# Chapter 10. Primary Distribution of Income Account

## A. Concept and Coverage

10.1 The purpose of the primary distribution of income account will be stated along the lines of the introduction to Chapter VII of the *1993 SNA*. The nature of the economic process of income generation and distribution will be outlined, along the lines of *1993 SNA* para. 7.2, and linked to gross national income. Then, the section will show the relationship of the primary income account and its balancing item to other international accounts. Primary income will be shown as the return for contributions to the production process and for provision of financial assets or renting tangible nonproduced assets to other units. Distribution of primary income will be contrasted with other economic processes, namely, production, secondary redistribution of income, and holding gains.

10.2 The manual will adopt the *1993 SNA* use of "primary income" for "income" in *BPM5* terminology. (Correspondingly, the *1993 SNA* uses "secondary income" for what are called "current transfers" in *BPM5*.)

*[Question: Should the terminology be harmonized with the 1993 SNA?]*

10.3 The manual will include an example to show the presentation of the primary income account, along the lines of Table 10.1.

## Table 10.1 Overview of Primary Distribution of Income Account

| | Credits | Debits |
|---|---|---|
| | | |
| ***Balance of goods and services account*** | | |
| **Compensation of employees** | | |
| **Investment income:** | | |
| Direct investment | | |
| Direct investment abroad: | | |
| Income on equity: | | |
| Dividends, distributed branch profits | | |
| Reinvested earnings | | |
| Income on debt (interest) | | |
| Long-term | | |
| Short-term | | |
| Claims on direct investors | | |
| Income on equity: dividends | | |
| Income on debt (interest) | | |
| Long-term | | |
| Short-term | | |
| Direct investment in reporting economy: | | |
| Income on equity: | | |
| Dividends, distributed branch profits, and other income on equity | | |
| Reinvested earnings | | |
| Income on debt (interest) | | |
| Long-term | | |
| Short-term | | |
| Liabilities to direct investment enterprises | | |
| Income on equity: dividends | | |
| Income on debt (interest) | | |
| Long-term | | |
| Short-term | | |
| Portfolio investment: | | |
| Income on equity (dividends) | | |
| Income on debt (interest): | | |
| Long-term | | |
| Short-term | | |
| Income on other instruments | | |
| Other investment | | |
| Income on equity (dividends and other income on equity ) (if untraded equity moved from portfolio investment) | | |
| Income on debt (interest) – by instrument | | |
| Income on other instruments | | |

**PRIMARY DISTRIBUTION OF INCOME ACCOUNT**

| | **Credits** | **Debits** |
|---|---|---|
| Reserve assets | | |
| **Other primary income:**<br>Rent<br>Taxes on products and production<br>Subsidies on products and production<br><br>*Total income credits and debits*<br>*Balance on primary income*<br>*Balance on goods, services, and primary income* | | |

The debits on direct investment abroad and credits on direct investment in the reporting economy are caused by reverse investment.

10.4 The presentation will be compatible with that for the financial account and international investment position in terms of detail. This will facilitate analysis of rates of return. Some presentational changes from *BPM5* will be incorporated. Income on reserve assets will be shown separately from income on other investment. This presentation will mean that there is consistency between income and the corresponding financial flows and positions. Rent will be shown separately so that it is not confused with returns on financial assets. Property income attributed to insurance policyholders and pension fund beneficiaries will be shown as a separate item, if relevant.

> *[Question: BPM5 uses the term "investment income" as a synonym for "property income" in the 1993 SNA. The new manual will clarify this term as being limited to income from financial assets. Is this suitable?]*

## B. Scope and Characteristics

10.5 This section will outline the components of income and how they each represent returns to different economic contributions:

(a) Compensation of employees (return to labor);
(b) Dividends and reinvested earnings (return to equity finance);
(c) Interest (return on debt finance); and
(d) Rent (return on nonproduced nonfinancial assets).

It will then discuss each component in more detail.

### 1. Compensation of employees

10.6 Compensation of employees will be defined as amounts receivable/payable in return for the supply of labor, as discussed in *BPM5* paras. 269–272 and *1993 SNA* paras. 7.21–7.47. The linkage to the residence of the employer and employee (Chapter 4, Economic Territory, Units, Institutional Sectors and Residence) will be referenced. The section will deal with the borderline between service contracts and employment.

10.7 There will also be discussion of supplements to wages and salaries, such as pension contributions and benefits in kind. There will be a mention that the employees who are employed outside their economy of residence may have expenditure in their economy of employment in travel (Chapter 9 Goods and Services Account) and be subject to the payment of income taxes (Chapter 11 Secondary Distribution of Income Account). The manual will take into account any change in the treatment of unfunded pension schemes that is made to the *1993 SNA*, to recognize the accrual of unfunded obligations with consequent effects in the primary distribution of income and financial accounts.

10.8 Benefits in kind will be discussed, that is, compensation of employees in the form of goods, accommodation, other services, shares, etc., rather than as financial payment. The principle will be given that these benefits should be valued at the market equivalent price. It will be noted that to give a consistent and economically meaningful way of recording benefits in kind, there may be "rerouting." That is, although the benefits are purchased by the employer, the benefits are treated as if the employer paid the amount of the benefit to the employee who, in turn, acquired the item. The rerouting may affect the resident-to-nonresident nature of the transaction.

10.9 Employee stock options are an example of a benefit in kind. The treatment of employee stock options in terms of valuation and classification will be stated.

### 2. Dividends, distributed branch profits, and other income on equity

10.10 The concept of dividends will be explained, following *BPM5* and the *1993 SNA* paras. 7.112–7.118. The concept will be linked to the instrument classification. In addition to dividends from corporations, all income arising from equity should be included under this heading, including from quasicorporations (unincorporated branches, unincorporated joint ventures), mutual funds, trusts, income accruing to partnerships, and sole proprietorships. However, since equity in insurance and pension funds does not give rise to dividends, it is classified as income on other instruments.

10.11 The timing principle for dividends will be set out, that is, that dividends are recorded at the time they are declared payable, as in *1993 SNA* para. 3.99 (which could differ slightly from "the date payable" in *BPM5* para. 282).

10.12 It will be noted that income on mutual funds is to be recorded as dividends, even when some or all of the mutual fund's income is derived from debt instruments. This treatment will be explained as based on the nature of the ownership by the mutual fund investors, that is, as equity.

10.13 Income attributed to insurance policyholders and beneficiaries of funded pension schemes will be explained. This item will also be required as a supplementary item for national accounts purposes, as in *BPM5*.

10.14 Treatment of unfunded pension schemes will be covered, in accordance with the results of discussions currently under way (including through an electronic discussion group operated by the Fund).

10.15 Income that is retained by mutual funds could be attributed to unitholders or shareholders (consistent with *ESA95* paras. 4.49(b) and 4.54(b)) or not (consistent with *BPM5* and the *1993 SNA*).

> *[Question: Should retained earnings of mutual funds be treated as other collective investment schemes, or is there some reason to make a distinction?]*

10.16 There will be a section on stock dividends, bonus shares, and liquidating payments. These will be explained and treatments given, consistent with *BPM5* para. 290:

(a) stock dividends, that is, where the stockholder elects to receive payment of dividends in the form of issue of new shares. These arrangements are treated as income payable (in the primary distribution of income account), which is then immediately reinvested (in the financial account);

(b) issue of bonus shares, that is, where new shares are issued to all stockholders in proportion to existing ownership. These arrangements are treated as not being transactions because no resources change hands; and

(c) liquidating dividends, whether partial or total, on the termination of a company. These are treated as a withdrawal of investment, shown in the financial account, as a convention based on the assumption that liquidation dividends are more likely to involve previously existing equity rather than current income.

> *[Question: Is there any need to change any of these treatments or mention any other special cases of dividends?]*

10.17 Issues specific to reinvested earnings will be dealt with in detail under direct investment (in this chapter ahead).

### 3. Interest in general

10.18 The concept of interest will be explained, following *1993 SNA* para. 7.93. The concept will be linked to the instrument classification. It will be noted that interest accrues continuously (with a cross-reference to Chapter 3 Accounting Principles) and that it is capitalized as a part of the financial instrument. No entry is made for interest not yet accrued (as in *BPM5* para. 532).

10.19 It will be noted that interest payable to or receivable from a financial intermediary is designed to allow a margin to cover the costs, bad debts, and operating surplus of the intermediary. The treatment of this margin (FISIM) and its measurement will be dealt with in Chapter 9 Goods and Services Account. Consequent to the treatment there, this chapter will note that if FISIM is included in services, then interest payable to a financial intermediary will have a service charge subtracted to give the pure investment income component, with the comparable adjustment to the interest receivable by the financial institution. (Splitting a transaction into interest and service components is an example of “partitioning.”) Similarly, interest receivable from a financial intermediary is seen as having had a service charge already deducted, so the interest receivable will be increased by the value of the service received. There will be a cross-reference to Chapter 9 Goods and Services Account for the derivation of FISIM from the reference rate.

10.20 The manual will discuss the treatment of indexed-linked debts where principal and/or interest payments are adjusted on the basis of a price index or other indicators, or exchange rate. Such adjustments are treated as interest in the *1993 SNA* para 7.104 and *BPM5* para. 397. The manual will recommend that for debt instruments with both principal and coupons indexed to a foreign currency, the change in principal in domestic currency terms that arises from a change in the exchange rate should be shown as a revaluation. At the same time, the effect of changes in the exchange rate on the amount of accrued interest expressed in domestic currency is to be included in interest.

10.21 The manual will clarify the calculation of interest for other index-linked debt instruments in view of the inadequate guidance given in the existing statistical manuals.

### 4. Interest on debt securities

10.22 As interest accrues continually over the life of the debt and is added to the principal, it will be noted that payments (such as coupons) are financial account transactions for the instrument concerned and do not represent “interest.”

10.23 The section will explain premiums and discounts on issue of debt securities, including deep discount and zero coupon bonds. An example of calculating interest, to take into account premiums and discounts, will be given, along the lines of *BOP Compilation Guide* Table 16.5.

10.24 The section will briefly introduce the issues associated with measuring interest on securities that cover more than one period. The manual will outline the alternatives, viz., implicit rate on issue (often called the "debtor approach"), current market yield to maturity (often called the "creditor approach"), and acquisition approaches. A numerical example will be given and papers on the issue cited. The implications for the other changes account will also be noted. As agreed by the Advisory Experts Group on National Accounts (AEG) in its February 2004 meeting, the manual will state that interest is recorded following the debtor approach, as embedded in the *1993 SNA*. In view of this decision, it may be useful to provide data according to the creditor approach as memorandum or supplementary items.

*[Question: Should data on interest according to the creditor approach be included either as memorandum or supplementary item?]*

### 5. Accrual of interest on impaired loans

10.25 The valuation of interest accrued on impaired loans will be discussed. The treatment will be linked to the treatment of the principal and nonperforming loans and bonds (to be discussed in Chapter 6 International Investment Position). Like the principal, the interest remains a legal liability of the debtor, so interest should continue to be accrued unless the liability has been legally extinguished (i.e., by repayment, or after winding up of the debtor due to bankruptcy, or other write-off). However, for some analysis, it may be more useful to exclude, from primary income measures, interest that is not realistically expected to be collected. It will, therefore, be proposed that a memorandum item for these components could be shown when they are significant and quantifiable. As methods of quantification of expected losses differ, it will be emphasized that metadata should provide information on the method adopted.

*[Question: Is this approach to interest suitable?]*

10.26 The liability for interest when guarantees are activated will be addressed. There will be guidance on when the interest switches from accruing to the original debtor to accruing to the guarantor.

### 6. Interest on financial leases

10.27 It will be noted that the implication of treating financial leases as a loan is that interest accrues on the loan. There will be a cross-reference to the appendix to the manual on financial leases, which will bring together the goods, services, income, and loan transactions and positions as they related to financial leasing and provide an example of the calculation of the interest component.

### 7. Rent

10.28 Rent will be defined as covering income receivable for putting tangible nonproduced assets at the disposal of another unit. Examples will be given including rent of land, fishing rights, grazing rights, mining rights. In addition, putting intangible assets at the disposal of another unit, such as internet domain names, would be rent, except in the case of intangible assets associated with research and development (which are included in services). Payments for the combined use of land and buildings will be mentioned as being classified as a service, so they are excluded from rent and included as rentals under services. It will be noted that payment or receipt by government of rent of land without buildings (e.g., for military bases) should be shown as rent, not as government services n.i.e.

10.29 The manual will discuss the distinction between rent arrangements and cases where some ownership of the asset is transferred (e.g., a ten-year fishing right would convey ownership of an asset and would be shown in the capital account, while a six-month fishing right would be rent). Criteria that assist in distinguishing capital and current arrangements will be given—cancellability, demonstrable value, risk of holding gains or losses, transferability, length of license (given in Dippelsman and Maehle)—while recognizing that the delineation is difficult.

10.30 The manual will note that notional direct investment enterprises created for holdings of land and long-term leases will normally generate rent (or rental services if there is a building on the land). When the land or buildings are used by their owners (who are nonresidents), an imputation for rent or rental services (credit entries) would be necessary, if considered significant (e.g., in territories that had a large number of vacation homes owned by nonresident households). The income from direct investment is treated as income from financial assets.

### 8. Taxes and subsidies on products and production

10.31 Taxes and subsidies on products and production will be included in the primary distribution of income account to be consistent with the *1993 SNA*. (Taxes on income and wealth are included in the secondary distribution of income account.) *BPM5* included all taxes as current transfers. At present, cross-border taxes and subsidies on products and production do not appear to be significant but may occur in economic unions. They would arise if an international or regional organization levied its own taxes or paid subsidies (which are believed to be done through national governments in all cases at present), and if there was cross-border activity that was insufficient to constitute a branch (so the values are likely to be relatively small and difficult to measure).

10.32 However, this treatment will be included in case the situation arises—to maintain the conceptual consistency with the *1993 SNA* and to ensure the equality between the primary income account balance and the difference between GDP and gross national income. If they exist, subsidies would be shown separately from taxes, rather than netted off taxes.

10.33 In some cases, an exporter of a good contractually agrees to pay import duties. In such cases, the duties are outside the scope of the primary distribution of income account. The payment of duties is treated as an obligation of the importer, with the amount of duties treated as a reduction in the f.o.b. value of the goods. Similarly, if an importer agrees to pay export taxes, the tax is still an obligation of the exporter, with the amount of the tax treated as an increase in the f.o.b. value of the goods. (Chapter 9 Goods and Services Account deals with this issue under valuation.)

*[Question: Are these proposals suitable?]*

## 9. Other primary income

10.34 It will be noted that ownership of financial derivatives does not give rise to interest or any other kind of income.

10.35 The treatment of revenue from lending of securities and gold and other valuables (whether a service or a primary income) has yet to be determined. The recommendations of the Technical Group on Reverse Transactions will be incorporated into the new manual (following discussions with BOPCOM, the ISWGNA, and other interested groups.)

*[Question: Are there other possible issues under primary income that could be mentioned here?]*

## 10. Issues specific to direct investment

10.36 There will be a cross-reference to Chapter 5 Classifications, where direct investment relationships are defined. This section will note that direct investment gives rise to dividends, distributed branch profits, and interest. Direct investment income is limited to income from financial assets. (Mixed income is potentially included, but the rare cases of other income such as compensation of employees and rent are excluded from direct investment income.) The general principles for income on direct investment are the same as those already described for income earlier in this chapter. In addition, this section will deal with the following issues concerning income that are specific to direct investment, namely, reinvested earnings, income flows on reverse investment, and transfer pricing.

*[Comment: The classification of interest on nonpermanent debt between financial intermediaries, and income on mutual funds, pension, and insurance technical reserves, etc. in a direct investment relationship is discussed under Chapter 5 Classifications.]*

### a. Reinvested earnings

10.37 This section will introduce the concept of the imputation of reinvested earnings as an income flow and the imputed counterpart flow as reinvestment in the financial account. It will be noted that it is proposed in Chapter 7 Financial Account to rename the counterpart entry in the financial account as “reinvestment of earnings.” This section will give the rationale for the imputation of reinvested earnings.

[*Comment: Reasons for the imputation are as stated in 1993 SNA para. 7.121.]*

10.38 In the *1993 SNA*, retained earnings of an entity are generally treated as the income and savings of that entity, rather than its owners. However, exceptions are made for life insurance companies, pension funds, and foreign direct investment enterprises, where there is an imputed income flow to the policyholders, beneficiaries, and owners, with an equal financial account flow. The BOPCOM-03/25 discusses inconsistencies between treatments of different kinds of income. In particular, it was noted that retained earnings are attributed to owners of insurance and pension fund technical reserves but not mutual fund holders. It also noted that the relationship between dividends and income was equivocal, for example, that dividends could be paid even if there were losses or be payable out of holding gains, and there was no clear distinction between dividends and withdrawals of equity. The paper considered a number of changes to the concept of income and raised a question on the imputation of a transaction for reinvested earnings. The AEG, in its February 2004 meeting noted that no sufficient new circumstances warrant a review of the current treatment of reinvested earnings on direct investment and decided against including this issue in the agenda for the update of the *1993 SNA*. It favored keeping the current treatment for imputing transactions (income and financial) for foreign direct investment.

10.39 The measurement of reinvested earnings will be described, referring to equivalent national accounting concepts, as shown in *1993 SNA* para. 7.122, *BPM5* para. 278, and *BPT* para. 411. Reinvested earnings will be explained as the direct investor's share of the direct investment enterprise’s saving, before deducting reinvested earnings. The measurement principles for reinvested earnings will be the same as *BPM5* paras. 278 and 285–289, *BPT* paras. 408–412, and *BOP Compilation Guide* paras. 602–613. The explanation in the manual will be more detailed than in *BPM5* but will focus on principles, rather than data sources as in the *Compilation Guide*. There will be a discussion of how profits and other proxies may differ from the concept (without going far into the data issues). In addition to what was included in *BPM5*, there will be a minor correction to *BPM5* para. 285 to treat research and development costs as an expense. Moreover, it will be stated that debt amortization, unlike debt interest, is not taken into account in deriving reinvested earnings.

10.40 The terms “reinvested earnings” and “reinvested earnings and undistributed branch profits” are both used in *BPM5*. The former is adopted here, because the term “reinvested earnings” is considered to be fully applicable to branches. In contrast, the expression “dividends and distributed branch profits” is considered appropriate, in that dividends are not applicable in the case of branches.

10.41 It will be noted that reinvested earnings can be negative when the direct investment enterprise makes a loss on its operations. In such cases, the negative entries will be shown as an offset to the positive entries. That is, if direct investment abroad generates negative earnings, then the entry is shown as a negative income credit, not as a debit. While this is the converse of positive earnings, the recording of negative earnings and disinvestment in the enterprise does not fit well with the rationale for reinvested earnings in terms of the direct investor’s influence over the decision to pay dividends or not.

*[Question: (i) Should negative reinvested earnings be recorded as an imputed transaction of negative income and disinvestment? (ii) If so, what is the rationale?]*

10.42 The treatment of reinvested earnings in situations of chains of direct investment relationships will be stated, consequential to the decisions made under Chapter 5 Classifications.

(a) If the decision were made to limit the direct investment relationship to direct ownership only, reinvested earnings would be limited to the first level.
(b) If the decision were made to continue to recognize indirect holding of direct investment, the options for the imputation of reinvested earnings would be either:
   (i) limited to directly held interests; or
   (ii) paid and received up through each link in the chain.

An example will be used to illustrate the measurement of reinvested earnings, built on the corresponding example of the identification of direct investment relationships given in Chapter 5 Classifications.

*[Questions: (i) In chains of direct investment, how should reinvested earnings be imputed? (ii) Should the first-level approach be adopted simply for practical reasons? (iii) What should happen for reinvested earnings where both the relevant enterprises are in the same territory or if two of the enterprises in a chain of ownership are in the same territory?]*

10.43 The basis for calculation of reinvested earnings measured in another currency will be stated. Using accrual principles, the earnings should be converted at the exchange rate at the time they were earned. In practice, it is usual that average exchange rates for the whole period to which earnings relate will be used. To the extent that exchange rates change, the approximation will be better if calculations are made for shorter periods, for example, a better annual estimate would be derived from the four component quarters each converted at their own exchange rate.

### b. Income flows on reverse investment

10.44 The treatment of income associated with reverse investment will be stated. Reverse investment will be defined in Chapter 5 Classifications.

(a) If Enterprise B has 10 percent or more of the ordinary shares or voting power in Enterprise A, then an additional direct investment relationship is recognized. That is, Enterprise B is both a direct investment enterprise of Enterprise A and a direct investor in Enterprise A. In that case, any resulting income payable and reinvested earnings are shown according to the direction of the direct investment relationship (e.g., income payable by Enterprise A to Enterprise B is shown in Territory X balance of payments as an income debit under direct investment in the reporting economy).

(b) If Enterprise B has less than 10 percent of the ordinary shares or voting power in Enterprise A, then there is no additional direct investment relationship. Under *BPM5*, the flows are recorded under the heading of the original relationship and so are netted off income in the other direction (e.g., income payable by Enterprise A to Enterprise B is shown in Territory X balance of payments as a negative income credit under direct investment abroad). It is proposed that the new manual will show separately the income on reverse investment, in the format shown in Table 5.3 of Chapter 5 Classifications (i.e., under "direct investment in the reporting economy" under assets; and "direct investment abroad" under liabilities). Both the income on claims on direct investors and income on liabilities to direct investment enterprises will have a breakdown of "income on equity: dividends" and "income on debt." Reinvested earnings are not imputed to the direct investment enterprise in this case because the 10 percent threshold has not been met.

*[Comment: The gross recording is proposed to be consistent with the general principle of using gross data in the current account; to bring about comparability with the corresponding positions data; and to produce a more consistent effect on total income flows whether or not the reverse investment was just under or over the 10 percent threshold.]*

*[Question: Is the proposed treatment suitable?]*

### c. Transfer pricing

10.45 Transfer pricing is usually associated with shifting resources between related enterprises, so it relates to direct investment income measures. Examples will be given of the provision of goods and services free, or at understated or overstated values, or employee stock options provided to employees of a subsidiary at no charge to the subsidiary. The section will state that in the relatively rare cases where transfer pricing is identified and quantified, the relevant entry should be adjusted to an arm's length value. (See Chapter 3 Accounting Principles on valuation issues.) In addition to the adjustment to the flow itself, there should be a consequent counterpart entry, as stated below:

(a) If a direct investment enterprise is overinvoiced on a good or service provided by the direct investor; or

(b) If a direct investor is underinvoiced on a good or service provided by the direct investment enterprise;

then the transfer pricing acts as a hidden dividend from the direct investment enterprise, so dividends should be increased.

(c) If a direct investment enterprise is underinvoiced on a good or service provided by the direct investor; or

(d) If a direct investor is overinvoiced on a good or service provided by the direct investment enterprise;

then the transfer pricing acts as a hidden investment in the direct investment enterprise, so direct investment equity flows should be increased.

(It will be noted that the adjustments should also be made in a corresponding way in the national accounts and the counterpart economic territories. Reinvested earnings should also be adjusted.)

*[Question: Are these treatments correct?]*

**Appendices:**

Alternative concept of interest excluding inflation component of interest (See Hill, Handbook for High Inflation Countries)

Alternative income concepts: Imputation of reinvested earnings in all cases, inclusion of holding gains.

**References**

*BPM5* ch 14

*BPT* ch 6

*BOP Compilation Guide* chapter 13

*1993 SNA* ch 7

*Benchmark Definition of FDI*

IMF, *The Fully Consolidated System*, paper presented at OECD Workshop on International Investment, March 2003

Australian Bureau of Statistics, *Income from Bonds: The 1993 SNA Approach*, BOPCOM-02/45

Banque de France, *Reinvested Earnings—The French Experience*, BOPCOM98/1/17

Banque de France, *The Estimate of Reinvested Earnings*, BOPCOM-02/31

A. Bertrand, *Calculating the Accrual of Interest on Tradable Debt Securities*, BOPCOM-01/11

R. Dippelsman and N. Maehle, *Treatment of Mobile Phone Licenses in the National Accounts*, IMF Working Paper 01/72

ECB, *The Statistical Treatment of Income Accruing on Securities Lending and Reversible Gold Transactions*, 2003

IMF, *Accrual Accounting Of Interest Electronic Discussion Group: Report Of The Moderator*, BOPCOM-02/44

IMF, *Accrual Recording of Interest: Is there a Case for Revising the 1993 SNA?*, BOPCOM-02/44-A

IMF, *Differences in the Treatment in Macroeconomic Statistical Standards of Retained Earnings/Savings of Entities in Various Economic Relationships*, BOPCOM-03/25

IMF, *Employee Stock Options in Balance of Payments Statistics*, BOPCOM-02/69

L. Laliberté, *Foreign Portfolio Investment in Canadian Bonds*, CBOPWP/97/01

National Bank of Belgium, *Retained Earnings of Mutual Funds*, BOPCOM-01/31

National Bank of Belgium, *Income of Mutual Funds*, BOPCOM-02/41

R. Tremblay, *Calculation of Position and Interest on Canadian Bonds Held by Non-Residents*, CBOPWP97/03

**Changes from *BPM5*:**

(a) *Changes proposed:*

Income on other investment and reserve assets will be shown separately (Table 10.1).

Income to be renamed to “primary income” to be consistent with the *1993 SNA*; the meaning of “investment income” will be clarified (para. 10.2).

Investment income will be presented in a consistent format with the corresponding financial account transactions and positions (para. 10.4).

Rent will be included explicitly as a primary income item. It was not discussed but implicitly included in investment income under “other investment” in *BPM5* (paras. 10.4 and 10.28).

Changes for pension schemes to maintain consistency with the national accounts (para. 10.7).

The timing basis for dividends will be changed from “payable” to “declared payable” (para. 10.11).

Interest income would be adjusted to remove the FISIM component (para. 10.19).

Debt instruments with both interest and principal indexed to a foreign currency will be classified and treated as if they are denominated in foreign currency (para. 10.20).

Clarification on the calculation of interest for index-linked instruments will be given (para. 10.21).

Taxes on products and production, if any, would be included as primary distribution of income (para. 10.31).

The definition of reinvested earnings would be modified slightly (para. 10.39).

Income flows arising from reverse investment where the direct investment enterprise owns less than 10 percent of its direct investor are to be recorded on a gross, rather than net, basis (para. 10.44).

(b) *Changes raised as an option:*

The possibility is raised of treatment of retained earnings of mutual funds in the same way as direct investment reinvested earnings and income on insurance technical reserves (para. 10.15).

Taxes and subsidies on products and production could be included under income to be consistent with the *1993 SNA* (para. 10.31).

The method of recording reinvested earnings could be amended to eliminate multiple counting at a global level in instances of extended chains of ownership (para. 10.42).

**Glossary**

Benefits in kind
Bonus shares
Compensation of employees
Consumption of fixed capital
Coupon (contrasted with accrued interest)
Debt amortization
Deep discount bonds
Discounts on issue of bonds
Distributed branch profits
Dividends
Employee stock options
Financial leases
FISIM
Income on insurance technical reserves attributed to policyholders
Insurance technical reserves
Interest (accrued contrasted with coupon; observed contrasted with partitioned, i.e., net of FISIM)
Investment income
Mixed income
Nonperforming loans
Nonproduced asset
Operating lease
Operating surplus (gross, net)
Partitioning

**PRIMARY DISTRIBUTION OF INCOME ACCOUNT**

Premiums on issue of bonds
Primary income
Property income
Quasicorporations
Reinvested earnings
Rent (contrast with rental)
Rerouting
Retained earnings
Reverse investment
Royalties (note: can be service or rent)
Stock dividends
Subsidies
Taxes on products and production
Transfer pricing
Zero coupon bonds