

## Background Notes (updated March 2017)

### Introduction

This Release updates the annual (end-December) series on foreign portfolio asset stock statistics introduced in October 2003. These figures result from the CSO's ongoing participation in the annual Co-ordinated Portfolio Investment Survey (CPIS) conducted by the IMF. The information is compiled on the basis of the IMF's methodological recommendations described in its *Co-ordinated Portfolio Investment Survey Guide*. This methodology is designed to harmonise the timing and valuation conventions used by all countries participating in the Survey. The results are conceptually consistent with the International Investment Position (IIP) statistics on foreign assets published by the CSO. Therefore, the compilation methodology, which is designed to meet the recommendations of the IMF's *Balance of Payments Manual -6<sup>th</sup> Edition* (BPM6) concerning compilation of international investment position statistics, is essentially the same for both series.

The CPIS project was established by the IMF to address global discrepancies in international portfolio investment statistics through the reporting by countries of their portfolio assets on an individual country basis. In addition to providing very valuable data on countries' portfolio assets stocks, a further main objective of the CPIS project is to facilitate the determination of counterpart portfolio liabilities for individual reporting countries, i.e. on the basis that one country's asset is another country's liability. Where there is very wide compiler country participation in the CPIS and where a full geographical breakdown of assets is given, the reporting country's assets data for a particular counterpart country is a good indicator of the latter's portfolio investment liabilities to the former.

The CPIS is concerned with portfolio investment stock statistics for *equities* and long-term (i.e. *bonds and notes*) and short-term (i.e. *money market instruments*) debt securities – see the Section *Types of financial instrument* below. The results are classified by country of issue of the securities – see the Section *Geographical allocation principle* below - and are also cross-classified by type of financial instrument, and by sector of holder.

For reasons of consistency with the CPIS results for Ireland to be published in due course by the IMF, the data in this Release exclude the portfolio asset component of the external reserves (or *reserve assets*) held by the Central Bank of Ireland (CBI). The relevant information on Ireland's external reserves along with that for other EMU member states is supplied by the European Central Bank to the IMF under the so-called "SEFER" arrangement. The aggregate reserve assets data with a breakdown by country of counterpart will be included as a separate component in the CPIS results to be published by the IMF.

### Data collection

The basic data have been obtained from statutory quarterly surveys conducted by the CSO and by the Central Bank of Ireland as input into the general body of balance of payments (BOP), international investment position (IIP), external debt and other data compilation requirements of both the CSO and the CBI. The data collection system covers financial and non-financial enterprises and includes enterprises engaged in internationally-traded financial service activities, known collectively as IFSC (International Financial Services Centre) enterprises. Data obtained from administrative sources are also used. Up to 2007, the CSO undertook all the necessary survey collection and compilation required. However, following a joint initiative involving the CSO and the CBI to rationalise statistical data collection and compilation for the financial sector and also to reduce the burden on data providers the data collection arrangements have changed. As a consequence, since 2008 the data required from licensed banks (credit institutions) and from investment funds (including money market funds) to meet BOP, IIP and external debt requirements (as well as other statistical demands on both organisations) are being collected quarterly by the CBI under its legislation as well as European legislation<sup>1</sup>. These data are supplied by the CBI to CSO for statistical compilation purposes. The CSO has

therefore discontinued its surveys of credit institutions and investment funds but continues to collect the required data from other financial enterprises as well as non-financial enterprises using its ongoing quarterly statutory surveys. This data was collected under the Statistics (Balance of Payments and Financial Accounts) Order, 2010 (S.I. No. 206 of 2010) made under the Statistics Act, 1993. The CSO and CBI surveys underpinning data collection are designed to address the internationally agreed statistical standards for BOP-related statistics. Regarding financial securities, the CBI surveys of credit institutions and investment funds collect assets and liabilities data on an individual security basis to the extent possible. The CSO surveys collect this information on an aggregate basis but, over time, security-by-security collection is planned. In general terms, the combination of both stock and the related flow data reporting on a single form greatly facilitates the quality-checking and reconciliation of both types of information.

#### **Types of financial instrument - Definition of equity and long and short-term debt securities**

A **security** is defined as an instrument that is traded or tradable. This survey covers investment by domestic residents in equity and short and long-term debt securities only. Long-term securities are those with an **original** term to maturity of more than one year; they are generally labelled as *bonds and notes*. Short-term securities are those with an **original** term to maturity of one year or less and are generally referred to as *money market instruments*.

**Equity securities** are defined in the CPIS – *Compilation Guide* to cover all financial instruments and records representing the holder's claims to the residual values of enterprises after the claims of all creditors have been met. They include:

- ordinary shares
- stocks
- participating preference shares
- depository receipts (e.g., American depository receipts) denoting ownership of equity securities issued by non-residents
- shares/units in mutual funds and investment trusts
- equity securities that have been sold under repurchase agreements
- equity securities that have been lent under a securities lending arrangement.

They exclude:

- non-participating preference shares (which are included under long-term debt)
- rights, options, warrants and other derivative instruments
- equity securities that have been bought under repurchase agreements
- equity securities that have been acquired under a securities lending arrangement.

**Long-term debt securities** cover bonds, debentures, notes, etc. that usually give the holder the unconditional right to a fixed money income or contractually determined variable money income, and have an original term to maturity of over one year. They include:

- bonds such as treasury, zero coupon, stripped, deep discounted, currency linked (e.g., dual-currency), floating rate, equity-related (e.g., convertible bonds), and eurobonds
- asset-backed securities such as mortgage backed bonds, collateralized mortgage obligations (CMO)
- index-linked securities (e.g., property index certificates)
- non-participating preference shares
- floating rate notes (FRN) such as perpetual notes (PRN), variable rate notes (VRN), structured FRN, reverse FRN, collared FRN, step up recovery FRN (SURF), range/corridor/accrual notes
- euro medium-term notes (EMTN)
- bonds with optional maturity dates, the latest of which is more than one year after issue
- debentures
- negotiable certificates of deposits with contractual maturity of more than one year
- other long-term securities
- bearer depository receipts denoting ownership of debt securities issued by non-residents
- debt securities sold under repurchase agreements
- debt securities lent under securities lending arrangements.

They exclude:

- derivative instruments
- loans
- trade credit and accounts receivable
- money market instruments (e.g., treasury notes, bankers' acceptances, certificates of deposit with contractual maturity of one year or less, note issuance facilities, revolving underwriting facilities, and promissory notes)
- debt securities bought under repurchase agreements
- debt securities acquired under securities lending arrangements.

**Short-term debt securities** refer to bills, commercial paper, bankers' acceptances, etc. that usually give the holder the unconditional right to receive a stated, fixed sum of money on a specified date and have an original term to maturity of **one year or less**. Money market instruments usually are issued at a discount, in organized markets. They include:

- money market instruments with an original term to maturity of one year or less, such as treasury bills/notes bankers' acceptances, commercial and financial paper, certificates of deposit with contractual maturity of one year or less
- short-term notes issued under note issuance facilities or revolving underwriting facilities and promissory notes.

They exclude:

- any securities listed earlier under *long-term debt securities*
- derivative instruments
- loans
- trade credit and accounts receivable.

### **Broad sectoral analysis**

This Release presents a broad institutional sector analysis of the portfolio investment.

The sectors identified are:

- (i) *S121* consists of the Central bank of Ireland
- (ii) *S122* consists of credit institutions such as Banks, Building societies and Credit unions
- (iii) *S123* consists of Money market funds
- (iv) *S124* consists of Investment funds. They are composed of all collective investment schemes except those classified in the money market subsector. Their business is to issue investment fund shares or units which are not close substitutes for deposits and, on their own account, to make investments primarily in financial assets other than short-term financial assets and in non-financial assets such as real estate.
- (v) *S128/S129* consists of Insurance corporations and Pensions funds. *S128* consists of life and non-life insurance corporations and reinsurance corporations. *S129* consists of pension funds.
- (vi) *S13* consists of General government. It involves central and local government. Central government included the Ireland Strategic Investment Fund, formerly the NPRF, and non-commercial agencies owned and funded by government but does not include commercial state owned-companies.
- (vii) *S125/S126/S127/S11/S14/S15* other consists of all other corporations and (implicitly) households. Included are respectively: other financial intermediaries, financial auxiliaries, captive financial institutions and money lenders, non-financial corporations, households and non-profit institutions serving households.

### **Valuation**

For the purposes of the CPIS (as well as BOP and IIP) statistics, portfolio securities should be recorded using current market values at the reference date (31 December) and data providers are instructed to report their holdings on this basis. When converting foreign currency valuations, the relevant euro exchange rate as at 31 December should be used.

### **Geographical allocation principle**

The so-called ‘debtor’ principle is used as the basic guideline for geographical allocation of foreign assets. This approach requires that asset positions (i.e. stocks) are allocated to the country of residence of the debtor counterpart. Therefore, investment in a foreign security should be reported and classified to the country of residence of the issuer of the security (and not to the country of the market of issue or any other substitute for country of issuer).

### **Presentation of the results**

Table 1 gives the full details of the market values of Irish residents’ holdings of foreign portfolio securities as at 31 December of the reference years shown classified according to type of financial instrument (columns) and by individual country of issuer (rows). The top 36 countries are listed in alphabetical order and the list includes the category *international organisations* whose residencies, by their nature and under the guidelines, are not attributed to any particular country. Table 2 presents the Irish residents’ holdings of foreign portfolio securities by sector of holder of securities (columns) and by country of issuer (rows). The portfolio investment results on the assets side in the related International Investment Position (IIP) Release show that IFSC enterprises account for a major proportion of the investment by Irish residents in foreign equity and debt securities.

### **Confidential data**

In order to protect the confidentiality of some of the results, certain cells are suppressed (indicated by an \*). This confidential data is not omitted from the totals given.

### **Sign convention**

The stocks figures are shown unsigned i.e. as positive numbers. Amounts are shown in millions of Euro; ‘0’ means amounts of less than €500,000; ‘-’ means ‘not relevant’. Cell entries may not add to totals due to rounding.

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<sup>1</sup> ECB Regulation on the Assets and Liabilities of Investment Funds (ECB/2007/8) of 27 July 2007, the ECB Balance of Payments and International Investment Statistics Guideline (ECB/2004/15) of 16 July 2004, as amended by (ECB/2007/3) of 31 May 2007, and the ECB Guideline on Monetary, Financial Institutions and Markets Statistics (ECB/2007/9) of 1 August 2007