IMF Committee on Balance of Payments Statistics

Summary outcomes of meeting of IMF Committee on Balance of Payments Statistics, June 27 – July 1, 2005

Feasibility Study for a Coordinated Direct Investment Survey:

1) The Committee gave general support to the process for reporting on the outcomes of the feasibility study, that is, for a draft of the task force's report to be circulated to the Committee for comment by the end of August, and for the preparation of a paper for consideration by the IMF Executive Board before the end of 2005.
2) The Committee raised a number of issues (such as valuation, SPEs, and immediate counterparty/UBO) that will be taken up by a yet-to-be-formed task force on conducting a CDIS, should the decision be made to proceed with such an exercise.

Revision of *BPM5*

1) The Committee endorsed the process and timetable for the revision and publication of the new balance of payments manual.

Fourth edition of the OECD's *Benchmark Definition of Foreign Direct Investment*

1) The Committee received a report on the process for preparation and publication of the fourth edition of the *Benchmark Definition of Foreign Direct Investment.* The Committee expressed satisfaction that the timetable aligned well with the timetable for the revision of *BPM5*.

Update of the *1993 SNA*

1) The Committee received a report on the update of the *1993 SNA*.

Work of the Advisory Expert Group

1) The Committee took note of the work of the AEG.

Remittances:

1) There was a general consensus on the conceptual treatment of remittances.
2) The Committee decided to introduce the concept of "personal transfers" as a standard component, with "remittances of employees" included as a supplementary component.
3) The Committee decided to introduce the concept of "personal remittances", constituting the sum of "personal transfers" and "compensation of employees less taxes and social contributions and travel expenditures made by these parties" either with or without capital transfers between households

4) The Committee agreed on the concept of “institutional remittances”
5) The Committee agreed that the concept of migrant was no longer needed in the new balance of payments manual and 1993 SNA rev. 1 for remittances as remittances should be based on residence, not migration status.
6) The Committee considered that, absent the formation of a City Group to consider remittances, it may be useful to devote significant time to the topic at its meeting in 2006, although, because of the urgency of the issue, concerns were expressed about the time gap to the next scheduled meeting. The IMF will reflect on this issue and communicate with the Committee in due course. Were the session to go ahead, the IMF would invite other interested international organizations and countries that are recipients of remittances.

Migrants’ transfers:

1) The Committee decided to adopt the proposal that cross-border movement of personal effects would not be recorded as a transaction and that the reclassification of assets and liabilities arising from a change of residence would be treated as “other changes”.
2) The Committee decided that there should not be a standard component on “classification changes due to change of residence” under “other changes in volume of assets”.
3) The Committee agreed that the principles established for individuals changing residence should only apply to corporations in the case of boundary changes, which could arise in special cases, such as *societas europea*.
4) The Committee noted that many cases of change of residence of corporations labeled as relocations actually involve assets being moved to a new legal entity which are recorded as transactions.

External debt and concessional debt:

1. General outcome

1) The Committee decided that any methodological guidance agreed with regard to HIPC transactions should be consistent with the core principles and concepts in the balance of payments.
2) IMF agreed to present a paper on the HIPC transactions to the AEG meeting in January 2006 including the Committee’s decisions. This paper would be circulated to BOPCOM members in draft.

2. Specific outcomes on the issues discussed:

1) *Issue A:* The Committee agreed to the approach to technical arrears.

2) *Issue B:* While there was general consensus on the principle to treat debt service moratorium extended by creditors as debt rescheduling, some Committee

members questioned whether a transaction had taken place. IMF agreed to undertake more work to justify the conclusion in the paper.

3) I*ssue C:* The Committee agreed that the *BPM5* framework provides clear guidance on the treatment of HIPC debt where creditors opt out of the HIPC Initiative.

4) Issue D: The Committee agreed with the proposal in the paper to clarify the effective timing of the rescheduling.

5) Issue E (Concessional interest): Differing views were expressed on possible treatment of transfers arising from interest rate concessionality on debt. The Committee decided that there was not sufficient consensus to include transfers in the core accounts but agreed to include a supplementary item. IMF is to consider whether the supplementary item should be on a current transfer for interest payable/receivable or capital transfer basis for valuation of loans.

6) Issue F: The Committee agreed to the approach set out in the paper to record HIPC debt relief transactions on the basis of the debt liabilities forgiven and not on the basis of the subsequent use of the funds in the government budget.

7) *Issue G:* The Committee agreed that (a) rescheduling of arrears should not lead to the whole instrument being rescheduled, (b) rescheduling of interest due in the future could lead to creation of transactions in the balance of payments, and (c) there is need to clarify the definition of debt rescheduling in the balance of payments.

8) Issue H. The Committee agreed that once the HIPC grant is provided irrevocably, it should be regarded as an asset of the country; that the interest earned should be recorded under income; and that the sector classification should be recorded on an ownership basis.

9) *Issue I:* There was no consensus on the need for memorandum items on the balance of payments involving HIPC transactions. There was support for the inclusion of a chapter in the revised manual to provide guidance on the recording of HIPC debt and similar type of debt transactions.

Technical assistance:

1) The Committee decided to treat provision of technical assistance as supply of services by the donor to the recipient, funded by a transfer.
2) The Committee decided that new manual should spell out related valuation and classification issues.

Debt instruments indexed to a foreign currency:

1) The Committee decided that debt instruments with both principal and coupons indexed to a foreign currency should be classified and treated as being denominated in that foreign currency.
2) The Committee recommended that the currency of account and currency of settlement should be clearly distinguished in the new manuals.

Interest and index-linked debt instruments:

1) Views were evenly divided between maintaining the current *1993 SNA* approach (as described in *1993 SNA* para. 7.104) or adopting the modified debtor approach (i.e., interest accruals are determined by fixing the rate of accrual at the time of issue and treating any deviation of the index from the expected path as holding gains/losses). Given this, the Committee decided to retain the existing *1993 SNA* treatment of interest on index-linked instruments.

Reinvested earnings:

1) The Committee decided to continue the present practice for reinvested earnings.
2) The Committee felt that the concept of "income" in the national accounts and balance of payments frameworks is not well defined or treated consistently and supported the creation of an expert group. This expert group would not be expected to complete its work before the deadline for consideration of issues for the update of the *1993 SNA* and the revision to *BPM5*, and so its work would form part of the research agenda beyond those deadlines. The Committee emphasized the importance of including national accountants in such a group.
3) The Committee also recognized some compilation difficulties, such as high frequency estimates, and recommended that these could be mentioned in the new manual and be developed in the Compilation Guide.

Retained earnings of mutual funds:

1) The Committee decided that if the AEG decided to adopt the *ESA95* approach, the new manual would follow suit; if not, the status quo would apply.
2) Notwithstanding the outcome of the AEG's discussion, the Committee felt that undertaking work on defining "collective investment schemes" was urgent.
3) The Committee took note that ESA95 may be revised so that interest receivable by mutual funds/investment funds may no longer be deemed to pass through them directly to the shareholders/unit holders as interest in the core account.

Financial gold:

1) The Committee decided to treat unallocated gold accounts as financial assets (equivalent to assets denominated in a foreign currency), and allocated gold accounts

as the commodity gold. The Committee also agreed that the treatment of unallocated gold accounts could be extended to other unallocated metal accounts.

2) The Committee decided that further work is necessary to determine to which instrument unallocated gold accounts should be assigned.

Fee on securities lending and gold lending:

1) The Committee decided to treat the fee on securities lending as property income.
2) The Committee decided to treat the fee on gold lending as a service if the gold were lent from allocated gold, and as property income if lent from a financial asset (unallocated gold or monetary gold).
3) The Committee also noted that the payment of the fee may be made to the custodian. This payment represents a short-circuiting of the payment of the property income to the security owner, who would pay the custodian for the provision of a financial service. The Committee asked the IMF and the OECD to do further work to determine which type of service (financial intermediation or other financial services).

Treatment of non-performing loans:

1) The Committee noted the paper.

Untraded and formerly traded securities:

1) The Committee decided that "portfolio investment" should include all securities that are not otherwise included in direct investment or reserve assets.

Traded loans: criteria to become securities:

1) Views were divided on whether "traded loans" should be determined on the basis of evidence of trading and market price.
2) In the absence of consensus, the Committee decided that existing treatment for traded loans should be retained, i.e., they should be reclassified as securities when they meet the criteria (i.e., evidence of trading and market price) as set out in *ESA95* and *External Debt Guide*.

Goods for Processing:

1) The Committee decided that the treatment of goods for processing having imputed change of ownership in some cases but not others should be changed to a consistent treatment that there would be an imputation in no cases or all cases.
2) The Committee was evenly divided as to whether imputations should be made in all cases or in none.
3) The Committee decided that additional data on processing fees, materials, and finished goods flows should be provided to show a full picture of processing arrangements.

Merchanting:

1) The Committee expressed the objective of properly reflecting global production and marketing processes while taking into account concerns both about deviating from the change of ownership principle and avoiding excessive grossing up of export and import flows.
2) The Committee proposed that a working group including Bill Cave, Robert Dippelsman, Anne Harrison, Ivo Havinga, Toshi Takeda and Markus van Wersch, as well as any Committee member, would work to come up with a solution.
3) In the meantime, for the AEG meeting, the issues would be discussed, but it would be suggested that a decision be delayed.

Guarantees:

1) The Committee decided that it was premature to recognize guarantees before their activation because the implications of expanding the asset boundary to contingencies were wide and had not yet been explored beyond the public sector.
2) The Committee decided that the preliminary AEG position on the treatment of flows arising from the activation of a guarantee as capital transfers in all cases is not appropriate. The IMF will prepare examples to show problems with the AEG proposal. The Committee's preference is, firstly, other changes entries in all cases; or, failing that, a case-by-case basis classifying items as a capital transfer, financial claim, or other change according to criteria to be specified.
3) The Committee also took note that some guarantees arise as a result of arm's length transactions, such as guarantees that protect lenders against mortgage defaults by borrowers.

Instrument classification:

1) The Committee supported the broad outline of the classification proposed in the paper, including the use of grouping for equity, debt and other items.
2) The Committee supported the proposed additional items being included on a supplementary basis. There was support from some members for the mutual fund and money market mutual fund items to be standard items, based on their importance, growth, particular characteristics, and separate economic function. Further, as collective investment schemes, they have some aspects in common with pension funds and life insurance. In addition, money market mutual funds need to be identified for compatibility with monetary statistics. The argument for separate identification was reinforced in subsequent discussions about mutual fund retained earnings and direct investment. However, other members considered that an internationally consistent definition of mutual funds would be required first, to clarify the inclusion or exclusion of hedge funds, unregulated mutual funds, etc.

Distinction between loans and deposits:

1) The Committee agreed that the distinction was useful.

2) The Committee noted that the distinction was blurred in a minority of cases. It was agreed that it was not necessary for the Committee to prescribe criteria, but possible options that were mentioned were the parties' own descriptions, and the financial/nonfinancial borrower criterion. It was considered that the use of the party who initiates the arrangement was not an effective criterion.

Valuation of direct investment equity:

1) The Committee decided that there should be a split between quoted and unquoted equity on a supplementary basis.
2) The Committee reaffirmed the market price principle for valuing direct investment equity and gave general endorsement of the various proxies to market prices, as set out in Question 2 of DITEG outcome paper #1A. The Committee strongly recommended that further work be undertaken to clear descriptions of the various proxies, including the pros and cons of each.
3) The Committee did not reach a consensus on the appropriateness of ranking the different approaches, noting that DITEG had found it difficult to provide such a ranking. However, it was agreed that further work would be done by the IMF and the OECD on the descriptions and that this work might clarify the relationships between the different approaches.
4) Although some felt that the three valuation bases set out in Question 3 of the outcome paper should be incorporated with those in Question 2, most felt that they should be shown to be separate and inferior valuation bases.
5) The Committee agreed that whether book values may be the only basis for collecting data on a bilateral basis should be taken up by a task force on the Coordinated Direct Investment Survey, should the decision be made to proceed with such a survey.

Purchased goodwill and marketing assets:

1) The Committee took note of the work that has been undertaken by Canberra II on this subject, noting the link with a proposed method for estimating the market value of direct investment.

Reverse investment and directional principle:

1) The Committee decided direct investment positions, transactions and income should be recorded on a gross basis, rather than including reverse investment flows and positions on a net basis in direct investment abroad and in the reporting economy.
2) The Committee decided that reverse equity direct investment should be treated as direct investment, though some indicated a preference for treating it as portfolio investment on practical grounds.
3) The Committee decided that reverse debt direct investment should be treated as direct investment.

Permanent debt:

1) The Committee agreed that the Basle Committee's definition of tier 2 capital is not appropriate for use on the definition of permanent debt between affiliated financial enterprises, and the "unsecured and subordinated debt" is not the same concept as permanent debt.

2) Although there are good conceptual reasons for retaining permanent debt between affiliaited financial enterprises as part of direct invesment, the Committee decided that, on practical grounds, all debt between affiliated financial institutions (except between affiliated insurance corporations and pension funds) should be excluded from direct investment.

Land and buildings leased by nonresidents:

1) The Committee decided that, subject to the outcome of considerations of the issue by Canberra II, at its meeting in September 2005:

   i. the treatment of long-term leases of land and buildings, and, by extension, other natural resources, by nonresidents needs to be clarified in the new balance of payments manual and the new Benchmark Definition;
   ii. where an effective change of ownership takes place (comparable to a finance lease) that a notional resident entity be created, in the same manner as with an outright purchase of land and buildings, and other natural resources;
   iii. such an acquisition by a notional entity represents an equity investment.
   iv. should those outcomes of Canberra II be materially different, the Committee (and the WIIS) would be advised in time for input for the first draft of the new Benchmark Definition.

2) The Committee did not discuss the valuation of the acquisition during its life, and took note that this issue may need to be revisited in the light of Canberra II's discussions.

Holding companies:

1) The Committee noted that the main issue at the discussion is the institutional sector classification of holding companies as defined in the *1993 SNA*.
2) The Committee decided that if a holding company has no subsidiary operations in the economy where it is resident, the holding company should be classified on the basis of its own function as other financial institutions.
3) If a holding company has subsidiary operations in the same economy, views were divided on whether to classify it on the basis of its own function or on the basis of the predominant sector of the group in that economy, which is deemed analytically useful for direct investment relationship.

4) If predominant sector of the group is used to classify the sector of a holding company, the Committee noted difficulties in determining the sector of a holding company when it has subsidiary operations in the local economy as well as abroad.
5) A view was expressed that the use of the predominant sector of the local group may cause a change in classification of holding company between a local economy and a currency union.
6) The Committee noted that the activity classification of holding company should be discussed with the ISIC group.
7) The Committee decided that an electronic consultation of the Committee should be conducted, by the end of August 2005, to determine the sector classification of holding company as defined in the *1993 SNA*, asking their views on whether the institutional sector should be based on (i) the function of holding company or (ii) the predominant sector of the local group, and (iii) if (ii), what criteria to use when a holding company owns subsidiaries in the local economy as well as abroad.

SPEs and non-financial direct investment enterprises:

1) The Committee agreed that users' requests concerning more information on SPEs should be provided using the BOP/IIP framework, noting that no single solution to SPE operations would be appropriate in all cases.
2) The Committee noted a need to explore the possibility of determining main characteristics of SPEs, which can be used by countries in isolating SPEs transactions and positions.
3) The Committee agreed that UBO/UBA-based supplementary data could be generated outside the core accounts of BOP/IIP and could be considered by a task force on CDIS.
4) The Committee noted that its decision made in 2002 regarding non-financial direct investment enterprises and affiliated SPEs should be clarified in the context of DITEG proposal to exclude reverse investment of SPEs in their direct investors (non-financial). This issue should be resolved through electronic consultation among the Committee and WIIS.
5) The Committee agreed to disregard the proposal to net out under inward direct investment all flows/stocks in which the resident company is not the ultimate beneficial owner.

Non-resident SPVs linked to general government:

1) The Committee considered that the TFHPSA proposal was not compatible with existing units and residence concepts. It was noted that the rationale given would also apply to private sector SPVs.
2) The Committee recognized a need to resolve the potential distortions of public sector data, but that it should be done in a way that did not undermine fundamental concepts of balance of payments. It supported work to consider the issue in a wider context of balance of payments, government finance, and national accounts concerns.

Maturity and instrument split:

1) The Committee decided that an instrument breakdown of direct investment that is consistent with the SNA instrument breakdown, and a maturity split should be included in the supplementary items, with compilation priority being given to the instrument split.

Mutual funds:

1) The Committee decided to treat investment in, and investment by, hedge funds, private investment funds, and distressed funds as direct investment if the standard 10 percent threshold is met.
2) The Committee had divided views on the appropriateness of applying the 10 percent rule to investment in and by retail mutual funds and master/feeder funds. The Committee noted that it is necessary to have a definition in order to apply an exception and that further work needed to be done on this issue, in conjunction with other groups (such as the OECD's WPFS) that may be examining this topic.

Definition of direct investment terms:

1) The Committee supported the direct investment glossary.
2) The Committee noted a need to harmonize glossaries for direct investment, BOP, and SNA; and was satisfied with the coordination of work in this regard.
3) The Committee encouraged its members and others to send their inputs to the direct investment glossary to the IMF (Mr. Joisce) / OECD (Ms. Bertrand) , and the SNA Editor (Ms. Harrison).

Reserve assets

1) The Committee decided to create a technical expert group (RESTEG) to consider the reserve assets issues raised in the IMF paper (BOPCOM 5/70).

CUTEG

1) The Committee welcomed CUTEG's report and was in general agreement with the outcomes presented. Some issues were raised and it was agreed that these will need to be addressed in the drafting of the new Manual

Travel and the classification of services

1) On expenditure by military personnel and civil servants employed in government enclaves abroad, the Committee's preference was to include them under the relevant goods and non-travel services categories, or failing specific identification, to government services n.i.e., as now, rather than in *travel*, as proposed.

2) It was decided to refer the proposals of the TSG of the Inter-agency Coordination Group (IACG) on Tourism Statistics (TS) related to *travel* and the proposal of the Task Force on International Trade in Services related to services classification to Committee members for electronic discussion, with comments to the Fund by August 15, so that the Task Force can be informed, at its September 2005 meeting, of the Committee's decisions.

CPC-EBOPS

1) Because of the links between EBOPS and CPC, it was noted that the IMF which had taken responsibility for EBOPS would undertake work over the next few months to define linkages between EBOPS and CPC.