
**Classification of Financial Derivatives
in Direct Investment Statistics**

**Update of Paper Presented at the
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CLASSIFICATION OF FINANCIAL DERIVATIVES IN DIRECT INVESTMENT STATISTICS

I. BACKGROUND

1. At their October 1997 meetings, the IMF Committee on Balance of Payments Statistics (BOPCOM) and the Inter-Secretariat Working Group on National Accounts (ISWGNA) agreed that a new functional category would be created in the balance of payments statistics for financial derivatives, and that a new financial instrument would be created for financial derivatives in the national accounts.
2. In November 1997, the IMF Statistics Department (STA) released a paper on *The Statistical Treatment of Financial Derivatives*, and the BOPCOM and ISWGNA asked STA to use that document as the basis for preparing text to be included in the fifth edition of the *Balance of Payments Manual (BPM5)* and the *1993 System of National Accounts*—text that would provide a definitive description of financial derivatives and the recommended treatments for them. The *BPM5* version of the text was examined and adopted by the BOPCOM at its October 1998 meeting, subject to further review regarding the classification of financial derivatives as direct investment and as reserve assets.
3. At its October 1999 meeting the BOPCOM made a provisional decision to include financial derivatives in both the direct investment and reserve assets categories of the balance of payments statistics,¹ and to record these derivatives as separate items, recognizing that the continued classification of financial derivatives within direct investment would depend on country experience in implementing the recommendations.

II. RECENT DEVELOPMENTS

4. Following the October 1999 BOPCOM meeting, the IMF wrote to the secretariats of the OECD Working Party on Financial Statistics (WFS) and the ECB Working Group on Balance of Payments and External Reserves (WGBP&ER) asking that they obtain the views of their members on the provisional BOPCOM decision to classify financial derivatives as a separate category within the direct investment data.
5. In March 2000, the IMF released the publication *Financial Derivatives: A Supplement to the Fifth Edition (1993) of the Balance of Payments Manual*, which reflects

¹ Thus the functional category for financial derivatives would cover all financial derivatives other than those in direct investment and reserve assets. The category would therefore be similar in concept to the functional category for portfolio investment that includes all tradable instruments other than those included in direct investment, reserves, and financial derivatives.

the 1999 BOPCOM decisions and indicates the provisional nature of the decisions related to the classification of financial derivatives in direct investment and reserves.

III. VIEWS OF THE ECB AND OECD

6. The issue of the classification of financial derivatives involving affiliated enterprises in direct investment was discussed at both the February 2000 and the February 2001 meetings of the ECB WGBP&ER. The group did not agree with the provisional BOPCOM decision to create a separate component within the direct investment category for financial derivatives.

7. The financial derivatives issue was also discussed at the June 2001 FDI Workshop of the OECD (which met as the Fifty-fourth Session of the WFS). As indicated in the OECD paper (BOPCOM01/44) that group “agreed that, in theory, financial derivatives should be excluded from foreign direct investment statistics” recognizing that “in practice some countries may include financial derivatives under the “other capital” component of direct investment due to difficulties in identifying them separately.”

8. The members of the Committee are asked to reconsider their provisional decision of October 1999 to include financial derivatives in the direct investment category of the balance of payments statistics, and to record financial derivatives as a separate component of the direct investment category, and: decide whether to:

1. Reverse the provisional decision in light of the opposition of the member countries of the ECB WGBP&ER and the OECD WFS, and agree that financial derivatives between affiliated enterprises should be classified instead under the Financial Derivatives category of the balance of payments statistics.
2. Confirm as being final the provisional decision of 1999, notwithstanding the opposition of ECB WGBP&ER and the OECD WFS, whose members represent the FDI compilers of most of the countries likely to be affected by the provisional decision.
3. Consider how to promulgate the final decision, recognizing that the provisional decision was released in a formal supplement to *BPM5*.