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**Coordinated Implementation in the European Union of the  
Sixth Edition of the *Balance of Payments and International Investment  
Position Manual***

**Prepared by the  
European Central Bank (DG-Statistics)  
and the European Commission (Eurostat)**





EUROPEAN COMMISSION  
EUROSTAT  
DIRECTORATE NATIONAL  
AND EUROPEAN ACCOUNTS



EUROPEAN CENTRAL BANK  
DIRECTORATE GENERAL  
STATISTICS

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## **Coordinated Implementation in the European Union of the IMF Balance of Payments and International Investment Position Manual (6th edition)**

*For information of the IMF Balance of Payments Committee*

### **Background**

The new international standards that apply to external statistics are defined by the Balance of Payments and International Investment Position Manual – 6<sup>th</sup> Edition (BPM6), the OECD Benchmark Definition of Foreign Direct Investment – 4<sup>th</sup> Edition (BD4), and the Manual on Statistics in International Trade in Services (MSITS 2010).

In its previous meeting (Shanghai, November 2009), the IMF Balance of Payments Committee was informed about the envisaged steps to implement the revised manuals in the European Union (EU) in 2014, in coordination with the implementation of the System of National Accounts 2008.<sup>1</sup>

This note summarises the developments since November 2009, in particular on the methodological work (Section 1), the implementation of the new standards in the statistics required at EU level (Section 2), and the update of EU legal acts (Section 3).

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<sup>1</sup> The previous [document](#) included an overview of the institutional set-up in the EU and of the steps to implement new manuals in a coordinated manner.

## **1 Methodological work**

To prepare the implementation of the new manuals three workshops were organised by the European Commission/Eurostat and the ECB.

The first workshop on FDI was held in Luxembourg in November 2009 and covered topics like “Definitions of FDI Relationships”, “Positions and Income”, “Residency and SPEs”, “Ultimate Controlling Parent” and “Data Requirements”.

A second workshop was organised in June 2010 to deal with more practical issues related to the collection of FDI data, like the design of new questionnaires to collect from respondents the information according to the breakdowns in the OECD Benchmark Definition on Direct Investment (4<sup>th</sup> Edition). A dedicated library was created in Eurostat’s website CIRCA to share the new forms.

The third workshop was integrated in the July 2010 meeting of the WG-ES and focused mainly on two aspects. The first item was about insurance and pension schemes, and in particular insurance technical reserves. The second was about changes in the centralised securities database (CSDB) necessary to cope with the new requirements, namely the increased sector breakdown, the residual maturity of securities, and the identification of financial derivatives traded as securities, such as warrants.

A fourth workshop will be dedicated to the implementation of BPM6 in the current and capital accounts. Initially planned for November 2010, it shall be postponed to the beginning of 2011. It shall be preceded by a very simple survey among Member States that shall collect ideas on the issues that could be more problematic for the implementation of the new manuals.

Other methodological work on-going in Eurostat and the ECB may also be relevant for the future implementation of the international standards. Namely, a European Task Force on financial intermediation services indirectly measured (FISIM) was set up in July 2010, in order to identify possible improvements in the estimation methods currently used in Europe. The Task Force shall analyse the possibility to reflect differences in maturity, currency and default risk in the FISIM calculation. Its final report should be ready in 2011. Moreover, during 2010 another Task Force thoroughly investigated the ways for increasing consistency between balance of payments and merchandise trade; its final report included a reconciliation

table adapted to BPM6, as well as guidelines for harmonising the practices in the transition from elementary data on merchandise trade to the goods item in the balance of payments.

## **2 Update of data requirements at EU level**

To be applied in the EU, the changes introduced by the new manuals have to be translated in new data requirements and integrated in the EU legal framework. Once included in the legal framework, the reporting of the data becomes mandatory for the EU Member States. This translation of the data requirements into legal texts requires comprehensive and intensive discussions with the Member States.

The technical discussions about the updating of the requirements is proceeding in a coordinated fashion in the working groups hosted by the ECB (Working Group on External Statistics – WG-ES) and by the European Commission/Eurostat (Working Group on Balance of Payments – BoP WG). The parent Committees, i.e. the ESCB Statistics Committee<sup>2</sup> and the Eurostat Balance of Payments Committee<sup>3</sup>, have also been periodically informed.

While at the beginning the discussions on the new data requirements focused on the detail according to the new international standards, at the moment the discussions are focusing on enhancing the timeliness of the quarterly b.o.p. and i.i.p, currently reported one quarter after the end of the reference quarter (T + 90 days). Basically, the working groups are exploring possibilities to allow publishing the statistics for the euro area and EU at T + 90 days<sup>4</sup>. This would require the national data to be reported to Eurostat and the ECB some days before. The ESCB Statistics Committee agreed to prioritise the publication of euro area accounts at T+90 days and to carry out a feasibility study on the trade-off between timeliness and reliability of b.o.p./i.i.p. series.

A workshop on an earlier submission of quarterly b.o.p. and i.i.p. took place in Frankfurt on 20 and 21 September 2010. In that workshop, participants from the countries where the

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<sup>2</sup> The Statistics Committee of the European System of Central Banks (ESCB) is composed of senior statisticians of the ECB and all 27 national central banks of the EU.

<sup>3</sup> The Eurostat Balance of Payments Committee is composed of the European Commission (Eurostat) and representatives of the 27 Member States of the EU.

<sup>4</sup> Currently the publication of EU and euro area sector accounts takes place at T+120, and the publication of the euro area (and EU) quarterly b.o.p. and euro area i.i.p. at T+105.

earlier deadlines are more challenging exchanged views with a few experts from national accounts by sector about statistical methods allowing more timely results. As an outcome of this workshop, a flexible approach was proposed, which in some cases may imply estimates and/or a reduced level of detail, in order to reach the goal of publishing the euro area accounts at T + 90 days.

The next steps in the discussion of the new data requirements shall be the Eurostat BoP WG on 21 and 22 October 2010 and the WG-ES on 23 and 24 November 2010.

Furthermore, so far the design of the new data requirements has proceeded without attaching operational codes to the items. Progress in the definition of a common codification and data structure will be fundamental to allow exchanging data according to the new international standards. The definition of the data structure for external statistics is planned for the first half of 2011.

### **Monthly and quarterly requirements**

With the updating of the international methodological standards, the ECB DG-Statistics and Eurostat have taken the opportunity to integrate and rationalise the report of external statistics. The criteria driving this rationalisation were the following:

- To align and synchronise the data requirements of Eurostat and the ECB, allowing that both requirements can be included in a single file in a standard format; this will mean that compilers would be able to route to Eurostat and to the ECB a single file that will meet the needs of both institutions;
- To remove redundant requirements and avoid overlaps between different reports, so that each time-series would be sent only once; for example, the positions reported for the International Reserves Template will be also used in the compilation of the euro area i.i.p.;
- To integrate quarterly reports on financial positions (international investment position) and transactions (balance of payments).

The joint Eurostat/ECB proposal under discussion envisages, from 2014 onwards, to organise the European data requirements addressed to national compilers in three reports: 1) Monthly International Reserves, 2) Monthly Balance of Payments, 3) Quarterly Balance of Payments

and International Investment Position.<sup>5</sup> The details of the future data requirements are currently under discussion but it is possible to describe the main intended changes in each of them.

The new report on Monthly International Reserves is supposed to reflect the innovations introduced by BPM6. These data will be reported to the ECB 10 days after the end of month (T + 10 days).

Besides the adaptation to BPM6, the Monthly Balance of Payments would include the geographical split extra/intra EU for items of the current account. This would allow dropping Eurostat's request for Euro Indicators (a limited set of current account items currently reported at T + 60). A more detailed sector breakdown would be required for some items. These data would continue to be reported to the ECB 6 weeks after the end of the month (T + 6 weeks).

The new report on quarterly balance of payments and international investment position will include some substantial changes. First, the report on international investment position will be integrated with the report on balance of payments; this would stress the relationships between both reports and ease the consistency checks. Another innovation is the integration of the frame for reporting financial transactions and positions with their income flows. This new quarterly report would contain the necessary data to compile the euro area b.o.p. and i.i.p.,<sup>6</sup> as well as the national b.o.p. and i.i.p. At the moment, consideration is being given to a proposal that, upon request by Member States, the national b.o.p. and i.i.p. data collected by Eurostat and the ECB are routed to the IMF and other international organisations.

In addition the quarterly requirements have been expanded to respond to the new pressing needs of monitoring financial stability. Additional sector and geographical breakdowns were introduced in the b.o.p. financial account and international investment position. The changes

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<sup>5</sup> The annual b.o.p. will result from the aggregation of four quarters; the annual i.i.p. will correspond to the last quarter of the year.

<sup>6</sup> The EU and euro area b.o.p. and i.i.p. result from the aggregation of "extra" transactions and positions, i.e., transactions and positions by residents in each EU and euro area country with residents outside of the EU or euro area. From 2010, the methodology of aggregation for euro area balance of payments and international investment position includes adjustments in items where intra euro area asymmetries are observed.

that are not related to the introduction of BPM6 are specified in Annex 2. Some of those changes may be phased in after 2014 as the main concern in 2014 will be meeting the requirements for the publication of euro area accounts at T+90 days.

As to the standard components in BPM6, the main difficulty is related to the inclusion of investment funds in FDI. This is because the investment funds are often traded as securities and owing to long custodian chains, the domestic issuers (as well as the domestic custodians) often are not able to identify the final investors and assess whether their participation exceeds 10 % of the total. Therefore, it would be very likely that a fund in which a non-resident holds more than 10% would be reported as direct investment by the country of the investor and as portfolio investment by the country where the fund is resident. As the compilation of portfolio investment for the euro area and EU requires consolidation, in the EU all investment fund shares will likely be included in the portfolio investment account.

For the quarterly balance of payments and the quarterly international investment position, EU countries outside the euro area may report to the ECB and Eurostat some of the new details on a voluntary basis.

## **2.1 Annual international trade in services**

The draft of the new report on international trade in services (ITS) was built integrating the new services transactions introduced by BPM6 and MSITS 2010 in the current ITS questionnaire.

The more substantial change introduced by the new international standards was the inclusion in services of “Manufacturing services on physical inputs owned by others”. Another substantial change is the inclusion of FISIM under the item Financial Services; this will eliminate one of the main current methodological differences between the balance of payments and the rest-of-the-world account in services and income. Other changes are mainly related to a further breakdown of “Travel”, of "Charges for the use of intellectual property" and of "Research and development services".

The first draft of the new ITS report presented to the BoP WG on 12 and 13 April 2010 included all the services detail that is part of MSITS and EBOPS (Extended Balance of Payments Services Classification 2010). The comments received during the meeting and the



successive written consultation made clear that the increased detail would not be relevant in a number of countries.

A second draft report was prepared and discussed during the Eurostat Balance of Payments Committee on 10 May 2010 and successively submitted to a written consultation. It is already clear that in the EU only a very limited part of the new details for services introduced by MSITS 2010 shall be mandatory in legal acts, while the rest will be reported by the countries on a voluntary basis.

## **2.2 Annual foreign direct investment**

The new international manuals introduce two ways of presenting FDI statistics: the assets/liabilities presentation and the directional principle presentation. This dual system is reflected in the new data requirements. The traditional separation between direct investment abroad (outward FDI) and direct investment in the reporting economy (inward FDI) is complemented with another presentation showing the FDI positions and transactions of a country vis-à-vis the rest of the world broken down by assets and liabilities.

A key element of the new approach is the treatment of FDI between fellow enterprises. The new report requires identifying whether the ultimate controlling parent (UCP) of fellow companies is resident or not<sup>7</sup> in order to allow the classification as inward FDI or outward FDI. The identification of this type of investment allows reconciling the two presentations of FDI statistics.

Another important new element refers to the provision of FDI data separately for resident Special Purpose Entities (SPEs). At the moment, a few countries are able to provide, on a voluntary basis, FDI data including and excluding SPEs; the two data sets provide different pictures of the attractiveness of an economy. This will become part of the EU standard requirements.

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<sup>7</sup> For the compilation of European aggregates, in addition to the national perspective the residency of the UCP would be assessed from the euro area or EU perspective.

Furthermore, in order to calculate FDI aggregates for the EU and euro area it is necessary to define resident SPEs from the perspective of the euro area or EU (also known as “Community concept” in the European terminology).

As regards the geographical and the activity breakdowns, the data requirement remains quite similar to the existing one. However, a revision of the countries in the geographical breakdown on the different levels as well as of some economic zones is foreseen. The activity breakdown will be based on NACE Rev. 2 (the EU equivalent of ISIC Rev 3.1) as applicable from 2011.

Concerning the timeliness for data provision, the two existing ones are maintained: a set of tables including only a geographical breakdown is scheduled for T+9 months, and another set with a cross-tabulation between activity and geographical breakdown within T+21 months.

Finally, a voluntary data provision of mergers & acquisitions has been incorporated in the proposal. This tries to respond to the increasing need of this kind of information from other European Commission services and data users.

### **3 Update of European legal acts**

Ideally the new data requirements should be finalized by the end of 2010. After reaching an agreement on the content of the new requirements with the EU Member States on a working level, the procedure for amending the legal base will start.<sup>8</sup>

The legislative procedure for updating Regulation 184/2005 could be relatively fast as the proposed changes result from the adaptation to economic and technical changes; the amendments will therefore be adopted by a simplified procedure (i.e. the “comitology procedure”).

The target is to take in 2011 the procedural steps of the revision of the legal base, so that the amended legal acts can be published in 2012. The fulfilment of this deadline is particularly

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<sup>8</sup> The European-wide legal base comprises the European Parliament and Council Regulation on Balance of Payments, International Trade in Services and Foreign Direct Investment (184/2005), and the ECB Guideline on the Statistical Reporting Requirements of the Balance of Payments, International Investment Position, and the International Reserve Template (ECB/2004/15 as amended by ECB/2007/3).

important to ensure that national central banks and national statistical institutes have sufficient time for implementing all the necessary changes in the data collection required at a country level for reporting according to the new standards from 2014 onwards.

**Annex 1 - Correspondence between current and future reports**

<b>Current report</b>	<b>Current timeliness</b>	<b>Detail in current report</b>	<b>Future report</b>	<b>Future timeliness</b>
Template on international reserves (ECB)	10 days		A. Monthly international reserves	10 days
Monthly balance of payments (ECB)	6 weeks	Current and capital accounts (except investment income)	B. Monthly balance of payments	6 weeks
		Investment income		
		Financial account except reserve assets		
		Reserve assets		
Euro indicators (Eurostat) – <b>replaced</b>	2 months	Current and capital accounts (except investment income)	B. Monthly balance of payments	6 weeks
Quarterly balance of payments (ECB and Eurostat)	3 months	Current and capital accounts (except investment income)	C. Quarterly balance of payments and international investment position	still to be agreed <sup>9</sup>
		Investment income		
		Financial account except reserve assets		
		Reserve assets		
Quarterly geographical breakdown of the balance of payments (ECB and Eurostat)	3 months	Current and capital accounts (except investment income)	C. Quarterly balance of payments and international investment position	still to be agreed
		Investment income		
		Financial account except reserve assets		
Quarterly international investment position (ECB)	3 months	Financial account except reserve assets	A. Monthly international reserves	10 days
		Reserve assets		

<sup>9</sup> Under discussion as related to the provision of data for the publication of EU and euro area sector accounts at T+90.

Semi-annual currency breakdown of transactions on debt securities (ECB) – <b>To be discontinued</b>	6 months	Portfolio investment debt securities		
Semi-annual currency breakdown of positions on debt securities (ECB) – <b>replaced</b>	6 months	Portfolio investment debt securities	C. Quarterly balance of payments and international investment position	still to be agreed
Annual geographical breakdown (ECB) of the international investment position (ECB) – <b>replaced</b>	9 months	Financial account except reserve assets		
Annual international investment position (ECB) – <b>partially replaced</b>	9 months	All except details on direct investment		
		Details on direct investment	E. Annual direct investment	9 months
Annual direct investment (Eurostat)	9 months	Annual details on direct investment	E. Annual direct investment	9 months
Annual direct investment (extended activity and partner breakdown) (Eurostat)	21 months	Annual details on direct investment	E. Annual direct investment	21 months
Annual international trade in services and remittances (Eurostat)	9 months	Annual details on services account	D. Annual international trade in services	9 months

**Annex 2 - Breakdowns not present as standard components in the BPM6**

<b>Breakdown</b>	<b>Items affected</b>	<b>Justification</b>
Institutional sector: Eurosystem, other MFIs, general government, investment funds, insurance corporations and pension funds, other financial corporations, non-financial corporations and other sectors	Financial account of b.o.p., i.i.p. and investment income; quarterly	Use b.o.p. and i.i.p. in euro area accounts as building blocks for the external sector, including future requirements on financial and income transactions on the “who-to-whom” basis
Inclusion of money market fund shares and investment fund shares within the list of instruments under equity	Financial account of b.o.p., i.i.p. and investment income; quarterly	Use b.o.p. and i.i.p. in euro area accounts as building blocks for the external sector
Details of current and capital accounts	Secondary income and capital account; quarterly	Adapt existing requirements to new edition of the European System of Accounts; these details will be used in EU and euro area sector accounts as a building block for the external sector
Identification of changes in positions explained by exchange rates or asset prices	I.i.p.; quarterly	Allow an appropriate breakdown of changes in the i.i.p.
Currency breakdown of functional categories	I.i.p.; quarterly	Assess the international role of the euro; check resilience of i.i.p. to fluctuations of exchange rates; assist in the modelling at the euro area level of adjustments related to exchanges rate and asset prices
Breakdown of financial instruments by residual maturity	I.i.p. debt liabilities; quarterly	To be used in the compilation of external debt