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List of Abbreviations

1993 SNA	*System of National Accounts 1993*
AO	Annotated outline
BIS	Bank for International Settlements
BOPSY	*Balance of Payments Statistics Yearbook*
BPM5	*Balance of Payments Manual*, fifth edition
CCA	Current cost accounting
c.i.f.	Cost including insurance and freight
CIS	Collective investment schemes
CPIS	Coordinated Portfolio Investment Survey
DQAF	Data Quality Assessment Framework
ECB	European Central Bank
EGNA	Expert Group on National Accounts (OECD)
ESA95	*European System of Accounts 1995* (Eurostat)
Esteva Report	*Final Report on the Working Party on the Statistical Discrepancy in World Current Account Balances*
EU	European Union
Eurostat	Statistical Office of the European Communities
External Debt Guide	*External Debt Statistics: Guide for Compilers and Users*
FATS	Foreign affiliates trade in services
FDI	Foreign direct investment
f.o.b.	Free on board
GDDS	General Data Dissemination System (IMF)
Godeaux Report	*Final Report of the Working Party on the Measurement of International Capital Flows*
GSDB	Global securities database
IATFFS	Inter-Agency Task Force on Finance Statistics
IIP	International investment position
ISWGNA	Inter-Secretariat Working Group on National Accounts
ITRS	International transactions reporting system
LCFAR	Liabilities constituting foreign authorities' reserves
MNC	Multinational corporation
OECD	Organisation for Economic Co-operation and Development
ROW	Rest of the world
SDDS	Special Data Dissemination Standard (IMF)
SEIFiC	Small economy with international financial center
SEFER	Survey of Securities Held as Foreign Exchange Reserves
SIMSDI	Survey of the Implementation of Methodological Standards for Direct Investment
SME	Small or medium sized enterprise
SPE	Special purpose entity
SSIO	Survey of Securities held by International Organizations
Statistical Methods	*European Union Balance of Payments/International Investment Position Statistical Methods* (ECB)
TRG	Technical Review Group (IMF)
TFI	Task Force on Insurance (OECD)
TPH	Third party holdings
WPFS	Working Party on Financial Statistics (OECD)

Annual Report of the IMF Committee on Balance of Payments Statistics

I. Introduction

The IMF Committee on Balance of Payments Statistics was established in 1992 for the following purposes: to oversee the implementation of the recommendations contained in the reports of two IMF working parties that investigated the principal sources of discrepancy in global balance of payments statistics published by the IMF;[1] to advise the IMF on methodological and compilation issues in the context of balance of payments and international investment position statistics; and to foster greater coordination of data collection among countries. The membership of the Committee as of December 31, 2002 and its terms of reference are presented in Appendices 1 and 2, respectively. In 2002, the Committee held its fifteenth meeting in October, in Canberra, Australia; the meeting was hosted by the Australian Bureau of Statistics.

This report is structured as follows: Section II presents the Executive Summary. Section III provides an overview of statistical discrepancies in the global balance of payments statistics published by the IMF's Statistics Department. Section IV discusses the Committee's work program during 2002, and Section V concludes with a discussion of the issues that the Committee plans to address in the coming year.

II. Executive Summary

Recent Trends in Global Balance of Payments Statistics

Balance of payments statistics reported to the IMF's Statistics Department and published in the 2002 *Balance of Payments Statistics Yearbook* (*BOPSY*) continue to show large and variable discrepancies in the global summations of current, capital, and financial account transactions. The provision of revised data by industrial countries in 2002 resulted in substantial decreases from the global imbalances that were published in the 2001 *BOPSY* for the periods 1997–2000, particularly for the *income* and *portfolio investment* components of the balance of payments. In the current account, in 2002 there was a further improvement in the imbalance in *goods*, as well as an improvement in the imbalance in current transfers; however these were offset by increasing imbalances in *services* and *income*. Within the financial account, in 2002 there were improvements in the imbalances in all components, most notably in *portfolio investment*.

Data Quality Assessment

The international financial crises in recent years have led policymakers and other users of statistics to give increased attention to the availability of comprehensive, timely, and reliable financial and economic data. This has resulted in a particular focus on the quality of statistics and the need to develop a systematic approach and a common language for the assessment of data quality. To meet this need, the IMF's Statistics Department has continued to develop the Data Quality Assessment Framework (DQAF) for macroeconomic statistics. As part of a discussion in May 2002 by the IMF's Executive Board on provision of data to the IMF, the Board asked that IMF staff continue to work on elucidating good practice in revisions policy. In addition, IMF staff assessments of countries' statistical practices indicate that countries do not always recognize the importance of developing and following a revisions policy, including the study of the impact of revisions on published statistics. Thus, in 2002, one aspect of IMF work on improving the DQAF was to focus on revisions policy and practice, and revisions studies. In addition, the ECB and Eurostat are developing an approach to assess the quality of the euro area/EU statistical aggregates.

Coordinated Portfolio Investment Survey

The first Coordinated Portfolio Investment Survey (CPIS), which took place at the end of 1997, involved 29 participating jurisdictions. Following from the success of this survey, the CPIS is to be held on an annual basis from end-2001. Sixty-seven jurisdictions, including about 20 small economies with international financial centers (SEIFiCs), took part in the 2001 survey. In 2002, the IMF's Statistics Department conducted four workshops

[1]*Final Report on the Working Party on the Statistical Discrepancy in World Current Account Balances* (the so-called *Esteva Report*), IMF, Washington D.C., 1987, and *Final Report of the Working Party on the Measurement of International Capital Flows* (the so-called *Godeaux Report*), IMF, Washington D.C., 1992.

for national compilers from SEIFiCs and nonindustrialized jurisdictions that were conducting the survey for the first time as at end-2001. These workshops provided compilers with the opportunity to exchange their experiences in conducting the 2001 CPIS; to discuss how they might conduct the survey more efficiently and effectively; to establish a network of contacts; and to discuss plans for the 2002 survey. Results of the 2001 survey are posted on the IMF website (http://www.imf.org/bop), along with metadata for each jurisdiction that describes the methodology employed as well as experiences in dealing with particular problems encountered. Work is being undertaken to address several areas that are of importance to the CPIS, but that also have wider application to other areas of balance of payments and international investment position (IIP) compilation. First, discussion continued on the development of a global securities database (GSDB); however, apart from the ECB and its members, there is insufficient interest and/or resource commitment to create a GSDB at this time. Work by the ECB will continue to be reviewed by the Committee and further consideration will be given to this towards the end of 2003. Second, a working party continues to explore ways in which data on third party holdings of securities might be better captured. Third, a technical group continued to investigate the availability of data on repurchase agreements and securities lending.

Updating the Fifth Edition of the **Balance of Payments Manual**

A draft timetable for updating the fifth edition of the IMF's *Balance of Payments Manual* (*BPM5*) was provided to the Committee, along with a proposed structure for the new manual that is to be developed. While the Committee had agreed in 2001 that 2007 was an appropriate target date for the completion of the new manual, it became apparent during the development of the timetable that this was not feasible; the agreed target date is now end-2008. An annotated outline (AO) will be produced by IMF staff for circulation to the Committee, the Inter-Secretariat Working Group on National Accounts (ISWGNA), and other inter-agency groups at the end of August 2003, for comment by the beginning of November 2003. Following this, the AO will be discussed by the Committee at its next meeting in December 2003, where agreement on the final form of the AO will be reached. Once the AO is finalized in early 2004, it will be circulated widely, including to balance of payments compilers, for information and comment. Comments received will be taken into consideration during the drafting of the manual. The structure of the new manual is likely to be somewhat modified from that of *BPM5*, in order to make the IIP a more central element of the framework. The AO, expected to be of the order of 60–70 pages, is a discussion document that will provide guidance in the development of the new manual. It will set out a structure and issues to be considered in drafting the new manual, but will not provide resolution in all areas.

Other Methodological Work

Direct Investment: Metadata provided by countries for the 1997 Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI) has been updated to 2001 for 61 countries. The results can be found on the IMF website (at http://www.imf.org/bop). The next SIMSDI survey, to cover all IMF members, will be conducted in 2003 using a newly developed questionnaire. In addition, the Committee reviewed the statistical treatment of several borderline issues between direct investment and other components of the financial account. Among these were the treatment of investment in and by mutual funds; investment by trusts and trustees; transactions between financial intermediaries and affiliates not principally engaged in financial intermediation; and transactions with "shell companies." Also discussed was an alternative presentation of balance of payments statistics in which transactions in goods and services between affiliates (excepting insurance and telecommunications affiliates) are separately identified.

Income: The Committee reviewed papers discussing the apparent inconsistencies in the treatment of income flows among collective investment schemes (mutual funds and similar investment vehicles) and the technical reserves of pension funds and life insurance companies. A more detailed investigation will take place in the context of the process of updating *BPM5*. The Committee discussed further the statistical treatment of the accrual of interest on debt securities, in particular the conclusions of the moderator of the ISWGNA's electronic discussion group on this topic.

Residence: The concept of residence is a central building block in macroeconomic statistics. There are several aspects of the concept of residence that are inadequately addressed in the existing international statistical standards, and the Committee discussed these in the context of an IMF staff paper that aimed to identify issues for inclusion in the AO of the new manual. Resolution of problems was not sought in 2002; once issues have been identified and included in the AO, further discussion at an international level is anticipated.

International Banking Statistics: The Bank for International Settlements (BIS) has been continuing to expand the coverage of its banking data, and additionally has been increasing the number of different instruments for which data are separately reported. A new, expanded guide to the international banking statistics was released at the end of 2002. In April 2002, the BIS hosted a workshop for countries aimed at addressing the differences in creditor- and debtor-sourced data.

Other: Among other topics reviewed and discussed by the Committee were the following: uses of balance of payments and IIP statistics; the implementation of the recommendations of *BPM5* in a number of countries; the statistical treatment of trusts; conceptual issues relating to insurance; cross-border transactions in employee stock options; a possible future sector and functional classification that might be recommended in the new manual; and hedging against foreign currency exposure.

III. Recent Trends in Global Balance of Payments Statistics

Introduction

The data published in the 2002 *BOPSY* illustrate large discrepancies in the global summations of current, capital, and financial transactions. In principle, the combined surpluses and the combined deficits arising from the current, capital, and financial account transactions for all countries and international organizations should equal zero, as the credits of one country or international organization are the debits of another. In practice, however, the data do not offset each other, and statistical discrepancies occur in the global statistics, reflecting the incomplete coverage of transactions, and the inaccurate and inconsistent recording of cross-border transactions by countries resulting from, for example, differences in classification and valuation practices, or in the time of recording transactions. It should also be noted that many errors and omissions offset or cancel each other and are therefore not reflected in the data on global imbalances shown in Tables 1 and 2 of this report.

The paragraphs that follow discuss recent trends in the imbalances in the global balance of payments statistics. At the 2002 meeting of the Committee, Eurostat, in consultation with the ECB, made a presentation on work being undertaken by the EU member states on resolving asymmetries in the euro area data—work that is seen as an important step towards reducing global imbalances.

The data presented in Tables 1 and 2 highlight considerable variability in the imbalances in the individual components of the global balance of payments despite a broad and persistent increase in magnitudes of imbalances in the current and financial accounts. However, as shown in Figures 1 and 2 of this report, this upward trend was somewhat dampened by the provision of revised data by industrial countries, which in 2002 resulted in substantial decreases (up to 50 percent) from the global imbalances published in the 2001 *BOPSY*. In the 2002 *BOPSY*, extensive revisions were made, for the periods back to 1997, to the income and portfolio investment components. These revisions were the major contributors to the reduction, between the two publications, in the global imbalances in portfolio investment transactions and their associated income transactions. These revisions may be attributed to the national efforts to improve the quality of these data.

The imbalance on global income transactions for the year 2000 declined from $92 billion published in the 2001 *BOPSY* to $64 billion in the 2002 *BOPSY.* This reduction largely reflected revisions to the portfolio investment income data reported by several industrial countries. In the 2001 *BOPSY*, the portfolio investment discrepancy was the largest among the components of the financial account and averaged $125 billion a year over 1994–2000. Large revisions to the portfolio investment capital data of the United States, the United Kingdom, and several other industrial countries resulted in a sharp reduction of the global portfolio investment capital discrepancies for 2000 from $127 billion published in the *2001 BOPSY* to $81 billion in the 2002 *BOPSY.* The discrepancy for 2001 shown in the 2002 *BOPSY*, was only $7 billion.

Global Current Account

In 2001, as in all recent years except 1997, the global *current account* shows an increasing negative imbalance, that is, a continuously widening excess of recorded debits over recorded credits. The growth of the global current account imbalance has been gradually accelerating with the 5-year annual moving average being $25.6 billion for 1995–1999, $37.9 billion for 1996–2000, and $55.8 billion for 1997–2001. This general trend masks the significant reduction in the positive imbalance (an excess of recorded credits over recorded debits) for international trade in *goods* and the slight decline of the negative imbalance for the *current transfers* component.

The large positive imbalance in *goods*, which partially offsets the negative imbalances in all other current account components, fell substantially (most noticeably from $116 billion in 1997 to $9 billion in 2001) (Figure 3). Further, unlike in earlier years, in 2000 and 2001 *income* contributes more than 60 percent to the overall current account imbalance. Among the components of income, income relating to portfolio and other investment shows the largest negative discrepancy of $122 billion in 2001. This discrepancy is partially offset by the positive

Table 1. Global Balances on Current Account
(In billions of U.S. dollars)

	1995	1996	1997	1998	1999	2000	2001	Average Imbalance 1995–2001
Current account balance	–35.2	–27.5	39.8	–36.8	–68.4	–96.4	–117.4	–48.9
Goods balance	117.5	97.2	116.0	74.7	44.3	18.3	9.1	68.2
Credit	5,094.4	5,342.9	5,552.6	5,434.8	5,625.1	6,331.3	6,068.8	. . .
Debit	4,976.9	5,245.7	5,436.6	5,360.1	5,580.7	6,313.0	6,059.8	. . .
Services balance	–25.1	–9.9	3.7	–0.2	–4.2	–14.9	–23.7	–10.6
Credit	1,230.5	1,317.5	1,367.1	1,383.3	1,420.5	1,503.5	1,493.8	. . .
Debit	1,255.6	1,327.4	1,363.4	1,383.5	1,424.7	1,518.4	1,517.5	. . .
Transportation	–61.8	–55.1	–55.5	–53.8	–53.3	–70.1	–64.3	–59.1
Travel	29.8	38.2	39.0	32.2	32.4	35.7	42.9	35.7
Government services	–14.4	–10.5	–11.2	–8.3	–17.7	–24.1	–23.3	–15.7
Other services	21.3	17.5	31.4	29.7	34.5	43.6	21.0	28.4
Income balance	–79.2	–82.0	–54.6	–84.5	–77.2	–64.3	–76.2	–74.0
Credit	1,095.9	1,047.2	1,108.6	1,203.0	1,244.7	1,428.6	1,348.2	. . .
Debit	1,175.2	1,129.2	1,163.2	1,287.5	1,321.9	1,492.9	1,424.4	. . .
Compensation of employees	–8.6	–8.5	0.6	–1.7	–1.5	–3.5	–5.2	–4.0
Reinvested earnings	58.8	67.9	58.0	37.6	82.6	66.0	82.8	64.8
Other direct investment income	–14.2	–9.8	6.4	1.5	–36.4	–27.2	–31.5	–15.9
Portfolio and other investment income	–115.1	–131.6	–119.6	–121.9	–122.0	–99.6	–122.4	–118.9
Current transfers balance	–48.4	–32.7	–25.3	–26.8	–31.3	–35.5	–26.6	–32.4
Credit	321.8	363.7	353.0	367.3	376.8	361.7	380.7	. . .
Debit	370.1	396.4	378.3	394.1	408.1	397.3	407.3	. . .
Memorandum items								
Current account balance as percent of gross current account transactions	0.2	0.2	0.2	0.2	0.4	0.5	0.6	0.3
Goods balance as percent of gross goods transactions	1.2	0.9	1.1	0.7	0.4	0.1	0.1	0.6
Services balance as percent of gross services transactions	1.0	0.4	0.1	0.0	0.1	0.5	0.8	0.4
Income balance as percent of gross income transactions	3.5	3.8	2.4	3.4	3.0	2.2	2.7	3.0
Current transfers balance as percent of gross current transfer Transactions	7.0	4.3	3.5	3.5	4.0	4.7	3.4	4.3

Source: IMF, *BOPSY*, Volume 53, Part 2 (Washington, 2002).

imbalance of $51 billion in income from direct investment, due in particular to the significant imbalance in the reinvested earnings component. The negative sign of the discrepancy (recorded debits exceed recorded credits) in investment income is consistent with the positive sign of the discrepancy in the global financial account data, where recorded net inflows are consistently higher than recorded net outflows.

The negative imbalance in *current transfers* accounts for about 23 percent of the global current account imbalance in 2001. Since 1995, there has been an almost steady excess of recorded debits over recorded credits, with a small reduction from 2000 to a level of $27 billion in 2001. A feature of this component is the relatively high imbalance as a percentage of the quite low gross value of transactions during 1995–2001 (an average of four percent), while for example, the imbalance in the services component has averaged 0.4 percent of the almost fourfold higher value of gross transactions during the same period.

A negative imbalance of $24 billion was recorded on international transactions in *services* in 2001. Over the

Table 2. Global Balances on Capital and Financial Accounts[1]
(In billions of U.S. dollars)

	1995	1996	1997	1998	1999	2000	2001	Average Imbalance 1995–2001
Capital account balance	19.1	2.3	4.5	–14.7	–16.8	15.2	–3.6	0.9
Credit	41.5	56.8	51.0	43.5	47.1	66.8	46.3	. . .
Debit	22.5	54.5	46.4	58.1	63.8	51.7	49.8	. . .
Financial account balance	91.8	112.1	88.8	–30.2	61.8	173.6	110.7	86.9
Direct investment	–5.9	4.1	18.9	8.6	49.6	114.3	108.3	42.6
Abroad	–333.8	–368.8	–442.5	–681.9	–1,027.1	–1,375.6	–620.9	
In the reporting economy	327.9	373.0	461.4	690.4	1,076.7	1,489.8	729.2	. . .
Portfolio investment	155.8	119.4	210.1	–217.1	130.6	80.8	7.1	69.5
Assets	–407.0	–647.3	–737.1	–1,057.9	–1,366.9	–1,290.5	–1,207.2	. . .
Liabilities excluding LCFAR[2]	562.8	766.7	947.2	840.8	1,497.6	1,371.3	1,214.3	. . .
Financial Derivatives	–7.8	–10.1	–6.6	–13.0	15.3	–8.3	2.5	–4.0
Assets	41.2	140.1	148.1	186.9	195.2	228.7	231.0	. . .
Liabilities	–49.0	–150.2	–154.7	–199.8	–179.9	–237.0	–228.5	. . .
Other investment	–9.2	30.8	–89.2	203.9	–119.5	39.4	30.3	12.4
Assets	–680.8	–764.7	–1,329.2	–350.0	–528.5	–1,263.6	–704.0	. . .
Liabilities excluding LCFAR	671.6	795.5	1,240.1	553.9	409.0	1,303.0	734.2	. . .
Reserves plus LCFAR	–41.2	–32.3	–44.5	–12.6	–14.3	–52.6	–37.5	–33.6
Reserves	–182.7	–188.6	–104.3	–42.9	–152.6	–172.9	–156.4	. . .
LCFAR	141.6	156.3	59.8	30.3	138.3	120.4	119.0	. . .
Net errors and omissions	–75.6	–86.9	–133.0	81.6	23.4	–92.4	10.3	

Source: *BOPSY*, Volume 53, Part 2, 2002.

Note: in the financial account, a negative sign indicates an excess of recorded outflows: the absence of a sign in the balances indicates an excess of recorded inflows over outflows.

[1]Table 2 also includes the global balance on net errors and omissions.

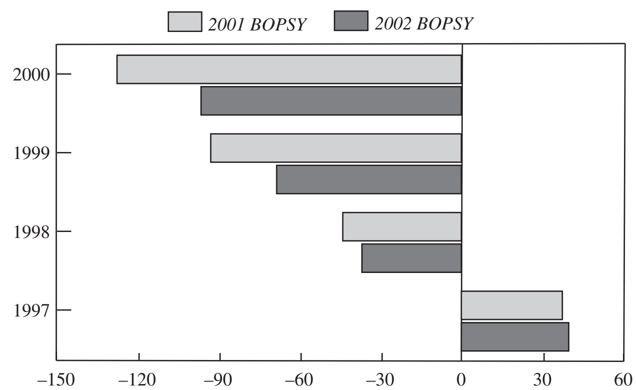
[2]Liabilities constituting foreign authorities' reserves. The data in liabilities constituting foreign authorities' reserves were derived from information collected by the IMF from a sample of large reserve-holding countries. These data were used to adjust portfolio and other investment liabilities to align the data better with corresponding assets series.

period 1995–2001 services debits are persistently higher than services credits and the negative imbalance has grown steadily from the near zero imbalance recorded in 1998. While the imbalances in all services components, except travel, show small declines in 2001 compared with 2000, the general upward trend in the overall services imbalance reflects a virtually unchanging large negative imbalance in the transportation component that is no longer masked by the declining positive imbalances of the *other services* component. The major contributor to the overall imbalance in services, the *transportation* services component, shows a $64 billion negative imbalance in 2001. This is almost ten percent lower than the 2000 imbalance (the highest over the last six years 1995–2001), but still well above the average of $55 billion over 1994–1999. The negative imbalance in transportation in 2001 is partly offset by the positive imbalance in the *travel* component, the second largest in magnitude imbalance among the services components. This positive imbalance for *travel* in 2001 of $43 billion was somewhat larger than the average imbalance over 1995–2001 of $36 billion. For the three years 1999 through 2001, the negative imbalance for *government services* has maintained a high level ($18 billion in 1999, $24 billion in 2000, and $23 billion in 2001), more than double the average of $10 billion over 1995–1998. The positive imbalance for the *other services* component remains volatile with an uncertain trend, but has decreased substantially to $21 billion in 2001.

The Committee was presented with a paper by IMF staff and France that reviewed the global asymmetries in the recording of sea freight within the transportation account for the period 1994–2000 and compared these asymmetries with those in the earlier period 1979–1983 as covered by the *Esteva Report* of 1987. The *Esteva Report* identified the main contributing factor for the

Figure 1. Impact of Revisions on Global Current Account Imbalances 1997–2000

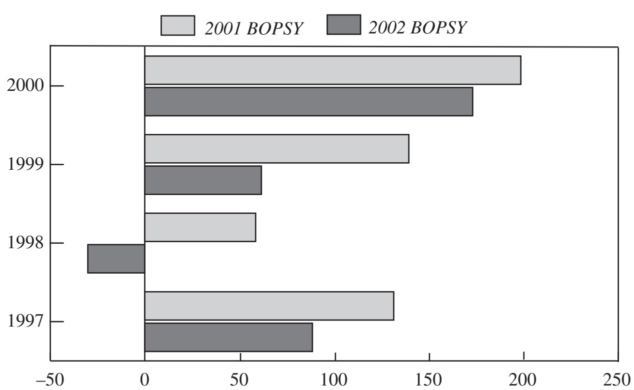
(In billions of U.S. dollars)



Source: Data on global imbalances in the current account for the period 1977–2000 published in *2001 BOPSY,* Volume 52, Part 2, and the revised data for the same period published in *2002 BOPSY,* Volume 53, Part 2.

Figure 2. Impact of Revisions on Global Financial Account Imbalances 1997–2000

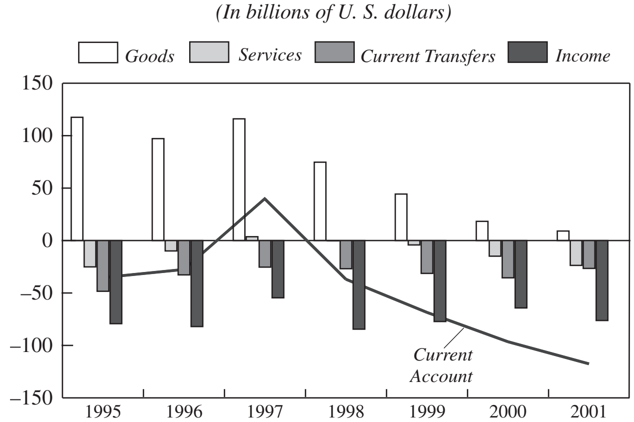
(In billions of U.S. dollars)



Source: Data on global imbalances in the financial account for the period 1977–2000 published in *2001 BOPSY,* Volume 52, Part 2, and the revised data for the same period published in *2002 BOPSY,* Volume 53, Part 2.

Figure 3. Current Account Imbalances, 1995–2001

(In billions of U. S. dollars)



global freight imbalance as being the "missing fleet," that is, several economies with large maritime interests do not report the foreign earnings of their fleets registered in other countries. While the missing fleet problem remains (despite the fact that one of these economies – Hong Kong SAR—is now reporting, others do not), inconsistencies in the revaluation of imports of goods from a cost including insurance and freight (c.i.f.) basis to a free on board (f.o.b.) basis were outlined in the paper as another factor contributing to imbalances in transportation data. The Committee plans to carry this work forward in 2003.

The Committee was advised that trade statisticians from EU member states are reviewing, among other things, the c.i.f./f.o.b. adjustment to imports of goods and expect to have an interim report in 2003 and a final report a year later. In addition, there may be a problem with the data as reported—over- and under-invoicing could be a means of avoiding taxes or exchange controls, or there may be some other means of hiding transactions. Several Committee members indicated that they would follow up with their agencies to ensure that their data were appropriately compiled.

An IMF staff paper presented to the Committee examined global imbalances in *insurance services* between 1992 and 2000, and bilateral differences among the United States, Japan and the member states of the EU. On a global basis, during the nine years from 1992 to 2000, imports exceeded exports for every year, with a minimum difference of about 30 percent. The bilateral discrepancies in insurance services transactions (exports and imports, as reported by each counterpart) are, in some cases, very large. Premium supplements are a possible cause of imbalance, as these are more readily measurable for credits than for debits. The Committee suggested that the different methodologies in different countries might be a major contributing factor, and that revisions to insurance companies' reports may also have some effect. In addition, revisions studies might assist in improving the estimates. The Committee noted that the problems in the statistical measurement of insurance and reinsurance has been highlighted by the events of September 11, 2001. Further, in certain circumstances, if governments are involved in insurance activities related to catastrophes, the transactions might be recorded under *government services, nie*.

It is hoped also that the implementation of the new inter-agency *Manual on Statistics of International Trade in Services,* which offers a coherent internationally-agreed conceptual framework, will facilitate further efforts of national compilers to improve measurement and presentation of trade in services data.

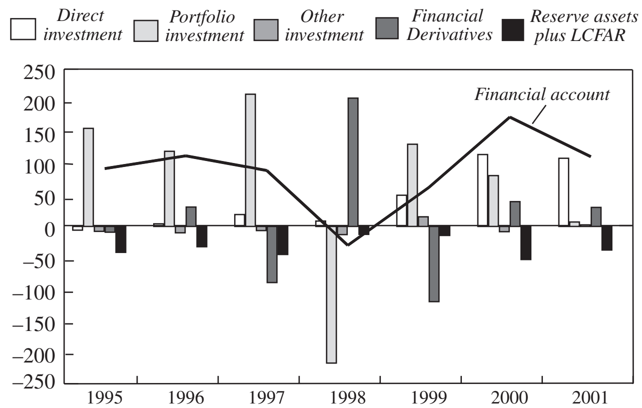
Global Capital and Financial Accounts

Table 2 shows that the *capital account*—comprising *capital transfers* and *acquisitions and disposals of non-produced, non financial assets*—had an overall negative imbalance (with recorded debits exceeding recorded credits) of a little under $4 billion in 2001. The capital account imbalance is volatile both in size and direction.

The global data on *financial account* transactions show an excess of recorded net inflows over recorded net outflows. However, there is a noticeable reduction in the imbalance to $111 billion in 2001, from $174 billion in 2000, mainly due to a substantial decline in the global portfolio investment imbalance and supported by smaller declines in the imbalances of all other components of the financial account (Figure 4).

Figure 4. Financial Account Imbalances, 1995–2001

(US$ billions)



The global *portfolio investment* imbalance[2] shows a sharp and progressive reduction from amounts in excess of $200 billion in 1997 and 1998, and declines through 1999 and 2000 to $7 billion in 2001. Based on unadjusted country data,[3] the positive imbalance in debt securities of $87 billion was the largest element in the portfolio investment imbalance, and was offset by the negative imbalance of $67 billion in liabilities constituting foreign authorities' reserves (LCFAR). One of the top priority projects of the Committee in recent years has been the CPIS, which was conducted in1997 and 2001 to address the large discrepancies in the portfolio investment component. It is envisaged that the Committee decision to conduct the CPIS on an ongoing annual basis will result in ongoing improvements in global portfolio investment data through the continued spread of best practices among countries, implementation of more consistent methodological approaches across countries, and the investigation of potential new data sources.

The discrepancies in the data on global *direct investment* transactions are the major contributor to the large financial account imbalance in 2001. From 1999, the positive discrepancy for direct investment capital has registered a large increase, rising from $50 billion in 1999 to $108 billion in 2001. In 2001, this overall positive discrepancy for direct investment comprised a negative imbalance of $83 billion for *reinvested earnings* (the investing countries recorded higher earnings than were recorded by the host economies that received the investment), offset by a positive imbalance for *other direct investment* of $191 billion, the highest level since 1998 ($46 billion). A high priority project to the Committee has been the joint IMF-OECD SIMSDI project to determine the extent of adoption by countries of international standards for foreign direct investment statistics, with a view to improving data comparability and permit a better understanding of the asymmetries in these data that arise from different country recording practices.

Financial derivatives data for 2001 saw a $11 billion turnaround from a negative imbalance of $8 billion in 2000 to a positive imbalance of $3 billion in 2001, with net assets flows of $231 billion in 2001 exceeding net liabilities flows of $228 billion.

The *other investment* component of the financial account shows a relatively small positive discrepancy of $30 billion in 2001, a turnaround from the negative imbalance of $119 billion in 1999 and similar to the $39 billion imbalance in 2000. However, the low level of the imbalance masks significantly variable offsetting imbalances in the unadjusted components[4]—a negative imbalance for *loans* of $26 billion offset by a positive imbalance for *other financial assets and liabilities* of $56 billion.[5] The Committee continues to support the work of the BIS in compiling and enhancing its international banking statistics and promotes these data for use in balance of payments compilation and verification.

In compiling the global aggregates, the IMF adjusts the data for portfolio investment and other investment liabil-

[2]Excluding LCFAR, as derived from an IMF survey of major reserve-holding countries.

[3]In compiling the global aggregates, the IMF adjusts the data on portfolio investment and other investment liabilities to take account of those liabilities for which counterpart assets are classified as reserves assets. The unadjusted data for portfolio investment are shown in Tables B–27 to B–30 of Part 2 of the 2002 *BOPSY.*

[4]The unadjusted data for other investment are shown in Tables B–31 to B–33 of Part 2 of the 2002 *BOPSY.*

[5]Data on *other financial assets and liabilities* include trade credits, currency and deposits, and miscellaneous items such as capital subscriptions to international nonmonetary institutions.

ities to take account of those liabilities for which counterpart assets are classified as *reserve assets*.[6] Although the adjustments may be imprecise given that some significant reserve-holding countries do not report this information, the net negative imbalance of reserve assets—i.e., the imbalance between reserve assets and LCFAR—decreased by $16 billion to $37 billion in 2001, but still did not reach the low levels seen in 1998 and 1999.

At its 2001 meeting, the Committee agreed on the importance of conducting analyses of revisions to statistics. Following from this and at the Committee's request, an IMF staff paper that updated and expanded the *Godeaux Report* revisions analysis was presented to the Committee at its meeting in 2002. This paper reviewed revisions to global imbalances for the current, capital, and financial account for 1992–1999. These revisions arise as countries revise their balance of payments statistics and also due to the introduction of statistics for countries that previously did not report and that were estimated by IMF staff. The absolute size of revisions to the balance of payments component series is not large, and overall the revisions decrease the size of the global imbalances. Although the global imbalances for the financial account have more than doubled since the *Godeaux Report* was published, the absolute size of financial account revisions has not changed markedly and remain very small compared with the size of the underlying discrepancies.

IV. Work Program Undertaken by the Committee in 2002

The work undertaken by the Committee in 2002 reflected the priorities established in the medium-term work program at the end of 2001. Top priority items were:

- continuation of the review of data quality issues within the IMF's DQAF;
- conducting the 2001 CPIS and preparing for the 2002 CPIS;
- development of a GSDB;
- preparations for the updating of *BPM5*; and
- work on reverse transactions.

[6]The information used to make these adjustments is derived from a confidential survey of the instrument composition of reserve assets in the major reserve-holding countries, which the IMF began to conduct in response to a recommendation of the *Godeaux Report.* The data compiled from the survey information are used only at the global level.

High priority was given to:

- issues related to direct investment, notably the publication of results of the 2001 update to SIMSDI, and preparation for the next SIMSDI, which will be held in 2003; valuation of direct investment positions at market prices; the directional principle; the fully consolidated system; and the estimation of reinvested earnings in the current year;
- borderline issues between direct investment and other types of investment;
- a review of the concept of residence;
- imbalances in global transportation statistics; and
- the statistical treatment of trusts.

The Committee also considered a wide range of other topics.

Data Quality Assessment Framework

Recent financial crises have led policymakers and other users of statistics to give increased attention to the availability of comprehensive, timely, and reliable financial and economic data. In view of the IMF's responsibility for economic surveillance of its members' economic policies, and to assist users of the data to evaluate data quality, the IMF's Statistics Department presented the DQAF in 2001. The DQAF provides a systematic approach and a common language for the assessment of data quality.

The framework comprises a generic assessment framework, as well as specific assessment frameworks for the main aggregates used for macroeconomic analysis and policy, covering monetary and financial, government finance, balance of payments, national accounts, and consumer and producer price statistics. Thus, there is an overarching, generic framework for assessing data quality as part of the IMF's overall surveillance work, prompting more emphasis on accuracy and reliability of statistics.

At its meeting in 2002, the Committee addressed revisions policy and practice, addressed in the serviceability dimension of the DQAF, and revision studies, addressed in the accuracy and reliability dimension of the DQAF. These are areas of prime concern to users of statistics. In a May 2002 discussion by the IMF's Executive Board on *Data Provision to the Fund for Surveillance Purposes*, the Board asked that IMF staff continue to work on elucidating good practice in the area of revision policies. The Board's Directors also encouraged national authorities to articulate their policies on data revisions. Such action would enhance the transparency of data provided to the IMF and would help identify when the reporting of revised data to the IMF is a breach of obligations under the IMF's Articles of Agreement. Further, the IMF uses the DQAF to assess the extent to which countries meet internationally recognized standards of good statistical practice. These assessments have shown that countries do not always recognize the importance of developing and following a revisions policy, nor do they necessarily study the impact of revisions on published statistics. While users seek stability in the data, accuracy is equally important, and revisions that bring in additional data lead to increased accuracy. In addition, many users find it valuable to know when revisions will be made (through publicly available revisions policies). Further, periodic revisions studies offer a means of identifying any possible biases there may be in the initial estimation techniques and assist the compiler to devise methods of overcoming such biases. Papers on their countries' practices on these issues were presented to the Committee by Australia and New Zealand.

The Committee also received two other papers on the quality of statistics: a joint paper from the ECB and Eurostat, and a paper by the BIS. The joint ECB and Eurostat paper presented the work of a task force on output quality issues that used the IMF's DQAF as a reference framework. Using the main concepts and definitions of the DQAF, a set of operational indicators was identified that would be used to assess the quality of statistical outputs. The task force's preliminary results indicated that the main focus of further work by ECB and Eurostat should be on the revision studies element of the *accuracy and reliability* dimension (which also covers sources of data, statistical techniques, assessment and validation of input and intermediate data and statistical outputs; however, these other elements are not covered in the ongoing work) and *serviceability* (which covers relevance, timeliness and periodicity, consistency, and revisions policies and practices). The approach should ensure that the operational assessment of quality effectively assists the improvement of the data that are used by policymakers and markets without creating an undue administrative burden. The BIS paper assessed the quality of its international financial statistics, using the IMF's DQAF as the basis for assessment. The BIS found the use of this framework especially helpful because of its breadth: that is, in addition to accuracy and reliability, and serviceability, the DQAF also covers the *prerequisites of quality* (principally the legal framework, the resources available, and awareness of quality), *integrity* (that is, the professionalism of the staff, the transparency of data collection and release, as well as ethical standards), *methodological soundness* (primarily, adherence to concepts and definitions, the scope of coverage, classification/sectorization, and the basis for recording), and *accessibility* (which covers accessibility to both data and metadata, and the availability of assistance to users).

The Coordinated Portfolio Investment Survey

The CPIS, which is coordinated by the IMF's Statistics Department, is an international survey of the holdings of portfolio investment assets. The Committee has expressed considerable interest in the CPIS since the idea of such a survey was first raised in the *Godeaux Report*. The first CPIS was undertaken as of the end of 1997 and was judged a success by the Committee. As a result, it is to be undertaken on a continuing annual basis and the CPIS undertaken as of the end of 2001 is the first of that time series. The IMF will continue to coordinate the survey and publish the results. Further details of the survey are given in Box 1.

Sixty-seven jurisdictions participated in the 2001 CPIS and most have already committed to participate on a continuing basis. One particularly encouraging aspect of the CPIS is that about 20 SEIFiCs took part in the 2001 survey and most have already agreed to continue to participate in the survey on a regular, annual basis. The willingness of so many countries to participate reflects the benefits that these countries anticipate will flow from the availability of data on creditor holdings of securities issues. Given the limited SEIFiC participation in the 1997 CPIS, the response from this group of jurisdictions reinforces this view.

The data from the survey will help fill an important statistical gap by providing a database that counterpart debtor countries may use to construct estimates of their own outstanding securities liabilities, as well as assisting other data analysts in understanding this fast growing cross-border exposure. Table 3 provides, in matrix form, summary results of the 2001 CPIS for the ten largest holders and issuers of securities. More detailed results can be found on the IMF website (http//:www.imf.org/bop). It can be seen that the United States is both the largest issuer (the first row) and the largest holder (the first column). The United Kingdom is likewise the second largest holder and issuer. The third largest holder is Japan but the third largest issuer is Germany. Total securities reported in the 2001 CPIS were $12,546 billion (as shown in the cell at the lower right of the table). An assessment of the euro area data will be made by the ECB's Directorate General Statistics, in liaison with the member states and the IMF's Statistics Department.

To assist jurisdictions to undertake the survey, an updated survey guide was prepared and published by the

Box 1. The CPIS, SEFER, and SSIO

The CPIS is designed to collect data on the outstanding holdings of portfolio investment assets as at year end. The data are broken down by the counterpart country of residence of the issuer, and by type of instrument: equity, long-term debt, and short-term debt. The data are recorded at market value as of the reference date of the survey. Participants are encouraged to provide additional information on their portfolio investment on (a) their portfolio investment liabilities, broken down by counterpart country of holder; (b) the sector of holder of the portfolio investment assets, using either the *BPM5* sector breakdown or that recommended in the *System of National Accounts 1993* (*1993 SNA*) sector breakdown (or a sub-group thereof); and (c) the breakdown of the currencies of the portfolio investment assets, in aggregate. Securities held as part of direct investment are excluded from the CPIS.

Sixty seven jurisdictions participated in the 2001 survey, including about 20 SEIFiCs. The CPIS is being undertaken on an annual basis, and most of the jurisdictions that participated in the 2001 CPIS have already confirmed their intention to participate on a continuing basis.

In order to obtain as much information as possible on cross-border holdings of securities by country of residence of issuer, the IMF's Statistics Department undertakes two additional surveys: SEFER and SSIO. Information from major-investing countries on their reserve assets holdings of securities, broken down by instrument, and counterpart residence of the issuer is provided to the Statistics Department through SEFER (the Survey of Securities Held as Foreign Exchange Reserves). The same level of information on securities assets held by international organizations is obtained through SSIO (Survey of Securities held by International Organizations) . (As international organizations are not considered to be residents in the countries in which they are physically located, these holdings are not included in any country's assets and would, otherwise, not be collected.) The data from these two surveys will be published in aggregate, in conjunction with the CPIS, so there will be no loss of confidentiality of data in an area considered to be highly sensitive by many jurisdictions.

By combining the data from the CPIS, SEFER and SSIO, it is possible to construct a comprehensive picture of the counterpart portfolio investment liabilities (the so-called *mirror* liabilities). These data are likely to be different from the jurisdictions' data on their liabilities because many jurisdictions construct liabilities positions data on the *transactor* principle, rather than the *debtor/creditor* principle. The transactor principle allocates transactions to the country of residence of the nonresident party to the transaction, thus ignoring any subsequent transactions in secondary markets and/or makes the assumption that the purchase is not being undertaken by an agent, who may be resident in a different economy from the purchaser. On the other hand, the debtor/creditor principle allocates transactions to the country of residence of the nonresident debtor or creditor. Further, the valuation principles used by the two parties to any transaction may differ.

The data for the 2001 CPIS were released in early 2003 and can be found at http://www.imf.org/bop. Revised data, together with the associated metadata on the methodologies used by the participants, are expected to be available by the (northern hemisphere) spring of 2003. It is hoped that the timeliness of the release of data will gradually improve in the future as participating jurisdictions (and their respondents) become more practiced in the provision of the data.

The information on this website includes:

- the "mandated" information (portfolio investment asset holding of equities, long-term debt, and short-term debt, by counterpart country of issuer) for each jurisdiction that participated in the 2001 CPIS, as reported to the IMF;
- the "encouraged" information (on sector of holder, currency breakdown of the asset holdings, and liabilities by counterpart country of holder, broken down by equities, long-term debt, and short-term debt); and
- mirror liabilities data for all economies in the world.

It is expected that the CPIS, SEFER and SSIO will bring, among other things, the following benefits:

- establishment of best practices in the statistical measurement of portfolio investment assets by using the internationally recommended approach and through contacts with compilers in other countries, thereby building networks through which compilers can learn from each other;
- creation of mirror liabilities (from the counterpart assets), which will be of use to compilers of portfolio investment transactions and positions, to supplement other data available from debtor countries;
- creation (over time) of a time series of cross-border asset holdings, by counterpart economy of issuer, and a similar time series for the mirror liabilities;
- provision of a statistical basis for improvement in knowledge and understanding of international securities' markets;
- assistance in improving statistical measurement of transactions in portfolio investment and the associated income flows, thereby helping to reduce global imbalances; and
- the databases and time series will complement the BIS' international banking statistics.

IMF's Statistics Department.[7] The guide sets out the purpose of the survey and the conceptual underpinnings, and offers compilers advice on how to undertake a survey of this nature (such as: how to establish a survey frame; how to develop contacts with respondents; software requirements; to address low or nonresponse rates; what data validation procedures might be put in place; follow ups with respondents; and data release).

As a follow up to the 2001 CPIS and in preparation for the 2002 CPIS, the IMF's Statistics Department organized four workshops for national compilers from SEIFiCs and nonindustrialized jurisdictions conducting the survey for the first time. Funding for the workshops was generously provided by Government of Japan through the Japan Administered Account for Selected Fund Activities. The workshops were held in Hong Kong SAR (for the Asia-Pacific region); in Mexico City (for Latin American countries); in Jersey (for SEIFiCs); and in Brussels (for countries in Eastern Europe, the Middle East, and Africa). The workshops were designed to provide compilers with the opportunity to exchange their experiences in conducting the 2001 CPIS; to see how the survey might be conducted more efficiently and effectively; to establish a network of contacts among the compilers; and to indicate what plans they had for the 2002 survey. These workshops were held in May and June 2002, at a time when most participants were nearing completion of the 2001 survey but before they had advanced very far in their preparations for the 2002 survey.

In order to obtain as comprehensive a picture as possible of cross-border asset holdings of securities, and so that counterpart liabilities can be constructed, comparable information to the CPIS is necessary on securities held as reserve assets and securities assets of international organizations. To this end, the IMF's Statistics Department conducts two annual surveys, SEFER and SSIO. Details of these surveys can be found in Box 1.

Participants in the CPIS have provided metadata on the approaches they used, including the methodology employed, the survey frame, the response rate, and related issues, and also indicate their experiences in dealing with particular problems encountered. The information will play an important role in the analysis of the results and in the exchange of information between and among the participating countries and will be valuable for users and compilers. Knowledge of the metadata is an integral part of analyzing the data. These metadata will be posted on the IMF website (http://www.imf.org/bop) to complement the upcoming more complete 2001 CPIS results.

[7]See *Coordinated Portfolio Investment Survey Guide,* second edition, IMF, Washington, D.C., 2001.

Issues Related to the Coordinated Portfolio Investment Survey

The Committee was brought up-to-date on work being undertaken to address several areas of importance to the CPIS, but which also have wider application to other elements in the balance of payments and the IIP, as well as other parts of the suite of macroeconomic statistics. These are the development of a GSDB; further investigation into third party holdings (TPH); and the appropriate statistical treatment of repurchase agreements and securities lending.

Global Securities Databases

From previous work on the CPIS, it has become evident to the Committee that there is considerable interest in the development of a GSDB. A GSDB, as so envisaged, would be a multi-dimensional database, with information on such variables as the name, sector, and jurisdiction of the issuer of each security; the amount issued and its date of issue; the currency and coupon (if any) of the issue; the maturity date(s); and, possibly, the sector of holder of the security. Price information would also be included. Such a GSDB has a potentially very wide application: in addition to the CPIS, it could be used for the construction of estimates of portfolio investment transactions in the balance of payments; for external debt estimates; for the international reserves and foreign currency liquidity template; for monetary statistics; for flow of funds tables; and for the sectoral balance sheets in the national accounts.

Various approaches have been proposed but it has been found that such a large exercise requires a considerable ongoing commitment of resources. The BIS has a limited securities database but it does not cover most securities issued in domestic markets, even though the BIS has been improving its quality through a system of cross-checking with other databases. In response to its own needs and those of its members, the ECB, with input from the national central banks of EU member states, has undertaken a comprehensive exercise to create such a securities database of their own. This centralized securities database will be multipurpose; as well as supporting the CPIS and the regular compilation of balance of payments and IIP statistics, it will also be very important for compiling statistics on securities issues and financial accounts, as well as for various market analyses. The ECB database will be based on data on securities issues from commercial and institutional sources. In addition, participating countries will be required to play a reciprocal role, that is, in order to gain access to the database, countries will be

Table 3. Geographic Breakdown of Total Portfolio Investment: Top Ten Economies by Holders and Issuers, at Year-End 2001

(In millions of U.S. dollars)

Investment from: / Investment in:	1 United States	2 United Kingdom	3 Japan	4 Luxembourg	5 Germany	6 France	7 Italy	8 Switzerland	9 Netherlands	10 Ireland	Other	Total value of investment
1 United States	. . .	310,931	490,200	177,910	108,168	104,056	74,001	76,389	137,334	155,281	1,434,820	3,069,090
2 United Kingdom	484,395	. . .	110,356	60,309	72,961	63,227	33,731	23,066	40,787	88,650	276,864	1,254,346
3 Germany	126,427	133,823	111,307	150,101	. . .	79,133	59,566	56,612	68,221	32,637	333,553	1,151,378
4 France	141,485	131,859	64,422	59,187	74,191	. . .	43,911	26,445	45,191	18,964	170,334	775,990
5 Netherlands	145,965	73,999	46,139	54,174	86,571	75,074	53,154	34,646	. . .	13,141	108,730	691,594
6 Italy	47,777	92,740	33,986	46,999	80,991	78,329	. . .	6,452	44,045	26,716	127,718	585,753
7 Japan	196,943	83,421	. . .	27,342	10,399	21,367	12,115	10,273	11,508	9,653	144,357	527,380
8 Luxembourg	12,317	25,491	45,864	. . .	103,235	25,694	106,052	66,389	8,349	12,988	112,968	519,346
9 Cayman Islands	56,981	46,320	132,785	20,230	12,319	22,245	17,776	11,772	2,975	6,611	67,906	397,920
10 Canada	199,377	15,701	21,910	11,054	4,513	10,955	2,737	5,660	2,919	4,876	28,779	308,480
Other	799,484	389,760	232,786	213,308	238,267	194,877	148,979	178,101	124,341	71,687	673,360	3,264,949
Total value of investment	2,211,151	1,304,044	1,289,754	820,614	791,616	674,958	552,022	495,804	485,669	441,204	3,479,389	12,546,226

asked to provide information on securities issued in their markets, and to verify certain elements of the metadata, such as the residence and sector of the issuer of securities that might be issued in the economies of other participants using the database. This is described as the *network approach*.

A working party to investigate the development of a GSDB, that is, a securities database that would be comparable to the securities database being developed by the ECB but which would involve non-European countries participating in the network approach, was set up after the 1999 meeting of the Committee. It originally comprised the ECB, the BIS, and the IMF, but in 2001 the United States, Japan, and the United Kingdom agreed to join. The expanded membership met at the very end of 2001 and a report of the meeting was provided to the Committee at its meeting in 2002. The working party found that, except for the ECB, there was insufficient interest and/or resource commitment from its members to create a GSDB. Consequently, the working party concluded that it would be preferable to wait until the ECB's securities database was in use before any further action was taken to develop a GSDB.

In light of the costs, the ECB expects that its securities database will become operational in stages, with the first stage expected to be ready in 2004. It will, therefore, not be available for the 2002 CPIS, and possibly not for the 2003 CPIS; however, given the considerable benefits that will eventually emerge (and its wide application), the ECB will continue to develop it. It is therefore envisaged that the working party will reconvene towards the end of 2003.

Third Party Holdings

At its 2002 meeting, the Committee considered the issue of TPH, that is, securities that are placed directly by end-investors resident in one jurisdiction with custodians resident in another jurisdiction. It is likely that there are many instances of TPH, especially by households or small- or medium-sized enterprises (SMEs), involving in total substantial amounts of securities. Where such cross-border direct custody exists, the information is probably not captured through usual data collection methods. A working party on TPH was set up in 2000 to address this situation by exploring what information might not be collected by compilers and by identifying how the data might be captured.

In its initial work, the working group on TPH found that (a) there were many different types of business models used by custodians, so that there was no simple approach that would permit these holdings to be readily identified; (b) there were often multiple custodian chains, so that there were major risks of double counting; and, as a result, (c) the focus of any further work should be on high worth individuals as in this area, there would likely be less risk of double counting and custodian records might be more readily usable for statistical purposes.

The Committee endorsed the proposal by the working group on TPH that this gap in the data might be addressed in a two-step approach: (i) by further discussions with custodians in various countries, to ascertain their business models and information systems on high worth individuals; so that (ii) using the various business models, a survey of custodians might be designed to identify whether they would be able to provide such information. The working group on TPH expects to undertake such a survey in 2003. Several difficulties in this undertaking are still to be overcome before obtaining any data on the value of such cross-border holdings by high worth individuals, not least being the lack of clarity in some countries as to whether they have the legal authority to request the information. In addition, the Committee felt that the work on TPH should be undertaken in conjunction with the technical group on reverse transactions, given the overlap of the respondents to the two exercises.

Reverse Transactions

Reverse transactions (repurchase agreements, securities lending, gold swaps, and gold loans or deposits) have grown rapidly in volume and complexity in recent years, as financial markets round the world have come to use them much more extensively and effectively. Given this growth and change in the use of reverse transactions since *BPM5* was written, it is not surprising that *BPM5* either does not deal with these transactions in a satisfactory manner (repurchase agreements and gold swaps) or is altogether silent (securities lending and gold loans/deposits). At its 2001 meeting, and as a result of a paper by IMF staff on appropriate statistical treatments, the Committee took a number of in-principle decisions: (a) to continue the current recommended treatment of recording repurchase agreements (involving cash collateral) and gold swaps as collateralized loans and to assess further the availability of supplementary information on the sector of the counterparty and the issuer of the security; (b) not to record a transaction at all for securities lending (without cash collateral) and gold loans/deposits, but instead to provide supplementary information similar to that recommended for repurchase agreements and gold swaps; and (c) in the event that the asset acquired under a reverse transaction is on-sold outright, the seller of that asset so-acquired should record a negative asset (that is, a "short" position).[8]

However, to seek a consensus among all macroeconomic statisticians, the Committee recommended that the IMF seek input and agreement from other international groups on the recommended approaches. Accordingly, IMF staff presented the paper to the ISWGNA, to the OECD's Expert Group on National Accounts (EGNA), and the OECD's Working Party on Financial Statistics (WPFS). All three groups endorsed the Committee's view.

In light of this overall agreement, it was necessary to pursue the extent to which the supplementary information (on sector of the counterparty and the issuer of the security for repurchase agreements and securities lending) could be obtained, and as well to agree on how to classify the payment for the use of the lent asset in securities lending and gold loans/deposits. To address these issues, a technical group on reverse transactions was set up. The group comprises representatives of nine economies (Belgium, Hong Kong SAR, Japan, Portugal, South Africa, Spain, Switzerland, the United Kingdom, and the United States), the IMF, the ECB, and the BIS. The technical group's mandate is to explore how the reporting of reverse transactions can be improved (for monetary statistics, for flow of funds accounts and for sectoral balance sheets, as well as of balance of payments and IIP statistics), bearing in mind the Committee's decision on the appropriate treatment.

As a first step, in 2002 the technical group undertook a survey of a selection of end-investors, custodians, brokers/dealers, and fund managers in the economies of the participants in the technical group in order to try to determine whether these institutions' information systems could readily identify when reverse transactions take place. When all these questionnaires have been returned, the technical group will review them and a report will be presented to the Committee at its meeting in 2003. This report will also include a recommendation on how to treat the payment for the use of the asset in securities lending and gold loans/deposits.

External Debt and International Banking Statistics

The Committee was advised that the IMF's Statistics Department collaborated with other members of the Inter-Agency Task Force on Finance Statistics (IATFFS) to conduct several seminars in the past year, as part of the initiative to inform potential users and compilers about the new *External Debt Guide*[9] and to promote improved compilation of external debt data. In June 2002, the first of a new series of training courses in external debt statistics, covering the methodology for compilation that is set out in the *External Debt Guide* and directed at debt compilers, was offered by the IMF's Statistics Department at the Joint Vienna Institute and was conducted with the assistance of other IATFFS participants. The IATFFS will continue to serve as a forum for addressing statistical issues pertaining to external debt statistics. It will also continue to develop the Joint BIS-IMF-OECD-World Bank Statistics on External Debt, giving particular attention to data on short-term debt, and will assist the IMF in the development of a DQAF for external debt statistics. It was noted that, for many developing countries, data on private sector debt are very difficult to collect. Only countries subscribing to the IMF's Special Data Dissemination Standard (SDDS) are required to report their external debt data; the General Data Dissemination System (GDDS) recommends that public and publicly guaranteed external debt outstanding be reported, while private external debt not publicly guaranteed is an encouraged item.[10] The Committee felt that the IATFFS should continue to develop standards for external debt data and metadata exchange and ensure that the data and metadata are shared widely.

The Committee was also informed that the BIS has been continuing its efforts to expand the coverage of its banking data by including new reporting countries in its statistics. At the same time, it has been steadily improving the quality of the data by increasing the number of countries that provide a full instrument breakdown of their international bank positions. In addition, central banks, under the aegis of the BIS, have agreed to collect more comprehensive and detailed data (at the consolidated level) on country risk exposures as from end-2004. These data will cover guarantees, unused lines of credit, and financial derivative exposures on an ultimate risk basis. As a consequence, exposures will be allocated to the country where the final risk lies, that is, the country of the collateral or guarantee provider. Timeliness of reporting of the data has also improved. Further, the number of participants in the BIS' triennial survey of foreign exchange and derivatives market activity continues to grow. The survey has

[8]The Committee recognized that, for practical reasons related to data sources or institutional arrangements, the recommendations may not be easily followed in some countries.

[9]*External Debt Statistics: Guide for Compilers and Users*, IMF, Washington D.C., 2003.

[10]One purpose of the new *External Debt Guide* is to provide guidelines that meet the prescriptions and recommendations, respectively, for external debt that were introduced into the SDDS and the General Data Dissemination System, or GDDS, in March 2000.

also been expanded to provide a more detailed currency breakdown. A new guide to the BIS international financial statistics would be released in February 2003 with two additional chapters: one on data quality assessment, and the other on uses of the data. Finally, an updated version of the *Guide to BIS International Banking Statistics* would be published in March 2003.

BIS reported on a workshop on short-term external debt that it had hosted in April 2002, and which aimed at discussing the findings of BIS research work on the differences in debtor- and creditor-sourced information. The Joint BIS-IMF-OECD-World Bank statistics on short-term external debt (creditor sourced) are sometimes different from the data published by the countries themselves (debtor data). These differences cause concern for some countries, as it is felt that the differences might be affecting their international credit ratings. The Financial Stability Forum recommended that work be undertaken to help determine the causes of the differences between the creditor- and the debtor-based short-term external debt data. BIS research work found that it was not possible to reconcile the differences in every case, but that at least the main reasons for the differences could be explained. The workshop at the BIS offered participating countries the opportunity to discuss the findings of the BIS research work and to discuss ways to improve the data from the debtor side. Based on its research work and the discussions at the workshop, the BIS has prepared a report, *Comparison of Creditor and Debtor Data on Short-term External Debt*, which was published in December 2002 and can be found as BIS Papers 13 on the BIS website (http://www.bis.org). The report also includes contributions from ten emerging market countries that were represented at the workshop, describing their current collection and publication of external debt statistics, and a contribution from the IMF on the new *External Debt Guide*. It is hoped that the report will provide a further impetus for improving the collection of external debt data from the debtor side.

Direct Investment

The Committee considered a number of issues related to direct investment.

The Committee discussed the SIMSDI, a joint project of the IMF's Statistics Department and the OECD that was designed to obtain metadata to determine the extent to which countries implement the international methodological standards for direct investment statistics. The Committee was informed that the information provided for the 1997 SIMSDI has been updated to 2001 for 61 countries; a summary of results is given in Box 2. The next SIMSDI survey, to cover all IMF member countries, will be conducted in 2003; a new questionnaire is being developed for this.

Across countries, there is a diversity of methods for valuation of direct investment positions. The Committee was presented with two papers on this topic, from the United States, and the ECB. The United States uses two different approaches to estimate the stock of direct investment: valuation of shares, using either market prices, or proxies of market prices, of the shares; and current cost accounting (CCA). The two approaches do not produce similar results. For the CCA approach, the estimates are constructed at the 27-industry level, but the share value approach is less detailed. The Committee was advised that users accept the two estimates of direct investment positions, recognizing that the estimates are intended to be used for different purposes. The paper from the ECB noted that there are two bases for valuation: one for listed and the other for unlisted companies. For listed companies, the quoted price on a stock exchange may be used but for unlisted companies, such an option is not possible. The ECB has set up a task force to explore how the valuation of unlisted companies might be improved in its member states.

The Committee also received a paper on estimating reinvested earnings for the most current periods in France. As large enterprises report directly to the statistical compilers, the estimation is carried out for SMEs only. This is a particularly difficult area of statistical estimation; differences between original and final estimates could be as large as €1 billion, although on average the difference is below €0.5 billion.

The results of a survey on the implementation of the directional principle in direct investment that was conducted by the National Bank of Belgium were presented to the Committee. Twenty countries had been approached, and responses had been received from thirteen. The implementation of directional principle varied between countries. The survey showed that countries that compile data using a data collection system primarily based on surveys were better able to implement the directional principle than countries that use an international transactions reporting system (ITRS). One particular area of difficulty in data compilation relates to the treatment of transactions between affiliated enterprises where neither party invests directly in the other, as compilers and/or the enterprises concerned may be unaware of any affiliation.

While international statistical standards recommend a threshold of a ten percent equity ownership in order to establish a direct investment relationship, international

Box 2. Highlights of the 2001 SIMSDI Results

Areas where there have been marked improvements since 1997:

- Availability of foreign direct investment (FDI) statistics, particularly:
  - Position data
  - Income data (including reinvested earnings)
  - Geographic and industrial sector breakdowns
- Coverage of the FDI statistics, particularly the inclusion of:
  - Noncash acquisitions of equity
  - Intercompany loans and financial leases
  - Real estate owned by nonresidents
  - Activities of SPEs
  - Activities of offshore enterprises in the outward FDI statistics
  - Expenditure on natural resource exploration

Areas where more than 75 percent of countries now follow the international standards applicable to their economy:

- Use of the ten percent ownership rule as the basic criterion for defining FDI relationships
- Equity capital transactions between affiliated banks and between affiliated financial intermediaries
- Recording of reverse investment equity transactions when two FDI relationships have been established
- Inclusion of data on real estate owned by nonresidents
- Inclusion of data on activities of SPEs
- Inclusion of data on activities of offshore enterprises

Areas where, despite improvements, the majority of countries do not yet follow the international standards:

- Inclusion of activities of indirectly-owned direct investment enterprises – the *fully consolidated system*
- Use of the *current operating performance concept* to measure direct investment earnings
- Time of recording FDI income on equity and income on debt
- Recording of reverse investment transactions when the FDI relationship is in one direction only
- Inclusion of data on quasi-corporations involving construction enterprises and mobile equipment
- Valuation of FDI positions (assets and liabilities)

More detailed SIMSDI metadata for 56 countries may be found at http://www.imf.org/bop.

accounting standards use 20 percent equity ownership as the threshold for recognizing an affiliate. The Committee suggested that the ten percent threshold recommended for statistical purposes might be reexamined as part of the update of *BPM5*.

The Committee was advised of the finalization of the statistical treatment of financial derivatives within direct investment. When the treatment of financial derivatives was clarified,[11] the provisional decision was that any financial derivative transactions between enterprises in a direct investment relationship (other than a relationship between two affiliated financial intermediaries) should be shown as a separate component of *direct investment*. The final decision on this recommendation was, however, deferred until there had been an opportunity to examine the significance of these transactions and the ability to measure them. That final decision has now been made. The Committee has decided that financial derivatives transactions and positions between enterprises in a direct investment relationship should be classified to the *financial derivatives* standard component rather than to a separate subcomponent of direct investment, although it recognized that some such transactions could not, in practice, be identified and would continue to be recorded in *direct investment*. All balance of payments correspondents have been advised accordingly.

The Committee reviewed several borderline issues between direct investment and other components in the financial account that were discussed in a paper from the United States. Investment in *mutual funds*, regardless of the level of investment, is always treated in the United States as *portfolio investment*, not as *direct investment*. Similarly, investment by a mutual fund is usually regarded in the United States as being *portfolio investment*, although there may be instances where this treatment might be reviewed. Japan introduced a paper on the treatment of its investment in professional mutual funds, and proposed that investment in these funds be classified as portfolio investment, not as direct investment, regardless of the percentage of ownership.

[11]See *Financial Derivatives: A Supplement to the Fifth Edition (1993) of the Balance of Payments Manual*, IMF, Washington, D.C. 2000.

The United States also described the treatment of *trusts* in its balance of payments and IIP statistics; in no case were the trustees regarded as direct investors. Whether or not a trust itself can be a direct investor depends on the nature of the trust and its investments. Certain rules are in place in the United States to address whether trusts meet the criteria for a direct investment relationship. Among these are whether the trust is reversionary (that is, the settlor, or creator, can reclaim the assets); if it is, then the trust is not considered an independent unit from the settlor.

For *banks*, the United States has found the implementation of the recommendation in *BPM5* with respect to "permanent debt" to be very difficult to apply, and strongly urged that this recommendation be reconsidered in the updating of *BPM5*.

For the treatment of *transactions between financial intermediaries and affiliates not principally engaged in financial intermediation*, the United States follows the *BPM5* recommendation in most cases (that is, these relationships are regarded as being direct investment). However, for debt transactions and positions between nonfinancial parent companies in the United States and their financial affiliates (special purpose entities, or SPEs) in the Netherlands Antilles, the United States records these as if the two parties are not affiliated. These SPEs have been set up to borrow on behalf of their parents (reflecting a loophole in United States law related to withholding taxes, which has since been closed). If these SPEs were treated as direct investment entities owned by their parents in the United States, given the relatively large amount of debt owed to these affiliates by their parents, the result would be substantial negative direct investment by the United States in the Netherlands Antilles. To overcome this apparent anomaly, the United States classifies the debt owed to these affiliates as portfolio or other investment, and not as direct investment.

The United States also has special rules for *shell companies*. If the shell company has operations in only one jurisdiction, the United States "looks through" the shell company to where the physical presence is located; if the shell company has physical presence in more than one economy, the practice in the United States is not to "look through." "Looking through" a shell company or an SPE in this manner is not in line with the *residence* criterion as presently recommended in international statistical systems.[12,13]

The paper also suggested that the update of *BPM5* might wish to adopt the practice in the United States of separating goods and services flows between affiliates from those with nonaffiliates (insurance and telecommunications excepted) in balance of payments statistics.

The Committee did not take any decisions on any of these important questions, but, in light of the many links between these issues, ultimate beneficial owners, and foreign affiliates trade in services (FATS) statistics, it suggested that the issues should be considered within the general program of the updating of *BPM5*.

Harmonization of Reporting

The Committee received a paper from Eurostat on the harmonization of reporting by multinational corporations (MNCs). With the multitude of collection systems in Europe, harmonization has been proposed by some MNCs to permit more efficient reporting to meet balance of payments, FATS, and other statistical requirements. The computer systems of MNCs will require modifications, especially to capture better debits transactions at the required level of detail. In some cases (such as insurance, transportation, and repairs), there are difficulties in separating services from the associated goods. The Committee was advised that only a few MNCs in Europe at present have integrated reporting to statistical agencies, but that within the next three to five years it is probable that more MNCs will adopt this system of reporting, and that this reporting might extend beyond Europe.

Income

The Committee was presented with two complementary papers, one from Belgium and the other from the IMF, which discussed the apparent inconsistencies in treatment of income flows among collective investment schemes (CIS) and with other forms of investment. Collective investment schemes include mutual funds, and similar types of investment vehicles, and the technical reserves of pension funds and life insurance companies. The papers noted that, in some instances, the international statistical standards[14] are not consistent in the treatment of income of CIS. *BPM5* and the *1993 SNA* would appear to recommend that income from mutual funds always be treated as dividends, whereas *ESA95* and the ECB's *Statistical Methods* regard interest earned by mutual funds as passing directly as it accrues, as in-

[12]See, for example, paragraphs 3.6–3.10, *Coordinated Portfolio Investment Survey Guide,* second edition, IMF, Washington, 2000.

[13]The Committee was also informed of the results of a survey by the OECD on the statistical treatment of SPEs. From the responses received, it would appear that this is an area that also needs further work within the context of the updating of *BPM5*.

[14]That is, *BPM5*, *1993 SNA*, the *European System of Accounts 1995* (*ESA95*), and the ECB's *European Union Balance of Payments/International Investment Position Statistical Methods* (*Statistical Methods*).

terest, to the end investors (even though investment in mutual funds is treated as equity, regardless of the assets acquired by the mutual fund—equity, debt instruments, real estate, and so on). The Committee felt that differences in recommended treatment among international statistical standards should be resolved but it recognized that any change to *ESA95* is a nontrivial exercise.

It was also suggested that the review of the treatment of income generally might be extended to review the manner in which pension fund liabilities are recorded (between, for example, defined contributions and defined benefit schemes). The Committee was given four options for the treatment of all types of income: (i) the status quo; (ii) all income on equity type investment be treated as being receivable by the investor, regardless of instrument and functional category; (iii) that only dividends payable be included as income (that is, all imputations of income flows would be removed, meaning that reinvested earnings would not be considered a transaction); and (iv) the payment of dividends should be recorded as a financial account transaction, and that no income should be deemed receivable on any equity instrument.

The Committee did not resolve these differences and suggested that the issues identified in these papers needed further elaboration within the context of the new balance of payments manual. It suggested that a working group on income would be a useful way of taking these matters forward. It also strongly urged that any changes to *BPM5, 1993 SNA*, and *ESA95* be carried out together.

The Committee considered the statistical treatment of the accrual of interest on debt securities, one of the most durable and contentious issues before the Committee in recent years. The Committee was presented with a paper from the moderator of the electronic discussion group on this subject. The debate centers round the interest rate that should be used in the estimation of accrued interest on debt securities—the so-called *debtor approach*, that is, the rate of interest implicit at the time of issue of the security or the so-called *creditor approach*, that is, the current market rate of interest. The Committee heard that there had been much discussion on the issue, which had enriched the debate, but that no consensus had emerged. In light of this, the ISWGNA had concluded that the debtor approach was what had been the general intention of the drafters of the *1993 SNA* and that, accordingly, no change was necessary. The ISWGNA, however, suggested that the creditor approach had valuable additional information, and that it might be presented as supplementary data.

Several Committee members objected strongly to this conclusion, stating that the conclusion of the moderator's report was inconsistent with the substance of the report. Furthermore, there were concerns expressed that the processes followed to reach the conclusions had not ensured a full discussion of the issues among all interested parties.

Uses of Balance of Payments and International Investment Position Statistics

The Committee received papers from Russia, Saudi Arabia, and South Africa on the uses of balance of payments statistics, and from France and the United Kingdom on the uses of IIP statistics.

The Russian paper focused on the use of balance of payments statistics in Russia's foreign exchange policy formulation. The paper noted the manner in which the ownership of foreign assets has, in many instances, shifted from the private to the public sector, taken as a successful policy implementation by the monetary authorities. The paper sets out the modeling required to determine what overall effect there will be on the Russian reserve assets to finance any financing shortfalls.

The paper from Saudi Arabia elaborated on the usefulness of the balance of payments statistics for analyzing the trends in certain important aspects of the economy and their policy implications. As well as indicating the openness of the economy, the Saudi balance of payments statistics highlight the need for diversification of exports in order to reduce the dependence on oil. It also noted the need to provide employment for Saudis and reduce the burden of private transfers, as well as for the promotion and development of internal tourism.

The paper from South Africa set out how the balance of payments statistics can be used within a variety of policy settings. It noted the link between the balance of payments data and fiscal and monetary statistics, as well as links within the larger context of the national accounts.

The Committee found these papers valuable. It was noted that, in economies without an adequately functioning financial market, some intervention by the monetary authorities might be required. However, such intervention might have the perverse result of an increase in interest rates, which, in turn, might lead to an increase in foreign liabilities, possibly the cause of the intervention in the first place.

It was suggested that, as the new balance of payments manual is to contain a section on uses, the South African paper would serve as a very good basis for such a section. The Committee felt that the direct link between the balance of payments and the monetary survey, noted in the South African paper, should be made explicit as part of such a section.

The French paper on the statistical measurement and usefulness of the IIP examined reasons for the underutilization of these data, even though the IIP offers considerable useful analytical content. The paper stressed the importance of improving both the availability (in terms of frequency and timeliness) and accuracy of IIP data.[15] The paper from the United Kingdom is used a primer on the IIP for training courses for staff at the Office for National Statistics, to show, among other things, its links to the balance of payments and the national accounts.

The Committee welcomed these papers as part of the general increase in emphasis on regular and timely IIP data.

Implementation of BPM5

The Committee received four papers on the implementation of *BPM5,* from Chile, Hong Kong SAR, Japan, and Saudi Arabia.

Chile moved to a *BPM5* basis for compiling its statistics in 2002, publishing quarterly balance of payments statistics from 1996 onwards, and annual end-year IIP statements from 1997 onwards. The compilation process has moved from an environment where data were primarily collected from exchange control records (in which statistics were a by-product) to one where data are collected for statistical purposes, with the primary focus on transactions with nonresidents. The basic structure of the existing framework was maintained, and surveys have been introduced on a selective basis. As these are conducted on a voluntary basis, maintaining good relations with respondents is very important. Factors that had raised the profile of statistics in Chile in general, and balance of payments statistics in particular, were: the SDDS, discussions within the Central Bank of Chile, and the sharing of other countries' experiences. Additionally, the effects of deregulation on balance of payments data had prompted more interest in devising a statistical system that adequately balances respondent burden with the provision of relevant, timely, and high quality data.

The Hong Kong SAR paper set out its experience in developing statistics according to the recommendations of *BPM5.* Unlike other countries, Hong Kong SAR did not have any "legacy" system as it had not compiled balance of payments statistics prior to 2000. A major challenge faced by the Hong Kong SAR Census and Statistics Department was the setting up of systems for the compilation of financial account and IIP data, given the importance of keeping respondent burden to as low a level as possible. There are many large enterprise groups that are involved in a wide range of activities. Further, the Census and Statistics Department directly collects data on banks' assets and liabilities because the data collected by the Hong Kong SAR Monetary Authority is not on the basis required for balance of payments purposes. Many of the data required to compile the current account were available; however, one important area for Hong Kong SAR is workers' remittances. Hong Kong SAR has approximately 200,000 migrant domestic servants, who may remit more than half of their salaries to their home countries. Data on average wages and the age structure of the workforce are used to estimate remittances by these individuals. Another particular problem is "round tripping" of financial flows between the People's Republic of China and Hong Kong SAR. "Round tripping" involves funds that are sent abroad but which are then immediately returned to the country of origin. Such activity can distort data and poses particular analytical problems. To help overcome this problem, Hong Kong SAR has published supplementary data on these flows. The Committee was impressed by the scale of the undertaking to develop balance of payments statistics and congratulated Hong Kong SAR on its success.

The paper from Saudi Arabia set out some of the challenges in implementing *BPM5* in that country. Saudi Arabia is an open economy with no history of controls on trade and the movement of foreign exchange. The compilers rely on an ITRS for data collection; with its advanced banking system, this reliance on an ITRS serves to capture adequate and dependable data for compiling balance of payments data. The use of surveys has been rather limited in Saudi Arabia as there is no history and culture of responding to questionnaires in the absence of a history of controls. Saudi Arabia is, however, making efforts to develop a survey culture in order to supplement the ITRS.

The paper from Japan described a new system that is being implemented for the online reporting of balance of payments data via the internet. As part of this development, the Japanese Ministry of Finance and the Bank of Japan have reviewed all aspects of data collection, compilation, and dissemination of statistics. The aim is to provide a more convenient and efficient means for reporting balance of payments data (although paper-based reporting will remain as an option) as well as faster and more efficient compilation of the balance of payments statistics. From the reporters' perspective, reporting will be streamlined and there will be improved security to protect the individual respondent data.

[15]The IIP became an SDDS requirement in 2002, with annual periodicity and six months timeliness.

Reporting Under BPM5

The Committee reviewed the progress countries were making in reporting balance of payments and IIP data to the IMF's Statistics Department on the basis of the classification system of *BPM5*, as well as the use of electronic reporting. For the 2002 *BOPSY*, 151 countries reported balance of payments data using the coding system of *BPM5* (compared with 144 in 2001). Of these, 144 reported in electronic form (compared with 131 in 2001), of which 134 reported by electronic mail (up from 121 in 2001). Ninety five countries are now reporting quarterly balance of payments statistics. A growing number of countries are reporting IIP data: for 2002, the number reporting rose to 87, up from 78 in 2001.

Updating BPM5

Over the next several years, much of the Committee's attention will be focused on updating *BPM5*. In furtherance of this goal, the Committee spent a substantial amount of time at its 2002 meeting examining issues related to the updating of *BPM5*. It considered the compendium of issues for consideration in the update, reviewed the proposed timetable and unannotated outline of the new manual, and discussed several papers related to conceptual matters.

Compendium of Issues

The Committee reviewed an updated compendium of issues and identified those areas it considered to be of greatest importance.

Proposed Timetable

The Committee then considered the IMF's proposed timetable for updating *BPM5*. A summary is shown in Box 3. The Committee was advised that the original deadline of 2007 (adopted by the Committee at its meeting in 2001) had been put back one year because in developing the timetable for producing the update to *BPM5*, IMF staff concluded that there was insufficient time to complete the update by 2007. This new date fits well with the proposal to complete a review of the *1993 SNA* by 2008; it is important that the two systems remain consistent to the maximum extent possible. The IMF regards the updating process as a more or less constant work-in-progress.

The most immediate and a most crucial step in updating *BPM5* is the preparation of an AO for the new manual. The AO is likely to be in the order of 120 pages and will set out a structure and issues to be considered in drafting the new manual, but will not provide resolutions in all areas; rather it will be a discussion document that provides guidance in the development of the new manual. The IMF indicated that it is intending to set up a Technical Review Group (TRG) that will look at more complex issues in greater depth than might be possible at Committee meetings. Individuals will be asked to participate in the TRG on the basis of their technical expertise so that its composition may change, depending on the issues under consideration at any given time.

Between December 2003 and December 2006, IMF staff will follow a process of development and consultation to produce a draft manual. This process for producing the new manual will involve the preparation of position papers, followed by discussion (with the Committee, the TRG and other interested groups including the ISWGNA), and then the preparation of the draft text for the manual. It is intended that, after October 2006, no new issues will be considered for inclusion in the new manual. This deadline is necessary to accommodate the broad process of review and consultation that will take place before the manual is finalized at the end of 2008. Remaining issues will be placed on a research agenda, and work will continue on these issues; the results will however be included in further updates to the manual. The IMF places considerable importance on consultation with compilers.

Once the new manual is available, the revision of the *Balance of Payments Textbook* and the *Balance of Payments Compilation Guide* will be addressed. While the Committee would prefer these two documents to be produced concurrently with the new manual, IMF resource constraints do not permit this.

The Committee was generally supportive of the timetable, though there was some concern about its tightness, especially in view of the volume of work, the complexity of several of the issues, and the importance of the involvement of other areas of macroeconomic statistics. The Committee agreed with the deadline of October 2006 as the cut-off point for introducing new material. The need for procedures to resolve conceptual and technical differences between the balance of payments community and the national accounting community was raised. Many Committee members felt that there should be an agreed process set up as quickly as possible. The IMF, while recognizing the need for a dialogue between the national accounts and the balance of payments communities, felt that there were, nonetheless, many areas in which *BPM5* could be updated that did not materially involve national accounting (such as definitions of direct investment and reserve assets). Moreover, the IMF felt that there were other areas (such as the clarification of *residence*) that the national ac-

Box 3. Summary Proposed Timetable for Updating *BPM5*

December 2002–August 2003	IMF staff to produce the draft annotated outline
End-August 2003	AO to be provided to the Committee, the ISWGNA, and other inter-agency groups for comment by beginning of November
December 2003	AO to be discussed by the Committee, and agreement to be reached on final form
Early 2004	Circulate AO widely, including balance of payments compilers, for information and for comment
December 2003–December 2006	Develop draft of new manual, in discussion with interested parties, such as the ISWGNA
December 2006	Completed first draft to be provided to Committee and inter-agency groups for review, for comment by end-March 2007
First–third quarters of 2007	Regional presentations on the draft manual
May 2007	Incorporate comments on first draft
June 2007	Committee to discuss and agree to changes to the first draft
August 2007	Worldwide circulation, including balance of payments correspondents, of second draft of the manual, for comment by mid-December 2007
February 2008	Incorporate comments on second draft of new manual
May 2008	Third (and near-final) draft manual sent to the Committee and other interested parties
September 2008	Committee to discuss and agree on the final text
December 2008	Final draft manual, subject only to editing, made available on the website[1]

[1]It is expected that the final manual will be published in hard copy in English in 2009, with publication in Arabic, Chinese, French, Russian, and Spanish to follow.

counting community might welcome. The Committee also strongly recommended that the process of research and consultation involve the international accounting standards setters. It was also agreed that as, the work on the development of the manual proceeded, research papers and other related documents would be placed on the IMF website so that the broader community can have access to the thinking as it progresses. These papers will be placed on the Committee website (http://www.imf.org/bop).

Outline of the New Manual

The Committee considered the IMF staff paper proposing a structure for the new manual. This proposal outlines a sequence of chapters that was somewhat modified from that of *BPM5* in order to present the IIP as a central element of the framework. Further, the outline proposes a sequence of chapters that describes financial instruments, before discussing financial positions (and flows). The income flows derivable from those assets and liabilities would be addressed subsequently in the manual. This approach to the structure and chapter sequencing received strong support from several members of the Committee, based in part on their own experiences in learning about the balance of payments and the IIP. It was agreed that there should be a chapter on uses (including a discussion of aggregate balance of payments and IIP, such as exist for the euro area/EU) towards the end of the document but that a short, less detailed discussion of uses belonged at the beginning of the new manual. It was generally agreed by the Committee that the new manual should set out first principles, using examples, where appropriate. The annotated outline will build on this structure.

Residence

Residence is the central building block of macroeconomic statistics. Accordingly, IMF staff presented the Committee with a paper that examined several elements of residence that are inadequately addressed in the current international standards. The aim of the paper was to identify issues to be included in the AO, not to secure resolution at the 2002 meeting, and to determine whether any additional issues needed to be discussed/reviewed in the AO with respect to residence. It was felt that, once these issues had been explored further in the AO that the Committee might be able to address these questions in further depth. The issues raised included *general principles of residence of individuals*; *economic territory*; *joint sovereignty*; *rebel held territory*; *mobile equipment operating outside the jurisdiction of a "home" economy*; *changes in sovereignty*; *units*; *workers' remittances*; *center of economic interest for other units than households*; *multi-territory business entities*; *intergovernmental organizations*; *entities with no production and/or no physical presence*; *migrants' funds*; *joint accounts held by residents of two or more economies*.

The Committee also discussed, under the general heading of *residence*, what supplementary information might be recommended in the new manual on *ultimate risk* and *ultimate beneficial owner*, two concepts that are generally considered to have additional analytical value. While the Committee cautioned against embracing these issues too readily, given that they may lead to blind alleys or only partial information, it was agreed that including a discussion of the analytical and practical issues in the AO would be worthwhile.

Trusts

Following on the Committee's discussion on trusts at its meeting in 2001, it received a paper from Canada on the statistical treatment of trusts, partnerships and SPEs. The paper pointed out that limited partnerships are equivalent to quasi-corporations and are therefore separate institutional units in their own right. The paper also noted that the same would apply to trusts where the partners are corporations. The paper argued that "looking through" trusts (as if they did not exist) where the beneficiaries are households would create problems in a cross-border situation.[16] Accordingly, the paper concluded that trusts should be considered to be separate institutional units when they are in separate economies from the beneficiaries. Whether the investment amounted to portfolio or direct investment, and in which sectors, were issues that require further thought. The Committee agreed with the thrust of the Canadian paper, noting that there are myriad types of trusts and that some (such as reversionary trusts) do not readily fit the overall concept of a trust where the assets have been separated permanently from the settlor. In addition, the Committee noted that the statistical treatment of estates needs to be addressed within the broader context of further work on trusts.

Insurance

The Committee was presented with two papers by IMF staff on conceptual issues relating to insurance. The first discussed a number of conceptual issues of general insurance. First, *BPM5* allows (or possibly encourages) asymmetries in recording insurance transactions (for example, *BPM5* is not as rigorous in the application of the accrual principle as *1993 SNA*, and premium supplements are not an essential element within the *BPM5* framework). Second, there appears to be no conceptual substance for the recommended treatment of reinsurance. Third, innovations in the insurance market, such as insuring with certainty (which is more akin to investment than to insurance); the growth of captive insurers in offshore financial centers; and catastrophe bonds (where the insurance element lies not in the insurance contract but through the bond itself) need to be addressed in the new balance of payments manual.

The second paper discussed issues related to catastrophe insurance. This is an area of statistical measurement that requires considerable attention as the present treatment leads to high volatility and possibly to negative output. The Committee was informed that the OECD's Task Force on Insurance (TFI) had suggested adopting the principle of *expected claims*. When an insurance company calculates premiums to be charged, it considers, among other factors, the probability of an event occurring in any given year by reviewing long term probabilities. The paper identified four alternatives that were before the TFI for statistical estimation involving catastrophes: (i) a case-by-case approach, which involves judgment as to what constitutes a "catastrophe"; (ii) smoothing, by use of

[16]By the same token, it was argued that SPEs in the same economy as the parent would be treated as ancillary units (and therefore, would be consolidated with the parent) but across borders they would not be consolidated.

a moving average of claims, over a number of years; (iii) the "bottom-up" approach, which attempts to derive estimates of insurance service charges based on an assumed long term return to capital; and (iv) the "accounting" approach, that is, where equalization provisions are held so as to smooth loss ratios.

Each approach has its pluses and minuses. The Committee felt that the "bottom-up" approach was perhaps more suitable for the national accounts than for balance of payments purposes. Some members of the Committee gave support to the use of expected claims, averaged over a number of years, as the basis for calculating insurance for catastrophes. They noted, however, that smoothing had subjective elements to it, although *BPM5* does endorse this approach in some cases. In addition, while some Committee members were uncomfortable in moving from a cash-based calculation, especially in countries with less developed financial markets, others felt that such a cash-based approach was inconsistent with the accrual-based framework. Moreover, the Committee cautioned about related issues, such as the role that governments might play when insurers go bankrupt or refuse to offer cover to a segment of the population (such as doctors or airlines). Further, "catastrophe" did not necessarily have the same meaning to all parties involved in a claim. In addition, it was suggested that consideration be given to accounting for insurance losses, and for the portion of premiums that is not for services, as financial account flows, rather than as a type of transfer. This is because transfers are flows where the recipient gives up nothing in return; in contrast, insurance claims are dependent on a policy being in force, and, for a policy to be in force, premiums must be paid in advance. Nearly all types of insurance policies and reinsurance contracts could be regarded as a type of financial instrument, and flows under the terms of financial instruments are properly classified in the financial account and not as transfers. It was agreed that these are areas where further work in conjunction with the TFI would be very useful, so as to ensure that balance of payments issues were adequately addressed. The Committee also noted that issues of allocation to partner countries would need to be addressed.

Stock Options

The Committee considered an IMF staff paper on employee stock options, which followed up on a paper presented to the Committee in 2001. The paper outlines situations that might involve cross-border transactions in employee stock options. The Committee were also brought up-to-date on the discussions on stock options at the recent meeting of the OECD's EGNA. The general view at that meeting had been that stock options should be recorded as compensation of employees.[17] The EGNA also tended to support the view that the counterpart entry to compensation of employees (mixed income) should be a financial derivative. However, some participants at that meeting had expressed reservations about treating them in this manner. The EGNA chose not to take a decision, preferring to allow the international accounting standard setters (the International Accounting Standards Board and the Financial Accounting Standards Board) to move this forward. The Committee considered that it was reasonable to exercise caution and agreed with the national accountants approach. Even so, in light of the recent corporate scandals, which included abuses of stock options, some Committee members felt that stock options were less likely to be a statistical issue in the foreseeable future, while many others indicated that they thought this activity was not insignificant in their own economies. Accordingly, the Committee felt that it was important to have a resolution of the appropriate treatment. Concern was also expressed at the difficulty involved in measuring these transactions, especially given that the likely date of recognition for statistical purposes may be the vesting or grant, rather than the exercise, date.

Sector and Functional Classification

The Committee was given a paper from the ECB on how *other sectors* might be disaggregated in the new manual. It was suggested that a very valuable improvement would be for the new manual to adopt the sectoring used in the national accounts. The ECB paper also noted that, though the balance of payments and the IIP are mirror images of the transactions and positions in the rest of the world (ROW) account in the national accounts framework, the data in the ROW account are more detailed. It was noted that direct investment data are especially difficult to fit into the ROW account and that the reconciliation of the two datasets would be assisted if direct investment were broken down by sector and by instrument. Moreover, it was suggested as an alternative to the *BPM5* presentation that *direct investment* as a functional category within the standard components of the balance of payments/IIP framework be discarded and instead direct investment data be presented within a satellite account, at a lower periodicity. Some members supported the idea of a satellite account for direct

[17]Although it was recognized that, in some circumstances, stock options may be recorded as mixed income.

investment, especially as the data are very hard to collect (particularly on a monthly basis, but also on a quarterly basis), and are frequently of poor quality. On the other hand, it was noted that data on direct investment are among the most sought after by users. It was also noted that, in contradistinction to *BPM5*, in the *External Debt Guide* sector took precedence over instrument. With sufficient breakdown of all instruments into sectors, a user could analyze the data from both perspectives. The Committee found the proposal interesting, meriting further work.

Foreign Exchange Exposure

Australia provided a paper on its foreign currency exposure. The paper describes the results of a survey of Australian entities that have foreign currency positions, and how they have used financial derivatives to hedge that exposure. The survey was undertaken to identify whether there was cause for concern about foreign currency exposure in Australia, given that, when the IIP and balance of payments data are examined in isolation from other information, it might appear that Australia, or certain sectors of the Australian economy, had substantial foreign currency exposure. The results of the survey indicated that, through judicious use of hedging with financial derivatives, all of Australia's foreign currency exposure had been covered. It was suggested that the kind of additional information obtained in the survey might be added to the standard reporting requirements for the balance of payments. The Committee found the results to be very interesting as they demonstrate the importance of additional information when analyzing balance of payments data. The Committee also raised the question as to which was the more useful basis for analyzing financial derivatives: notional value or market price.

V. Future Work Program

Appendix 3 sets out in detail the medium-term work program agreed by the Committee in 2002. Subjects are ranked by priority. The rankings are not intended to reflect the absolute importance of each topic but rather to reflect the relative priority assigned to each topic by the Committee, given the limited time and resources available for research and investigation.

A top priority for the Committee is the updating of *BPM5*. IMF staff will produce an annotated outline of the issues to be addressed in the new manual. In conjunction with that work, IMF staff will update the compendium of issues for consideration in the new manual. Also related to the work on the new manual, the working group on the statistical treatment of nonpermanent workers will provide a report for the Committee's consideration, while the ECB and Eurostat (jointly), Japan, OECD, and IMF staff will prepare papers on residence and direct investment relationships for SPEs and shell companies. Also given a top priority is work on data quality assessment. IMF staff will provide the Committee with an update of the IMF's Statistics Department's work in the field, based on contributions from Committee members. Hong Kong SAR will provide the Committee with a report on the application of the IMF's DQAF to the balance of payments in Hong Kong SAR. In addition, the ECB and Eurostat will provide a paper on quality indicators that might be applied in the EU member states.

Continuation of the CPIS is accorded high priority. IMF staff will present papers on (a) the results of the 2001 survey, including metadata for the participating economies; (b) preliminary results of the 2002 CPIS; (c) preparations for the 2003 CPIS; (d) a proposed revisions policy for the CPIS; and (e) progress of the working group on TPH, in regard to consultations with potential providers of data. In addition, the ECB will report on progress in developing its centralized securities database. Also given high priority are issues related to direct investment. The OECD and IMF staff will present a paper on preparations for the 2003 SIMSDI. In addition, IMF staff will provide the Committee with a paper on direct investment issues to be considered for the new manual. India will provide a paper on lasting interest gained by investors with investment below the direct investment equity threshold. Another area given high priority is investment vehicles (private and professional mutual funds, hedge funds, partnerships, and other private investment vehicles). Papers are to be presented to the Committee by Japan, the United States, and South Africa. The working group on reverse transactions also receives high priority, in light of the importance that these transactions have not only for the CPIS and the IIP, but also for external debt statistics and the balance of payments income and financial accounts. This working group will present a report the outcome of the survey of reporting practices of global custodians, and will also provide the Committee with a recommended treatment for the classification of the payment for the use of the asset in securities lending and gold loans/deposits. It will also present the Committee with proposals for further work. It is expected that the working group on reverse transactions will conduct its research in conjunction with the working group on third party holdings. In association with this work on reverse transactions, IMF staff will prepare a paper on "short" positions, which is also given a high priority. Following up on the United States paper on borderline issues is also given high priority: Committee members will review the issues raised in that paper and consider what borderline issues they face in their own countries, while Canada and the ECB will provide the Committee with reports on practices in their jurisdictions. As already noted in this report, insurance is a complicated subject that continues to develop and confound ready statistical measurement. Providing a clearer exposition on insurance and how to measure it statistically is an important challenge for the writers of the new manual. To take the issues further forward, IMF staff will report on the work of the OECD's TFI, while Eurostat will advise the Committee on the work of its task force on insurance. The final item given a high priority is the link between international accounting standards and international statistical standards. Given the centrality of accounting records to the measurement of balance of payments (and other macroeconomic) statistics, ensuring there is as much conceptual and practical consistency between the two systems will lead to better data. To that end, Eurostat and the ECB will provide a joint report on the work of their task force in this area.

The Committee gave medium priority to global imbalances, transportation services, policy applications, income, implementation of *BPM5*, international trade in services, alternative presentations of balance of payments statistics, external debt and the IIP, international banking statistics, nonproduced nonfinancial assets, employee stock options, monetary unions, data processing, and reserve assets.

IMF staff will provide a paper on global imbalances in the balance of payments data. The OECD, France, and Eurostat will each report in global and bilateral differences in transportation services; Eurostat and Russia each will present a paper on the c.i.f./f.o.b. adjustment. Uganda will provide the Committee with a paper on the use of balance of payments and IIP statistics in respect of selected HIPC countries in Africa. Regarding the treatment of dividends and reinvested earnings, IMF staff will provide a report of the working group on the treatment of returns on equity; Canada, France, and the United Kingdom will also provide papers on this issue; and the ECB and Eurostat will provide a joint report on the work of their task force in this area. The ECB will provide a progress report from its task force on portfolio investment income. IMF staff will provide the standard report on the implementation of *BPM5*, in relation to reporting of balance of payments statistics to the Statistics Department. IMF staff will provide a status report on the activities of the Task Force on Statistics of International Trade in Services. Canada will provide a paper on an ownership based framework for presentation of current account data. IMF staff will provide the Committee with an update of the work of the IATFFS, while the BIS will provide its standard report on the use and development of international banking statistics. Japan will provide a paper based on the results of a pilot survey of cross-border stock options, and IMF staff will report on other developments in this area. The ECB will provide a paper on how monetary unions might be treated in the new manual, while the United Kingdom will provide the Committee with a report on its development of a system for electronic reporting and straight-through processing. Russia will present a paper on the foreign currency composition of reserve assets. If time permits, IMF staff will provide a paper on the work of the ISWGNA on the treatment of nonproduced nonfinancial assets and the income that may be derived from this.

Many of the medium priority papers will be tabled at the next Committee meeting unless they have a direct bearing on the update of *BPM5*.

VI. 2003 Meeting

The next meeting will be held at the IMF Headquarters in Washington, DC during the first week of December 2003.

Appendix 1
IMF Committee on Balance of Payments Statistics
Composition as of December 31, 2002

Chairwoman

Carol S. Carson
IMF, Statistics Department

Members

Abdulrahman Al-Hamidy[1]
Saudi Arabian Monetary Agency
Michael Atingi-Ego
Bank of Uganda
Stuart Brown
Office for National Statistics, United Kingdom
Teresa Cornejo
Banco Central de Chile
Teruhide Kanada
Ministry of Finance, Japan
Ivan King
Australian Bureau of Statistics
Ralph Kozlow
U.S. Department of Commerce
Guido Melis
Banque Nationale de Belgique
Philippe Mesny
Banque de France
Lily Ou-Yang Fong
Census and Statistics Department,
China, Hong Kong SAR
Michael Patra
Reserve Bank of India
Neil Patterson
IMF, Statistics Department
Art Ridgeway
Statistics Canada
Sergei Shcherbakov
Central Bank of Russia
Hidetoshi Takeda
Bank of Japan
Ernest van der Merwe
Reserve Bank of South Africa

Representatives of International Organizations

Elena Caprioli
Statistical Office of the European Communities
William Cave
Organisation for Economic Co-operation and Development
Jean-Marc Israël
European Central Bank
Rainer Widera
Bank for International Settlements

Secretariat

Robert Dippelsman
IMF, Statistics Department
Margaret Fitzgibbon
IMF, Statistics Department
John Joisce
IMF, Statistics Department

[1]Mr. Al-Hamidy was accompanied by Mr. Suliman Al-Ofi at the 2002 Committee meeting.

Appendix 2
Terms of Reference of the IMF Committee on Balance of Payments Statistics

1. The Committee will oversee the implementation of the recommendations presented in the Report on the Measurement of International Capital Flows and in the Report on the World Current Account Discrepancy, advise the IMF on methodological and compilation issues in the context of balance of payments and international investment position statistics, and foster greater coordination of data collection among countries.

2. The Committee will bring to the attention of the IMF new developments that impact on the compilation of statistics of cross-border transactions or related stocks of financial assets and liabilities, and work with the IMF in determining how these activities should be treated in accordance with *BPM5*.

3. The Committee will investigate ways in which data collection can be better coordinated among countries, with a view, inter alia, to facilitating the exchange of statistics among countries (e.g., bilateral transactions or stock data). It will also identify related areas for study and determine how work in those areas should be carried forward.

4. In carrying forward its work, the Committee will collaborate with other national compilers and with appropriate international organizations.

5. In consultation with the IMF's Statistics Department, the Committee will determine its work program and will meet under IMF auspices at least once a year.

6. The Committee will prepare an annual report for presentation to the Managing Director of the IMF.

Appendix 3
Medium-Term Work Program of the IMF Committee on Balance of Payments Statistics: End-December 2002

Subject	Issue	Action
Top Priority		
Updating *BPM5*	Preparation of annotated outline	Paper by IMF staff
	Update compendium of issues	Paper by IMF staff
Residence	Non-permanent workers	Report of working group on non-permanent workers
Special purpose entities/ brass plate companies/shell companies	Determining residence and direct investment relationships	Reports by IMF staff, Eurostat and ECB (jointly), Japan, and OECD
Data quality	Assembly of country case studies of revisions policy and practice, including revisions studies	Paper by IMF staff, based on contributions by Committee members
	Case study on the use of the IMF's Data Quality Assessment Framework	Paper by Hong Kong SAR
	Quality indicators	Joint paper by Eurostat and ECB
High Priority		
Portfolio investment	Results of the 2001 CPIS, preliminary results of the 2002 CPIS, and preparations for 2003 CPIS	Papers by IMF staff
	Revisions policy for CPIS	Note by IMF staff
	Third party holdings: Consultation with potential respondents	Paper by IMF staff
	Development of securities database	Report by ECB
Investment vehicles	Private and professional mutual funds, hedge funds, partnerships, and other private investment vehicles	Papers by Japan, United States, and South Africa
Direct investment	Exchange of experiences in compiling direct investment data	Paper by OECD and IMF staff on preparations for the 2003 SIMSDI
	Direct investment issues for new manual	Paper by IMF staff
	Lasting interest gained through sub-threshold investments	Paper by India
Reverse transactions	Practical aspects of treatment of reverse transactions	Paper by working group on reverse transactions on results of survey, on the appropriate statistical treatment of the fee associated with securities lending and gold loans and on proposals for future work
	"Short" positions	Paper by IMF staff
Transactions between affiliated enterprises	Exploration of borderline between direct investment and other types of investment	Comments by Committee members to IMF on United States paper to 2002 Committee meeting on borderline issues and reports on country practices by Canada and the ECB
Insurance	Conceptual and practical treatments	Report by IMF staff on the OECD's task force on insurance
		Report by Eurostat task force on insurance
Relationship between international accounting and statistical standards	Possible amendments to international statistical standards to reflect changes in international accounting standards	Joint report by ECB and Eurostat on task force on international accounting standards

Subject	Issue	Action
Medium Priority		
Global imbalances	Indication of imbalances in global balance of payments statistics	Paper by IMF staff
Transportation	Sources of global and bilateral discrepancies in transportation	Papers by OECD (with contributions from Committee), France, and Eurostat
	Best practices on the c.i.f./f.o.b. adjustment	Papers by Eurostat and Russia
Policy applications	Use of balance of payments and IIP data in respect to selected HIPC in Africa	Paper by Uganda
Income	Treatment of dividends and reinvested earnings	Report of IMF working group
		Papers by Canada, France, the United Kingdom, and the ECB/Eurostat task force
	Portfolio investment income	Progress report by ECB on its task force on portfolio investment income
Implementation of *BPM5*	Update on implementation and practical difficulties in implementing *BPM5*	Paper by IMF staff on *BPM5* reporting to the IMF's Statistics Department
International trade in services	Implementation of *Manual on Statistics of International Trade in Services*	Paper by IMF staff on activities of the Task Force on Statistics of International Trade in Services
Alternative presentations of balance of payments data	Ownership based framework of the current account	Paper by Canada
External debt and IIP	Improve reporting of external debt data within the IIP framework	Paper by IMF staff on developments at Inter-Agency Task Force on Finance Statistics
International Banking Statistics	Use and improvement of international banking statistics	Paper by BIS
Monetary unions	Statistical treatment	Paper by the ECB
Data processing	Electronic reporting and straight-through processing	Paper by the United Kingdom
Reserve assets	Foreign currency composition	Paper by Russia
Nonproduced, nonfinancial assets	Treatment of nonproduced, nonfinancial assets in the balance of payments and the IIP and the treatment of income from use of nonproduced, nonfinancial assets in the balance of payments	Paper by IMF staff on work of the ISWGNA
Employee stock options	Treatment of employee stock options in national accounts and balance of payments	Papers by Japan, IMF staff