

## **Note for Reviewers**

This revised draft represents a new stage in the development of the sixth edition of the *Balance of Payments and International Investment Position Manual*.

The previously published draft was released in March 2007 to provide a basis for consultation. Around sixty organizations provided comments. These comments were very helpful and much appreciated.

In response to those comments, this new edition includes a wide range of improvements in wording and additional explanation. As well, there are some changes in recommended treatments resulting from input from the IMF Committee on Balance of Payments Statistics, other expert groups, and the continuing parallel updates of the *System of National Accounts* and the *OECD Benchmark Definition of Foreign Direct Investment*.

Reviewers are welcome to provide comments on the draft, with particular reference to clarity and detail. However, please note that it will not be possible for us to address new issues or to reopen issues that have been settled.

Please send comments to [bpm5update@imf.org](mailto:bpm5update@imf.org) or fax them to 1+(202) 623-6033 Attention: *BPM5* Update. They can also be sent by mail to:

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Please use the attached form that allows reference to the specific paragraph numbers or tables. Comments by June 20, 2008 are welcome.

It is expected that the final version of the new edition will be posted on the Fund's external website by the end of the year, following the meeting of the IMF Committee on Balance of Payments Statistics in November.

Compared with the March 2007 version, some of the more substantial changes are:

- Within direct investment, there is additional supplementary detail for fellow enterprises (previously call other affiliated enterprises). These details support the directional basis of presentation, which is explained further;

- A number of issues regarding reserves is clarified and resolved, following the responses to last year's worldwide consultation and the meeting of the IMF Committee on Balance of Payments Statistics in October 2007;
- revised treatment and classification of intellectual property services;
- Addition of more tables, boxes, and numerical examples to support understanding of complex concepts; and
- Addition of Appendices 4-8.

A more detailed listing is attached of these and other topics revised in this new version, with corresponding paragraph numbers in the draft.

Thank you for continued cooperation.

### **Chapter 1 Introduction**

- A number of specific topics are listed for the research agenda (1.43).

### **Chapter 2 Overview of the Framework**

- More details on consistency with other datasets (2.8).
- Guidance on the calculation and interpretation of net errors and omissions is provided (2.26).
- The numerical example is updated to be consistent with the current draft of *1993 SNA Rev. 1* (Table 2.1).

### **Chapter 3 Accounting Principles**

- The definition and explanation of a transaction is reworded (3.4).
- The timing of dividends is determined on the basis of the time the shares go ex dividend (3.48 and 7.26).
- Not recording accounts receivable/payable is acceptable when the delay between the transaction and settlement is short (3.55).
- The definitions of nominal, amortized, and face value are reworded (3.88).

### **Chapter 4 Economic Territory, Units, Institutional Sectors, and Residence**

- An additional option is provided for joint sovereignty zones (4.10).
- The *SNA* term “artificial subsidiary” is added and explained (4.17).
- Discussion added on the treatment of secondary market transactions in financial assets on sector data (4.55).
- “Captive financial institutions and moneylenders” replaces “other financial institutions except ICPFs” as a term (4.76). Some intragroup financiers and SPEs are included (4.77) as are some holding companies (4.78-4.79).
- A summary of residence principles is given (4.107).
- The treatment of mobile equipment is explained further (4.128).
- Discussion of partner data for secondary market transactions in financial instruments and the acceptability of use of data on the economy of issuer (4.143-4.146).
- Partner attribution for transactions in gold bullion is discussed (4.153).

### **Chapter 5 Classifications of Financial Assets and Liabilities**

- Elaboration of benefits of economic ownership (5.3).

- More explanation of depository receipts (5.22).
- Explanation of principal and interest are provided (5.30 footnote).
- “Interbank positions” is used as a term instead of “interbank deposits” (5.41).
- There is additional description on structured finance, asset-backed securities etc. (5.46).
- The definition and description of financial leases is revised to be consistent with the *1993 SNA Rev. 1* (5.55 and 5.57).
- For insurance, “reserves” is used as a term instead of “provisions” (5.60).
- The *SNA* items for claims of pension funds on sponsors, entitlements to nonpension benefits are added (5.64).
- FISIM is treated in the same way treated as accrued interest, not as accrued services (5.69).
- There is an elaboration of the treatment of trade bills and other trade credit that is on-sold (5.69).
- “Forward-type contract” is used as a term instead of “forwards” (5.80).
- More guidance added on foreign currency derivative swaps (5.85).
- There is additional guidance on maturity of insurance and direct investment (5.98).
- Guidance on currency to pay and receive for financial derivatives is added (5.102).

## **Chapter 6 Functional Categories**

- An explanation of the use of the functional categories is added (6.3-6.7).
- A table is added to show link between instruments and functional categories (Table 6.1).
- Other affiliated enterprises have been renamed fellow enterprises (6.17).
- The possible use of repos and warrants in direct investment relationship is discussed (6.19).
- Acting in concert is no longer included in the definition of direct investment, only “in combination” (6.21).
- The case of an investment potentially being classified both direct investment and reserve assets is discussed and a hierarchy of classification adopted (6.22 and 6.98).
- Presentation according to the directional principle and the treatment of fellow enterprises in that (supplementary) presentation are discussed. The treatment of investment in fellow enterprises is explained in more detail and is split according to the residence of the ultimate controlling parent (6.43-6.45, Box 6.3).
- The functional category financial derivatives has “(other than reserves)” added to distinguish it from the instrument category (6.58).
- “or” is removed from the definition of reserve assets (6.64).
- The neighboring economies case for reserve assets is revised, with supplementary data (6.73).

- The inclusion in reserves of assets committed to a future use are explained further (6.75).
- Explanation of gold bullion and unallocated account transactions is added (6.80).
- Reserve position in the IMF is elaborated for the currency components attribution (6.85 footnote).
- The naming and definition of special purpose government funds is changed (6.93).
- The treatment of acquisition of reserve assets from residents is explained (6.104).
- A treatment of net creditor positions in regional payments arrangements is given (6.111).
- Reserve-related short-term liabilities are memorandum items, while long-term liabilities are supplementary (6.114-6.115).

### **Chapter 7 IIP**

- The descriptions of book values with macro level adjustments and own funds at book value has been reworded (7.16(d) and (e)).
- Comments on zero and negative value direct investment have been removed.
- The methods for unlisted direct investment equity are also stated as applicable to quasicorporations and portfolio investment (7.25 and 7.29).
- It is stated that insurance reserves for events that have not occurred are excluded (7.62).
- A discussion of pension entitlements is included (7.64).
- Valuation principles for calls under standardized guarantees are stated (7.66).
- A supplementary item for special purpose government funds is suggested (7.71).
- A paragraph is added on off-balance sheet liabilities (7.72).

### **Chapter 8 Financial Account**

- The supply of goods and services in kind between affiliates and direct investment equity is discussed (8.17).
- A paragraph is added on bonus shares (paragraph 8.33).
- The possibility of service charges associated with financial derivatives is discussed (8.34).
- The treatment of debt assumption is elaborated and a box added (8.45).
- A paragraph on transactions in currency is added (8.53; see also 5.37).

### **Chapter 9 Other Changes in Financial Assets and Liabilities Account**

- The effects of monetization and demonetization of gold bullion involving international financial institutions are stated (9.14(e)).

- The treatment of shifting gold between bullion and unallocated accounts is stated (9.14(f)).
- There is a discussion of changes in actuarial assumptions for insurance provisions, pension entitlements, and provisions for standardized guarantee schemes (9.17).
- It is stated that the calculation used in separating exchange rate and other revaluation should be at the time of the occurrences, and the average for the period is only an approximation (9.21).

### **Chapter 10 Goods and Services Account**

- The content of gross flows corresponding to processing services has been elaborated and made more flexible (10.63).
- Numerical examples of the treatment of freight services are provided (Box 10.1).
- Repairs on goods has been renamed as repairs and maintenance n.i.e. and the possible double-counting of maintenance of transport equipment clarified (10.65).
- More guidance has been provided on travel costs paid through resident operators (10.92).
- The treatment of intellectual property has been set out in more detail and classification changed, with delineation of software included in goods. The services item is renamed as charges for the use of intellectual property (Table 10.4).
- Government services n.i.e. has been renamed government goods and services n.i.e. (10.155).

### **Chapter 11 Primary Income Account**

- The timing of dividends is determined on the basis of the time the shares go ex dividend (11.29).
- Distributed branch profits has been renamed and broadened to withdrawals of income of quasicorporations in line with the *SNA* terminology.

### **Chapter 12 Secondary Income Account**

- An exception is no longer made for insurance claims related to major catastrophes (12.38).

### **Chapter 13 Capital Account**

- “Marketing assets and goodwill” is identified as an additional category of nonproduced asset (13.16-13.17).

### **Chapter 14 Selected Issues in Balance of Payments and International Investment Position Analysis**

- A discussion of the monetary approach to the balance of payments is presented (14.20-14.22).
- A discussion of partner analysis is added (14.23-14.24).
- A discussion of functional category analysis is added (14.34 and 14.58).
- Other aspects of adjustment are discussed (14.35-14.37).
- There is additional discussion of dealing with current account surpluses (14.53-14.56).

### **Appendix 1 Exceptional Financing Transactions**

- An explanation of the treatment of arrears is added (A1.21).

### **Appendix 3 Regional Arrangements: Currency Unions, Economic Unions, and Other Regional Statements**

- Application of the debtor-creditor principle in currency and economic unions is discussed further (A3.4).
- The section on customs unions has been revised to cover general principles rather than the specific case of SACU (A3 Section D).

### **Appendices 4-8**

- Additional appendices are provided for activities of multinational enterprises, remittances, topical summaries, relationship to the *SNA*, and a listing of changes from *BPM5*. Appendix 7 is incomplete, awaiting finalized *SNA* tables and codes.

### **Appendix 9 Standard Components and Selected Other Items**

- *1993 SNA Rev. 1* codes have been added (in brackets) after relevant standard components and other items. Comments on possible coding systems for *BPM6* are welcome.
- Pension and standardized guarantee fund services is added as a supplementary item.
- In primary income, additional detail is added for both equity and debt in order to support the directional principle:
  - Direct investor in direct investment enterprises (standard);
  - Direct investment enterprises in direct investor (reverse investment) (standard); and
  - Between fellow enterprises (standard)
- For direct investment income, financial account, and IIP, additional detail for fellow enterprises is added for both equity and debt in order to support the directional principle: =

- if ultimate controlling parent is resident (supplementary);
  - if ultimate controlling parent is nonresident (supplementary); and
  - if ultimate controlling parent is unknown (supplementary).
- Workers' remittances is included as a supplementary item.
- In the financial account, the insurance and other accounts receivable/payable instrument categories have the same split as IIP.
- In both the financial account and IIP, the supplementary item, for money market fund shares/units is not limited to those included in broad money.
- In both the financial account and IIP, there is a supplementary item for interbank positions.
- IMF credit and loans from the IMF are added as liabilities in the financial account and IIP.
- Supplementary items for currency liabilities of central banks are deleted.
- Net values of derivatives are shown as assets for all cases (previously only those in reserves).
- An additional split of other sectors is introduced in Tables 1-1 and I-2 and encouraged in Tables III-1 and III-2. As tables I-1 and I-2 are to be included in BOPSY, it is proposed to make them memorandum items. Any comments are welcome.