

**Seventeenth Meeting of the
IMF Committee on Balance of Payments Statistics
Pretoria, October 26–29, 2004**

**Comments on the Annotated Outline for the Revision of the *Balance of Payments
Manual*, fifth edition**

Prepared by the Statistics Department

The views expressed in this paper are those of the author and should not be attributed to the International Monetary Fund, its Executive Board, or its management.

International Monetary Fund

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Comments on the Annotated Outline for the Revision of the *Balance of Payments Manual, fifth edition*

Introduction

Altogether 33 countries have provided written comments on the *Annotated Outline*. Out of these 33 countries, comments from 24 countries were on the final *Annotated Outline* that was distributed in April 2004 and comments from nine countries were on the *Draft Annotated Outline* that was distributed in September 2003 to the members of the IMF Committee on Balance of Payments Statistics (Committee). Various international organizations and task forces/groups also provided comments on the final and/or draft *Annotated Outline*.

The table under each question/issue provides a summary of responses from countries received by the IMF as of September 26, 2004 (from 33 countries). Paragraph/s below the table summarize the views of international organizations and inter-agency task forces on the question/issue received by the IMF during the both rounds of consultation mentioned above.

The *Annotated Outline* has been or is being translated into Arabic, Chinese, French, Russian, and Spanish. The translated versions are or will be posted on the IMF's website as they become available and are or will be sent to relevant countries seeking comments within three months of dispatch. Therefore, IMF expects that further comments will be received from the distribution of the *Annotated Outline* in languages other than English. These comments will be used in the further discussion of issues and in the drafting of the new manual.

List of issues requiring review/decision by the Committee

Several issues have been or will be discussed at various TEGs. The summary of comments presented in this document indicates whether an issue/question raised in the *Annotated Outline* was or will be discussed in the TEGs. The *Annotated Outline* comments on these issues will need to be discussed along with the discussion of the outcome/issues papers of the TEGs. Among the other issues/questions raised in the *Annotated Outline* that were not or will not be discussed in various TEGs, the IMF staff suggest that the Committee review the following issues:

1. Paragraph 1.14: Which chapter order is preferred?
2. Paragraph 2.15: Should a particular place for net errors and omissions be specified? If so, which location is preferred?
3. Paragraph 3.22: Which recording basis is preferred for financial derivatives where transactions occur in both directions and it may not be feasible to distinguish between assets and liabilities—(i) net changes separately for transactions in assets and in liabilities) or (ii) net changes of all transactions in both assets and liabilities? Or should both be allowed?
4. Paragraph 4.3: Should economic territory be defined in terms of economic control?
5. Paragraph 4.24: Is the proposed treatment for long-term leases of land suitable? If so, what is the definition of “long-term”? Is it one year, as in other cases or something longer?
6. Paragraph 9.6: Should separate balances be shown for each of goods and services?

Because these items have not been scheduled for discussion at the October 2004 meeting of the Committee, the IMF staff will follow up with an e-mail request to Committee members to provide their views on each of these issues. The staff will summarize the results and report to the Committee on the outcome of the review.

List of issues related to TEGs outcome/issues papers to be discussed at the 2004 meeting of the Committee

TEG Issues Number	TEG Issues Number	Annotated Outline Paragraph/s
BOPTTEG # 2	Guarantees	3.11 (g)
BOPTTEG # 3	Debt Arrears	3.11 (h)
BOPTTEG # 4	Loan valuation	3.17 (a), 3.17 (e)-(f), 6.16 (b)
BOPTTEG # 5 and DITEG # 10	Branches	4.15
BOPTTEG # 6	Multiterritory enterprises	4.8,
BOPTTEG # 7	Institutional sectors	4.28 (i) - (ii), 4.31 (a) - (c),
BOPTTEG # 8	Residence of households	4.39 (i) - (iii)
BOPTTEG # 9/10 and DITEG # 9	SPEs	4.22 (b) - (e), 4.30 (e), 4.30 (h), 4.45 (b)
BOPTTEG # 14B	Goods for processing	9.15, 9.16
BOPTTEG # 14A	Re-exports and goods in transit	9.12, 9.17
BOPTTEG # 17	Classification of services	9.34, 9.36, 9.43, 9.58
BOPTTEG # 18 and DITEG #5A/5B	Reinvested earnings	5.20, 10.42, 10.44
BOPTTEG # 20	Interest on debt securities	10.24, 10.25
DITEG # 1A and 1B	Valuation of direct investment equity and branches	3.17 (c)
DITEG # 2	Ten percent threshold	5.13
DITEG # 3	Fully consolidated system	5.16
DITEG # 6 and 19	Bringing together all direct investment transactions and positions	Annex

General comments received on the *Annotated Outline*

- Additional items are difficult to implement with an ITRS, so should only be adopted in the new manual when there are very strong reasons.
- Consistency with IAS and *SNA* is a very high priority mentioned by several commentators. (Consistency includes reducing differences that occur between *BPM5* and the *1993 SNA*; as well as keeping up with the current round of changes to the *SNA*). Identical text should be used on common issues such as the definition of an institutional unit.
- BOP should not simply be the rest of the world account of the *SNA*.
- Backtracking on decisions made for *BPM5* should be avoided.
- *BPM6* might state that BOP and statistics of international merchandise trade are compiled to address different needs and, therefore, will continue to have conceptual differences. In our view, revision of the *BPM5* should be taken as an opportunity to minimize differences between balance of payments and IMTS. Differences which cannot be eliminated should be identified and clearly presented in an Annex to the future *BPM6*. UNSD is ready to cooperate with the IMF on the matter.
- Of interest and concern here are the links to existing product classifications, which also undergo revisions at this time. The goal should be that these revisions result in comparable classifications and definitions. This involves the relationships of HS, CPC and EBOPS in addition to the *BPM5* classification.

Chapter 1. Introduction

Paragraph 1.3: *What title should be proposed for the new manual?*

Total responses	20	
IASM 200x	7	
EASM 200x	7	
BOPIIPSM 200x	0	
Other	6	<ul style="list-style-type: none"> • <i>BPM International Accounts</i> (1). • <i>System of International Accounts</i> (1). • Manual for BOP and Other International Accounts Statistics (1) • <i>IAM: BPM6</i> (1). • <i>IAM</i> or <i>EAM</i>, omit “statistics” from title (1). • Omit “payments” from subtitle (1).

Paragraph 1.5: *Should these objectives be amended? Should others be added?*

Total responses	9	
Yes	3	<ul style="list-style-type: none"> • Note that some proposals will not facilitate but in fact complicate compilation (1). • Specify other statistical standards (1) • Add enable consistency between dissemination practices and international standards (1). • Give much more weight to consistency with IAS (1).
No	6	

Paragraph 1.8: *(i) Are these objectives suitable? (ii) Are there any other objectives or examples that should be mentioned?*

Total responses	8	
Yes	6	
No	2	<ul style="list-style-type: none"> • Include <i>Manual on Globalization Indicators</i> in (g). • Delete (i). • Explore country practices.

Paragraph 1.14: *Which chapter order is preferred?*
(To be discussed by the Committee in October 2004)

Total responses	21	
AO proposal	10	
1993 SNA order	10	
Other	1	Move chapter on uses to front.

Paragraph 1.21: *Should anything more be said on the balance between international standards and adaptation to particular circumstances? If so what?*

Total responses	4	
Yes	2	Avoid being too prescriptive. Use supplementary items and encouraged breakdowns to reserve adaptability to each country's circumstances.
No	2	

Paragraph 1.27: *Should guidance on the compilation of metadata be dealt with in this manual or in a companion document that could be placed on the web and updated more frequently?*

Total responses	15	
Yes	3	
No	11	Companion document.
Other	1	SDDS summary does not belong.

Chapter 2. Overview of International Accounts

Paragraph 2.15: *Should a particular place for net errors and omissions be specified? If so, which location is preferred?*

(To be discussed by the Committee in October 2004)

Total responses	15	
Yes	12	After financial account (8). Before reserves (3). After basic balance (1).
No	2	Specified location unnecessary if footnote to state that derived residually.
Other	1	If specified, should be after financial account.

Chapter 3. Accounting Principles

Paragraph 3.3: *Should changes in financial claims and liabilities owing to the change in residence of individuals be treated as other changes in volume of assets?*

(To be discussed by the Committee in June 2005)

Total responses	17	
Yes	16	One concern was will these data be excluded from BOP?
No	1	Important for developing countries. An alternative would be to include net worth of migrants in balance sheets as memo items.

OECD and BIS are in favor of the proposal.

Paragraph 3.7: *Should the notions of changes in assets and changes in liabilities be adopted in the financial account and other changes in financial assets and liabilities account?*

(To be discussed by the Committee in October 2004)

Total responses	18	
Yes	14	But, it will lead to revisions of time series on BOP financial account and to software modifications.
No	3	Divergent views. For users the new proposal is better. From a practical side, better not to change. Detailed discussion is needed.
Other	1	As BOP is a flow concept, the proposal could have implications on BOP concept.

OECD and BIS are in favor of the proposal. ECB noted that although the current sign convention is not consistent with euro area BOP it is willing to study consequences of the proposal.

Paragraph 3.10: *Is the proposed use of “change of economic ownership” appropriate?*

(To be discussed by the Committee in October 2004)

Total responses	15	
Yes	14	
No		
Other	1	Interesting proposal and would like to see it further explored.

OECD, BIS, and ECB are in favor of the proposal.

Paragraph 3.11 (g): *Is the treatment of invocation of a loan guarantee suitable?*
(Discussed in BOPTEG and to be discussed by the Committee in October 2004))

Total responses	1	
Yes	10	
No		
Other	1	Define in the new manual.

ECB is in favor of the proposal.

Paragraph 3.11 (g): *How should flows between the original debtor and creditor and between the original debtor and guarantor be treated when a guarantee is activated? How should flows between a debtor and creditor be treated when collateral is called by the creditor?*
(Discussed in BOPTEG and to be discussed by the Committee in October 2004)

Total responses	6	<p>The extinguishing and creating of a new liability should be recorded as other changes in the volume of assets. One unit has a drop in liabilities and another has an increase in liabilities with no related changes in other assets or liabilities. If they are recorded as transactions, there would need to be an imputed transfer to offset the transaction (1).</p> <p>Capital transfers except when additional information indicating other treatment (1).</p> <p>All flows as other changes (2).</p> <p>Based on contractual agreements among parties. Capital transfer if no claims on debtor or debtor liquidated (1).</p> <p>Capital transfers(1).</p>
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Paragraph 3.11 (h): *Which time of recording principle is appropriate for recording repayments of debts?*
(Discussed in BOPTEG and to be discussed by the Committee in October 2004)

Total responses	16	
Accrual	15	
Due-for-payment	1	<ul style="list-style-type: none"> With the view to keeping the exceptional financing presentation, due for payment basis should be applied.

BIS prefers accrual basis with memo items for arrears under each instrument. ECB indicated that accrual basis introduces inconsistency with External Debt Guide and noted that the guide may need to be updated when the new manual will be adopted.

Paragraph 3.11 (h): *Do we need subheadings or memorandum items on all arrears or selected arrears or just on arrears for exceptional financing items?*

(Discussed in BOPTEG and to be discussed by the Committee in October 2004)

Total responses	12	
Memo items	6	Two responses favor memo on any items, two on exceptional financing, one on selected items.
Supplementary	3	On selected items depending on country situations.
Subheadings under relevant instruments	3	

Paragraph 3.14: (i) *To what extent should the adjustments be encouraged?* (ii) *Would it be appropriate to acknowledge difficulties in practice and recommend that all important cases be covered?*

Total responses	8	
Limited adjustments	5	Only in rare and clearly defined circumstances. When factors affecting the differences are well identified and contribution of each factor is known. Recognize implementation difficulties.
Adjustments for any deviation	1	Market price the only basis. Compilation guide to deal with specific problems.
Other	2	Leave to the judgments of compilers. Manual to provide guidelines for specific cases. All important cases should be covered.

ECB noted that the manual should define the right concepts and practical difficulties should be addressed in a compilation guide. BIS agrees with acknowledging practical difficulties and covering all important cases.

Paragraph 3.17 (a): *For loans other than traded loans, (i) Should either nominal value or fair value be adopted, and should the valuation not adopted be considered as a memorandum item or a supplementary item?(ii) If fair value is adopted, should it be used for both creditors and debtors or only for creditors? Or (iii) should a decision be postponed until developments in international accounting standards are clear?*

(Discussed electronically in BOPTTEG and to be discussed by the Committee in October 2004)

Total responses	13	
Nominal value	3	Clarify the treatment of bad debt and provisions and consider consistency with the IAS proposal.
Fair value	3	Nominal value should be considered as a memo item. If fair value is to be adopted, it should be used for both debtor and creditor.
Postpone until IAS is clear	7	Conceptually, market/fair value for both creditors and debtors.

Paragraph 3.17 (c): *Is the measurement of net equity of branches appropriate?*

(Discussed in DITEG to be discussed by the Committee in October 2004)

Total responses	12	
Yes	12	"Net asset value" should be used to reflect the value of a branch rather than "net equity". Clarify whether only debt to other parties or also debt to direct investors are to be included?
No		
Other		

ECB noted that the valuation principles for FDI equity should be clearly stated, with special emphasis on non-quoted shares. The notion of book values should be clearly defined and distinguished from "historical prices".

Paragraph 3.17 (e): *For stocks of loans that are traded but not sufficiently to be reclassified as securities, which treatment is suitable—(i) nominal values for both creditor and debtors, or (ii) market/fair value for both, or (iii) as in BPM5?*

(To be discussed by the Committee in October 2004)

Total responses	10	
Nominal values	1	Favor nominal value for nontraded loans and against memo or supplementary information for alternative valuation due to collection burden.
Fair values	5	To be consistent with transactions. Emphasize that the principle of market values applies in all cases.
As in <i>BPM5</i>	1	
Other	3	Generally, both values for stocks are needed. For nontraded, fair value only for creditor. Should depend on IAS, but symmetric treatment preferred. Discuss in the light of IAS outcome.

BIS prefers the *BPM5* treatment.

ECB noted that the concept of tradability should be further clarified by choosing between either a narrow definition (encompassing only trading in organized markets) or a broader one. In any case, no room for misinterpretations should be left open as it would clearly create a serious risk of asymmetries (this comment applies to the different parts of the DAO dealing with the concept of tradability and recommending the classification of some equity and debt securities under other investment).

Paragraph 3.17 (f): *For deposits and accounts payable/receivable (i) Should either nominal value or fair value be adopted, and should the valuation not adopted be considered as a memorandum item or a supplementary item?(ii) If fair value is adopted, should it be used for both creditors and debtors or only for creditors? Or (iii) should a decision be postponed until developments in international accounting standards are clear?*

(To be discussed by the Committee in October 2004)

Total responses	11	
Nominal value	2	Show impaired deposits as memorandum item. Postponed until IAS is clear.
Fair value	2	<ul style="list-style-type: none"> Fair value for both debtor and creditor. Nominal as memorandum items.
Postpone until IAS is clear	6	Conceptually, market/fair value for both creditors and debtors.
Other	1	Generally, both values for stocks are needed. For nontraded, fair value only for creditor.

BIS prefers market prices in case of assets.

Paragraph 3.20: *Is the proposed treatment of income on reverse investment where direct investment enterprise owns less than 10 percent suitable?*

(To be discussed in DITEG in December 2004)

Total responses	11	
Yes	11	
No		

Paragraph 3.22: *Which recording basis is preferred for financial derivatives where transactions occur in both directions and it may not be feasible to distinguish between assets and liabilities—(i) net changes separately for transactions in assets and in liabilities) or (ii) net changes of all transactions in both assets and liabilities? Or should both be allowed?*

Total responses	11	
Net changes for assets and liabilities separately	4	
Netting assets with liabilities	5	To enhance international comparison, either one of the recording basis should be adopted.
Both	1	
Other	1	Instruments involving transactions in both directions (swaps) should be recorded on a net basis. For others for which assets and liabilities are distinguished, netting assets against liabilities is not necessary.

ECB noted that a clear distinction between assets and liabilities may not be feasible in the case of some instruments, such as banks' nostro/vostro accounts or some financial derivative instruments.

Chapter 4. Economic Territory, Units, Institutional Sectors, and Residence

Paragraph 4.3: *Should economic territory be defined in terms of economic control?*

Total responses	10	
Yes	8	
No	0	
Other	2	Should not refer to free circulation; Provide guidance on units located permanently in international waters Should refer to definition of territory for purposes of IMF membership.

Paragraph 4.4: *Is a suitable way to deal with rebel-held areas be for compilers to make their own decisions and specify them in metadata?*

Total responses	8	
Yes	6	
No	1	Drop issue as being unmanageable
Other	1	Emphasize data symmetry

OECD suggested quantifying the issue.

Paragraph 4.8: *Is the use of splitting for zones of joint sovereignty that do not have their own b.o.p. data suitable?*

Total responses	9	
Yes	7	Elaborate more on methods
Other	2	Avoid being too prescriptive Give more detailed discussion

Paragraph 4.15: *Are these principles for the identification of branches suitable?*
(Discussed in BOPTEG and DITEG and to be discussed by the Committee in October 2004)

Total responses	10	
Yes	8	
No	1	Should be defined more precisely
Other	1	Avoid being too prescriptive

Paragraph 4.22(a): *Are the proposed treatments for unincorporated entities suitable?*
(To be discussed by the Committee in October 2004)

Total responses	8	
Yes	8	

Paragraph 4.22(b): *Is the proposed treatment for holding corporations suitable?*
(Discussed in BOPTEG and DITEG and to be discussed by the Committee in October 2004)

Total responses	10	
Yes	10	
Other	1	Can adopt own definition as supplementary information

Paragraph 4.22(c): *Is the proposed treatment for ancillary companies suitable?*
(Discussed in BOPTEG and DITEG and to be discussed by the Committee in October 2004)

Total responses	9	
Yes	8	
Other	1	• No position taken.

Paragraph 4.22(d): *Is the proposed treatment for special purpose vehicles used for fund-raising suitable?*

Total responses	9	
Yes	7	
Other	2	• No position taken. • Need to define SPE

Paragraph 4.22(e): *Is the proposed treatment of wealth management entities suitable?*

Total responses	7	
Yes	7	

Paragraph 4.22(f): *Is the proposed treatment for assets held by nominees suitable?*

Total responses	7	
Yes	7	

Paragraph 4.24: *Is the proposed treatment for long-term leases of land suitable? If so, what is the definition of “long-term”? Is it one year, as in other cases or something longer?*

Total responses	12	
Yes	11	1 year (4); 3 years (1); 3-5 years (1); 30-50 years (1); long, at country’s discretion (1).
Other	1	If yes, longer than 1 year.

Paragraph 4.26: *Is the proposed treatment for other nonfinancial nonproduced assets suitable?*

Total responses	7	
Yes	7	

Paragraph 4.28(i): *Is the enhancement of compatibility with the SNA/MFSM suitable?*
(To be discussed in BOPTTEG in December 2004.)

Total responses	13	
Yes	13	

Paragraph 4.28(i): *Which option is preferred?*
(Discussed in BOPTTEG and to be discussed by the Committee in October 2004)

Total responses	12	
4.1A	7	
4.1B	6	

Paragraph 4.28(ii): *Is the MFSM approach to the selective use of a monetary authorities sector suitable?*

Total responses	8	
Yes	8	

Paragraph 4.30(e): *Would it be preferable to treat all holding companies as financial intermediaries? Or only those in different territories from the other members of the group? Or should the sector be determined from other members of the group?*
(Discussed in BOPTTEG and DITEG.)

Total responses	7	
All holding companies are financial	3	
Holding companies in different territory are financial	2	
Holding companies classified from group	1	
Other	1	Holding companies classified from members of group in same territory.

Paragraph 4.30(h): *Would it be preferable to treat ancillary companies according to the predominant sector of the company or companies served?*
(To be discussed in BOPTTEG in December 2004)

Total responses	2	
Yes	1	
Other	1	According to ancillary's own activities.

Paragraph 4.31(a): *Should mutual funds and related entities be shown as a separate subsector?*

Total responses	8	
Yes	4	Consider splitting out small-scale (hedge funds) and public (mutual funds) (1).
No	4	
Other	1	Supplementary item (1).

Paragraph 4.31(b): *Should asset-holding entities be recognized as a separate sector or subsector?*

Total responses	8	
Yes	4	Separate sector (1).
No	4	Supplementary item (1).

Paragraph 4.31(c): *Should holding companies be recognized as a separate sector or subsector?*

Total responses	8	
Yes	4	
No	3	
Other	1	Include as "of which" item.

Paragraph 4.39: (i) *Is the extension of the one year or more guideline to students supported?*

Total responses	9	
Yes	6	
No	3	

Eurostat opposed the application of the one-year guideline to students.

Paragraph 4.39: (ii) *Is the extension of the one year or more guideline to patients supported?*
(Discussed in BOPTEG and to be discussed by the Committee in October 2004)

Total responses	9	
Yes	6	
No	3	

Paragraph 4.39: (ii) *Is the extension of the one year or more guideline to ship's crew supported?*

(Discussed in BOPTEG and to be discussed by the Committee in October 2004)

Total responses	9	
Yes	4	
No	5	

Paragraph 4.39: (iii) *Is any change needed for nonpermanent workers?*

(Discussed in BOPTEG and to be discussed by the Committee in October 2004)

Total responses	7	
Yes	1	
No	5	
Other	1	Clarify case of repeated contracts where workers go home once a year.

Paragraph 4.45(b): (i) *Is this approach to enterprises with little or no physical presence suitable?*

(Discussed in BOPTEG and to be discussed by the Committee in October 2004)

Total responses	7	
Yes	6	
No	1	Give indicative criteria rather than prescriptive rules.

Paragraph 4.45(b): (ii) *Is any further specification necessary for *societas europaea*?*

(Discussed in BOPTEG and to be discussed by the Committee in October 2004)

Total responses	4	
Yes	2	Needs more investigation.
No	1	
Other	1	Countries with <i>societas europaea</i> should cease compiling national BOP.

OECD said that examples should be provided.

Paragraph 4.49: *Is the treatment of government offshore corporations suitable?*

Total responses	7	
Yes	7	.

Paragraph 4.51: *What treatment should be adopted for the central banking functions in a currency union?*

(Discussed in CUTEG.)

Total responses	7	
International organization	4	
Other	3	Maintain existing treatment (2); issue is irrelevant (1).

Paragraph 4.56: *Is the proposed treatment assets and liabilities held by groups that include both residents and nonresidents suitable?*

Total responses	8	
Convention of economy of origin	4	
Split	1	
Other	3	Practical difficulties in using convention (2).

Paragraph 4.57: (i) *Should there be a standard requirement for partner data?*

Total responses	13	
Yes	6	
No	7	

Eurostat supported a requirement, while the OECD stated that such data should be encouraged items.

Paragraph 4.57: (ii) *If so, should it be in general or for any particular components?*

Total responses	5	
General terms	1	
Specific components	4	

Eurostat supported that the items should be specified.

Paragraph 4.58(e): *Is this recognition of the ultimate beneficial owner and/or ultimate destination suitable?*

Total responses	13	
Yes	11	
Other	2	Practical difficulties noted.

Paragraph 4.58(f): *Should the CPISG2 treatment be reviewed, to be more consistent with data availability and to be consistent with other cases where legal form is adopted in preference to underlying economic reality?*

Total responses	6	
Yes	6	

Appendix Question 1: *Is this proposal suitable for a supplementary presentation for nonpermanent workers and their accompanying dependents?*
(Discussed by the TFSITS and the UN Subgroup on Mode 4.)

Total responses	8	
Yes	8	

The UN urged that the objective in para 2.22 be restated in this discussion. The OECD urged that pensions also be discussed.

Appendix Question 2: *Is the proposed definition for nonpermanent residents suitable?*

Total responses	7	
Yes	7	

Some specific other comments on Chapter 4

- The new manual should also discuss economic activity classification.

Chapter 5. Classifications

Paragraph 5.5: *Is the debt/equity/other split suitable?*

(To be discussed in BOPTEG in December 2004)

Total responses	8	
Yes	7	
No	1	No “other” category; divide “debt” into “borrowing” and “other”.

OECD opposed because it considered that equity in insurance reserves and pension funds should be classified as debt.

Paragraph 5.7(e): *Should more detail on collective investment schemes be included? (ii) If so, how much detail? (iii) Should they be standard or supplementary items?*

(To be discussed in BOPTEG in December 2004)

Total responses	12	
Yes—standard	3	Some countries already compile. Separate hedge funds from other collective investment.
Yes—supplementary	8	Include components for type of asset covered (shares, real estate, etc.).
No	1	

Paragraph 5.7(g): *Is the proposed treatment of employee stock options [in the instrument classification] suitable?*

(To be discussed in BOPTEG in December 2004)

Total responses	10	
Yes	7	Explain difference between financial derivatives and employee stock options. Elaborate. Should be supplementary item.
No	3	Employee stock options are financial derivatives. Employee stock options not important enough to be category in their own right.

OECD opposed the inclusion of employee stock options in the title. The UN thought this question should not be discussed by BOP compilers because the AEG has already decided the issue.

Paragraph 5.7(h): *(i) Is an additional split of financial derivatives desirable? (ii) If so, how much detail? (iii) If so, as standard or supplementary items?*

(To be discussed in BOPTEG in December 2004)

Total responses	10	
Yes—standard	0	
Yes—supplementary	8	
No	2	Prefer risk categories.

Paragraph 5.7(i): *(i) Is this proposal suitable? (ii) Should data be limited to liability positions data, or should the possibility be opened for asset positions? (iii) Should arrears, nonperforming loans, both, or a mixture be adopted? (iv) How should the category be defined?*

(To be discussed in BOPTEG in December 2004)

Total responses	9	
Yes—standard	1	
Yes—supplementary	7	For assets only (1). For both assets and liabilities (1). For liabilities (2). Entitle “Arrears and NPLs” (1). Define arrears as in Debt Guide; NPLs should not be included in item, but shown as a memorandum item.
Other	1	

Paragraph 5.7(j): *Should financial gold be treated as a financial asset?*

(To be discussed in BOPTEG in December 2004)

Total responses	8	
Yes	5	
No	3	

Paragraph 5.7(k): *Should an optional category for trade-related credit be created?*

(To be discussed in BOPTEG in December 2004)

Total responses	9	
Yes	6	
No	3	Include trade-related credit in trade credit.

Paragraph 5.13: *Should the 10 percent threshold [for direct investment] be changed to 20 or 50 percent?*

(To be discussed in DITEG in December 2004)

Total responses	13	
10%	6.5	Voting power basis only, not ordinary shares (1). Emphasize voting power rather than ownership (1).
20%	6.5	

Paragraph 5.16: *Which of the definitions specified above {direct, FCS, USM, 10/50} should be adopted?*

(Discussed in DITEG and to be discussed by the Committee in October 2004))

Total responses	10	
FCS	4	Conceptual preference, but 10/50 allowed in practice (1). Conceptual preference, but 10/50 or USM allowed in practice (1).
10/50	6	• Ownership or voting power (1).

Paragraph 5.20: *Should the discontinuity between reverse investment above and below the threshold be considered?*

(To be discussed further in DITEG in December 2004)

Total responses	4	
Yes	2	• (No specific proposals for change)
No	2	

Paragraph 5.22: *Is this treatment [of reverse investment] suitable?*

(Discussed in DITEG.)

Total responses	6	
Yes	6	

Paragraph 5.27(a): *(i) Should this exception [to transactions between units in a direct investment relationship] be extended to [permanent] debt? (ii) Alternatively, should “permanent debt” be defined further, and if so, how?*

(Discussed in DITEG.)

Total responses	4	
Yes	1	
No	3	

Paragraph 5.27(b): (i) *How should debt between SPEs that have the primary function of financial intermediation and affiliated nonfinancial enterprises be classified?* (ii) *What is the meaning of “SPEs that undertake financial intermediation”?*

(Discussed in DITEG.)

Total responses	2	
Direct investment	1	
Other investment	1	

Paragraph 5.27(c): *Is this treatment [of insurance technical reserves as other investment] applicable to captive insurance [i.e., when the insurer and the policyholder are in a direct investment relationship]?*

Total responses	2	
Yes, other investment	2	

Paragraph 5.28: (i) *Should debt in direct investment be broken down (a) between long-term and short-term components, and (b) into the underlying instruments to permit reconciliation with the 1993 SNA financial account and balance sheets?* (ii) *Are the concerns about the “arbitrary” nature of these debts appropriate?*

Total responses	9	
Yes	5	• Supplementary only (1).
No	4	• Supplementary only (1).

Paragraph 5.31(a): *Should kind of activity be discussed as a supplementary item?*

Total responses	8	
Yes	7	• Should discuss difficulties.
No	1	

Paragraph 5.31(b): (i) *Should there be an additional breakdown in the standard BOP components that identifies mergers and acquisitions as a subset of direct investment? Alternatively, should the breakdown be a supplementary item?* (ii) *If so, what definition should be adopted?*

Total responses	7	
Yes, standard component	2	
Yes, supplementary	5	• Should coordinate with OECD (1). • Should use definition in BD (1).

Paragraph 5.32: *Should portfolio investment be defined by instrument or by tradability?*
(To be discussed in BOPTTEG in December 2004)

Total responses	13	
Instrument	7	
Tradability	6	

Paragraph 5.34(b): *Should debt securities that previously traded but no longer do so be treated as portfolio investment or other investment?*
(To be discussed in BOPTTEG in December 2004)

Total responses	9	
Remain portfolio investment	7	
Reclassify	2	

Paragraph 5.37: *Is this treatment acceptable? Or should all transactions be reported gross?*

Total responses	9	
Yes	7	
No	2	

Paragraph 5.39: *Is this classification [of payments made under a financial derivative contract before net settlement] suitable?*

Total responses	9	
Yes	6	<ul style="list-style-type: none"> • Elaborate the rationale for this treatment (1).
No	3	<ul style="list-style-type: none"> • Should be other investment-other(1). • Should follow IFRS(1).

Paragraph 5.40: *Is this treatment [of upfront payment is made when OTC swaps are entered into] suitable?*

Total responses	8	
Yes	5	Elaborate the rationale for this treatment (1).
No	3	<ul style="list-style-type: none"> Should be other investment-other (1). Should be service (1).

Paragraph 5.41: *Is this treatment [of changes in value of swaps that occur merely through the passage of time] suitable?*

Total responses	9	
Yes	9	

Paragraph 5.42: *Is this treatment [of premium payments under credit default swap payments] suitable?*

Total responses	7	
Yes	5	• Elaborate the rationale for this treatment (1).
No	2	• Not a transaction (1). • Should be service (1).

Paragraph 5.45(a): *Should the requirements for a tradable loan to become a security include that the debtor is not legally prevented from buying back the debt, which is necessary to ensure that the market value is also relevant to the debtor?*
(To be discussed in BOPTTEG in December 2004)

Total responses	9	
Yes	6	• Elaborate the rationale for this treatment (1).
No	2	
Other	1	• Transferable rather than tradable (1).

Paragraph 5.46: (i) *Is this change [removal of “and/or for other purposes” from the definition] acceptable?*

Total responses	11	
Yes	9	
No	2	

Paragraph 5.48: *Are the proposed treatments of financial derivatives and other claims [in reserve assets] acceptable?*

Total responses	10	
Yes	8	• Supplementary item only.
No	2	

Paragraph 5.51: (i) *Is the change to exclude assets under repurchase agreements acceptable?*

Total responses	7	
Yes	5	
No	2	

Paragraph 5.54(b): (ii) *Should assets owned by other agencies but under the effective control of the monetary authorities be shown as a separate component of reserves and/or should those assets be not recorded as the assets of the owner to avoid double counting?*

Total responses	6	
Record as reserves only	3	
Record as owner's assets only	2	
Other	1	

Paragraph 5.55: *Should pooled assets be able to be included as reserve assets?*

Total responses	5	
Yes	2	1)
No	3	

Paragraph 5.59: (i) *Is it possible to develop objective criteria for the identification of reserves?* (ii) *If so, what are those criteria?*

Total responses	4	
Yes	2	<ul style="list-style-type: none"> • Availability (direct ownership by monetary authorities or indirect ownership through effective control) and potential to generate international liquidity (1). • Specify instruments; see Eurosystem Report (1).
No	2	

Paragraph 5.63: *Should an additional category for more than one to two years be considered?*

Total responses	12	
Yes	5	• Supplementary only (2).
No	7	

Paragraph 5.64: *Is this approach [to residual and original maturity] suitable?*

Total responses	12	
Yes	9	<ul style="list-style-type: none"> • Additional item supplementary only (1). • Elaborate the rationale for this treatment (1).
No	3	• Adopt residual maturity (1).

Paragraph 5.70: (i) *Should a foreign currency/domestic currency split for external debt be a standard or supplementary item?*

Total responses	13	
Standard	5	
Supplementary	8	

Paragraph 5.70: (ii) *Should a [foreign currency/domestic currency split] be encouraged for assets as well?*

Total responses	7	
Supplementary	6	
No	1	

Other general comments on Chapter 5

- The integration of *SNA* and *BPM* instruments classifications is strongly supported.
- Financial derivatives should not be a functional category, only an instrument category.
- Shares should be classified into quoted and unquoted, as in the *1993 SNA*.

Chapter 6. International Investment Position

Paragraph 6.3: *Does this proposal have the right balance between recognition of the issue and avoidance of specific standards?* (defining the assets boundary as in the 1993 SNA and encouraging compilers to consider providing information on a supplementary basis where contingent obligations are identified as being economically significant.)

Total responses	8	
Yes	7	
Other	1	Need further review. Significant to whom and for what purposes?

BIS is in favor of the proposal.

Paragraph 6.13: *What treatment should be adopted for sweep accounts?*

Total responses	4	
Before sweeping		
After sweeping	4	So that positions and flows are consistent.

Paragraph 6.16 (b): For valuation of loans (i) *Should either nominal value or fair value be adopted, and should the valuation not adopted be considered as a memorandum item?* (ii) *Or should a decision be postponed until developments in international accounting standards are clear?*

(Discussed electronically in BOPTeg and to be discussed by the Committee in October 2004)

Total responses	11	
Nominal value	4	Nominal values for both creditors and debtors and fair values only for creditors as memo items. Postponed until IAS is clear.
Fair value	1	
Postpone until IAS is clear	4	
Other	2	Keep symmetric treatment, follow IAS39 decision, unless fair value is decided, stick to nominal or book values with the optional recording of supplementary information. Conceptually, fair value should be recorded, but nominal value should be considered as one of the acceptable proxies if fair value is not available. Values reported by creditor and debtor should be of the same basis. Yet, agree with the idea to wait for clearer IAS.

ECB noted that “it should be clarified whether fair value is deemed just an “alternative” or whether it is the actual recommendation, even if the use of nominal values should produce

similar results in most of the cases. This distinction is very important since, otherwise, the new International Accounting Standards should be seen more as an obstacle than as an improvement in the quality of the information to be collected in the future.”

Paragraph 6.17: For valuation of equity, (i) *How far should compilation issues be discussed in this section?*(ii) *Should any particular method(s) be endorsed in order to encourage international standardization?*

Total responses	5	<p>Compilation issues should be discussed at least for four cases, land, owners' equity invested abroad, owners' equity invested in national economy by foreigners, and equity in case of unlisted investment companies.</p> <p>As many issues as possible from national compilers should be incorporated into the discussion. International standardization should be encouraged.</p> <p>For untraded equity, a certain set of proxy methods recommended by the Fund should be encouraged to enhance international standardization.</p> <p>Equity valuation when no observable prices exist.</p>
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BIS commented that more specific valuation principles may possibly be suggested. ECB suggested that the valuation based on a common definition of own funds at book value as approved in the European Union should also be considered. ECB will provide appropriate references at the time of participating in related discussions. It will be necessary to be very precise in the definition of book value as regards direct investment in non-listed companies. Detailed studies performed by different committees of the European System of Central Banks are available for any further work.

OECD stated that the proposed valuation of direct investment stocks is not particularly clear. Ideally, market-based or replacement cost valuations would be used rather than book values. Is this to be proposed explicitly?

Some specific other comments on Chapter 6

One possibility would be to split the sector financial corporations [in Table 6.2] further into Monetary and Financial Institutions and Other Financial Intermediaries. This would probably facilitate the compilation and comparison of these data with monetary and financial data.

As to the issues that are not explicitly treated in the *BPM5*, the manual should note the background to introduce them newly or change treatments in the *BPM5*.

The sale of a security subject to a repurchase agreement is the sale of a security like any other sale. In earlier debates on this issue, there was a lot of discussion as to the nature of the agreement to repurchase the security.

The revised guidelines on the treatment of financial derivatives in the SNA93/ BPM5 describe forward contracts as financial derivatives as follows: "Under a forward contract, the two counterparties agree to exchange a specified quantity of an underlying item (real or financial) at an agreed contract price on a specified date." This seems a pretty good description of an agreement to deliver a security at a fixed price in the future. A sale and forward contract are all that are needed to deal with repos.

- A suggestion concerning nomenclature: a more general terminology should be used, for instance "repo-type transactions/positions", since the treatment of the proposed appendix should cover other types of similar deals such as sell and buy-backs, gold swaps/repos, etc.
- The treatment of the impaired loans is the substantial issue in revising 1993 SNA, and a great number of concerned parties probably have interests on it. Therefore, the manual should show merits and demerits to adopt the method discussed here (i.e. while loans are valued before any provisions for bad debts, expected loan losses are recorded for the asset holder as a memorandum item).
- What is the meaning of "not sufficiently" traded?
- It is obvious that the liberalization of the pensions funds regulation in many countries as in Europe in the coming years will trigger the need to compile pension funds and accrued insurance cross-border liabilities, and to set up specific valuation methods.
- Given accounting records are our principal source of data, I would argue it is more than appropriate that it is essential. On a practical level, do we need to plan for the capacity to provide ongoing guidance as accounting standards may change on a schedule that differs from revisions to this and other manuals?
- The important issue is to record the liabilities and assets correctly. Currency issued by a regional central bank must be shown as the liability of the bank and reflected in the net worth of the bank and hence in the equity liability of the bank to the owners (member countries). This is the same regardless of the residence of the bank. It appears that the BPM5 recommendation was an attempt to show such liabilities as being between residents of each country, rather than the non-resident/ resident positions needed if the bank is considered non-resident.
- The BPM should more clearly specify that the standard of valuation for transactions and stocks is current market price and then provide a comprehensive list of practical methods to be used to approximate current market valuation, in order of preference. An example of the order of preference could be:
 1. Current market value, particularly for listed companies using the mid-point of the

buy and sell for the close of the last trading day.

2. Current market value of the global enterprise group, apportioned across economic territories using relevant indicators (e.g. sales revenue).
3. Recent transaction price, where the transaction is considered to be a market transaction, and guidelines on the recency of the transaction are to be determined (e.g. within one year).
4. Net asset value (using current market values), including identified intangibles and goodwill.
5. Net asset value (using current market values), excluding identified intangibles and goodwill.
6. Historic (or interim) cost.

In cases where different valuation methods are used for transactions and stocks, some guidance would also need to be provided in adjusting stock positions when current market value transactions occur. Similarly, methods that reduce counterparty country discrepancies should be elaborated. In the latter case, one option may be to use counterparty data to measure outward direct investment in equity on the assumption that inward direct investment can be more accurately measured by compilers. These methods could then be explained in more detail in the Compilation Guide and Textbook.

Chapter 7. Financial Account

Paragraph 7.13 (a): *The term “reinvestment of earnings” is proposed for the financial account entry, to distinguish it from the equal and opposite income item. Is this change suitable?*

Total responses	13	
Yes	13	<ul style="list-style-type: none">• It is important to elaborate the rationales behind the proposed change.

BIS is in favor of the proposal. ECB noted that this issue is to be discussed in the context of the general review for the income account.

Some specific other comments on Chapter 7

- We strongly support further explanations for special cases mentioned in paragraph 7.13. Additionally, it would be interesting to clarify the treatment of certain transactions between nonresidents and their offices in host country (these offices are not regarded FDI).
- (para. 7.3.c) The FA does not only show how the transactions in the capital and current accounts are financed; there are also autonomous operations within the FA, for the financing of FDI for instance, in cash (Other investment) or through an exchange of stocks (Portfolio investment). It is also the same for the usual portfolio transactions, which do not affect the current account.
- (table 7.1) We wonder whether the expression “net changes ... arising from transactions” is the most appropriate; we would favour to use simply “transactions” which do not create any confusion with the “other changes” recommended in the IIP table 6.1, and which correspond to the way (gross recording) several components are reported: portfolio and direct investment for instance.
- (para. 7.8) The “matrix” presentation, seducing on the paper, is too static and not suitable for a usual presentation of the FA which requires at least a comparison with one or two previous periods.
- (para. 7.13.c) The requirement about the partitioning of some financial transactions is quite complex.
- (para. 7.13.i) To consider that a financial reinsurance transaction is a financial transaction to be included in the FA can be disputed.

- The presentation, signs, netting, and ordering in the financial account are better to be consistent with IIP and income account so as to facilitate comparisons.
- (para. 7.13.j) However, annual stocks are not enough to impute transactions to each specific month. The compilation of more frequent stocks should at least be promoted, since it is the only way to capture domestic transactions between different economic sectors of the economy. Additionally, the role of more frequent financial stocks for the calculation/estimation of portfolio investment income on an accruals basis should be highlighted in the manual. The minimum admissible frequency for stocks should be quarterly (in line with requirements for external debt).
- Clarification of treatment of delays in settlement of derivatives transactions. Agree, but given the state of the art difficult to put in place.
- Give greater prominence and/or explain in more length the following: Gold transactions with private banks and international monetary organizations, such as the BIS.

Chapter 8. Other Changes in Financial Assets and Liabilities Account

Paragraph 8.7 (b): *Is supplementary information on changes in financial claims and liabilities owing to changes in residence of individual desirable?*

Total responses	8	
Yes	4	• Desirable for countries in which such changes are significant.
No	2	Because of confidentiality constraints.
Other	2	Basically agreeable. It is important to elaborate the rationales behind the proposed changes. If it is analytically useful for countries to provide such information, then this could be included as supplementary information.

Some specific other comments on Chapter 8

- The way this new account will be compiled needs to be clarified. We assume that such an account will not be manageable on a monthly basis, as the IIP periodicity requirement is on a quarterly basis. In addition many requirements, such as Other changes in the volume of assets, will entail practical difficulties and surely additional reporting obligations.
- We agree that the scope of “other changes in financial assets and liabilities account” be limited to that of IIP. We also support to treat “migrants’ transfer” as “other changes in financial assets/liabilities” as it may not be desirable to reveal the changes in financial claims and liabilities due to changes in residency.
- Although we agree on methodological grounds that migrant transfers in the new set-up should be recorded as an other change, we would like to point out that this item then becomes completely invisible. We do not suggest another treatment for these transfers but put it to you that this does constitute an important source of finance for certain countries. It might therefore be useful for these countries to produce supplementary data.
- Balance of payments labor-related flows provide supplementary information on Mode-4 service delivery. In this context, supplementary information on changes in financial claims and liabilities owing to changes in residence of individuals will be a step forward towards assessing the said delivery mode.
- We fully support expanding and elaborating more on “Other Changes in Financial Assets and Liabilities Account”, in order to bring consistency between treatment in Balance of Payments and National Financial Accounts. Especially the “Other

changes in volume” have to be elaborated, regarding the effects of restructuring of companies. This has partly to do with transfer of balances [between branches -- are such transfers to be regarded as transactions or as other changes in volume?], but also with the exchange of direct investment and portfolio investment positions which take place in case of the international merger of listed companies.

- “Limit Other Changes in Financial Assets and Liabilities Account to the scope of IIP, which includes only financial instruments”. Agree but need clarification on intangibles. Is the treatment of intangible fixed assets clear in these cases? What is the residence of an intangible fixed asset? “Provide supplementary information on changes in value of nonproduced nonfinancial assets, where significant”. Need to review what this means. Is this suggesting that when such changes are a significant part of the Other changes account, one should provide ‘Of which’ type information to differentiate these valuation changes, which would appear as change to financial assets in the BOP world, from change to actual financial assets?
- According to statements in chapters 3 and 8, changes in financial claims and liabilities due to the change in residence of individuals will be treated as other changes in the volume of assets and this will avoid imputing migrant transfers in the capital account. As far as we understand this item will not be shown separately, which is unfortunate as this item might be used as supplementary information for assessing mode 4 delivery of services in the GATS context. It would therefore be preferable to show migrant transfers separately.
- Give greater prominence and/or explain in more length the following: Other changes in financial assets and liabilities: in chapter 8, explain the relationship between the currency in which the BOP is calculated, which may not be the national currency, and this account.

Chapter 9. Goods and Services Account

Paragraph 9.6: *Should separate balances be shown for each of goods and services?*
(to be discussed by the Committee in October 2004)

Total responses	16	
Yes	10	<ul style="list-style-type: none"> • Should urge the separation of services embedded in goods as for instance the recommendation of recording imports f.o.b.
No	2	<ul style="list-style-type: none"> • Need compulsory sub-account "of which services
Other	4	<ul style="list-style-type: none"> • Reclassification of certain separate goods accounts into general imports and/or exports is acceptable. Adjustments to merchandise trade as recorded in trade statistics should be kept as a standard component. • Proposed breakdown of services account should be supplementary items rather than required items since some of the suggested items might not be significant for some countries. • FATS should be a separate category within goods and services. Could be explained in detail in an annex or also as part of Satellite Accounts. • Necessary to clarify treatment of shuttle trade.

Interagency Task Force on International Merchandise Trade Statistics (TFIMTS): Separate balances for goods and services should be preserved and every effort to clarify boundaries is welcome.

OECD: Trade policy justifies separate balances for goods and services. For economic analysis it is important to show the combined "balance of trade" covering both goods and services. For domestic production in the SNA the distinction between goods and services is becoming slightly less important. Although there is policy interest in some highly aggregated breakdown of general merchandise on a BOP basis, among compilers there is reluctance to introduce much new estimation on a bop basis of data that were already available on a merchandise trade basis. Agree on the analytical interest in separately recording trade in goods and services between related parties (mistakenly identified with FATS in the AO. Is there a confusion between FDI and FATS here).

BIS prefers goods and services be separated. ECB would like the new manual to clarify the concept of trade balance, which is unclear in BPM5.

Task Force on Statistics of International Trade Statistics (TFSITS) prefers separation of goods and services.

Paragraph 9.12. *Which treatment is preferred-no change, re-exports to be shown separately, or re-exports to be excluded from merchandise?*

(Discussed in BOPTEG and to be discussed by the Committee in October 2004)

Total responses	16	
No change	8	In the existing systems for the time being it is not possible to compile statistics that show re-exports separately of exclude re-exports from both imports and exports. If there is significant value addition re-exports should be shown separately. Definition of re-exports is needed.
Separately	7	<ul style="list-style-type: none"> Show separately re-exports as it represents in some countries a large part of trade.
Excluded	1	<ul style="list-style-type: none"> Propose to include net value of re-exports in merchanting and trade related services instead of transport services.

TFIMTS: Re-exports are to be included in total exports and should be shown separately as well.

OECD: International Merchandise Trade Statistics (IMTS) guidelines say that re-exports should be identified separately within merchandise trade. This issue needs further discussion.

BIS prefers gross reporting.

Paragraph 9.13. *(i) Is the proposed treatment of products delivered electronically appropriate? (ii) Do any of the other treatments need to be reconsidered?*

Total responses	9	
Yes	6	<ul style="list-style-type: none"> More emphasis should be given to exports and imports through e-commerce and internet. Discussions concerning internet related activities should be broader than just the delivery of products.
No	0	
Other	3	<ul style="list-style-type: none"> If the proposed treatment of products delivered electronically to be classified as goods what is the best modus operandi of collecting data. For bonded warehouses the discussion should include distribution centres. For goods dispatched by courier or post the fact should be mentioned that goods are increasingly purchased over the internet. Probably more appropriate if products delivered electronically, like software and music, are classified as services.

UNSD: The electronic transmission of any information (software, blueprints, books, music, engineering plans etc.) from one country to another is outside the scope of merchandise trade statistics.

OECD: The issue of digital products remains a very difficult area. Suggest that this issue is considered further in appropriate statistical expert groups including the OECD's WPIIS.

TFSITS supports the reconciliation shown in Table 9.2 and mentioned in para. 9.14.

Paragraph 9.15. *Would it be preferable to merely show the processing as a service charge, like repairs?*

(Discussed in BOPTEG and to be discussed by the Committee in October 2004)

Total responses	14	
Yes	5	
No	4	
Other	5	<ul style="list-style-type: none">• Should be reviewed in an integrated manner so as to develop a coherent conceptual approach.• Correct treatment is that of the SNA, the actual BPM5 treatment will still be more practical.• If there is no change of ownership then processing should be treated as service charge. If there is change of ownership, the goods have to be measured gross.• Analytically useful to maintain two sets of data: (a) data on merchandise basis (physical movements) and (b) bop basis (change of ownership). In recording goods for processing on a merchandise basis, the movement of goods across the frontier should be recorded. On a BOP basis, no imports should be recorded if the goods do not change ownership and value added should be recorded as a service.

TFIMTS: Goods for processing and the goods resulting from such processing should be included in exports and imports at gross value. In respect of goods for processing, the separation of flows of such goods by application of the change of ownership between residents and nonresidents is not recommended in IMTS, Rev.2. However, showing separately information on goods through the application of the change of ownership principle would be useful additional information.

UNSD: Should CPC divisions 88-89 be mentioned or applied here to measure processing (manufacturing) services?

TFSITS saw analytic arguments in favor of including goods for processing in goods at gross values, but saw conceptual and practical arguments to classify them as services at net value. They noted the importance of seeking SNA and merchandise trade views on this subject.

OECD: Also an issue for SNA. In trade statistics discussions, there was significant support for no change to BPM5 regarding treatment as goods.

BIS response was “no”.

Paragraph 9.16. *Would it be desirable to separate goods for processing abroad and goods for processing in the compiling economy?*

Total responses	14	
Yes	10	<ul style="list-style-type: none"> • Should be reported as supplementary item.
No	1	
Other	3	<ul style="list-style-type: none"> • Difficulty in showing goods processed abroad and in compiling country separately.

UNSD: It is a good idea to separate goods for processing abroad and in the compiling country, but specific reasons for specific treatment of each such category of goods should be taken into consideration.

OECD: There is significant support for the split of goods for processing abroad and in the compiling economy. Extra detail on goods for processing and merchanting would certainly help input-output tables.

BIS response was “yes, separate reporting preferable”.

Paragraph 9.17. (i) *Should the treatment of merchanting be changed?*
(To be discussed in BOPTEG in December 2004)

Total responses	13	
Yes	3	<ul style="list-style-type: none"> • Is source of large asymmetries.
No	5	
Other	5	<ul style="list-style-type: none"> • This is a complicated issue which deserves to be treated in the new version of the BPM. • Should move to an approach that is consistent with ownership. Any question where inventories are at the heart of the matter is going to be difficult.

TFIMTS: According to IMTS, merchanting is not included in merchandise trade. It would be preferable to continue this practice to avoid discrepancies between trade flows measured in IMTS and BOP.

OECD: Given the mixed views on this issue, further research is needed.

BIS response was “no”.

Paragraph 9.17. *(ii) Should the treatment of goods in transit, re-exported goods, goods for processing, repair, storage, and merchanting be reviewed together with a view to developing either a coherent approach or a rationale for different approaches to them?*

Total responses	12	
Yes	6	<ul style="list-style-type: none"> • Treatment of transit trade, re-exports, goods for processing, repairs and other similar items should be identical
No	2	<ul style="list-style-type: none"> • Should be based on economic substance rather than to follow one approach.
Other	4	<ul style="list-style-type: none"> • Do not see any similarity between re-exports/re-imports and goods in transit. • Desirable if a separate category is established with the title Other goods comprising goods in transit, re-exports, goods for processing, goods repairs, and merchanting. • It is appropriate to discuss the distinction among transit trade, goods for processing and repairs on goods.

TFIMTS: It would be useful to review all these categories comprehensively together.

BIS agrees with the proposal.

Paragraph 9.33. *Are there areas, including those identified in MSITS, where more detailed classification should be recommended?*

Total responses	10	
Yes	4	<ul style="list-style-type: none"> • Level of disaggregation should depend on national needs and relative importance of certain types of services. • Breakdown of insurance services into direct insurance, reinsurance, and other insurance services. Breakdown of merchanting and other trade related services into merchanting, merchandising, and other trade-related services. • More detailed classification should be recommended with a view to achieving more consistency with MSITS.
No	3	
Other	3	<ul style="list-style-type: none"> • If it is obvious that even developed countries are not in a position to deliver data for specific items what will be the procedure to reduce the list. • Services should contain at the most a dozen or so items. Additional details should be supplementary and in satellite accounts.

OECD: Current revisions of ISIC and CPC may have some impact on details and grouping of services in the bop. Closer links between CPC and EBOPS should be possible. Since the overall structure had now been agreed changes or rearrangements would now be made at the lower levels. Any envisaged changes for BPM5 would also have consequences for EBOPS.

World Tourism Organization: In the Goods and Services Account table, AO proposes an alternative breakdown of the *travel* item, as it has been actualized in MSITS, which considers five categories of goods and services consumed by the travellers; this would allow a “closer link with the Tourism Satellite Account” (9.32. c). WTO appreciates this initiative, as it is in line with the intention to close the gap between both macroeconomic conceptual frameworks. Nevertheless, the proposed “alternative breakdown of travel services” in AO (table 9.4) falls short of solving the remaining issues. WTO proposal is to allow tourism component of BOP to be conceptually equivalent to that used in the conceptual framework of the Tourism Satellite Account.

The WTO questions the need for the proposed breakdown between business and personal travel expenditures and makes the following proposal:

- Travel
 - Visitors
 - Goods
 - Transport services
 - Accommodation services
 - Food and beverage serving services
 - All other services
 - Other types of travelers
 - Seasonal and border workers
 - Others

Paragraph 9.34. *Should repairs on goods be classified as a service?*

(Discussed in BOPTTEG and to be discussed by the Committee in October 2004)

Total responses	16	
Yes	12	
No	2	
Other	2	<ul style="list-style-type: none"> • There should be a discussion on which type of repairs should be in which category in the services account since there are many types of services included in repairs on goods. • Should recognize that this topic is also being discussed by other groups.

TFIMTS: A clear definition of what kind of repairs are to be treated as service is needed. And the Task Force could agree to this proposal as long as this item is spelt out separately.

UNSD: Treatment of repair as services would follow CPC (part of division 87). Should this be noted? Is maintenance treated in the same way? If not, how is the boundary defined?

OECD: Some confusion as to the scope of repairs on goods, whether major or minor. There appeared to be a terminological classification problem regarding lack of harmony between the CPC and BOP. There are also practical data collection issues to consider. Some consensus at the April trade meetings that major repairs should be in goods trade and minor repairs in services.

TFSITS generally takes the same view as the OECD. They had no objection to the move of repairs from goods to services. They note the need for a distinction between “maintenance” and “repairs”.

BIS agrees with classifying repairs on goods as services.

Paragraph 9.35. *Should there be an expansion of the modes of transport beyond the BPM5 level of detail of sea transport, air transport, and other transport, for example as recommended in MSITS?*

Total responses	11	
Yes	4	<ul style="list-style-type: none"> • Compilers should have the opportunity to compile data only for services with a large weight.
No	2	
Other	5	<ul style="list-style-type: none"> • There might be a need to be less specific on the mode of transportation. • May face difficulties in gathering information. • Proposed additional modes of transport should be supplementary items. • Further expansion should be supplementary and not mandatory.

UNSD: The alignment of the modes of transport beyond BPM5 as recommended by MSITS is a good idea.

Paragraph 9.36. *Would it be more appropriate to include international transport of passengers with travel?*
(Discussed in BOPTTEG)

Total responses	15	
Yes	8	
No	5	
Other	2	<ul style="list-style-type: none"> • Rephrase question.

OECD: OECD was advised at April trade meeting that the AO has given inadequate rationale for including international transport of passengers under travel. It concluded that this change would not be welcome. The alternative presentation for travel in table 9.3 received some support provided it was “supplementary information” i.e. not compulsory.

World Tourism Organization: supports AO suggestion that passenger transport item of BOP classification be included under travel.

TFSITS prefers to retain the *BPM5* classification.

Paragraph 9.43. *Would postal and/or courier services be more appropriately included in other transport services?*

Total responses	11	
Yes	8	
No	3	
Other	0	

UNSD: CPC is very likely to change for information and communication technology services, which may impact the detail of the EBOPS categories defined in MSITS. Will the proposed breakdown consider the new CPC structure? If not, how are these categories defined?

TFSITS supports the inclusion of postal and/or courier services in other transport services to provide a “pure” information technology services category. TFSITS recommends that final decisions on the supplementary breakdown of information technology services should await decision on the new CPC structure.

Paragraph 9.44. *How can the distinction between “off-the-shelf” software and license fees for the use of software be clarified?*

Total responses	10	<ul style="list-style-type: none"> • Program updates downloadable from the internet are to be recorded under services. • The issue needs further deliberation. • Software through electronic devices or included with hardware should be classified as goods and those provided through electronic media/communications should be included under services. • Non-customized goods (off-the shelf) should be classified as goods. • License fees for the use of software should be classified as a service payment, while off the shelf software should be treated as imports. • Off the shelf software is producible commodity with a
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		<p>price tag while license fee reflects payments for the use of proprietary rights of the software.</p> <ul style="list-style-type: none"> • For practical reasons there should be no distinction between the two cases. Both should be recorded under computer and information services. • Issue is being researched. Comments in due course. • More elaboration is needed. <p>LAN software should be discussed.</p>
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UNSD: There is a conceptual ambiguity between license fees and the IMTS treatment of goods with are used as carriers of information and software when they cross country borders. These goods are to be valued using the same principles as all other goods. These borderline cases will be discussed for the CPC revision. Will this be considered / have an impact on BPM? This applies not only to software, but to other intellectual property items as well.

OECD: The inclusion of post and/or courier services in information technology services is very problematic analytically. It would be more practical if groupings and wordings could be aligned to the extent practicable with equivalent categories in ISIC and CPC. In practice it is difficult to distinguish trade in software to be classified as goods and to be classified as services. There is a problem of data sources. The treatment of trade in software should be reviewed in BOP and definitions of software license fees clarified in the new BPM to take account of SNA developments.

Paragraph 9.58. *Is the breakdown of other personal, cultural, and recreational services in this way suitable?*

Total responses	10	
Yes	7	<ul style="list-style-type: none"> • As long as the additional breakdown is supplementary. • Education services need to split out.
No	1	
Other	2	<ul style="list-style-type: none"> • Clarification should be provided to be able to distinguish what should be classified here and in travel.

BIS response was “yes”.

Paragraph 9.60. *Are there any other borderlines between services and other items that should be mentioned?*

Total responses	4	
Yes	1	<ul style="list-style-type: none"> • Are there borderline issues between current account and financial account.
No	3	
Other	0	

OECD: CG is due to discuss the distinction between rent and rentals.

TFSITS recommends that there be a supplementary breakdown of insurance into direct insurance and reinsurance.

Some specific other comments on Chapter 9

Construction services

- Construction abroad and in the compiling economy should be separated. Particularly important that consistency with national accounts is secured for the construction item.
- Agree on the idea to split construction services in line with the direction of these activities.
- A change is needed because the definition of construction services' exports and imports in the AO, as well as in BPM5, is not compatible with the definition of production in the SNA1993.
- The IMTS recommends separation of the goods and service parts in construction. If BPM6 will have different treatment it should be listed in the proposed Annex.
- IMTS: Compilers Manual recommends separation of the goods and service parts in transactions such as construction abroad [para 210(b)]. So, construction materials/equipment sent to the construction site in another country are to be recorded as merchandise exports/imports. If BPM6 will have different treatment it should be listed in the proposed Annex.

Financial services

- There is still serious opposition vis a vis FISIM in the BOP context. Related to the old conflict: for some countries BOP statistics have a value in its own and are not only part of the rest of the world account.
- There is a risk of asymmetries with the FISIM and that the increasing use of surveys will worsen it. Moreover, the financial globalization tends to blur the distinction between international and domestic financial services.
- While supporting the general approach of following SNA on FISIM, further discussions are needed as implementation in BOP causes considerable concerns in a number of countries.
- The current correspondence between EBOP and CPC shows a link from financial services to packaging services (as a result of different placement of coin wrapping

services). Will this be re-considered in the definition of financial services and other categories with similar problems?

Insurance services

- Still interested in the availability of gross premiums and claims.
- The proposed new SNA treatment of insurance and reinsurance needs to be elaborated in a BOP context to enable further discussions of practicability.

Travel

- The proposed split of personal travel appears difficult to achieve, as well as the alternative breakdown for travel services.
- Separating out border and seasonal workers would be helpful.

Government services

- More and clearer examples and exclusions should be given for the credit and debit side of government services n.i.e. than in MSITS.
- The residual nature of government services, n.i.e is at present not sufficiently clear.

Franchise fees and payments for the use of proprietary rights

- For franchise fees and payments for the use of proprietary rights, clarification of terminology is needed.

Other business services

- Supports the use of MSITS descriptions. Growing international trade activity of Call centers and back-office business process services may require some modest updating of classifications-link to CPC.
- Call centers are classified under other business services in CPC and EBOPS (See MSITS Annex.3). Why is this changed and how should a reconciliation of definitions be addressed?

Migrants' transfers

- Following the recommendations of BPM5, IMTS included migrants' effects in merchandise trade statistics (IMTS, Rev, para. 33). There should be a good justification to exclude them again.

Valuation

- The WTO valuation agreement, which employs the concept of transaction value, is used as the basis for valuation of merchandise trade in IMTS. The new manual will do good if a reference is made to it and clarify how BOP concept of the market price relate to that agreement.

Table 9.1

- The breakdown follows partially CPC. Are there attempt/plans to line up some categories? Does this result in proposals for the CPC? Certain problems remain, which cannot be matched to other classifications, e.g. government services.

Summary of suggestions from World Health Organization

1. The revision of the BPM5, like the EBOPS, should include a breakdown in health-related expenditures of personal travel as a regular indicator.
2. The revision of the BPM5, like the EBOPS, should have a breakdown of the item " Health Services under Personal, cultural and recreational services" into health services, since it could be used as a proxy for trade in health services under the GATS Mode 1. The revision of the BPM5 at least suggests such a breakdown as supplementary information.
3. Since the health insurance as the purchaser of health goods and services plays a major role in most health systems¹, ideally, a sub-account for health insurance should be introduced into the revised BPM5. At least, this breakdown should be included in the more detailed EBOPS classification.
4. From the health perspective for a matrix that combines both, health-specific services sectors according to international classifications and the Modes of Supply of these services according to the classification of the General Agreement on Trade in Services (GATS) would be very helpful.
5. From the health perspective both, temporary and non-temporary movement of health professionals matters, since both could for example constitute a brain drain for the exporting country. Evidence and information about both timeframes is important, for GATS negotiations as well as for the assessment of long-term migration. Therefore,

¹ The expenditure for health services paid by the insurance and the premiums paid by the insured to an insurance company in another country should be recorded under different indicators.

data for both, the GATS timeframe (<1 year) and the BPM5 timeframe (1 year) should be collected.

Chapter 10. Primary Distribution of Income Account

Paragraph 10.2 : *Should the terminology be harmonized with the 1993 SNA (using “primary income” instead of “income” in BPM5) ?*

Total responses	13	• This question did not give rise to any substantial comment.
Yes	13	
No	0	

BIS and OECD also expressed support for the proposal. The only reservation comes from the ECB which considers that the proposed change is “less descriptive of the content of each heading” and is not “user friendly”.

Paragraph 10.4 : *BPM5 uses the term “investment income” as a synonym for “property income” in the 1993 SNA. The new manual will clarify this term as being limited to income from financial assets. Is this suitable?*

Total responses	12	• No substantial comments either on this question.
Yes	12	
No	0	

BIS is also supportive of the proposal.

Paragraph 10.15 : *Should retained earnings of mutual funds be treated as other collective investment schemes, or is there some reason to make a distinction?*
(To be discussed in BOPTTEG)

Total responses	8	
Yes	4	• The rationale for recording reinvested earnings is that the earnings of an enterprise accrue to its investors as they are earned. The “significant influence” of the investor on the investment or not is irrelevant.
No	1	
Other	3	• These countries have no definite idea on the question.

ECB agrees while BIS disagrees.

Paragraph 10.16 : *Is there any need to change any of these treatments or mention any other special cases of dividends?*

Total responses	8	
Yes	0	
No	7	<ul style="list-style-type: none"> • The term “dividends” in “liquidating dividends” is misleading if the transaction is the withdrawal of equity. • Bonus share treatment is not clear.
Other	1	<ul style="list-style-type: none"> • Both (a) and (c) are worthy of consideration/discussion

Paragraph 10.24 : *Should data on interest according to the creditor approach be included either as memorandum or supplementary item?*

(Discussed in BOPTEG and to be discussed by the Committee in October 2004)

Total responses	10	
Yes	7	
No	1	<ul style="list-style-type: none"> • Necessity of a consistency of approach with basic SNA/BPM principles and market reality.
Other	2	<ul style="list-style-type: none"> • Both approaches should be discussed extensively before one is selected for endorsement.

While the BIS and the OECD are in favor of the proposal, the ECB does not take a definite position on the issue.

Paragraph 10.25 : *Is this approach to interest suitable to establish a memorandum item for interest on impaired loans ?*

(Discussed in BOPTEG and to be discussed by the Committee in October 2004)

Total responses	10	
Yes	7	
No	2	<ul style="list-style-type: none"> • Interest that is not realistically expected to be collected is very hard to calculate and is prone to subjective assessment by the compiler. • The treatment of performing loans as interest continues to accrue is not in conformity with the prudential norms set out under Basle 1.
Other	1	<ul style="list-style-type: none"> • There should be a discussion on how to treat interest and principal in guaranteed debt that goes into default and where payment is demanded from the guarantor. There is a potential for double counting the debt liability and interest.

The BIS provides a positive answer.

Paragraph 10.33 : *Is it suitable to include cross-border taxes and subsidies on products and production in the primary distribution of income account ?*

Total responses	6	
Yes	5	
No	0	
Other	1	<ul style="list-style-type: none"> • There seems to be some question about who is responsible for the duty.

Paragraph 10.35 : *Are there other possible issues under primary income that could be mentioned here?*

Total responses	2	
Yes	0	
No	2	

Negative response from the BIS.

Paragraph 10.41 : *Should negative reinvested earnings be recorded as an imputed transaction of negative income and disinvestment ? If so, what is the rationale ?*

Total responses	6	
Yes	5	
No	1	<ul style="list-style-type: none"> • Showing operating losses as negative income is not intuitively appealing.

Paragraph 10.42 : *(i) In chains of direct investment, how should reinvested earnings be imputed? (ii) Should the first-level approach be adopted simply for practical reasons? (iii) What should happen for reinvested earnings where both the relevant enterprises are in the same territory or if two of the enterprises in a chain of ownership are in the same territory?]* (Discussed in DITEG and to be discussed by the Committee in October 2004)

Total responses	9	<ul style="list-style-type: none"> • 9 countries provided responses to at least one of the 3 questions.
(i)	3	<ul style="list-style-type: none"> • Reinvested earnings should be recorded at each step of the ownership chain. If flows of reinvested earnings are recorded in proportion to direct investment equity, there is no double counting. • From a conceptual point of view, it is appropriate to include indirect reinvested earnings. • It is preferable to impute reinvested earnings for each enterprise in different economies in a chain of ownership.

(ii)	7	<ul style="list-style-type: none"> • All countries favor a first level approach for practical reasons.
(iii)	2	<ul style="list-style-type: none"> • From a conceptual point of view, the inclusion of reinvested earnings of an enterprise in a given country should not be limited to the enterprise in the country above in the chain of ownership. • Treatment be made in line with the decision made to limit the direct investment relationship to direct ownership or to indirect relationship.

Paragraph 10.44 : *Question: Is the proposed treatment for reverse investment suitable?*

Total responses	9	
Yes	8	
No	0	
Other	1	Agree only when there is a direct relationship above the 10 percent voting power.

Positive response from the BIS, while the ECB prefers to leave the current methodology unchanged , mostly on analytical ground.

Paragraph 10.45 : *Are the proposed treatments for transfer pricing correct?*

Total responses	9	
Yes	9	Prices other than those used for exchange should be imputed only in very rare and clearly defined circumstances.
No	0	

Positive response from the BIS.

Some specific other comments on Chapter 10

(Table 10.1) Entries for taxes and subsidies. There is only one part of the double entry system invoked for taxes and subsidies on production in SNA because of the messy way we get to GDP at basic prices. This means that dual entry in this table (good in itself) will not be immediately consistent with SNA.

(para 10.4) We fully understand the proposal to introduce a separate item for income on reserve assets but we suspect that publication of this item will run into problems regarding confidentiality.

- (para 10.4) If income on reserve assets are to shown separately from income on other investment, it should be an supplementary item from the viewpoint of confidentiality.

- (para. 10.11) Instead of the date when dividends are declared payable or the date when they are payable, we would actually propose to use the date when they are actually paid. This was proposed by the ECB Task Force on Portfolio Investment Income Statistics in its final report of July 2003. From practical experience, this turns out to be the most unambiguous timing principle. In most cases, the difference to the other two principles is small, whereas in cases where the difference is large, different interpretations by reporters can lead to large discrepancies.
- (para. 10.11) The moment to record dividends should be the moment they are declared payable.
- (para. 10.11) Agree to the proposed timing of recording dividends at the time they are declared payable.
- (para. 10.11) With regard to the recommendation that dividends should be recorded when declared payable, the *BPM5* revision process should at least consider in this context the recent recommendation of the Task Force of Portfolio Investment Income (set up by the European System of Central Banks). This states that "for practical purposes, dividends should be recorded in the period when they are paid rather than when they are declared payable" (Task Force Report, ECB, August 2003, Page 69).
- (para. 10.11) we prefer the transition from payable to declared payable since more and more data will be based on accounting under a survey based system.
- (para. 10.20) Clarification of the calculation of interest for indexed linked instruments would be very helpful.
- (para. 10.20) We propose that debt instruments with both interest and principal indexed to a foreign currency be treated as national currency instruments and not be classified and treated as if they are denominated in foreign currency.

Chapter 11. Secondary Distribution of Income Account

Paragraph 11.8 (d): *Is the above clarification of technical assistance appropriate? Should any further guidance be provided on the treatment of technical assistance?*

(To be discussed in BOPTEG)

Total responses	8	
Yes	6	<ul style="list-style-type: none"> • While grants are free and not repayable, technical assistance may in many cases be repayable. Lumping all grants and all technical assistance as capital transfers is likely to lose sight of this difference".
No	0	
	2	<ul style="list-style-type: none"> • The cost of production (valuation of services) would be very difficult to estimate in reality. These costs do not reflect the value of the technical assistance itself, but rather the travel cost for the technical assistance mission/experts, which is already included in travel services".

Paragraph 11.8 (e) : *Should concessional interest be recognized as a transfer? Alternatively, would a memorandum item be sufficient recognition?*

(To be discussed in BOPTEG in December 2004)

Total responses	12	
Yes	5	
No	6	<ul style="list-style-type: none"> • It could create asymmetries as the developing countries will certainly not record and publish the concessional element in their BOP. • A memorandum item should be sufficient recognition because it may be difficult to determine the reason(s) for offering concessional interest rates. • Whether concessional interest is current or capital transfer depends on the nature of the loan (meant for capital project or current expenditure). To avoid such complication, it is better to keep it a memorandum item.
Other	1	<ul style="list-style-type: none"> • Do we have the data?

For the OECD, there is a potential problem with FISIM. If FISIM is calculated as the difference between a reference rate and the actual rate paid, there will be very large amounts of FISIM associated with concessional loans"

Some specific other comments on Chapter 11

- (para 11.3) We welcome the subdivision of transfers, which we find more relevant than the present one according to partner . Also the new subdivision is more in keeping with the efforts of conducting mirror statistics analyses.

Chapter 12. Capital Account

Paragraph 12.7 : *Should the treatment of land also be extended to acquisition of interests in land through long-term leases? And should it be extended to related interests such as rights to extract minerals from the land or fish from the sea?*

Total responses	8	
Yes	8	<ul style="list-style-type: none">• Unanimous response for the 2 questions, with the exceptions of 2 countries on the second question:• However, the rights to extract should be recorded in the capital account.• However, the treatment should not be extended to rights to extract because the person who acquires the rights is entitled to mineral extraction but is not entitled to the ownership of the land.
No	0	

OECD mentioned that Canberra group is working on this issue.

Some specific other comments on Chapter 12

- (para 12.10) We urge that the present ambiguity concerning the treatment of inheritances should be eliminated (BPM5 303, 350, 357) (AO 12.10.vii).

Chapter 13. Uses of Balance of Payments and International Investment Position data

Although there was no explicit question, two comments were made:

- (paras. 13.3 (c), (d) and (f)) The clear orientation of the new Manual towards a tighter consistency between the BOP and the National accounts means that the use of BOP, based mostly on transactions and no longer on payments, will lose its interest for the understanding for instance of the movements in the foreign exchange markets, reducing accordingly the role of central banks in the setting up of the external accounts. In addition, even though the IMF does not request it, the usefulness of a monthly BOP for monetary analysis purpose will be downgraded through the growing use of transactions and accruals, this latter concept moreover being partly theoretical as its implementation raises practical difficulties. Central banks are clearly concerned by such an evolution, and will have to modify their collection and compilation systems accordingly.
- Shouldn't there be some discussion of the relationship between a notional balance sheet (in SNA terms) for the Rest of the World and the International Investment Position?