

# BIS debt securities statistics: a comparison of nationality data with external debt statistics

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The BIS compiles and publishes statistics on international, domestic and total debt securities (IDS, DDS and TDS, respectively). These statistics were revised in 2012 to achieve a closer alignment with the recommendations in the *Handbook on Securities Statistics*, which sets out an internationally agreed framework for classifying securities.<sup>2</sup> The DDS and TDS statistics are from national sources and compiled on a residence basis. The IDS statistics are based on security-by-security information purchased from commercial sources. The granularity of the underlying information enables the BIS to compile the IDS statistics by both the residence and the nationality of issuers. This note examines the extent to which IDS on a nationality basis are incorporated within components of external debt.

## Concept of nationality

Whereas residence underpins balance of payments (BOP) and system of national accounts principles, nationality is more closely associated with accounting and supervisory principles. In particular, nationality is based on concepts of corporate control and associated with the consolidation of assets and liabilities for related entities.<sup>3</sup>

Nationality is a proxy for the ultimate obligor, as opposed to the immediate borrower on a residence basis. Identification of the ultimate obligor is useful to analyse potential financial support that might be available from related entities and to understand links between borrowers in different countries and sectors. For example, the debts of a Cayman Islands subsidiary of a Brazilian company might be guaranteed by the parent company. The parent might thus be exposed to any liquidity or solvency difficulties experienced by the subsidiary.

Criteria for identifying the ultimate obligor are more strictly defined in the BIS consolidated banking statistics on an ultimate risk basis than in the BIS debt securities statistics. In the consolidated banking statistics, only certain credit risk mitigants are recognised as effectively transferring risks from the immediate borrower to another (ultimate) obligor. These include explicit guarantees, liquid collateral and credit derivatives (BIS (2013)). By contrast, the BIS debt securities

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<sup>2</sup> For an explanation of the revisions to the BIS debt securities statistics, see Gruić and Wooldridge (2012). The *Handbook on Securities Statistics* is available at [www.imf.org/external/np/sta/wgsd/hbook.htm](http://www.imf.org/external/np/sta/wgsd/hbook.htm). The BIS debt securities statistics are available at [www.bis.org/statistics/secstats.htm](http://www.bis.org/statistics/secstats.htm).

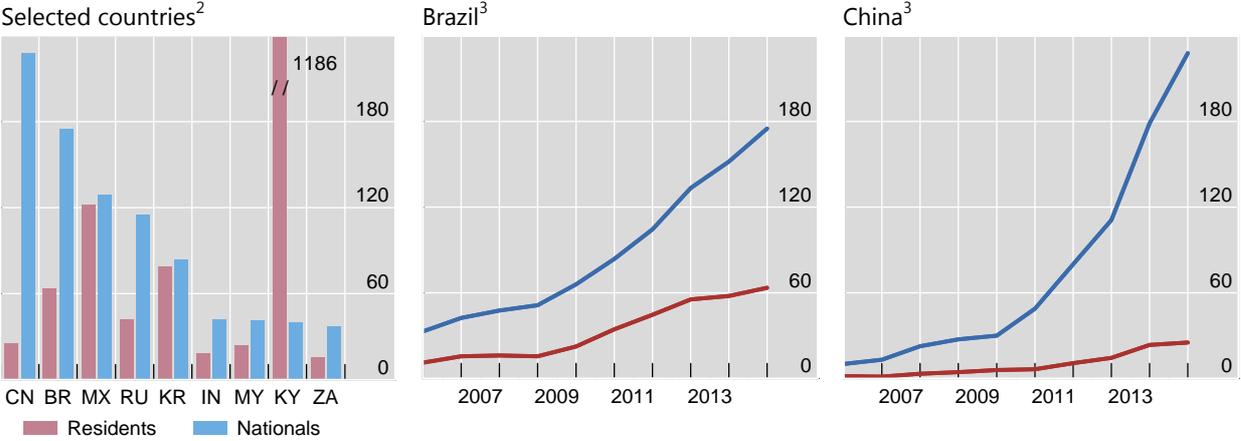
<sup>3</sup> For a discussion of corporate control and consolidation, see Irving Fisher Committee (2012).

statistics follow a simpler approach and equate the ultimate obligor with the ultimate parent. In other words, the nationality of an issuer is based on the country where its ultimate parent resides, regardless of whether the issuer's debts are explicitly guaranteed by the parent. Continuing with the abovementioned example, debt securities issued by the Caymanian subsidiary of a Brazilian company would be allocated to the Cayman Islands on a residence basis and Brazil on a nationality basis. For issuers that are part of complex corporate groups, it can be difficult to identify the ultimate parent and thus nationality may be based on an intermediate parent.<sup>4</sup>

International debt securities<sup>1</sup>

Amounts outstanding, in billions of US dollars

Graph 1



BR=Brazil; CN=China; IN=India; KR=Korea; KY=Cayman Islands; MX=Mexico; MY=Malaysia; RU=Russia; ZA=South Africa.

<sup>1</sup> Issued by non-bank financial corporations and non-financial corporations. <sup>2</sup> At end-June 2014. <sup>3</sup> At end-year, except 2014 at end-June 2014.

Sources: Dealogic; Euroclear; Thomson Reuters; Xtrakter Ltd; BIS debt securities statistics.

For many countries, the BIS's IDS statistics on a nationality basis are significantly larger than the statistics on a residence basis (Graph 1, left-hand panel). For example, at end-June 2014 outstanding IDS for China totalled \$228 billion on a nationality basis but only \$25 billion on a residence basis, and for Brazil \$175 billion by nationality compared to \$64 billion by residence. The main exceptions are international financial centres, such as the Cayman Islands, where issuance by residents typically exceeds issuance by nationals because foreign-owned financing vehicles are captured as resident issuers.

<sup>4</sup> The BIS identifies the parent based on information included with the security-by-security data purchased from commercial sources. In these data, information about group structures is often incomplete.

## Intercompany lending

The difference between the residence and nationality measures mainly captures IDS issued by the offshore affiliates of financial and non-financial corporations.<sup>5</sup> To the extent that the parent company is able and willing to stand behind the debts of its affiliates, the difference may be considered a proxy for contingent liabilities. In selected emerging market countries, including Brazil and China, such contingent liabilities have increased significantly in recent years (Graph 1, middle and right-hand panels). This has led some analysts to caution that growing offshore issuance could raise financial stability concerns, in particular increased vulnerability to external shocks, eg BIS (2014), Caruana (2013).

In this context, a question that arises is the extent to which such contingent liabilities are captured by standard measures of international indebtedness. In countries where companies issue international bonds through their offshore affiliates, are standard measures underestimating the build up of external liabilities? The answer is that it depends on the use of the borrowed funds.

If funds raised by offshore affiliates are on-lent to the parent company, then the on-lent portion will be captured by standard measures, albeit as an intercompany transaction. In external debt statistics, “intercompany lending” is identified separately as part of gross external debt. Intercompany lending has three components: debt liabilities of parents to their affiliates, debt liabilities of affiliates to their parents, and debt liabilities between related affiliates (Task Force on Finance Statistics (2013)). IDS issued by offshore affiliates and repatriated by the parent would be included in the first component.

Intercompany lending is also recorded in BOP and international investment position (IIP) statistics, as a “debt instrument” under foreign direct investment (IMF (2009)). However, liabilities to offshore affiliates are recorded on a net basis, ie direct investments by parents in offshore affiliates (eg purchases of debt securities issued by affiliates) less direct investments by affiliates in the parent (eg funds borrowed from affiliates). In IIP and BOP statistics, debt securities issued by offshore affiliates will also be recorded within portfolio investment if (unaffiliated) residents purchase a portion of the issue.

## Implications

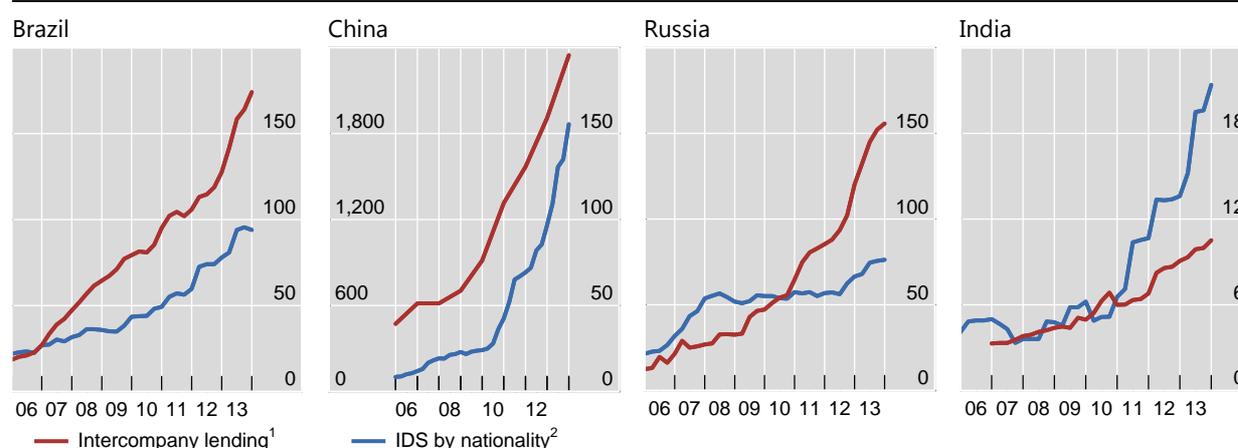
Available data suggest that a significant proportion of funds raised by the offshore affiliates of emerging market corporations has historically been on-lent to parents. Graph 2 compares outstanding debt securities issued by the offshore affiliates of Brazilian, Chinese, Indian and Russian companies to intercompany lending as reported in external debt statistics. Intercompany lending is not available for China and thus direct investment liabilities are shown instead, where liabilities comprise equity as well as debt instruments. Trends in IDS and intercompany lending are highly correlated.

<sup>5</sup> For a discussion of why some borrowers issue through offshore affiliates, see McCauley et al (2013).

## International debt securities and intercompany lending

Amounts outstanding, in billions of US dollars

Graph 2



<sup>1</sup> For China, intercompany lending is shown on the left-hand axis and refers to the stock of total FDI-related liabilities (debt and equity investments in China). <sup>2</sup> International debt securities on a nationality basis minus those on a residence basis, for non-bank financial corporations and non-financial corporations. This calculation is a proxy for bond debt owed by offshore affiliates. However, it underestimates such debt because IDS on a residence basis include IDS issued by nationals of other countries. The bias is small except in countries that are international financial centres.

Sources: Dealogic; Euroclear; national data; Thomson Reuters; Xtrakter Ltd; BIS debt securities statistics.

While simple correlations must be interpreted with caution, analyzing the relationship between issuance by offshore affiliates and intercompany lending can contribute to a richer understanding of a country's vulnerability to external shocks. To be sure, not all funds borrowed through offshore affiliates will be on-lent to parent companies. Some funds will be used to finance foreign operations and investments. This is especially true of corporations with global operations, such as the Tata Group of India. In such cases, foreign assets as well as liabilities should be considered when assessing the risks associated with offshore borrowing.

In conclusion, the BIS's international debt securities statistics on a nationality basis can provide supplementary information useful to statisticians as well as analysts. For statisticians, the difference between IDS by residence and by nationality can act as a cross-check on national estimates of intercompany lending (although it is necessarily a rudimentary and incomplete check). For analysts, the difference can signal that a deeper analysis of a country's vulnerability to external shocks may be required.

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