15 The Capital Account

Introduction

15.1 The capital account shows capital transfers receivable and payable between residents and nonresidents, and the acquisition and disposal of nonproduced, nonfinancial items.

15.2 Capital transfers are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another; or which obliges one or both parties to acquire or dispose of an asset (other than cash or inventories); or where a liability is forgiven by the creditor. A capital transfer results in a commensurate change in the positions of assets of one or both parties to the transaction without affecting the saving of either party.

15.3 Nonproduced nonfinancial assets include intangible assets covering contracts, leases, licenses, and marketing assets; and natural resources (generally land). The capital transfers include debt forgiveness and assumption, extraordinary claims associated with nonlife insurance, and investment grants. The capital transfers are usually irregular in nature, can be large (particularly in the case of capital transfers) and are usually limited in sector (to government, insurance, and charitable organizations), or industry (mining, forestry, fishing, communications, etc.).

Acquisitions and Disposals of Nonproduced, Nonfinancial Assets

Intangible Assets

Marketing assets

15.4 Marketing assets include items such as brand names, mastheads, trademarks, logos, and Internet domain names. When marketing assets are sold separately from the company that owns them, they are treated as the net acquisition/disposal of a nonproduced, nonfinancial item; when they are sold as part of the sale of a company, they are included in the valuation of the company.

15.5 Franchising agreements can provide a company with the right to use or license to use the marketing assets of the franchisor. Franchising agreements are included in trade in services as a charge for the use of intellectual property n.i.e. Reporters in business surveys of trade in services may not understand the distinction between the purchase of marketing assets and the license to use them under a franchise agreement and may misreport them. As a consequence, model survey form 6 in Appendix 8 includes questions on the purchase or sale of marketing assets to try to ensure accurate reporting of franchising, and to provide a data source for the purchase or sale of marketing assets. An international transactions reporting system (ITRS) may also identify situations where transactions in marketing assets have taken place in isolation from the company that owned them.

15.6 It is relatively unusual for transactions in marketing assets to take place separately from the underlying company; as such, any occasion where these transactions are identified should be subject to further scrutiny by the balance of payments compiler.

Contracts, leases, and licenses

15.7 Contracts, leases, and licenses include marketable operating leases, permissions to use natural resources that are not recorded as outright ownership of those resources, permissions to undertake certain activities (including some government permits), and entitlements to purchase a good or a service on an exclusive basis.

15.8 One example of a marketable operating lease is a type of time-share arrangement that involves a transferable right to use. Table 15.1 describes the treatment of alternative time-share arrangements.

15.9 For time-share arrangements, there will usually be a body corporate that manages the accommodation complex and provides services (e.g., scheduling of use, organizing waiting lists, and facilitating transactions).

Table 15.1 Treatment of Alternative Time-Share Arrangements[1]

Type of arrangement	Classification of asset	Up-front payment	Periodic flow	Transaction in asset if the right is resold
Deeded ownership	Ownership of land and buildings	Direct investment in notional unit in economy where time-share is located	Accommodation services in travel (imputed based on equivalent market prices) and investment income (income on direct investment equity)	Equity of the time-share holder (direct investment)
Right to use	Transferable right to use	Prepayment of accommodation (trade credit and advances)	Accommodation services in travel	Extinguishment of trade credit and advances + Nonproduced nonfinancial asset (capital account) (equal to difference between selling price and value of prepaid accommodation services)
Membership system	Nontransferable right to use (not an economic asset)	Prepayment of accommodation (trade credit and advances)	Accommodation services in travel	Trade credit and advances

Source: IMF staff.
[1]This table differs in presentation (not in substance) from Table 10.3 in the *BPM6* in regard to the capital account entry when a "right to use" is resold by showing the capital account transactions in the final column.

This company may be able to be included in a business survey in the host economy that covers trade in services (as services will be provided in association with the management of the complex) and transactions in nonproduced, nonfinancial assets.

15.10 Contracts, leases, and licenses also include licenses for mineral exploration and extraction, forestry licenses, fishing licenses, water rights, airspace licenses, spectrum licenses, and emissions rights, and permits, if they are marketable. If the assets are sold by a government to a business company, then a notional direct investment enterprise (DIENT) often is created. If the criterions for recognizing a DIENT are not met, then the license payments are treated as a rent and included in primary income. Information on marketable licenses may be sourced from the government authorities that issue the licenses in the host economy. The compiler in the economy of the license holder can use a business survey that covers trade in services and transactions in nonproduced, nonfinancial assets as there will usually be services provided associated with the license. Businesses holding the licenses will generally be limited to specific industries—particularly mining exploration, fishing, forestry, telecommunication, manufacturing, and electricity generation.

15.11 Marketable assets also include the entitlements to purchase a good or a service on an exclusive basis. This relates to the case when one party that contracted to purchase goods or services in the future transfers the obligation of the second party of the contract to a third party. Although human capital is not recognized as an asset in macroeconomic accounts, in some cases the contracts may entitle the holders with exclusive right for his services and limiting the ability of a named individual to work for others. In such cases the contracts are regarded as assets. A common example of such contracts is for sports players where, for example, a football club can sell the exclusive rights to the services of a particular player to another club.[1] Some agreements in professional sports involving the sale of rights to players are called "transfer agreements" and others are called "loan agreements." "Transfer agreements" occur when the player's registration is transferred from one club to another, and the buying club pays compensation (a fee) for the rights to the player. Under "loan agreements," a player is allowed to temporarily play for a club other than the one with which the player is currently under contract. The "loan arrangement" may last a short period of time (such as a few weeks) or extend all season-long or even for a few seasons.

[1]See *2008 SNA*, paragraph 17.368.

15.12 When the sale of rights to a player involves a cross-border transaction, the fee paid by the party acquiring the player under a "transfer agreement" should be classified under gross acquisitions/disposals of nonproduced nonfinancial assets in the capital account. In contrast, amounts paid under "loan agreements" (which, as noted, involves the temporary transfer of rights to use the services of players) should be recorded in property income as rent. This is because—similar to payments for natural resource rights—contracts, leases, and licenses are nonproduced nonfinancial assets, and so the recording of outright purchases/sales (capital account) and payments for the temporary transfer of rights (rent) should be similar.

15.13 Both "transfer" and "loan" agreements may be of a variety of forms with different terms, including those related to risk factors, transfers of registration, salaries for the players, players' sponsorship and media rights, and so on. The compiler would need a variety of details regarding the terms of the agreements (with particular attention to agreements that are significant in value) to determine appropriate classifications in the balance of payments.

Land

15.14 International transactions in land and other natural resources do not usually arise because notional resident units are generally identified as the owners of these immovable assets. As a result, purchases and sales of these assets are generally resident-to-resident transactions.

15.15 International transactions in land arise when foreign governments or international organizations purchase or enter into long-term (financial) leases of land for purposes of establishing or extending their enclaves, diplomatic missions, or military bases. Transactions are also recorded when control of land changes by mutual agreement or decision of international court, or when an economic territory is split and compensation is paid for the land. Uncompensated splits of economic territories and unilateral annexation of territory by an economy are not capital account transactions; the change in territory is treated as a volume change in the other changes in assets and liabilities account.

15.16 The assets and liabilities of any institutional units that are resident in the territory that is sold/purchased are accounted for in the reconciliation of the international investment position through the other changes in volume account. Only the value of the land is recorded in the capital account; any buildings, structures, or other improvements on the land are recorded as purchases of construction services. If it is not feasible to split the values of land and structures, the classification in the balance of payments should be according to which value is deemed to be higher: if the land is more valuable, the transaction will be recorded in capital account, and if the value of structures is deemed to be higher, the transaction will be recorded under construction services.

15.17 Information on international transactions in land (both credits and debits) usually can be sourced from government records. To draw a distinction between the value of land and buildings, the compiler could use data collected through the land register as an additional source.

Capital Transfers

15.18 The compiler needs to distinguish between capital transfers (the entry in the balance of payments as an offset to an unrequited transfer of a capital item) and current transfers (all other transfers, recorded in the secondary income account). It is possible that some cash transactions may be regarded as capital by one party to the transaction and as current by the other party. A large economy that regularly makes investment grants in cash to a number of smaller economies may regard the outlays as current, even though they may be specifically intended to finance the acquisition of assets. So that a donor and a recipient do not treat the same transaction differently, a transfer should be classified as capital for both parties even if it involves the acquisition or disposal of an asset, or assets, by only one of the parties. When there is doubt about whether a transfer should be treated as current or capital, it should be treated as a current transfer.

Debt Forgiveness, Debt Assumption, and Activation of One-Off Guarantee

Debt forgiveness

15.19 Debt forgiveness is the process of cancelling a debt with the agreement of both parties. It differs from the write-off or cancellation of a debt, which is the recognition of the creditor that a debt can no longer be collected and treated as a volume change. Bankruptcy of the debtor may also extinguish a debt position; if the debt is unrecoverable, it is also treated as a volume change.

15.20 Governments or international organizations (IO) are usually the creditor in cases of debt forgiveness (other governments may be the debtor), but forgiveness is not restricted to government/IO-to-government positions. The extinguishment of debt between two commercial companies including between companies in a direct investment relationship is more often a case of debt cancellation or debt write-off, and is recorded as other volume changes.

15.21 Information on debt forgiveness may be available from government authorities in the economy of the creditor. In the economy of the debtor, the debtor should already be included in business surveys of external financial assets and liabilities and the forgiveness can be identified through this vehicle.

Debt assumption and activation of one-off guarantees

15.22 Debt assumption occurs when one party takes on the liability of another party. The debt assumption may be the result of the activation of a guarantee or without a guarantee being in place. In cases where debt assumption takes place, the debt-assuming party is usually a government (the government of the economy in which the original debtor is located) or a company in a direct investment relationship with the original debtor (noting that companies in the same economy can be in a direct investment relationship).

15.23 The transactions that are recorded when debt is assumed depend on whether the debt-assuming party has a claim on the original debtor; in all cases, the claim of the creditor on the debt-assuming party is created through a financial account entry. In cases described ahead three parties involved in the transactions (creditor, original debtor, and debt-assumer) are residents of different economies:

(1) If the debt-assuming party does not acquire a claim on the (original) debtor because the original debtor no longer exists (e.g., the original debtor has been liquidated), a capital transfer from the debt-assuming party to the creditor is recorded as the corresponding entry to the creation of the liability. The original debt of the debtor is written off in the accounts of both the original debtor and the creditor (other hanges in financial assets and liabilities account).

(2) If the debt-assuming party does not acquire a claim on the (original) debtor because the debt assumer seeks to give a benefit to the debtor (as is sometimes the case when governments assume debts) or the debt-assuming party assumes a claim that is lower in value than the value of the debt, then unless the guarantor is in a direct investment relationship with the original debtor (see (c)), a capital transfer from the debt-assuming party to the original debtor is recorded. The claim on the original debtor by the creditor is extinguished (financial account entry).

(3) In other cases, the debt-assuming party acquires a claim on the original debtor as a result of the assumption of the debt (financial account entry) and a debt liability to the creditor. Such a claim may be on the original debtor as a debt claim or as an increase in the guarantor's equity in the original debtor (e.g., assumption of the debt owed by a subsidiary will improve the balance sheet of the subsidiary and, hence, the direct investor's equity in the subsidiary). In this case, the claim on the original debtor by the creditor is extinguished (financial account entry).

15.24 Table 15.2 identifies the balance of payments transactions and other changes in financial assets and liabilities that should be recorded in each case. For the purposes of the table, a company in economy A assumes the debt of a company in economy B that is owed to a company in economy C. Where two of the companies are in the same economy, the transactions shown in the table between those two companies are not recorded in the balance of payments accounts, as they are resident-to-resident transactions, but they could affect international investment positions, as when external liabilities change institutional sector due to debt assumption by a government. The table shows the entries in the accounts from the perspective of the compiler in each of the three economies.

15.25 Information on debt assumption should be available from government records in the cases where governments assume debt. Where a direct investor

Table 15.2 Treatment of Debt Assumption

(A assumes debt of B owed to C)

Case	Balance of payments of economy A (debt assumer is resident)			Balance of payments of economy B (original debtor is resident)		Balance of payments of economy C (creditor is resident)		
Original debtor ceases to exist (case a)	**Debit**		**Net incurrence of liabilities**	**Other change in financial assets and liabilities account (IIP)**		**Credit**	**Net acquisition of financial assets**	**Other change in financial assets and liabilities account (IIP)**
	Capital account—capital transfer—other capital transfers (C)		Appropriate financial account debt entry (C) [increase]	Debt liability (C) [decrease]		Capital account—capital transfer—other capital transfers (A)	Appropriate financial account debt entry (A) [increase]	Debt claim (B) [decrease]
Original debtor exists, no claim from debt assumer on original debtor (case b)	**Debit**		**Net incurrence of liabilities**	**Credit**	**Net incurrence of liabilities**	**Net acquisition of financial assets**		
	Capital account—capital transfer (B)		Appropriate financial account debt entry (C) [increase]	Capital account—capital transfer (A)	Appropriate financial account debt entry (C) [decrease]	Appropriate financial account debt entry (A) [increase] Appropriate financial account debt entry (B) [decrease]		
Original debtor exists, reduced claim from debt assumer on original debtor (case b)	**Debit**	**Net acquisition of financial assets**	**Net incurrence of liabilities**	**Credit**	**Net incurrence of liabilities**	**Net acquisition of financial assets**		
	Capital account—capital transfer[1](B)	Appropriate financial account entry[2] (B) [increase]	Appropriate financial account debt entry[3] (C) [increase]	Capital account—capital transfer[1] (A)	Appropriate financial account entry[2] (A) [increase] Appropriate financial account debt entry (C) [decrease]	Appropriate financial account debt entry[3] (A) [increase] Appropriate financial account debt entry (B) [decrease]		
Original debtor exists, full claim of debt assumer on original debtor (e.g., increase in direct investment equity) (case c)	**Net acquisition of financial assets**	**Net incurrence of liabilities**		**Net incurrence of liabilities**		**Net acquisition of financial assets**		
	Appropriate financial account entry (B) [increase]	Appropriate financial account debt entry (C) [increase]		Appropriate financial account entry (A) [increase] Appropriate financial account debt entry (C) [decrease]		Appropriate financial account debt entry (A) [increase] Appropriate financial account debt entry (B) [decrease]		

Source: IMF staff.

[1]Equal to difference between the incurred liability to creditor and acquired claim on original debtor.

[2]Equal to the value of claim on original debtor acquired by A.

[3]Equal to the value of the liability to C acquired by A.

assumes the debt, this information may be available through a business survey of external financial assets and liabilities. Similarly, information from the original debtor (when it continues to exist) and from the creditor can be collected in the same survey.

Nonlife Insurance Claims

15.26 Nonlife insurance premiums and claims are generally treated as current transfers within the secondary income account in the balance of payments. When a catastrophic event occurs that gives rise to extraordinary claims beyond normal business processes, some part of the claims may be treated as capital transfers. Catastrophic events include earthquakes, tsunami, floods, cyclones, hurricanes, hail storms, bushfires, and so forth, except where these events can be considered periodic and expected within the normal course of nonlife insurance business.

15.27 It may be difficult for the parties to identify these events consistently, so, as a simplifying convention, all cross border nonlife insurance claims are classified as current transfers unless it is necessary to record a capital transfer to be consistent with the national accounts. Coordination with the compilers of the national accounts is necessary to ensure consistent treatment within the macroeconomic accounts.

15.28 Catastrophic events that cause extraordinary claims on domestic insurers will generate similar claims on reinsurers. Where the reinsurer is a nonresident, these claims would be treated as capital transfers to the same extent as the original claims on the insurers.

15.29 Extraordinary claims that are treated as capital transfers should be excluded from the calculation of insurance services. Similarly, the extraordinary losses associated with these claims should be excluded from the calculation of profit (loss) of insurers that are DIENTs. Any loss that remains after exclusion of the extraordinary losses should be treated as a normal loss from current operations.

15.30 Where catastrophic events have occurred, the events may have had a significant impact on the policyholders themselves and the infrastructure to support usual surveying practices may have broken down, making it difficult to collect data. This could result in timing and coverage issues, and the compiler may need to make careful estimates until more accurate data become available.

15.31 "Insurance Transactions and Positions" in Appendix 2 provides a more detailed discussion of the compilation of data about the insurance industry.

Investment Grants

15.32 Investment grants consist of capital transfers in cash or in kind made by governments or international organizations to other institutional units to finance all or part of the costs of their acquiring fixed assets. The recipient of an investment grant is often a governmental unit. Investment grants can include also technical assistance (e.g., consulting) related to the investment project. Technical assistance that is tied to or is part of capital projects is classified as capital transfers (*BPM6*, paragraph 12.50).

15.33 As all flows are to be expressed in monetary terms, the monetary values of in-kind transactions need to be indirectly measured or otherwise estimated.

15.34 If an investment project continues over a long period of time, an investment grant in cash may be paid in installments. Payments of installments continue to be classified as capital transfers even though they may be recorded in a succession of accounting periods.

15.35 If the donor and recipient are both private companies in a direct investment relationship, the grant is not considered a capital transfer. The grant is considered an injection of direct investment equity capital when the direct investor is the donor and a DIENT is the recipient, and a distribution of profits or a withdrawal of equity when the donor is a DIENT and the recipient is the direct investor.

15.36 Example 15.1 shows the balance of payments entries for the investment grants.

15.37 Information on donors can be sourced from official records when the donor is the government. Model form 16 in Appendix 8 provides examples of the information that could be requested from these organizations on investment grants. Information on recipients can usually be sourced from official records.

Capital Taxes

15.38 Capital taxes consist of taxes levied at irregular or infrequent intervals on the values of the assets

Example 15.1 Investment Grants

From the government entity, the compiler of economy B was able to obtain the information on the grants (in cash and in kind) received from abroad during the accounting year:

(1) A cash grant was transferred to the government for the construction of a road: 155

(2) The government of economy A built a school in economy B during the year and provided it as a donation to economy B. The school was built using the donor's labor and materials. The total cost of the project was 70, of which:

estimated cost of the construction materials (imported from economy C): 30

salaries paid to constructors: 25

architectural and engineering services: 15

The following entries should be recorded in the balance of payments of economy B for the accounting year:

	Credit	Debit
Current account		
Goods and services		
Goods		
General merchandise		30
Services		
Construction		25
Other business services		
Technical, trade-related, and other business services		15

	Credit	Debit
Capital account		
Capital transfers		
General government		
Other capital transfers	155+70	
Financial account	**Net acquisition of financial assets**	**Net incurrence of liabilities**
Other investment		
Currency and deposits		
General government	155	

or net worth of institutional units, or on the values of assets transferred between institutional units as a result of legacies, gifts, or other capital transfers. That is, capital taxes consist of levies on capital items and taxes on capital transfers.

15.39 Recurrent taxes on income and wealth as well as taxes on financial and capital transactions are classified as current transfers in the secondary income account.

15.40 Information on capital taxes should be available from the revenue authorities in the economies where the taxes are levied. The compiler in the economy of the payers of capital taxes may benefit from partner economy data in compiling capital tax debits.