CO-ORDINATED PORTFOLIO INVESTMENT SURVEY (CPIS)

Guidance Notes

Updated by: Jackie Powell Marsden

Policy & Development Division

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GENERAL

Purpose of the CPIS

The Coordinated Portfolio Investment Survey (CPIS) collects information on investments in equity, long-term and short-term debt securities of unrelated non-residents owned by entities legally incorporated in the Cayman Islands semi-annually as at June 30 and December 31. The survey is being conducted in coordination with the International Monetary Fund (IMF) to facilitate international data comparability. The objectives are to collect comprehensive information, with geographical detail on the country of residence of the issuer, on the stock of cross-border equities, long-term and short-term debt instruments for use in the compilation of international investment position (IIP) statistics on portfolio investment capital and to exchange bilateral data. IIP statistics can provide information to check the coverage of recorded estimates of portfolio investment flows and associated investment income transactions recorded in the balance of payments. Data from banks, insurance companies and mutual funds is collected and submitted to the IMF.

Cayman's participation in the CPIS will contribute to improved understanding of Cayman's international financial centre and its impact on global financial intermediation. It will enable the Cayman Islands to emphasize its positive role in facilitating the free flow of cross-border investments thereby contributing to a better understanding of capital flows.

Confidentiality - The completed forms will remain confidential to CIMA.

What to report

The survey should be completed in accordance with the reporting instructions provided. If there are any questions regarding these instructions please contact the Statistics Unit of the Policy & Development Division at the Cayman Islands Monetary Authority at ContactStatistics@cimoney.com.ky.

When and where to Report

Please provide the results of the survey using the REEFS portal for the period ending June 30 by the end of July and for the period ending December 31 by the end of January.

Introduction to REEFS - On-line Reporting

REEFS are the electronic reporting portal introduced by CIMA in order to facilitate the prudential reporting process. Coordinated Portfolio Investment Survey (CPIS) will now be reported through REEFS.

General Reporting Notes

The CPIS collects information on investment by domestic residents in equity, short-term and long-term debt securities issues by unrelated non-residents. For supervisory purposes, CIMA requires that **all** securities are reported – for related and unrelated resident and non-resident issuers. (Note 4)

1. Who must report?

All banks, insurance companies and mutual funds incorporated, domiciled or licensed by the Register of Companies in the Cayman Islands are resident of the Cayman Islands and if at close of business on June 30 and December 31, own equity, short-term and long-term debt securities issues issued by related and unrelated non-residents must file a CPIS form. Banks must file the survey forms semiannually whereas submission from insurance companies and mutual funds are received annually at December 31.

2. What must be reported?

Please complete the CPIS for your institution and report:

- Investments in Equity Securities
- Investments in Short-term and Long-Term Debt Securities
- Investments issued by related and unrelated residents and non-resident companies

3. Currency

The CPIS uses the US dollar as the reporting currency. All positions in other currencies must therefore be converted into US dollars by institutions completing the CPIS. For the sake of consistency and comparability, the positions should be converted into US dollars using the exchange rate prevailing at the close of business on June 30 and December 31. The US dollar equivalent amount must be reported in **absolute values in REEFS**. Decimal numbers must be reported.

4. Residency

Resident and Non-resident

Residents and non-residents are determined by their period of residency; place of domicile and economic activity, and not by nationality or currency.

Residents usually comprised those individuals and businesses that reside, have physical presence, or engage in sufficient economic activity in the Cayman Islands.

Non-resident usually comprise those individuals and businesses that do not reside, or reside for less than one year, have no physical presence, and are not licensed by any Cayman Islands authority and do not engage in economic activity in the Cayman Islands.

Resident

A **resident** is any individual, enterprise, or other organization ordinarily domiciled in the Cayman Islands. Branches and subsidiaries of non-resident enterprises domiciled in the Cayman Islands are also regarded as **residents** of the Cayman Islands. Ordinarily domiciled is defined as the centre of economic interest of the entity. Corporations legally registered in the Cayman Islands are considered to be **resident** even if they do not have a physical presence.

Non-resident
A **non-resident** of the Cayman Islands is any individual, enterprise, or other organization ordinarily domiciled in a country other than the Cayman Islands. Non-resident branches, subsidiaries and affiliates of Cayman Islands licensed entities are regarded as non-residents as they are not licensed by the Cayman Islands Register of Companies and are not considered "legally domiciled".

5. Issuer of Securities

In the CPIS form, securities are to be attributed to the **country of residence** of the issuer of the securities. Country attribution should be based on where the entity is ordinarily domiciled. **Corporations having no "physical presence" are regarded as residents of the country where they are legally registered.** If there is doubt as to the issuers' country of domicile, then, as a general rule, the country of residence of any enterprise can be taken as where it is legally incorporated, or in the absence of legal incorporation, where it is legally domiciled.

Securities issued by international organizations must not be allocated to the country in which the international organization is located but rather should be reported separately on Form CPIS as International Organizations with a code of 1C.

Attribution of country of resident of issuer should not be determined on the basis of the currency of issue.

6. *Definition of equity, long and short-term debt securities*

A **security** is defined as an instrument that is traded or tradeable. This survey covers investment by resident in equity, short-term and long-term debt securities issued by related and unrelated non-resident entities.

Financial derivatives are not to be reported, as they are not classified as securities for the purposes of reporting on Form CPIS. Derivatives are considered as a separate type of instrument. Record the value of the underlying security separately from any derivative that may be held in relation to it. However, if a security has embedded derivatives do not attempt to separate the security from the embedded derivative.

7. Valuation of securities

Market value should be used to report all holdings of securities. Do not report the face value of the security as the market value.

8. Exclusion of securities issued by related enterprises

Debt securities issued by a resident or non-resident affiliated enterprise that is related to the resident owner of those securities should be **<u>included</u>** in this report, as it is important to know which securities are tradeable and available for sale. <u>The exclusion is for affiliated entities that are insurance and pensions.</u>
Equity securities that is an investment of **10% or more**, is considered Direct Investment and should be **<u>excluded</u>** in this report.

An investment in equity securities of 10% or more is considered ownership and is precondition of "related". Related enterprises are enterprises in which a related entity within a Group has an equity interest of **10% or more,** or where an unrelated entity has **10% or more** holdings in another Group. Ownership is measured in terms of ordinary shares or voting stock of incorporated enterprises or equivalent beneficial interest in unincorporated enterprises. Where such an equity investment of **10% or more** exists, this is normally considered Direct Investment and should be **excluded** on the CPIS.

The issue of "related" is important because entities purchase equity securities, not for the purpose of ownership (Direct Investment) but as an investment portfolio instrument to make a financial return.

9. Distinguishing between Direct and Portfolio Investment Securities

The objective of the CPIS is to collect data on domestic residents' investment in securities for use in the compilation of portfolio investment data. If the securities held are considered to be issued by an enterprise that is in a direct investment relationship with the holder, then they should be **excluded**. Hence, not all holdings of securities come under the auspices of the CPIS.

Direct investment is the category of international investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another economy. (The resident entity is the direct investor and the enterprise is the direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and enterprise and a significant degree of influence by the investor on the management of the enterprise. On the other hand, portfolio investments are tradable and lack a lasting relationship which means that it's more volatile than direct investment.

A ***direct investment enterprise*** is defined as an incorporated or unincorporated enterprise in which the direct investor, who is a resident of another economy, owns 10% or more of the ordinary shares or voting power (for an unincorporated enterprise). Direct investment enterprises comprise those entities that are subsidiaries (a non-resident investor owns more than 50%), associates (an investor owns 50% or less) and branches (wholly or jointly owned unincorporated enterprises) either directly or indirectly owned by the direct investor. Subsidiaries in this connotation also may be identified as majority owned affiliates.

10. Treatment of repurchase and securities lending arrangements

A **repurchase agreement** (repo) is an arrangement involving the sale of securities at a specified price with a commitment to repurchase the same or similar securities at a fixed price on a specified future date. A reverse repo is the same transaction from the other side, that is, an agreement whereby a security is purchased at a specified price with a commitment to resell the same or similar securities at a fixed price on a specified future date. Securities (stocks or bonds) lending is an arrangement whereby the ownership of a security is transferred in return for collateral, usually another security, under the condition that the security or similar security will revert to its original owner a specified future date.

- Securities acquired under the reverse repurchase agreements or securities borrowing arrangements are to be excluded from the report form;
- Securities sold under repurchase agreements or "lent" under a securities lending arrangement are to be included in the report form;
- Securities acquired under reverse repurchase or securities borrowing arrangements and subsequently sold to a third party should be reported as negative holding, namely, a short position; and

- All valuations of securities under repurchase or securities lending arrangements should be at market value as at the close of business on June 30 and December 31 annually.

11. Treatment of depository receipts

Depository receipts, which denote ownership of equity or debt securities issued by non-residents, for instance, American depository receipts (ADR) or bearer depository receipts (BDR), should be attributed to the country of residence of the issuer of the security underlying the depository receipt. Financial intermediaries should not report holdings of any securities against which depository receipts have been issued and sold; but if a depository receipt has been issued before the financial institution arranging the issue has acquired the underlying securities, then that financial institution should report a negative holding in the underlying security.

12. Treatment of stripped securities

Stripped securities (strips) are securities that have been transformed from a principal amount with periodic interest coupons into a series of zero coupon securities, with the range of maturities matching the coupon payment dates and the redemption date of the principal amount. If strips remain the direct obligation of the original issuer, then the residency of the issuer of the strips remains the same as for the original security.

Dealers who request that a settlement or clearing house create strips from an existing security issues by a non-resident should not report ownership of the underlying security once the strips have been created. On the other hand, if strips have been created and issued by an entity in its own name, then the residency of the issuer of the strips is that of the entity that issued the strips. In turn, such an issuer of strips should report its ownership of the underlying securities as if they were issued by a non-resident. Strips with an original maturity of less than one year are classified as money market instruments and thus, if identifiable, should be reported as short-term debt securities.

13. Treatment of Accrued Interest

Institutions are encouraged to include accrued interest earned but not yet paid in the market price (i.e. the dirty price) valuation of debt securities.

For most bonds, interest is paid via annual or semi-annual coupons. In most cases, long-term debt securities are priced on a "clean price" basis, that is, excluding accrual of interest. However, in some cases long-term debt securities are priced to include accrual of interest that is on a "dirty" price basis. For long-term debt securities held in investment accounts (that is, they are not held for trading purposes – they are usually held for prudential or reserve capital requirements) the valuation is often that of par or acquisition price and the valuation does not change with market conditions. Where prices for bonds exclude accrued interest, usually the difference between clean and dirty prices is not substantial, when coupons are paid frequently. Even though the CPIS seeks information on market prices, most institutions will not revalue their "investment book" as frequently as opposed to their "trading book" which is usually marked-to-market on a frequent basis (i.e. daily, weekly or monthly).

However, for deep discount, or zero coupon bonds, the difference can be substantial as the amount of interest accruing over the five years or more can amount to a substantial portion of the initial principal lent/borrowed, especially when interest rates are high. In these instances, it is important, as far as possible, to report their holdings on a dirty price basis.

Most short-term debt securities are issued at a discount – i.e. they are zero coupon instruments. There are a number of methods used to record money market instruments: at acquisition cost; at amortized value; at par value; at market price. Respondents may be able to report at market prices those securities held for trading purposes but, as with bonds held for investment purposes; some respondents may use one of the other methods and be unable or unprepared to report on a different basis. However, because of the shortness of time in which interest can accrue, the issue is less important than for zero coupons or deep discounted bonds.

14.Treatment of Nominee Accounts

Nominee accounts are created for the purpose of holding securities (equity or debt) on behalf of investors. The nominee is the legal owner of the securities, but the underlying investors have the "beneficial interest" in the securities and are entitled to all income and capital gains on the securities. For the purpose of the CPIS these holdings should be "looked through" so that the beneficial owner is reported as the holder. For example, if a resident of country A holds securities issued by a resident of country B, uses a nominee account in country C, the custodian in country C may only be able to report that he/she is holding securities issued by a resident of B and the securities are held on behalf of a resident of country C. Efforts should be made in these circumstances to encourage the custodian to obtain the residence of the beneficial owner from the nominees.

15.Treatment of Collective Investment Schemes (Mutual Funds)

Units in collective investment schemes are classified as equity, regardless of the type of fund or assets that the fund acquires. Thus, for example, if a resident in country A owns units in a collective investment scheme in country B that only holds bonds issued by the government of country C, the resident of country A should report that it holds an equity claim on country B, not a holding in government bonds from country C. It is important that respondents are aware of this classification as they may classify their portfolios on the basis of ultimate risk, and may, therefore, "look through" the collective investment scheme and report as holdings in government bonds of country C, as if they did not have units in the mutual fund in country B.

16.Asset-backed securities

In reporting the market value of holdings of asset-backed securities, the institutions must be aware of the possibility of early partial redemption of principal. The market value of the principal amount outstanding at close of business on June 30 and December 31 should be reported; if principal has been repaid, this market value will not be the same as the original face value re-valued at end-period market prices.

If there are any questions regarding these instructions, please contact a member of staff of the Policy & Development Division of the Cayman Islands Monetary Authority.

Notes to Form CPIS

Respondent Information

This form must be completed by all organizations that receive these survey forms. This form is used to provide basic identifying information. Under the caption Respondent Information:

(i) The name of the person responsible for completing Form CPIS
(ii) Telephone number
(iii) Fax number
(iv) Email address
(v) Date

Under the caption: Director/Senior Manager information, please enter the name of the director or senior manager and position held of the person who certified the information that is being submitted to the Cayman Islands Monetary Authority.

1. Equity Securities

Equity securities cover all instruments and records acknowledging, after the claims of all creditors have been met, claims to the residual values of enterprises. If you have any questions about how to classify an instrument, please contact a member of staff of the Policy & Development Division at the Cayman Islands Monetary Authority as indicated on page 3.

Examples of what to include in equities:

- 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 fund and investment trusts;
- Equity securities that have been brought under repurchase agreements;
- Equity securities that have been "lent" under a securities lending arrangement

Examples of what to exclude in equities:

- Non-participating preference shares (but include these instruments 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.

Valuation of equity securities

Equity securities should be reported at market value prices converted to US dollars in absolute values using exchange rate prevailing at the close of business of June 30 and December 31, annually.

For enterprise listed on the stock exchange, the market value of your holding of their equity securities should be calculated using the market price on their main stock exchange prevailing at the close of business on June 30 and December 31, annually.

For unlisted enterprises, if a market value is not available at the close of business, estimate the market value of your holding of equity securities by using one of the following:

- A recent transaction price;
- Director's valuation; or
- Net Asset value, (Net asset value is equal to total assets, including intangibles, less non-equity liabilities and the paid up value on non-voting shares. Assets and liabilities should be recorded at current, rather than historical value).

2. Long-Term Debt securities

Long-term debt securities cover bonds, debentures, notes, etc. that usually gives 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.

Examples of what to include in long-term debt securities:

- Bonds such as treasury, zero coupon, stripped, deep discounted, currency linked (e.g. dual-currency), floating rate, equity-related (e.g. convertible bonds), euro bonds;
- 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);
- Schuldscheine (German) notes;
- Bonds with optional maturity dates, the last 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 (see Note 9);
- Debt securities that have been sold under repurchase agreements;
- Debt securities that have been "lent" under a securities lending arrangement

Examples of what to exclude in long-term debt securities:

- Derivative instruments;

- Loans;
- Trade credit and accounts receivable
- Money market instruments (e.g. treasury notes, bankers' acceptances, negotiable certificates of deposit with contractual maturity of one year or less, note issuance facilities, revolving underwriting facilities and promissory notes). Include these in short-term debt securities;
- Debt securities that have been bought under repurchase agreements;
- Debt securities that have been acquired under a securities lending arrangement

Valuation of long-term debt securities

Debt securities should be recorded using one of the **market valuation** methods listed below in order of preference and converted to US dollars in absolute value using the exchange rate prevailing at the close of business on June 30 and December 31, annually;

- A quoted traded market price at the close of business on June 30 and December 31 annually;
- The present value of the expected stream of future payments/receipts associated with the securities;
- For unlisted securities, the price used to value securities for accounting or regulatory purposes, etc.;
- For deep discount or zero coupon securities, the issue price plus amortization of the discount; or
- For debt instruments issues at a premium, the issue price less the amortization of the premium.

3. Short-Term Debt securities

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 markets usually are issued at discount in organized markets.

Examples of what to include in short-term debt securities:

- 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;
    - Short-term notes issued under issuance facilities and revolving underwriting facilities are included even though the underlying facility (the contingency) may be for more than one year because the notes themselves are of a short term nature;
    - Debt securities that have been sold under repurchase agreements;
    - Debt securities that have been "lent" under a securities lending arrangement

Examples of what to exclude in short-term debt securities:

- Bonds such as treasury, zero coupon, stripped (see Note 9), deep discounted, currency linked (e.g. dual currency), floating rate, equity related (e.g. convertible bonds), euro bonds;
- 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);
- Schuldscheine (German) notes;
- 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 that have been bought under repurchase agreements;
- Debt securities that have been acquired under a securities lending arrangement;
- Derivative instruments;
- Loans;
- Trade credit and accounts receivable.

Valuation of short-term debt securities:

Short-term debt securities should be recorded using one of the market valuation methods listed below in order of preference and converted to US dollars in absolute value using the exchange rate prevailing at the close of business on June 30 and December 31, annually.

- A quoted traded market price at the close of business on June 30 and December 31 annually;
- The present value of the expected stream of future payments/receipts associated with the securities;
- For unlisted securities, the price used to value securities or accounting or regulatory purposes; or
- For deep discount or zero coupon securities, the issue price plus amortization of the discount

Jurisdiction of issuer
Please report the market value of your entity's holdings of equities, short-term and long-term debt securities issued by related and unrelated non-residents according to the "Jurisdiction of Non-resident Issuer" on Form CPIS.

Also please report holdings of securities issued by international organizations (such as the World Bank or the United Nations) separately with code 1C on Form CPIS. Do not report holdings of securities issued by international organizations as issues of the countries in which they are physically located as they are not liabilities of those countries.