IMF Committee on Balance of Payments Statistics

ANNUAL REPORT 2004
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<tr>
<td>1993 SNA</td>
<td><em>System of National Accounts 1993</em></td>
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<td>AEG</td>
<td>Advisory Expert Group on National Accounts</td>
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<td>AO</td>
<td>Annotated Outline for the revision of <em>BPM5</em></td>
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<td>BAG</td>
<td>WIIS Benchmark Advisory Group</td>
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<td>BCEAO</td>
<td>Banque Centrale des États de l’Afrique de l’Ouest</td>
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<td>BEAC</td>
<td>Banque des États de l’Afrique Centrale</td>
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<td>BIS</td>
<td>Bank for International Settlements</td>
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<td>BD3</td>
<td><em>OECD Benchmark Definition of Foreign Direct Investment</em>, third edition</td>
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<td>BOPTEG</td>
<td>Balance of Payments Technical Expert Group</td>
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<td>BPM5</td>
<td><em>Balance of Payments Manual</em>, fifth edition</td>
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<td>CCH</td>
<td>Central clearing house</td>
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<td>CDIS</td>
<td>Coordinated Direct Investment Survey</td>
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<td>CPC</td>
<td>Central Product Classification</td>
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<td>CPIS</td>
<td>Coordinated Portfolio Investment Survey</td>
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<td>CSDB</td>
<td>Centralized Securities Database</td>
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<td>CUTC</td>
<td>Currency Union Technical Expert Group</td>
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<td>DITEG</td>
<td>Direct Investment Technical Expert Group</td>
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<td>DQAF</td>
<td>Data Quality Assessment Framework</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<td>ECCB</td>
<td>East Caribbean Central Bank</td>
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<td>EMU</td>
<td>Economic and Monetary Union</td>
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<td>ESCB</td>
<td>European System of Central Banks</td>
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<td>Eurostat</td>
<td>Statistical Office of the European Communities</td>
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<td>FCS</td>
<td>Fully Consolidated System</td>
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<td>G-8</td>
<td>Group of Eight</td>
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<td>G-10</td>
<td>Group of Ten</td>
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<td>GATS</td>
<td>General Agreement on Trade in Services</td>
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<td>GSDB</td>
<td>Global securities database</td>
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<td>HIPC</td>
<td>Heavily Indebted Poor Country</td>
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<td>IIP</td>
<td>International investment position</td>
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<td>ISIN</td>
<td>International Security Identification Number</td>
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<td>ISWGNA</td>
<td>InterSecretariat Working Group on National Accounts</td>
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<td>LCFAR</td>
<td>Liabilities constituting foreign authorities’ reserves</td>
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<td>NDFs</td>
<td>Nondeliverable forwards</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>OTC</td>
<td>Over the counter</td>
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<tr>
<td>SEFER</td>
<td>Survey of Securities Held as Foreign Exchange Reserves</td>
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<td>SEIFiC</td>
<td>Small economy with international financial center</td>
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<td>SIMSDI</td>
<td>IMF–OECD Survey on Implementation of Methodological Standards for Direct Investment</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>SME</td>
<td>Small or medium-sized enterprise</td>
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<td>SPE</td>
<td>Special purpose entity</td>
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<td>SSIO</td>
<td>Survey of Securities Held by International Organizations</td>
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<td>STA</td>
<td>IMF’s Statistics Department</td>
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<td>TEG</td>
<td>Technical expert group</td>
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<td>TGRT</td>
<td>Technical Group on Reverse Transactions</td>
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<td>TGTPH</td>
<td>Technical Group on Third-Party Holdings</td>
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<td>TSGMNP</td>
<td>Technical Sub-Group on the Movement of Natural Persons</td>
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<td>TFI</td>
<td>OECD Task Force on Insurance</td>
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<td>TPH</td>
<td>Third-party holding</td>
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<td>UBO</td>
<td>Ultimate beneficial owner</td>
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<td>UD</td>
<td>Ultimate destination</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UNSD</td>
<td>United Nations Statistical Division</td>
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<tr>
<td>WIIS</td>
<td>OECD’s Workshop on International Investment Statistics</td>
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I. Introduction

The IMF Committee on Balance of Payments Statistics (Committee) was established in 1992 for the following purposes: (i) 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 (ii) to advise the IMF on methodological and compilation issues in the context of balance of payments and international investment position statistics; and (iii) to foster greater coordination of data collection among countries. The membership of the Committee as of December 31, 2004, and its terms of reference are presented in Appendices 1 and 2, respectively. In 2004, the Committee held its seventeenth meeting in October, at the South African Reserve Bank, in Pretoria, South Africa.

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 (STA). Section IV discusses the Committee’s work program during 2004, 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

Initial estimates of the statistical discrepancies in the aggregations of the global current and financial accounts were considerably narrower in 2003 than in 2002. However, significant underlying discrepancies remained. The level of the imbalance in the current account in 2003 was the lowest since 1997. Although the credits and debits on services were nearly balanced (as is generally the case), the imbalances on transportation, travel, other services, government services, reinvested earnings, and other direct investment income were all at record or near-record levels. Moreover, while the imbalance on portfolio and other investment income fell somewhat from the record high in 2002, it remained very high.

Another way to look at the data is to express the global discrepancies as a percentage of total transactions. Viewed in this manner, a somewhat different picture emerges. The imbalance on the current account amounted to 0.2 percent of total transactions, its lowest level since 1997, and the discrepancy in services, at 0.1 percent of total transactions in services, was the lowest since 1998. Even though the imbalance on goods amounted to 0.4 percent of total transactions, the highest percentage since 1999, this should be seen in the light of the total value of recorded transactions in goods, which reached a record in 2003, rising by 16 percent to $14,820 billion, after having shown little growth for the previous two years.

For the financial account, the aggregate statistical discrepancy fell to its lowest level since 1998. However, within the financial account, large discrepancies remained. For the first time, recorded direct investment debits (i.e., direct investment abroad) was higher than recorded direct investment credits (i.e., direct investment in the reporting economy).

Portfolio investment continued to record the largest discrepancies in the financial account in absolute terms in 2003. While this discrepancy fell somewhat, it remained at an elevated level. However, if the total value of gross cross-border transactions in portfolio investment were available, it is probable that the imbalance would be a very small percentage of that total. With the exception of 1998, the imbalances for this series have been consistently positive; that is, the value of net transactions in liabilities has been larger than those in net purchases.

For the rest of the financial account, the discrepancies were quite small in comparison. For financial derivatives, little changed from 2002. However, as financial derivatives are often recorded on a net basis (that is, transactions in assets are netted against transactions in liabilities) by the compiling economy, imbalances in this series should be viewed with caution. For other invest-

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ment, the discrepancy was up somewhat from 2002, but as in all years since 2000, remained substantially lower than the large discrepancies of 1998 and 1999. For reserve assets plus liabilities constituting foreign authorities’ reserves, the imbalance was in line with the average for the last seven years.

**Revision to the Balance of Payments Manual, Fifth Edition (BPM5)**

The Committee made decisions on several of the recommendations of three technical expert groups (TEGs). These TEGs had been set up in 2004, following the Committee’s endorsement of an IMF staff proposal at its 2003 meeting to create these groups to address in depth some of the more complex technical issues involved in revising the BPM5. The TEGs each met once before the Committee meeting and made recommendations to the Committee on several of the issues they had been requested to consider. A further set of recommendations was made by each TEG, and these will be considered by the Committee at its 2005 meeting. In the meantime, STA will begin drafting chapters of the new manual based on the decisions already made. A complete first draft of the manual (apart from some appendices) is expected by the end of 2006.

**Portfolio Investment**

The Committee was brought up to date on the Coordinated Portfolio Investment Survey (CPIS) and given a presentation on the CPIS results. Addressing global discrepancies in transactions in portfolio investment was one of the first initiatives of the Committee. As a result of participating in the survey, many jurisdictions have improved the manner in which they measure not only their positions, but also transactions in and the associated income of portfolio investment.

Of the 67 jurisdictions that participated in the 2001 CPIS, all have now agreed to participate on an annual basis, and two more have started providing data. One particularly noteworthy aspect of the CPIS is that about 20 small economies with international financial centers (SEIFiCs) now take part on a continuing basis. Overall, the willingness of so many countries to participate reflects the benefits that they anticipate will flow from the availability of data on creditor holdings of securities issues. In addition, three countries agreed to participate on an ongoing basis since the survey became annual.

**Direct Investment**

The Committee discussed the work of the Task Force on the Feasibility of Conducting a Coordinated Direct Investment Survey (Task Force). The feasibility study and the work on direct investment for the new balance of payments manual are to be done in tandem. Work is needed on various methodological issues so that the Coordinated Direct Investment Survey (CDIS), should it proceed, can be based on the new methodological standards in the revised balance of payments manual. The feasibility study is being carried out in conjunction with the Organization for Economic Cooperation and Development (OECD) and other international organizations with an interest in direct investment statistics.

For a variety of reasons, the Task Force proposed that the survey be conducted as of end-2009. The Task Force felt that delaying the reference date to 2009 would have many advantages. The Task Force also proposed that the survey be limited, at least initially, to liabilities positions data (broken down by counterpart country), although it felt that assets positions data (also by counterparty) might also be collected, at least from those jurisdictions with significant outward direct investment. The Task Force determined that about 80 jurisdictions should be invited to participate in the feasibility study, provided there were sufficient participants from every region. A questionnaire will be sent to possible participants to assess their willingness to participate in a CDIS, if it were to be conducted as of end-2009, although the responses will be in no way binding.

**Remittances**

The Committee received a paper from the United Kingdom on statistics on remittances. A paper from the OECD’s Round Table on Sustainable Development was also considered in this context. The paper from the United Kingdom informed the Committee about a set of actions agreed by the G-8, at its meeting at Sea Island in June 2004, to promote private-sector-led actions to help alleviate poverty. The G-8 has stressed the need to improve the data on remittances and to make them internationally comparable. The establishment of a statistical working group, to be led by the World Bank, has been proposed. The group would also include government agencies that compile balance of payments statistics, both from the G-8 and from other countries, along with technical experts from international organizations, including the IMF.

The United Nations Statistical Division (UNSD), as chair of the Technical Sub-Group on the Movement of Natural Persons (TSGMNP), presented a paper on the work of the TSGMNP in developing a statistical framework for the measurement of the economic impacts related to the movement of persons. The framework
The proposed is based on the BPM5 and the System of National Accounts, 1993 (1993 SNA). The Committee felt that the TSGMNP was the appropriate body to carry forward work on developing statistical standards for remittances.

The Heavily Indebted Poor Countries (HIPC)

The Committee considered a paper from the IMF on the statistical treatment of transactions and positions between residents and nonresidents arising from the HIPC Initiative. As the HIPC Initiative was launched well after the publication of BPM5, there has been concern among compilers that the current framework does not adequately address some of the HIPC debt-related transactions. Among the principal areas of concern is the importance of correctly treating transfers to ensure that the saving behavior recorded by the parties involved is not presented in a manner that might be misleading for economic analysis and policymaking.

The Committee found the paper to be very valuable in addressing many of the issues that need clarification. A further paper providing methodological guidance on the specific issues raised will be considered at the Committee’s next meeting.

International Financial Statistics

The Committee was informed about the international financial statistics maintained by the Bank for International Settlements (BIS). As of end-2004, the BIS will be collecting enhanced consolidated banking data that will be more detailed and comprehensive on country risk exposures on an ultimate risk basis, including exposures from derivative instruments. For data on foreign exchange and derivatives markets, the Committee was advised that a record 52 countries participated in the 2004 BIS triennial survey. Preliminary results were released on the BIS website (http://www.bis.org) in September and December 2004, and final results were available in March 2005. The BIS also collects and publishes statistics on most over-the-counter (OTC) financial derivatives on a semi-annual basis, covering stock data on notional and market values on a consolidated basis from approximately 60 major dealers in the G-10.

The Committee was informed that the BIS makes its securities database available, without charge, on its website. The database covers most international securities, but the coverage of domestic securities is not as comprehensive: at present, 42 jurisdictions (mostly central banks) provide data on domestic issues. These data are compared with various other data sources to maximize the data quality.

Other Issues

The Committee also received papers on: (i) establishment of a revisions policy for India’s balance of payments data; (ii) developments in the United States toward the collection of data on financial derivatives; (iii) development of Japan’s internet reporting system; (iv) reengineering of the collection and processing of business statistics at the Australian Bureau of Statistics; (v) a series of seminars in 2005 on the data template on international reserves and foreign currency liquidity to review experiences; and (vi) a report on the work of the Interagency Task Force on Finance Statistics. The Committee was also given a presentation on the evolution of the French reporting system since the inception of the European Economic and Monetary Union (EMU).

III. Recent Trends in Global Balance of Payments Statistics

Initial estimates of the discrepancies in the aggregations of the global current and financial accounts were considerably narrower in 2003 than in 2002 (Tables 1 and 2). However, significant underlying imbalances remained. In principle, the combined surpluses and deficits (for the current, capital, and financial accounts) for all countries and international organizations should sum to zero, as the credits of one country or international organization are the debits of another. In practice, however, as a result of measurement differences, the data do not offset each other. The discrepancies reflect incomplete coverage of transactions, inaccurate or inconsistent recording by the compiling countries (or the reporters), and different classifications or timing for transactions. Moreover, many errors and omissions may offset each other so that the data in Tables 1 and 2 may not capture the full extent of mismatches. On the other hand, because transactions in the financial account are recorded on a “net:gross” basis (that is, sales and purchases of assets are netted against each other, as are transactions in liabilities, but transactions in assets are not netted against transactions in liabilities), the actual volume of cross-border transactions in such categories as portfolio investment and other investment is much larger than the values shown in Table 2.2

2Data on “gross:gross” transactions for the financial account (that is, the recording of all transactions in the financial account on the same basis as the current account) are not compiled under BPM5.
Global Current Account

The level of the discrepancy in the current account in 2003 of negative $37 billion was the lowest since 1997.\(^3\) However, the aggregate masks some larger discrepancies in the components, which tend to offset each other. The discrepancy on goods, at positive $67 billion, was the highest since 1998, and although the credits and debits in services were nearly in balance (as they generally are), the subaggregates showed large, and growing, discrepancies in value terms: the imbalances on transportation, travel, and other services were all records, negative $67 billion, positive $34 billion, and, positive $70 billion, respectively. In addition, the imbalance of government services, at negative $33 billion, remained very close to its record level of 2002. For income, the overall imbalance, at negative $76 billion, fell from the very high level of

\(^3\)A negative imbalance indicates that more debits than credits were recorded.
the previous year, but the imbalances on reinvested earnings (positive $110 billion) and other direct investment income (negative $50 billion) were record highs. Moreover, while the imbalance on portfolio and other investment income fell somewhat from the record high in 2002, it remained high (at close to the seven-year average of negative $129 billion). At negative $32 billion, the discrepancy in current transfers was also close to the seven-year average.

Another way of looking at the data is to express the discrepancy as a percentage of total transactions. Viewed in this manner, a somewhat different picture appears, as can be seen from the memorandum items to Table 1. The imbalance on the current account amounted to 0.2 percent, its lowest level since 1997, and the discrepancy in services, at 0.1 percent of total transactions in services, was the lowest since 1998. Even though the imbalance on goods amounted to 0.4 percent of total transactions, the highest percentage since 1999, this should be seen in the light of the total value of recorded transactions in goods, which reached a record in 2003, rising to 16 percent, after having shown little growth for the previous two years.

**Global Capital and Financial Accounts**

The statistical discrepancy in the capital account in 2003 widened for the second successive year, reaching negative $15 billion, or 12 percent of total transactions in the account. For the most part, the value of debits in this account tends to be higher than the value of credits (1997...
and 2000 are the exceptions during the period shown in Table 2). A possible reason for this bias may be related to debt forgiveness—one of the major items in this account—because creditors and debtors may record the debt forgiveness in different time periods or with different values. Some issues related to debt forgiveness are considered in Section IV (see The HIPC Initiative).

For the financial account, the aggregate discrepancy, at positive $44 billion in 2003, fell to its lowest level since 1998. However, within the financial account, large discrepancies remained. For the first time since 1995, recorded direct investment debits (i.e., direct investment abroad) was higher than recorded direct investment credits (i.e., direct investment in the reporting economy). Direct investment flows can be subdivided into two components: reinvested earnings and other direct investment transactions. The imbalance on reinvested earnings (which, with the sign reversed is the same as reinvested earnings in “income” in Table 1) reached negative $110 billion in 2003, a substantial increase from 2002, and well above the seven-year average of negative $74 billion. On the other hand, other direct investment transactions had an imbalance of positive $49 billion in 2003, a substantial reduction from the positive imbalances of the previous three years, the average of which is $187 billion.

Portfolio investment continued to record the largest discrepancies in the financial account in absolute terms in 2003. While this discrepancy fell somewhat, to positive $180 billion, from the record imbalance of $202 billion in 2002, it remained at an elevated level. However, as noted, if the total value of gross cross-border transactions in portfolio investment were available, it is probable that the imbalance would be a very small percentage of that total. With the exception of 1998, the imbalances for this series have been consistently positive, that is, the value of net transactions in liabilities has been larger than those in net assets. This bias in the data was examined by the Final Report of the Working Party on the Measurement of International Capital Flows (Godeaux Report) that analyzed discrepancies in the (then) capital (now financial) account. The Godeaux Report gave rise to the creation of the Committee, and one of the earliest actions of the Committee was to initiate the CPIS. As the CPIS (which is discussed more fully below) becomes better established over time, and as its coverage extends in terms of both sectors captured and countries participating, the quality of positions data globally will improve, with commensurate effects on transactions data (and the associated income items).

For the rest of the financial account, the discrepancies were quite small in comparison. For financial derivatives, the discrepancy was negative $7 billion in 2003, little changed from 2002. However, as financial derivatives are often recorded on a net:net basis (that is, transactions in assets are netted against transactions in liabilities) by the compiling economy, imbalances in this series should be viewed with caution. For other investment, the global discrepancy was negative $39 billion, up somewhat from the imbalance in 2002, but substantially lower than the discrepancies in 1998 (positive $210 billion) and 1999 (negative $122 billion). The volatility of the imbalances in other investment has declined considerably since then. Over the last four years, while the arithmetic mean was $12 billion, the absolute average discrepancy was $46 billion, reflecting the two years with a positive imbalance in 2000 and 2001, followed by two years with negative imbalances. For reserve assets plus liabilities constituting foreign authorities’ reserves, the imbalance was $29 billion, in line with the average for the last seven years.

Revisions

Revisions to prior years have generally had the effect of increasing the current and financial account discrepancies; there has been little impact on the capital account. Revisions are a normal part of the process of production of statistics: they can result from refinement of earlier estimates (which may have been based on limited information), receipt of more complete estimates (for example, from customs or other administrative sources), changes in methodology, or the correction of errors.

For the current account, the absolute average imbalances for the six years from 1997 to 2002 were revised upwards from $76 billion to $81 billion. This increase was prompted by revisions to all series. Notably, the positive imbalances to goods in 2000 and 2002 were revised down, while changes to other series tended to increase the negative imbalances. For example, the discrepancy in income in 2002 rose by $13 billion, largely as the result of a reduced positive imbalance for reinvested earnings and larger negative imbalances for income on other direct investment, portfolio investment, and other investment. Revisions to this last series were also a major factor in revising upwards the overall imbalances on income and the current account in 2000. The services imbalance saw little change for most of these years, although there were offsetting revisions to many of the components for several years.

In the financial account, the absolute average discrepancy for the years 1997 to 2002 rose $20 billion as a result

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4In 2001, the revisions led to debits exceeding credits for the first time in the series.
of revisions to prior years’ data, with the imbalance deteriorating in all years except 1998. The largest increases were in 2000 and 2002. Most of the changes for these two years were the result of an increase in the positive discrepancy in direct investment, coupled with a drop of $57 billion in the negative imbalance in other investment in 2002. The other series saw only small changes.

IV. Work Program Undertaken by the Committee in 2004

The work undertaken by the Committee in 2004 reflected the priorities established in the medium-term work program at the end of 2003. Top priority was given to updating the BPM5, the feasibility of conducting a CDIS, and issues related to data quality. Portfolio investment was a high-priority topic, including reverse transactions, investment vehicles, and the treatment in the balance of payments and the international investment position (IIP) of HIPCs. The Committee reviewed issues relating to global discrepancies in balance of payments data; the treatment of central clearing houses; the reporting of external debt data within the context of the IIP, based on the External Debt Guide; implementation of the Manual on Statistics of International Trade in Services; the extent to which countries report balance of payments data to the IMF’s STA on the basis of the classification system of BPM5; and the use and improvement of international financial statistics. In addition, the Committee received papers on reporting systems (from France and Japan), data processing (from Australia), and on the new U.S. collection system for the measurement of transactions and positions in financial derivatives (from the United States).

Revision to BPM5

At its 2003 meeting, the Committee considered a draft annotated outline (AO) for revising BPM5, prepared by IMF staff. An earlier version of the AO had been sent for comments to the Committee, the InterSecretariat Working Group on National Accounts, and other interested parties. The comments from these various bodies were incorporated into the revised AO. At its 2003 meeting, the Committee endorsed STA’s proposal that the AO be circulated in early 2004 to all interested parties, with comments due by mid-2004.

In light of this endorsement by the Committee, early in 2004 the IMF sent the modified version of the AO to all IMF balance of payments correspondents, seeking input on the issues raised. The document was also posted on the Committee’s web page (http://www.imf.org/bop) in English as well as in Arabic, Chinese, French, Russian, and Spanish. The AO sets out, in considerable detail, a series of proposals for modifying the structure and some of the concepts in BPM5. The document also asks a number of questions, seeking input on the proposed changes and possible alternatives. Thirty-three countries and several international organizations provided comments on the proposed changes to BPM5. A paper summarizing these responses can be found on the Committee’s web page. Most of the proposals were supported (see also the Committee’s decisions below), in many instances, very strongly.

The Committee made decisions on several of the recommendations (Box 1) of the three TEGs that had been set up in 2004, following the Committee’s endorsement of an IMF staff proposal at the 2003 meeting of the Committee to create these groups to address some of the more complex technical issues. These TEGs are: Direct Investment Technical Expert Group (DITEG),5 Currency Union Technical Expert Group (CUTEG), and Balance of Payments Technical Expert Group (BOPTEG), the latter of which addresses issues not covered by the other two groups. (See Box 2 for TEG members.) The TEGs each met once before the Committee meeting and made recommendations to the Committee on several of the issues they had been requested to consider. Each TEG met again to develop a further set of recommendations; all three TEGs met in December 2004, and DITEG met a third time in March 2005. The Committee will consider all the TEGs’ further recommendations at its 2005 meeting. DITEG completed its work. BOPTEG and CUTEG may continue to communicate electronically, depending on what issues emerge during the drafting process, and it is possible that one or both of them will meet at a later stage of the new manual’s preparation—for example, to review draft chapters relevant to their mandates.

The Committee was informed that the IMF is considering creation of a new TEG for reserve assets. This is a very important and highly specialized topic and

5DITEG also reports to the OECD’s Workshop on International Investment Statistics (WIIS), as this body has responsibility for updating the third edition of the Benchmark Definition of Foreign Direct Investment (BD3). In order to continue this function, the WIIS has created the Benchmark Advisory Group (BAG). Once DITEG’s work has been completed, it is planned that BAG will use the agreed outcome to prepare a fourth edition of the Benchmark. Decisions by the WIIS and the Committee therefore will be coordinated to ensure that there is agreement on all issues related to direct investment in the revised Benchmark and the revised balance of payments manual.
Box 1. Some Major Decisions Taken by the Committee Regarding the Revision of the BPM5

Guarantees: The Committee agreed with BOPTEG’s proposal that the current treatment of guarantees as contingencies be retained and that the activation of a guarantee should be treated as other changes in the volume of assets/liabilities.\(^1\)

Accrual principle for arrears: The Committee agreed with the proposal that when arrears occur, no transactions should be imputed, but the arrears should continue to be shown in the same instrument until the liability is extinguished. The Committee reinforced the view that data on arrears are important. It was concerned about how the proposals for arrears and non-performing loans could be reconciled.

Loan valuation: The Committee agreed with BOPTEG’s proposal to retain nominal value for loans (both assets and liabilities) in the IIP, with a memorandum item for the creditor, showing the likely realizable value.

Change in economic ownership: The Committee agreed with an IMF staff proposal to adopt the concept of “change in economic ownership” (instead of “change of ownership”) as better reflecting the nature of transactions that are recorded in the balance of payments.

Goods for processing: The Committee agreed with BOPTEG’s proposal to change the treatment—so that the economic ownership principle should be adopted. This would mean that goods for processing would be measured by the processing fee and be treated as a service, not as a good.\(^3\)\(^4\)

Multiteritorial enterprises: The Committee agreed with BOPTEG’s proposal that the current treatment in BPM5 be generalized to all enterprises where identification of separate units in different economies is not possible. For joint sovereignty zones, the Committee agreed that guidance should be provided in the new manual, but flexibility should be allowed.

Institutional sectors: The Committee agreed with BOPTEG’s proposal to include all the national accounts’ institutional sectors in the new manual, but that the presentation should be done in such a fashion as to ease the transition from the four sectors shown in BPM5.

Residence of households: The Committee agreed with BOPTEG’s proposal to adopt the concept of “predominant” center of economic interest. The Committee did not agree that a strict application of the “one-year” rule should be applied to students.

Special purpose entities (SPEs): The Committee agreed with BOPTEG’s and DITEG’s proposal that SPEs are to be recognized as separate institutional units in the economy in which they are incorporated. As there is no international definition for SPEs, the Committee agreed that compilers may wish to present supplementary data using national definitions, where these entities are important.

Classification of services: The Committee agreed with BOPTEG’s proposals that (i) goods for repair should be changed from goods to a service; (ii) additional detail on travel be included on a supplementary basis; (iii) communication and computing services be combined, provided that postal and courier services are classified separately; (iv) construction services be shown with an additional split, to identify construction services abroad separately from construction services in the compiling economy; (v) the treatment of financial services be harmonized, in line with developments at the OECD and the AEG, to the extent possible; (vi) international passengers services should remain in transportation services; and (vii) use of a residual category for services transactions between related enterprises be avoided.

Valuation of direct investment equity: The Committee agreed with DITEG’s proposal that market price should be the preferred valuation principle for direct investment equity, and that that principle be given greater emphasis than it received in BPM5.

Direct investment 10 percent threshold: The Committee rejected DITEG’s proposal to move the threshold for establishing a direct investment relationship from 10 percent equity (or equivalent) to 20 percent.

Treatment of insurance catastrophic claims: The Committee rejected the IMF staff proposal to retain the treatment of insurance claims as being current transfers for catastrophic claims, preferring to adopt the proposal by the AEG that these latter claims should be classified to the capital account.

Fully Consolidated System (FCS): The Committee agreed with DITEG’s proposal that the FCS represents the ideal concept of indirect direct investment relationships but noted that it should be explained more fully in the new balance of payments manual.\(^5\)

Headings and signs: The Committee agreed with IMF staff proposed changes to the presentation of the headings in the financial and other changes in financial assets and liabilities accounts to “changes in assets” and “changes to liabilities” to bring them into line with the IIP and the national accounts.

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\(^1\)The issues papers, describing the issues in greater depth, and the outcome papers, outlining the reasoning for the TEGs’ recommendations, can be found on the Committee’s web page (http://www.imf.org/bop).

\(^2\)The Committee also agreed that the broader issue of risk transfer should be referred to the Task Force on the Harmonization of Public Sector Statistics.

\(^3\)This decision is to be referred to the Advisory Expert Group on National Accounts (AEG), who are reviewing possible changes to the 1993 SNA. Should this proposal not be agreed to by the AEG, the matter will be reconsidered by the Committee.

\(^4\)The Committee also decided to leave the treatment of re-exports and goods in transit unchanged.

\(^5\)The Committee will reconsider the different approaches to measurement of indirect direct investment relationships at its meeting in 2005, following further work by DITEG.
involves a different constituency from those represented by the other TEGs—including reserve managers and users of data on reserve assets, as well as balance of payments compilers. These constituents may have to be invited to participate in any such group to ensure that there is the right level of technical expertise to address the issues comprehensively.

The Committee was brought up to date on the revision process for other macroeconomic statistics and manuals. The InterSecretariat Working Group on National Accounts (ISWGNA) has created an Advisory Expert Group on National Accounts (AEG), with a remit similar to the roles of the TEGs for the balance of payments revision—that is, the AEG will examine proposed changes and report back to the ISWGNA. The IMF’s STA is represented on both the ISWGNA and the AEG, which will foster ready coordination of effort between the reviews of the 1993 SNA and the BPM5. Of the 44 issues being considered by the AEG, many do not have a strong (or any) bearing on the balance of payments or the IIP. Of the recommendations made by the AEG so far (which will go to the ISWGNA for decision), those that do have an impact on the balance of payments are employee stock options (to treat them as compensation of employees and to classify the financial instrument under a new category: financial derivatives and employee stock options), and the measurement of insurance services (to adopt an approach using adjusted claims and premium supplements).
The Committee was also advised on progress on the review and changes to several other statistical systems that are related to balance of payments statistics and the IIP. These include the trade-in-services manual, the tourism satellite account, and the Central Product Classification (CPC). The expectation is that these documents will be consistent, to the maximum extent possible, with the new balance of payments manual. The work on revising the OECD’s *BD3* will commence as soon as the WIIS has considered DITEG’s recommendations. The conceptual basis of direct investment in the new balance of payments manual and the revised benchmark will be the same.

The outcomes from the remaining meetings of the TEGs will be considered by the Committee at its meeting in June 2005. In order for the new manual and the revised 1993 *SNA* to be prepared at the same time and to be as consistent as possible, the AEG, at its meeting in July 2005, will be asked to consider many of these issues; any issues that the AEG does not consider at that meeting will be carried forward to its next (and presumed final) meeting. In the meantime, the drafting of the new balance of payments manual was to commence early in 2005, so that several draft chapters could be considered by the Committee at its meeting in June 2005.

**Portfolio Investment**

The Committee was brought up to date on the results of CPISs, as well as work being undertaken to enhance the collection of CPIS data. This work has wider application to other elements in the balance of payments and the IIP, as well as other parts of the suite of macroeconomic statistics. It covers investigations into how to measure reverse transactions (repurchase agreements and securities lending without cash collateral), holdings of securities by nonresident custodians (third-party holdings); and the development of the European Central Bank’s (ECB’s) Centralized Securities Database (CSDB).

**The Coordinated Portfolio Investment Survey**

The CPIS, which is coordinated by the IMF’s STA, is an international survey of the holdings of portfolio investment assets. The survey provides data on holdings of equity and long-term and short-term debt securities by counterpart jurisdiction of issuer. The survey has been conducted on an annual basis since 2001 (following a limited survey in 1997).

Of the 67 jurisdictions that participated in the 2001 CPIS, all have now agreed to participate on an annual basis. One particularly noteworthy aspect of the CPIS is that about 20 SEIFiCs now take part on a continuing basis. Overall, the willingness of so many countries to participate reflects the benefits that they anticipate will flow from the availability of data on creditor holdings of securities issues. In addition, three countries have agreed to participate on an ongoing basis since the survey became annual.\(^6\)

The data from the survey help to 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 by assisting other data analysts in understanding this fast-growing cross-border exposure. Tables 3 and 4 provide, in matrix form, summary results of the 2002 and 2003 CPISs for the ten largest holders and issuers of securities. More detailed results can be found on the IMF website (http://www.imf.org/bop). Total cross-border holdings of securities reported by participants in the 2002 CPIS were $14,102 billion, and, in 2003, $18,978 billion (as shown in the cell in the bottom right of each table).

Among the more salient results is the impact of the recent decline of the U.S. dollar on the level and distribution of jurisdictions’ holdings of portfolio investment. There was an increase in the level of holdings of portfolio investment by residents of the United States (as the value of their nondollar-denominated holdings increased in dollar terms), as well as an increase (expressed in dollars) in the holdings of securities issued by residents of the euro area. The nature of the survey does not permit a breakdown of the changes in levels between year-ends among transactions, price, and exchange rate changes. However, a Centralized Securities Database (CSDB) will be able to assist with this type of analysis (see below). The role of SEIFiCs is also evident from the results. The combined holdings of portfolio investment assets of The Bahamas, Bermuda, Cayman Islands, Guernsey, the Isle of Man, and Jersey amounted to $682 billion at end-2003. Many of the Committee members indicated that they found the CPIS to be a very valuable exercise. Most members of the Committee are from jurisdictions that participate in the CPIS. Some of the benefits they noted included: (i) improvements in the manner in which the data were collected (in a more controlled and detailed

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\(^6\)To assist jurisdictions to undertake the survey, a survey guide has been prepared (Coordinated Portfolio Investment Survey Guide, Washington: IMF, 2001, 2d ed.). The guide sets out the purpose and conceptual underpinnings of the survey, and offers advice to compilers (such as how to establish a survey frame; how to develop contacts with respondents; software requirements; how to address low or nonresponse rates; what data validation procedures might be put in place; follow up with respondents; and data release). The guide has also been translated into French, Spanish, Arabic, Russian, and Chinese. These documents are available from STA upon request. PDF versions of the document can be found on the IMF’s website at http://www.imf.org/external/np/sta/pi/cpisgd.htm.
Table 3. Geographic Breakdown of Total Portfolio Investment: Top Ten Economies by Holders and Issuers, at Year-End 2002
(In millions of U.S. dollars)

<table>
<thead>
<tr>
<th>Investment from:</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>Total value of investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in:</td>
<td>United States</td>
<td>Japan</td>
<td>United Kingdom</td>
<td>France</td>
<td>Luxembourg</td>
<td>Germany</td>
<td>Italy</td>
<td>Ireland</td>
<td>Netherlands</td>
<td>Switzerland</td>
<td>Other</td>
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<td>24,474</td>
<td>18,143</td>
<td>13,002</td>
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<td>573,831</td>
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Table 4. Geographic Breakdown of Total Portfolio Investment: Top Ten Economies by Holders and Issuers, at Year-End 2003
(In millions of U.S. dollars)

<table>
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<tr>
<th>Investment from:</th>
<th>1 United States</th>
<th>2 United Kingdom</th>
<th>3 Japan</th>
<th>4 France</th>
<th>5 Luxembourg</th>
<th>6 Germany</th>
<th>7 Ireland</th>
<th>8 Italy</th>
<th>9 Netherlands</th>
<th>10 Switzerland</th>
<th>Other</th>
<th>Total value of investment</th>
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<tr>
<td>Investment in:</td>
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<tr>
<td>United States</td>
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<td>654,432</td>
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<td>18,977,993</td>
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</tr>
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</table>
fashion); (ii) use of the counterpart asset data (to compare with their own liabilities data; given that the geographical breakdown of liabilities is hard to estimate from more standard sources of data, the derived liabilities were felt to be particularly valuable); (iii) the economic reality reflected in the data (i.e., during 2001 and 2002, when there had been accommodative monetary policies in most countries, there were rising bond prices); (iv) evidence of “round tripping” (wherein funds return to the jurisdiction in which they originate—a phenomenon related to, and highlighting, the role of international financial centers). It was also felt that the data would become increasingly important as the time series develops.

The Committee was advised that a considerable amount of work undertaken to analyze cross-border portfolio investment has made use of the CPIS, with much of this work being done at the IMF (in departments other than STA). To make greater use of this very rich database, the Bank of Spain plans to hold a conference, in cooperation with the IMF, in late November 2005 on the uses of the CPIS data. It is intended that the conference will include both users and compilers.

The Committee noted the link between the CPIS and the possible CDIS (see below) from both a collection and an analytical perspective and with a beneficial impact on the quality of both. The Committee also felt that the CPIS could serve as a model for a CDIS.

As part of its ongoing attempts to involve as many jurisdictions as possible in the CPIS, the Committee was advised of two workshops conducted by STA during 2004. One workshop was held for SEIFiCs in Guernsey in May. STA aims, to the maximum extent possible, to assist these jurisdictions, in view of their limited resource base and their importance in the survey. The other workshop was held in Beirut in June for members of the Arab League, following a similar workshop held in the same location in 2003. Funding for the workshops was provided by the government of Japan through the Japan Administered Account for Selected Fund Activities. The workshops were designed to provide compilers with the opportunity to exchange their experiences in conducting the 2002 CPIS; to encourage broader participation in the CPIS; to see how the survey might be conducted more efficiently and effectively; to establish a network of contacts among the compilers; and to outline the plans for the 2003 and 2004 surveys. At these workshops, some attendees that do not presently participate in the CPIS indicated that they would be prepared to do so in the near future, while others indicated that they were considering expanding their present coverage.

In order to obtain as comprehensive a picture as possible of cross-border asset holdings of securities, and to enable construction of counterpart liabilities, comparable information to the CPIS is necessary on securities held as reserve assets and securities assets of international organizations, as these assets, by definition, are not included in countries’ holdings of portfolio investment assets. To this end, STA conducts two annual surveys, Survey of Securities Held as Foreign Exchange Reserves (SEFER) and Survey of Securities Held by International Organizations (SSIO). The results of these surveys are available on the IMF’s website (http://www.imf.org/bop). These data form an integral part of the overall results of the surveys on cross-border holdings of securities.

In line with STA’s view that all data should be supported by metadata (to explain to users such elements as the survey methodology employed, the survey frame, the response rate, and other related issues), all jurisdictions that participated in the CPIS were asked to complete a metadata questionnaire. Sixty-four jurisdictions did so. The results of this questionnaire have been disseminated via the IMF’s website. The information will be valuable in analysis of the results, in the exchange of information among the participating countries, and for users and compilers.

Third-Party Holdings

At its 2004 meeting, the Committee considered a report from the Technical Group on Third-Party Holdings (TGTPH). This group had been set up by the Committee in 2000, with a remit to examine how third-party holdings (TPHs) might be captured in official statistics. TPHs are securities that have been placed with a custodian resident in one jurisdiction directly by end-investors resident in another jurisdiction. It is likely that there are many TPHs, especially by households or small or medium-sized enterprises (SMEs), involving substantial amounts of securities. As such holdings lie outside the scope of balance of payments and IIP statistics of the economy of the custodians’ jurisdiction, and as households and SMEs are usually not covered in surveys of end-investors, these holdings are likely to be missed in countries’ IIPs and their CPISs.

In its initial work, the TGTPH found that (i) 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; (ii) there were often multiple custodian chains, so that there were major risks of double counting; and, as a result, (iii) the focus of any further work should be on high-worth indi-
The Committee has on many occasions discussed reverse transactions (repurchase agreements, securities lending without cash collateral, gold swaps, and gold loans or deposits), reflecting their importance, their complexity, and the difficulty in measuring them. Reverse transactions have grown rapidly in volume and complexity in recent years, as financial markets around the world have come to use them much more extensively and effectively.

In view of the problems in measuring reverse transactions, the Committee felt that it was necessary to determine the extent to which supplementary information was available (on sector of the counterparty and the issuer of the security for repurchase agreements and securities lending) and to determine how to classify the payment made by the asset taker for the use of the asset in a securities lending arrangement or in gold loans/deposits. To address these issues, the Technical Group on Reverse Transactions (TGRT) was set up in 2001. The group comprised 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 TGRT’s mandate was 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 for balance of payments and IIP statistics), bearing in mind the Committee’s decision on the appropriate treatment.

As a first step, in 2002 the TGRT undertook a survey of a selection of end-investors, custodians, brokers/dealers, and fund managers in the TGRT participants’ economies to determine whether these institutions’ information systems could readily identify when reverse transactions occur. The results of this survey were presented to the Committee at its meeting in 2003. Among the important results were: (i) the introduction by financial institutions in the United States of a new reporting system that allows the identification of reverse transactions; and (ii) indications by a significant minority of respondents that they record repurchase agreements as both a collateralized loan and a transaction in the underlying security (the so-called four-entry recording).

The Committee found these to be important developments and requested that the TGRT explore them further. The TGRT found that the financial institutions in the United States that have developed and are using the software to identify reverse transactions have decided not to generalize the application, so that, for example, transactions in U.S. Treasury securities will not be covered. At the same time, it appears that these financial institutions
do not wish to make the software available to other financial institutions in other jurisdictions.

The TGRT also developed a questionnaire to follow up on the results of the earlier questionnaire that indicated a significant minority used the four-entry recording and developed a set of examples of how this approach would work. These examples brought out very clearly the complexity of their application. Moreover, on further review, the TGRT considered that there remained too many gaps and problems in the application of the four-entry recording. As a result, the TGRT proposed, and the Committee agreed, that the TGRT should hold a meeting in 2005 (it has previously operated entirely electronically) to resolve these issues, so as to make a recommendation for the treatment of these transactions in time for the new balance of payments manual and the revised 1993 SNA. It was considered that such a meeting should also involve monetary and financial statisticians.

As part of its remit, the TGRT also examined the role of central clearing houses (CCHs) in tripartite repurchase agreements. These institutions, among other things, are principal to all transactions that pass through them, and so they are the counterparty to all parties involved. In this manner, they represent an important potential source of information on the counterparties and the underlying securities involved in reverse transactions, and as they become more important in these transactions, much of the information presently unavailable will become more readily available. A paper from the Bank of England was discussed at the Committee’s 2004 meeting. This paper sets out a work plan to find out more about the nature, role, and operations of CCHs.

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 global securities database (GSDB). Such a database would be multidimensional, with information on such variables as the security’s name; identification number (such as its ISIN: International Security Identification Number); sector and jurisdiction of the issuer; amount; date of issue; currency and coupon (if any); maturity date(s); and, possibly, the sector of the holder. Price information would also be included. The applications for a GSDB are potentially very wide: in addition to the CPIS (for which it would assist those countries compiling security by security), it could be used for balance of payments (to estimate portfolio investment transactions), external debt, data template on international reserves and foreign currency liquidity, monetary statistics, flow of funds tables, sectoral balance sheets in the national accounts, and financial soundness indicators.

As part of its overall work on improving the quality of portfolio investment in the euro area, the ECB has been developing a Centralized Security Database, and the Committee was brought up to date on this CSDB, which contains all the features noted above, plus several more. Preliminary production started in early December 2004, but it would take several months to make sure that the data are consistent. The Committee was informed that, toward the end of April 2005, most of the large outliers were to be identified and that these would then be checked with the national central banks of the European System of Central Banks (ESCB) and the BIS. Contacts are also foreseen with the U.S. Federal Reserve System and the Bank of Japan. In due course, other central banks (outside those already involved) may be granted access to the CSDB. Of particular importance to the CPIS would be information on prices and exchange rates; it was felt that, for analytical purposes, it would be very useful to separate holdings in mutual funds from other types of equity, especially in countries where mutual funds play a major role. The Committee was advised that all members of the euro area should be using the security-by-security approach to the measurement of portfolio investment (quarterly) stocks by 2008.

In addition to the ECB’s database, the BIS has maintained a securities database for many years, primarily for international securities but increasingly for domestic securities as well. The Committee was advised that the coverage of international securities is good (with data coming from commercial providers) but that the coverage of national securities on issue is currently limited to 42 countries. Data quality on securities has improved as the frequency of reconciliation of data from commercial providers has increased to a quarterly basis. Sector classification has also improved, with public and private splits now available for banks, nonbank financial institutions, and other businesses. Time series on international securities have been improved, having been carried back to 1966.

Direct Investment

Survey on Implementation of Methodological Standards for Direct Investment

Following the success of the 2001 Survey on Implementation of Methodological Standards for Direct Investment (SIMSDI), at its meeting in 2002 the Committee gave its support for the IMF and the OECD to conduct another survey, as of end-2003. The aim of the SIMSDI is to

10The WIIS also approved the proposal.
determine the extent to which countries have adopted international standards for compiling direct investment statistics, as set out in BPM5 and BD3. The results of the 2001 survey are available on the Committee’s web page (http://www.imf.org/bop) and have also been published in print.11

Accordingly, a revised questionnaire was sent to 166 countries, 30 OECD member countries and 136 other members of the IMF. The Committee was informed that 120 countries, from all regions, are expected to complete the questionnaire, including all 30 OECD members. All but eight of these participants are expected to agree to have their results published. Once the results have been processed, they will be placed on the Committee’s web page, replacing the 2001 results. Metadata for 54 countries were disseminated on the IMF’s website in early 2005.

**Task Force on the Feasibility of Conducting a Coordinated Direct Investment Survey**

The Committee discussed the work of the Task Force on the Feasibility of Conducting a Coordinated Direct Investment Survey. The Task Force was set up in 2004, following the Committee’s endorsement at its 2003 meeting of the proposal by the IMF’s STA to the IMF’s Executive Board to undertake a feasibility study as a possible precursor to a CDIS. Such a survey would build on the successes of the CPIS and SIMSDI. STA had advised the Executive Board of the potential value of a CDIS, in light of the key importance of direct investment data and the discrepancies in the existing data. It also advised the Board of the complexities of such an undertaking. The department had stressed the importance of conducting a feasibility study before embarking on what would represent a much more ambitious exercise than either the CPIS or SIMSDI.

The feasibility study and the work on direct investment for the new balance of payments manual are to be done in tandem. Work was needed on various methodological issues before a full survey could be carried out. The feasibility study is to be carried out in conjunction with the OECD and other international organizations with an interest in direct investment statistics and simultaneous with the work being undertaken by the DITEG, so that the CDIS, should it proceed, will be based on the methodological standards in the new balance of payments manual and the new Benchmark Definition of Foreign Direct Investment.

The Task Force comprises the ECB, Statistical Office of the European Communities (Eurostat), the OECD, United Nations Conference on Trade and Development (UNCTAD), and the IMF; it met three times in 2004. Its meetings have also been attended by representatives from Australia, Belgium, Hong Kong SAR, South Africa, the United Kingdom, and the United States. The Task Force considered the survey’s reference date, whether data should be collected on income and financial transactions, whether end-of-period assets data should be collected, or whether the survey should be restricted to liabilities positions only, as well as which jurisdictions should be asked to participate.

In view of the complexity of direct investment relationships, the difficulties involved in obtaining consistent valuation principles (given that most direct investment entities are not listed), as well as the problems involved in coordinating a large survey of this nature, the Task Force proposed that the survey be conducted as of end-2009. The Task Force felt that delaying the reference date to 2009 has many advantages. Among these are the fact that the revised standards on direct investment that will be included in the new balance of payments manual and the revised Benchmark Definition will not be available until 2006,12 at the earliest. The Task Force felt that basing a CDIS on the current standards might limit its usefulness, especially if the survey were to be repeated. Waiting until 2009 also has the advantage of coinciding with the United States’ benchmark survey on outward direct investment—there are clear synergies and analytical benefits from conducting a CDIS at the same time that the largest direct investing country undertakes such a survey, as asset data from the United States could be compared, on a bilateral basis, with the data for the counterpart liabilities. A further advantage of waiting until 2009 is that it would give countries time to prepare for the survey. Four years’ lead time is comparable to the time between the decision to undertake the first CPIS and its reference date.

The Task Force also proposed that the survey should be limited, at least initially, to liabilities positions data (broken down by counterpart country), although it felt that assets positions data (also by counterparty) might also be collected, at least from those jurisdictions with significant outward direct investment. The Task Force proposed, at least for the first such survey, should it proceed, that information be limited to the immediate counter-

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12Although the work of DITEG was concluded in early 2005, and its recommendations were considered by its parent bodies—the Committee and the WIIS—by the end of June 2005, the process of turning these decisions into internationally accepted standards will take at least a year.
party. While data on ultimate beneficial owner/ultimate destination (UBO/UD) are very useful, the Task Force was of the view that extending the scope of the survey to UBO/UD would impose too heavy a burden.

In addition, the Task Force determined that about 80 jurisdictions should be invited to participate in the feasibility study, with sufficient participation from every region. Limiting participation in the survey to approximately that number would maximize the benefits of the exercise without imposing too heavy a load on the resources of the IMF.

Accordingly, the Task Force prepared a questionnaire to be sent to possible participants in a CDIS. The questionnaire seeks, among other things, to gauge their willingness to participate in a CDIS if it were to be conducted as of end-2009 and to identify obstacles or potential methodological problems that may affect the comprehensiveness of the data collected under such an international initiative. The questionnaire also seeks some bilateral data. Indications of countries’ willingness to participate will be in no way binding. The Task Force intends to dispatch the questionnaire in the (northern) spring of 2005, so that responses can be tabulated and a report prepared for the IMF’s Executive Board by the end of 2005.

Most members of the Committee strongly supported most of the Task Force’s proposals, but some felt that the number of invitees might be increased, given that some countries may become more important destinations of direct investment over the next five years. The Committee recognized the difficulties involved in conducting a successful CDIS. Among these, the Committee felt that a common basis for valuing direct investment positions would be the most problematic. Members also noted that obtaining creditor data for inward direct investment that goes via third-party jurisdictions (such as SEIFiCs) would be very important for several important recipients of direct investment that may not participate in a CDIS. Given the proposal that data not initially be collected on a UBO/UD basis, such information would be missed, as a decision was made not to invite SEIFiCs to participate in a CDIS (given the considerable commitment of their limited statistical resources to the CPIS). The Committee emphasized the need for a solution to this problem.

Remittances

The paper from the United Kingdom informed the Committee about a set of actions agreed to by the G-8 at its meeting in June 2004 to promote private-sector-led actions to help alleviate poverty. The paper noted that one way to achieve this goal is through the facilitation of remittances to help families and small businesses. G-8 countries have set up a number of actions to measure remittances, both in their own countries and with developing countries, including pilot partnership programs. The paper also noted that there is limited information available on remittances, which acts as a constraint on policymaking. The G-8 has stressed the need to improve the data on remittances and to make them internationally comparable. The establishment of a statistical working group has been proposed, to be led by the World Bank. The group would also include government agencies that compile balance of payments statistics, both from the G-8 and from other countries, along with technical experts from international organizations, including the IMF.

The paper noted that, because compensation of employees’ and migrants’ transfers may also be relevant within the context of this initiative, the balance of payments framework is likely to be central to the exercise. Unfortunately, data on these series are not considered to be of a very high quality even at the aggregate level, let alone for bilateral data, which is where most of the focus is likely to be.

In this regard, the paper from the OECD’s Round Table on Sustainable Development provided valuable comparisons across countries and regions. While recognizing the data limitations, the paper pointed out that, for example, most remittances and compensation of employees (they were treated together, as published data frequently do not draw a distinction) recorded by OECD countries were to other OECD countries, and that most payments recorded from non-OECD countries were with other non-OECD countries.

The paper on the statistical framework to measure the movement of persons, prepared by UNSD, takes a broader scope than Mode 4 as defined in the General Agreement on Trade in Services (GATS). Mode 4, in a strict sense, focuses exclusively on the supply of services through the presence of natural persons of one country in the territory of another country. The proposed framework is designed to obtain a more in-depth picture of the economic impacts of the temporary movement of persons in the home and host countries, as well as more reliable estimates of economic indicators such as gross domestic product and remittances, and, by extension, gross national income and gross national disposable income. The paper also discussed the choice of variables to analyze the economic impact of the movement of persons and, in
particular, identified the need to develop a common definition for remittances.

The Committee was apprised that a meeting on remittances, including statistical issues, was to be hosted by the World Bank in early 2005 (STA was present at this meeting).

The Committee found these papers to be very interesting and revealing. The Committee felt that it would be appropriate to request the World Bank to ask the G-8 to confirm that the balance of payments framework would be used and, if so, that the balance of payments classification is appropriate for policy needs. It was agreed that, once confirmation is received, the TSGMNP should take aspects of this issue forward. The Committee was also advised that the government of the United Kingdom is offering to provide funds to assist developing countries in implementing surveys on remittances.

The HIPC Initiative

The Committee considered a paper from the IMF on the statistical treatment of transactions and positions arising from the HIPC Initiative and Exceptional Finance. As the HIPC Initiative was launched well after the publication of BPM5, there has been concern among compilers that the current framework does not adequately address some of the HIPC debt-related transactions. Among the principal areas of concern are: (i) the classification of transactions once agreements are reached in principle and before their signing and implementation; (ii) measurement of savings (transfers) arising from reductions of interest to concessional levels; and (iii) identification and classification of transfers, including those dealing with HIPC Trust Funds. Of particular note was the importance of correctly treating transfers to be sure that the savings behavior recorded by the parties involved is not presented in a manner that might be misleading for economic analysis and policymaking.

In 1996, the IMF and the World Bank together designed a framework to provide special assistance to HIPCs that made a commitment to programs supported by both institutions. The HIPC Initiative allows eligible countries to benefit from a reduction in the present value of the stock of their external debt to sustainable levels, in exchange for continued efforts in macroeconomic stabilization, structural adjustment, and poverty reduction. In 1999, the Enhanced HIPC Initiative was introduced to strengthen the link between debt relief, poverty reduction, and social policies through deeper and more rapid debt relief to a larger number of countries.

The paper included a series of particular questions that had been addressed to the Committee. These included: (i) the statistical treatment of the debt service falling due under the Paris Club Agreements and during debt-service moratoria; (ii) economic transfers arising from concessional lending; (iii) rescheduled payments arising from the accrual of interest; (iv) the separation of current from capital transfers in exceptional financing; and (v) the treatment of income accruing in the HIPC Trust Funds.

The Committee found the paper to be very valuable because it addressed many of the issues that needed clarification. A further paper providing methodological guidance on the specific issues raised will be considered at the Committee’s next meeting.

International Financial Statistics

The Committee was informed about the international financial statistics maintained by the BIS: 38 jurisdictions participate in the provision of data on a locational basis (these data are assembled on the same residence basis as the balance of payments); 30 jurisdictions provide data on a consolidated basis. Of the latter, all but 9 (all smaller jurisdictions) provide data on an ultimate risk basis, consistent with the BIS definition. Most participating central banks submit their data to the BIS within 12–13 weeks of the end of the period. As of end-2004, the BIS will be collecting enhanced consolidated banking data that will cover more detailed and comprehensive data on country risk exposures on an ultimate risk basis, including exposures from derivative instruments.

For data on foreign exchange and derivatives markets, the Committee was advised that a record 52 countries participated in the 2004 BIS triennial survey. The survey was conducted in two parts. The first part was the collection of data on turnover in foreign exchange and OTC derivatives market activity on a locational basis for April 2004. The second part was the collection of data at end-June 2004 for positions outstanding on OTC derivatives market activity on a consolidated basis. Nondeliverable forwards (NDFs) were identified separately. Preliminary results were released on the BIS’s website (http://www.bis.org) in 2004, and final results became available in March 2005. Data quality of the survey was improved by: (i) clarification of the definition of “dealers” and “in-house” or related-party deals; (ii) improved definition of the dealer concept in order to better distinguish between inter-dealer trades and those with end customers; (iii) use of a sales desk basis, as opposed to a trading desk basis; and (iv) provision of illustrative examples for respondents on how to...
determine the location of trades. The BIS also collects and publishes statistics on most OTC financial derivatives on a semi-annual basis, covering stock data on notional and market values on a consolidated basis, from approximately 60 major dealers in the G-10.

The Committee was informed that the BIS makes its securities database available, without charge, on its website. The database covers most international securities, but the coverage of domestic securities is not as comprehensive: at present, 42 jurisdictions (mostly central banks) provide data on domestic issues. These data are compared with various other data sources to maximize the data quality.

**Reporting Under BPM5**

The Committee reviewed the progress countries were making in reporting balance of payments and IIP data to the IMF’s STA on the basis of the classification system of **BPM5**, as well as the use of electronic reporting. For the 2004 *Balance of Payments Statistics Yearbook*—

- 160 countries reported balance of payments data using the coding system of **BPM5** (compared with 157 in 2003).
- 162 countries reported in electronic form (compared with 158 in 2003), 9 of which report in EDIFACT (the same as in 2003).
- 33 countries are now reporting using the STA’s web-based Integrated Correspondence System, an increase of 13 from 2003.
- 105 countries now report quarterly balance of payments statistics to the IMF (up from 100 in 2003).
- A growing number of countries are reporting IIP data: for 2003, there were 84 comprehensive reporters (an increase of one from 2003), and a further 14 provided partial IIP data (up from 12 the year earlier).

**Other Issues**

The Committee also received papers on: (i) the establishment of a revisions policy for India’s balance of payments data, which also explored various techniques for analyzing revisions; (ii) developments in the United States toward the collection of data on financial derivatives; (iii) the development of Japan’s internet reporting system; (iv) the reengineering of the collection and processing of business statistics at the Australian Bureau of Statistics; (v) a series of seminars in 2005, to be conducted by STA, on the data template on international reserves and foreign currency liquidity to review experiences; and (vi) a report on the work of the Interagency Task Force on Finance Statistics. The Committee was also given a presentation on the evolution of the French reporting system since the inception of the EMU.

**V. Future Work Program**

Appendix 3 sets out in detail the medium-term work program agreed by the Committee in 2004. 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.

Top priority for the Committee is updating the **BPM5** and direct investment issues. For updating the **BPM5**, STA and other members of the TEGs will prepare and disseminate several draft chapters of the new manual, including incorporating the work of BOPTEG, DITEG, and CUTEQ. For issues relating to direct investment, the IMF’s STA will provide a progress report of the Task Force on the Feasibility of Conducting a Coordinated Direct Investment Survey, including the results of the questionnaire to be sent to potential participants.

High priority is accorded to the CPIS, the development of a CSDB, remittances, the HIPC Initiative, metadata on direct investment, data quality, and reserve assets.

The Committee gave medium priority to global imbalances, implementation of **BPM5**, international trade in services, third-party holdings, reverse transactions, external debt and the IIP, and international financial statistics.

A paper by STA on “short” positions was accorded a low priority.

**VI. 2005 Meeting**

In view of the tight timetable for the preparation of the new balance of payments manual and the consequential early resolution of issues still outstanding, the Committee held its 2005 meeting on June 27–July 1, 2005. The meeting was held at the IMF Headquarters, in Washington, D.C.
Appendix 1
IMF Committee on Balance of Payments Statistics:
Composition as of December 31, 2004

Chair
Robert W. Edwards
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
Satoru Hagino
   Bank of Japan
Robert Heath
   IMF, Statistics Department
Makoto Kato
   Ministry of Finance, Japan
Ralph Kozlow
   U.S. Bureau of Economic Analysis
Lily Ou-Yang Fong
   Census and Statistics Department, China, Hong Kong SAR
Michael Debabrata Patra
   Reserve Bank of India
Neil Patterson
   IMF, Statistics Department
Art Ridgeway
   Statistics Canada
Eduardo Rodriguez-Tenés
   Bank of Spain
Sergei Shcherbakov
   Central Bank of Russia

Almut Steger
   Deutsche Bundesbank
Ernest van der Merwe
   Reserve Bank of South Africa

Representatives of International Organizations
Ayse Bertrand
   Organization for Economic Cooperation and Development
William Cave
   Organization for Economic Cooperation and Development
Ivo C. Havinga
   United Nations Statistical Division
Jean-Marc Israel
   European Central Bank
Philippe Mesny
   Bank for International Settlements
Markus van Wersch
   Statistical Office of the European Communities

Secretariat
Robert Dipplesman ¹
   IMF, Statistics Department
John Joisce
   IMF, Statistics Department
Manik Shrestha
   IMF, Statistics Department

¹Did not attend the meeting in 2004.
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 2004

<table>
<thead>
<tr>
<th>Subject</th>
<th>Issue</th>
<th>Action</th>
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<tbody>
<tr>
<td><strong>Top Priority</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Updating <em>BPM5</em></td>
<td>Draft several chapters of the new balance of payments manual and prepare methodological documents for consideration by the Committee and technical expert groups</td>
<td>Papers and draft chapters by IMF staff and other members of technical expert groups</td>
</tr>
<tr>
<td>Coordinated Direct Investment Survey</td>
<td>Feasibility study</td>
<td>Report by IMF staff on the work of the Task Force on the Feasibility of Conducting a Coordinated Direct Investment Survey, including results on the survey of potential participants, and progress towards making recommendations to the IMF Executive Board</td>
</tr>
<tr>
<td><strong>High Priority</strong></td>
<td></td>
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<tr>
<td>Coordinated Portfolio Investment Survey</td>
<td>Results of the 2003 and 2004 CPIS</td>
<td>IMF to publish results of 2003 CPIS and process 2004 CPIS; report by IMF staff on 2003 results</td>
</tr>
<tr>
<td></td>
<td>Conference on use of the CPIS database</td>
<td>To be organized by the Bank of Spain, in collaboration with the IMF</td>
</tr>
<tr>
<td>Remittances</td>
<td>Request by G-8 summit for improved data on remittances</td>
<td>Reports by UN on activities of the Technical Sub-Group on the Movement of Natural Persons—Mode 4 and by the IMF on international meeting at the World Bank</td>
</tr>
<tr>
<td>Development of Centralized Securities Database</td>
<td>Operationalization of the ECB’s Centralized Securities Database</td>
<td>Report by the ECB</td>
</tr>
<tr>
<td>Heavily indebted poor countries</td>
<td>Treatment of HIPC countries in balance of payments and the IIP</td>
<td>Paper by IMF staff</td>
</tr>
<tr>
<td>Metadata on direct investment</td>
<td>Survey of Implementation of Methodological Standards for Direct Investment</td>
<td>Progress report by IMF staff and OECD on the 2003 survey; IMF to publish country metadata</td>
</tr>
<tr>
<td></td>
<td>Promote use of SIMSDI metadata</td>
<td>IMF to contact countries and international organizations; Australia to prepare paper for <em>Balance of Payments Newsletter</em></td>
</tr>
<tr>
<td>Data quality</td>
<td>India’s revisions policy</td>
<td>India and IMF to prepare paper for <em>Balance of Payments Newsletter</em> of the STA</td>
</tr>
<tr>
<td>Reserve assets</td>
<td>Definition of reserve assets</td>
<td>Paper by IMF staff</td>
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<tr>
<td><strong>Medium Priority</strong></td>
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<tr>
<td>Global imbalances</td>
<td>Indication of imbalances in global balance of payments statistics</td>
<td>Paper by IMF staff</td>
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<tr>
<td>Implementation of <em>BPM5</em></td>
<td>Update on implementation and practical difficulties in implementing <em>BPM5</em></td>
<td>Paper by IMF staff on <em>BPM5</em> reporting to the IMF’s STA</td>
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<tr>
<td>Subject</td>
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<td>Third-party holdings of</td>
<td>Consultation with potential respondents</td>
<td>Progress report by technical group</td>
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<td>portfolio investment</td>
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<tr>
<td>Reverse transactions</td>
<td>Statistical treatment of repurchase agreements, securities lending,</td>
<td>Report by working group on reverse transactions, including proposed solutions</td>
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<td>gold loans, and gold swaps</td>
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<tr>
<td>External debt and IIP</td>
<td>Improve reporting of external debt data within the IIP framework</td>
<td>Paper by IMF staff on developments at Interagency Task Force on Finance Statistics</td>
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<tr>
<td>International Financial</td>
<td>Use and improvement of international financial statistics</td>
<td>Paper by BIS</td>
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<tr>
<td>Statistics</td>
<td></td>
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<tr>
<td><strong>Low Priority</strong></td>
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<tr>
<td>Portfolio investment</td>
<td>Statistical treatment of short positions</td>
<td>Paper by IMF staff</td>
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