Discussion comments on session STCPM27: Portfolio investment statistics

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1. General issues concerning cross-border portfolio investment statistics

The rapid growth of international financial flows, as a consequence of greater interdependence among economic areas, poses numerous challenges to the compilation of external financial statistics in general and cross-border portfolio investment statistics in particular. Central Banks, in their dual role as users and producers of statistics, are well aware of both the increasing need for such statistics and the growing difficulty of collecting and compiling them. On the one hand, it is difficult for national compilers to obtain accurate information on portfolio investment liabilities that are not settled through domestic custodians. On the other hand, collecting information on the assets side is constrained by the increasingly important aim of limiting the reporting burden.

The papers presented in this session demonstrate very well the two main solutions that have been found to overcome, or at least alleviate, these problems. The first solution is to develop and maintain security-by-security (s-by-s) portfolio data collection systems and databases, preferably not only for cross-border flows and stocks, but for all transactions and positions. This is clearly illustrated in the two Portuguese papers presented in this session. The second solution has been the worldwide Coordinated Portfolio Investment Survey (CPIS), designed to collect data on the (portfolio) holdings of equity and debt securities by residence of the issuer. This important initiative is one of the subjects surveyed in the IMF paper.

The four papers in this session that I have been asked to discuss can be grouped in two categories. The Dutch and Portuguese papers complement each other, since the latter explains the general approach towards portfolio investment data collection, while the former deals with a specific issue in that context. Similarly, the paper from India provides an illuminating example of the framework described in the IMF paper. Thus, I would like to review the papers in that order, before setting out a few general issues for discussion, in light of the recent turbulence in the global financial markets and the “information deficit” that has been highlighted in that context.

2. Paula Casimira Dias: “The Portuguese experience in compiling portfolio investment statistics”

This, in my view, is an excellent paper, reviewing the pros and cons of various options for portfolio investment data collection and arguing convincingly – in little more than three pages – the case for a general security-by-security approach and a mixed indirect-direct reporting system. For that reason, I can warmly recommend this paper to portfolio investment statistics compilers worldwide.

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It demonstrates, in particular, the advantages of an s-by-s data collection system over an aggregate data reporting system, for reasons of higher data quality and flexibility, and reduced costs for respondents. At the same time, the paper argues that such a data collection system is vitally dependent on the availability of a unique identifier for all securities (namely, the currently widespread ISIN code) and entails considerable set-up and maintenance costs for statistics compilers. In that context, however, it is conceivable that even to the statistics compilers, the "total cost of ownership" of an integrated s-by-s data collection system – over, for example, a five-year period – may be less than that of an aggregate data reporting system. This comparison should also take account of the additional running costs of an aggregate data reporting system, since more resources are spent on (a) other statistics (eg securities issues statistics, investment funds statistics, calculations of interest on an accruals basis and financial accounts including from-whom-to-whom data); (b) data quality checking, including further contacts with reporting agents; and (c) changing the collection system if new data needs arise or new international methodological standards are agreed upon. It is more efficient to society if data aggregation is carried out only once, in a central location, rather than separately by each respondent. In addition, it is interesting to learn that in an s-by-s data collection system respondents prefer to report data on flows and stocks at the same (high) frequency.

Concerning the selection of respondents, the Portuguese system has opted for a mixed system, in which indirect reporting by resident custodians is complemented by direct reporting by end-investors on their securities held in custody abroad, and by data from the CPIS. It is acknowledged that the CPIS still has some limitations, including missing data from several countries and the absence of a geographical allocation of securities held as foreign reserve assets – issues on which the IMF may also want to reflect further.

Understandably, the direct reporting system is not applied to households, and this is not viewed as a major issue at present. At the same time, a convincing plea is made for creating an international third-party reporting system.

Another issue that is not mentioned by the author relates to the possible lack of sufficient reference information (eg issuer sector), particularly concerning data on securities holdings provided by direct reporters. Finally, the author touches upon two challenges of this mixed reporting system that may warrant further clarification, namely, how to exclude (a) repo-type transactions and positions; and (b) direct investment holdings. Fortunately, the former issue is the subject of the Dutch paper, to which I now turn.

3. Raymond Chaudron: "Collecting data on securities used in reverse transactions for the compilation of portfolio investment – how to compromise between theory and practice"

This paper complements the previous one by focusing on the complexity of collecting appropriate data on repurchase agreements and securities lending that involve a change of legal, but not economic, ownership. In addition to an overview of the international methodological guidelines, it describes the possible roles of the intermediary in this process, which may or may not also act on its own account, and the fact that securities lending operations are often executed without concomitant payments. An additional complexity is that many of these transactions are settled through foreign custodians.

The paper briefly summarises the Dutch data collection systems for both assets and liabilities, and explains why a reporting system for assets based on legal ownership did not yield the expected results and was ultimately abandoned in favour of a reporting system based on economic ownership, with short positions being reported as negative holdings. This change was implemented at the request of, and in close coordination with, the direct reporters concerned, who no longer needed to exclude the securities exchanged under reverse transactions from their portfolio asset holdings. At the same time, custodians and other intermediaries are only able to provide information on the basis of legal ownership. However, empirical investigation concluded that in the Dutch case the net amounts involved in cross-border securities lending and borrowing were very small at present, and a decision was therefore taken to ignore the amount of Dutch securities held with resident custodians and used in cross-border reverse transactions.

A specific, topical issue in this context is the extent to which this reporting system is also able to cater for all kinds of new financial instruments, many of which are closely related to reverse transactions. For instance, the paper explains that some intermediaries have developed automated systems for securities lending without the consent of the owner, in which the demand for securities is matched with the supply from a pool of client portfolios, and new securities can be substituted in the case of an early recall. However, this presupposes that such recalls do not all occur at the same time. As recent developments have demonstrated, this condition may not always be met, and in that case the global financial system could be affected. This, then, brings us to the IMF paper.

4. Lucie Laliberté and John Motala: "Comparable data on bilateral external positions, an insight into globalisation"

The IMF paper explains that, apart from the obvious advantages, deepening financial globalisation has increased economies' vulnerability to risks, in particular credit, currency, maturity and instrument composition risks. In order to help analyse these risks, the IMF uses the so-called balance sheet framework, which is conceptually derived from the 1993 System of National Accounts (SNA). The paper specifically calls for strengthening the non-resident stocks and flows in this framework, broken down by specific partner economies, and sketches the important contribution that the IMF's CPIS and forthcoming Coordinated Direct Investment Survey (CDIS) make to this endeavour. In that context, it is essential to identify the ultimate foreign creditors and debtors, which also points to the importance of complete coverage by these surveys, particularly as regards offshore financial centres. The presenter of the paper may want to elaborate on the current coverage of these surveys and on the IMF's plans, if any, to use its leverage to further increase coverage.

In addition, in view of the usefulness of the CPIS for national compilers across the globe, it may be desirable to investigate the feasibility of increasing its timeliness and frequency, as well as its coverage of securitisation, private equity and hedge funds.

Another laudable effort reported upon in the paper concerns the Joint External Debt Hub, in which various international organisations bring together the data that they each compile on external debt and provide for joint external dissemination of these data. The authors underline the importance of data consistency, which they define as data compiled according to common guidelines, ie the 1993 SNA. Needless to say, however, this is a necessary – but by no means sufficient – condition for data consistency. In that regard, it would be interesting if the presenter could inform us about the results of a recent IMF initiative in which external debt and international investment position (IIP) statistics were compared, and in which reporting countries were asked to reconcile major differences. All countries across the globe have a responsibility to compile timely, consistent and comprehensive external statistics, and this effort is illustrated in the final paper that I will discuss, concerning external statistics for India.

5. Agam Prakash Gaur: “Trends in portfolio investment statistics – India”

India constitutes a prominent example of an emerging economy that is changing from a passive recipient of investment to an active player in the world economy, and the statistics of such emerging economies should be developed in accordance with their increasing global role.

This paper presents several external statistics collected and compiled by the Reserve Bank of India and effectively illustrates some recent progress in this field, including the compilation of quarterly IIP statistics. The participation of India and other emerging economies in global initiatives coordinated by international organisations, such as the CPIS and the CDIS, is very welcome and will certainly contribute to the common goal of better understanding the world’s cross-border portfolio and direct investment flows and positions.

Although the data already contain some useful breakdowns, the author may want to explain whether there are any plans in India for a full sectoral breakdown of the external statistics, which, ideally, should then be embedded in a quarterly financial accounts framework. Another issue concerns the timeliness of the statistics, since there is still a two-quarter time lag for quarterly statistics.

Interestingly, the author reports that substantial investment takes place through special purpose vehicles set up abroad for this purpose, again underlining the importance of worldwide initiatives to collect the appropriate data, including data from offshore financial centres.

6. General issues for discussion

In addition to the various pertinent issues raised by the papers discussed above, it may be useful to reflect upon the recent events in the global financial markets, which have clearly demonstrated that the current size and dispersion of financial interrelationships can lead to rapid worldwide impact from an event that previously would, at most, have been a national phenomenon, namely the sub-prime mortgage loan crisis in the United States. The extent and nature of the interdependencies had not become apparent from current cross-border portfolio investment statistics. Indeed, in this case even the immediately involved market participants struggled to obtain all of the relevant micro information.

A first tentative conclusion could be that high-frequency, timely, comprehensive statistics on securitisation and on special purpose vehicles are a high priority. Second, there appears to be an urgent need for more transparent data on hedge funds and private equity. Third, the feasibility of collecting more complete, very high-frequency statistics on short-term paper issues (and holdings, if possible), by original and remaining maturity, could be investigated. Fourth, the conceptual and practical issues of better statistical coverage of risk transfers, as embedded in new financial derivative instruments, deserve further reflection in international fora. The value of the statistics would be considerably enhanced if a worldwide coverage of “reporting havens”, including off-shore financial centres, could be attained, without creating a disproportionate burden on respondents.

One final conclusion that may already be drawn at this stage is that all of these requirements point in the direction of further enhanced international cooperation among statistics compilers.