



STATISTICS

Outcomes of the June and October 2021 Committee Meetings

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Outline

- **Background**
- The Committee Meeting June 2021: D.5 and D.8
- The Committee Meeting October 2021: D.2 and D.16

BOPCOM Meetings: June and October 2021 - Background

- The Balance of Payments Statistics Committee (the Committee) met three times in 2021 due to the update of the manuals and the number of Guidance Notes (GNs) to be discussed.
 - October 2021 meeting was joint with the Advisory Expert Group on National Accounts to discuss the GNs of common interest more efficiently
- In June 2021, discussed:
 - D.5 Eliminating Special Imputations for an Entity Owned or Controlled by General Government
 - D.8 Public Private Partnerships
- In October 2021, discussed:
 - D.2 Valuation of Unlisted Equity
 - D.16 Treatment of Reinvested Earnings

Outline

- Background
- The Committee Meeting June 2021: D.5 and D.8
- The Committee Meeting October 2021: D.2 and D.16

D.5 Eliminating Imputations for Government-Owned Entities

- **Background**: A government can create and use a direct investment enterprise (DIE) resident in another economic territory, to carry out **fiscal activities** on its behalf.
 - To ensure that any **fiscal operations** undertaken through nonresident entities are reflected in the home government accounts, **special imputations** of transactions and stock positions between the government and the SPE abroad are needed.
- **Proposal**: Retain the *2008 SNA/BPM6* treatment, but with a more appropriately defined imputations necessary to adequately reflect the proper nature, value and counterpart of relevant flows and positions in the government accounts.
- **Outcomes of Consultations**: largely supported the recommendation in the GN.
 - Issue of classification and valuation of debt between Government and DIE be further discussed by the GFS community.
 - *BPM6* does not specify the exact instrument to be imputed as debt of government but can presume it is a loan.
 - Valuation for loans is at nominal value; valuation for debt securities issued by the SPE is at market value: thus, the SPE liability position will not be fully reflected in government's accounts, without further adjustments.

D.5 Government-Owned Entities (continued...)

- **Summary of Discussion:**
 - Almost all Committee members agreed with the recommendation.
 - Supported further discussion in the GFS community and AEG on the classification and valuation of debt between government and DIE.
- **Actions:**
 - Revise GN stating the approved option by the Committee and providing more details about the proposed enhancements to the imputations between the SPE and the parent government to be included in the updated *BPM7*.
 - Revised GN will then be submitted to the GFSAC and the AEG for comments.
 - After incorporating the GFSAC and AEG comments, the GN will be sent again to the Committee for final approval via written procedure.

D.8 Public Private Partnerships

- **Background**: Public private partnerships are important source of financing for public infrastructure projects.
- **Proposal**: Recommend that the Updated *BPM6* and its accompanying *Compilation Guide* provide:
 - Guidance on the concepts, definitions, and scope of PPPs arrangements;
 - Guidance on determining when there is a DI relationship and the associated DI transactions and positions and how to treat these in the balance of payments and international investment position, respectively;
 - Practical compilation guidance.
- **Outcomes of Consultations**: supported recommendation
- **Summary of Discussion**: Unanimous support from the Committee for the recommendation
- **Actions**: DITT to prepare a final version of the GN stating the final recommendations and removing the questions to the Committee for posting on the *BPM6* Update website

Outline

- Background
- The Committee Meeting June 2021: D.5 and D.8
- The Committee Meeting October 2021: D.2 and D.16

D.2 Valuation of Unlisted Equity

- **Background**: Manuals posit that market value is the recommended basis for the valuation of equity
 - If financial instruments are not or infrequently traded, a fair value should be estimated.
 - Six different methods for valuing such equity are recommended: (1) recent transaction price, (2) net asset value, (3) present value or price to earnings ratios, (4) market capitalization ratios, (5) own funds at book value, and (6) apportioning global value.
 - Flexibility to compilers to make best use of information available versus increased international comparability from using fewer methods.
- **Proposal**: GN identifies the following options:
 - *Option 1.1: Adopt the proposed use of the methods based on the decision tree and include it in the updated BPM and SNA.*
 - *Option 1.2: Adopt the methods recommended in the ESA 2010 and Final Production Flows and Stocks in the SNA as preferred methods.*
 - *Option 1.3: Cease recommending some of the proposed methods, those ranked lower or applicable only in very specific cases as shown in the decision tree.*
 - *Option 1.4: Leave some of the proposed methods as part of the methodological guidance but clearly limit their use to specific cases.*
 - *Option 1.5: No changes to the manuals.*

D.2 Valuation of Unlisted Equity (continued)

- **Outcomes of Consultations:** Strong support for including decision tree and slight support for reducing the number of methods.
 - Top three preferred methods are OFBV, Recent Transaction Price, and Market Capitalization — also methods mostly currently used.
 - Support for separate clarification note on treatment of negative equity and clarifying treatment of provisions in the valuation of unlisted equity.
- **Summary of Discussion** (preliminary):
 - Committee and AEG supported the decision tree and identifying most preferred methods.
 - Include practical guidance in CG on use of decision tree and application of methods.
 - Support for clarification on negative equity and treatment of provisions.
- **Actions:**
 - DITT to update the GN including the discussion and way forward proposed by the members and removing the questions.
 - Updated GN will be circulated to the Committee and the AEG for final decision and subsequent posting on the *BPM6/2008 SNA* Update websites.
 - Still discussing best way forward for notes on negative equity and treatment of provisions.

D.16 Treatment of Reinvested Earnings (RIE)

- **Proposals** on 3 different issues:
 - Calculation of RIE
 - Clarify language in the manuals.
 - Differences between financial accounting standards and net operating surplus in economic accounting
 - Difficult to find information and interpret.
 - Include a supplemental item on changes in provisions for bad loans.
 - RIE along the ownership chain
 - Long ownership chains can hinder the distinction between operational & non-operational earnings.
 - Differences in recording RIE from indirectly held entities can lead to global & bilateral asymmetries .
 - Explored three possibilities: (1) status quo; (2) status quo but separately identifying indirect income; and (3) only record RIE from the immediately held DIE.
 - Investment income attributable to fund shareholders
 - Retained earnings generated by investment funds should always be compiled regardless of the fund attributes.
 - Operating expenses have no impact in the compilation of the net investment income generated by the fund and should be recorded as services.
 - A distinction is needed whether operating expenses are explicitly paid the shareholders.
 - **Explicit expenses** should be recorded as financial services paid by the shareholders to the respective counterpart.
 - **Expenses implicitly** paid by the shareholders and FISIM should be recorded for simplicity as financial services paid by the shareholders to the investment fund.

D.16 Treatment of Reinvested Earnings (RIE) (continued)

- **Outcomes of Consultations:**
 - Support to clarify language but mixed on supplemental item on provisions.
 - Support for maintaining status quo on recording income while acknowledging the practical issues, only a minority supported separately identifying indirect income.
 - Support for recording investment income regardless of fund attributes and for treatment of explicit fees but not for implicit fees.
- **Summary of Discussion** (Preliminary): Strong support for clarifying language.
 - Slight support for supplemental item on provisions, need to explore links to supplemental item in IIP.
 - Support for status quo but no clear outcome on reporting indirect income separately.
 - Support for compiling regardless of fund attributes and treatment of explicit fees. Some Members expressed concerns that the proposed treatment of implicit fees because it would imply production by investment funds.
- **Actions:** DITT to amend the GN in response to comments received and widening its scope to include the national accounts perspective, in particular the proposed treatment for implicit fees.
- Updated GN to be circulated to the Committee and the AEG via written procedure for final decision and subsequent posting on the *BPM6/2008 SNA* Update websites.

Thanks