1997 CPIS. These reports provided their metadata, indicating what was covered (the institutional units), the approach(es) taken (aggregate, security-by-security, end-investor, custodian, a combination of these), how nonresponse was addressed, the computer systems used, and similar elements of the survey that are important to understand quality dimensions.

III. Modalities of the SEFER

2.24 SEFER is a survey of the geographical breakdown of holdings of securities held as part of reserve assets. It is related to the CPIS in that it uses the same concepts and definitions and is necessary to give a comprehensive view of securities markets and portfolio investment. However, different collection, processing, and publication procedures are used.

2.25 One of the main objectives of the CPIS is to reconcile portfolio investment asset and liability positions. Although the foreign securities component of reserve assets appear under a separate heading from portfolio investment in *BPM5,* securities held as part of reserve assets are part of the portfolio investment liabilities of the issuers. From the perspective of the issuer, securities that are held as reserve assets are indistinguishable from those held in *portfolio investment.* Moreover, securities held as part of reserve assets make an important contribution to securities markets that should not be ignored. Consequently, for the CPIS project, it is necessary to cover portfolio investment and reserve assets in an integrated way for a comprehensive reconciliation of portfolio investment asset and liability positions.

2.26 One problem in collecting data on the geographical breakdown of securities issued by nonresidents and held as part of a country's reserve assets is that some monetary authorities do not wish to release these data publicly. Since data relating to individual countries' reserve holdings are not required for the CPIS project, reserve assets data can be included in other aggregates. For the 1997 project, two options were used. For some countries, data on holdings of securities held as part of reserve assets were collected by the IMF through SEFER. The data were provided to the IMF on a confidential basis, and were published only in totals together with data on the holdings of portfolio investment of selected large IOs. However, some other countries reported CPIS data total securities holdings that included both portfolio investment and reserve assets, rather than through SEFER. Because of these two treatments used for the 1997 CPIS, it was not possible to make a proper comparison between and among countries with respect to their comparative share of assets held as part of *portfolio investment.* **Accordingly, to avoid this lack of comparability in the 2001 results, all countries will be asked to report CPIS data that exclude reserve asset holdings and to report asset holdings data separately through SEFER.**

2.27 Data reported for the SEFER survey will be treated in a confidential manner. Data reported for SEFER will be handled separately by a small number of IMF staff using secure procedures to ensure confidentiality. Transmission of data will be adequately protected by the confidential classification. The set of guidelines governing the security of information entrusted to the IMF on a confidential basis ensures that necessary and sufficient levels of protection against unauthorized access and disclosure are afforded to all sensitive information. The results of SEFER will be published in aggregate form only. These aggregates will comprise the securities holdings within *reserve assets* of all countries reporting for SEFER, plus the portfolio investment holdings of the international organizations (for which see below, "Modalities of the SSIO"). If any aggregated component is dominated by the holdings of a single or small number of reporters, it will not be published.

2.28 Those countries that wish to publish the geographical breakdown of their securities holdings within *reserve assets* are free to do so. However, to ensure international consistency within the CPIS, they should be prepared to supply to the IMF CPIS data (excluding reserves) and the reserves data separately for inclusion in SEFER results.

2.29 Data reported under SEFER will be aggregated and will be included in the CPIS publication. Therefore, the SEFER data will need to be reported to the IMF in a timely fashion for inclusion with the CPIS published results. It is proposed that all the data from the SEFER will be reported to the IMF by June 28, 2002.

IV. Modalities of the SSIO

2.30 The Survey of Geographical Distribution of Securities Held by International Organizations (SSIO) is a survey of international organizations that are understood to have significant holdings of securities. The survey will be conducted by the IMF on a confidential basis and is designed to obtain the value of these organizations' holdings of securities on a country by country basis. The data will be combined with those from SEFER, and will be published as a single vector, so that no one organization's holdings will be identifiable. It is proposed that all the data from SSIO will be reported to the IMF by June 28, 2002.

2.31 For the purposes of the CPIS, the balance of payments, and the international investment position, pension funds of IOs are treated as residents of the countries in which the international organizations are resident. Consequently, these holdings should be excluded from the SSIO. For further discussion of IOs, see Chapter 3, Section III.C, International organizations and regional central banks, paragraphs 3.28 through 3.32, of this *Survey Guide.*