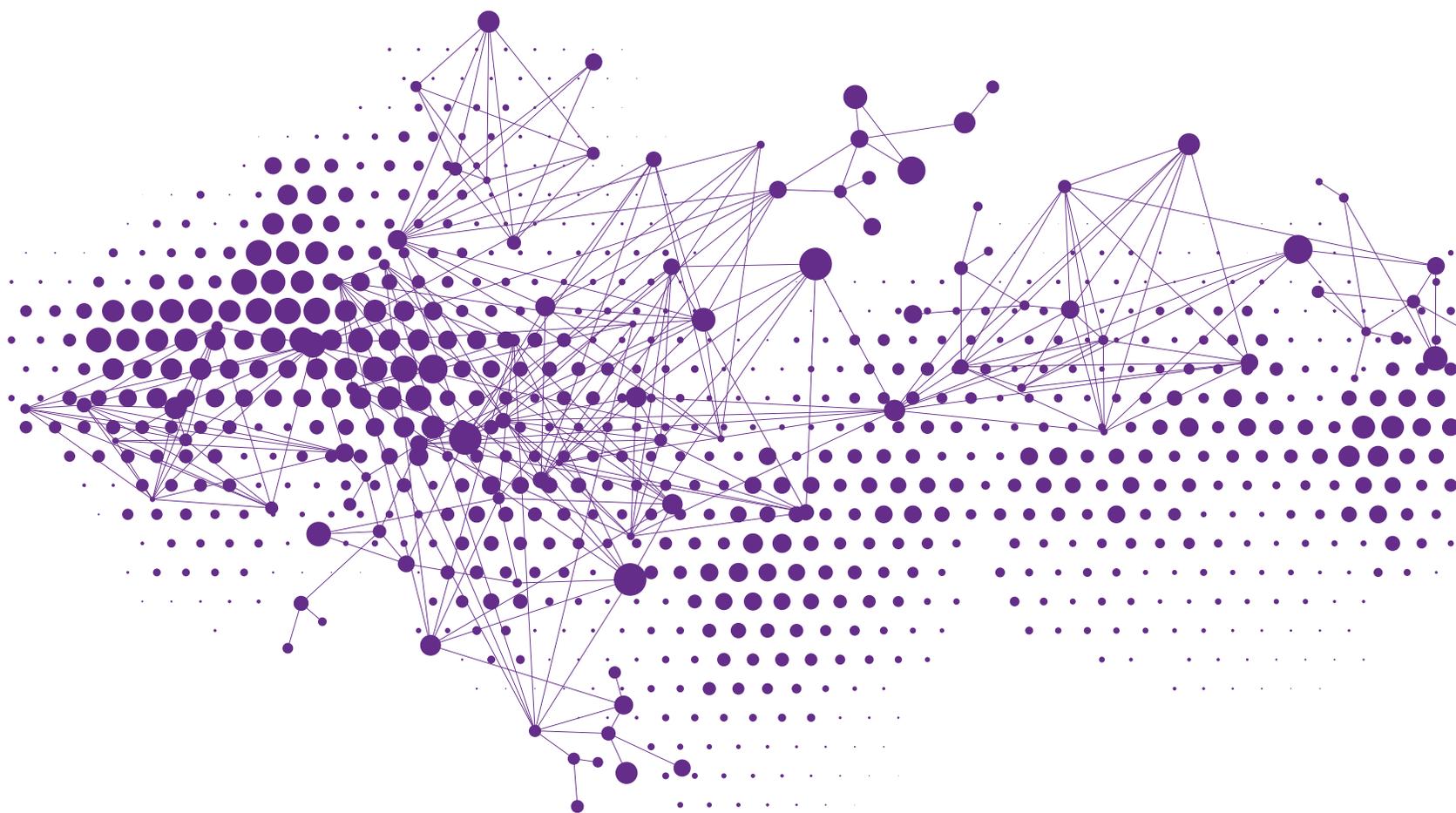


COMPILATION GUIDE



BPM6 COMPILATION GUIDE

COMPANION DOCUMENT TO THE SIXTH EDITION OF
*THE BALANCE OF PAYMENTS AND INTERNATIONAL
INVESTMENT POSITION MANUAL*

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Preface

The 2014 *Balance of Payments and International Investment Position Compilation Guide* (the *Guide*) is a companion document to the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* which was published by the International Monetary Fund (IMF) in 2009. The primary purpose of the *Guide* is to provide practical advice on source data and methodologies for compiling statistics on the balance of payments and the international investment position that are consistent with *BPM6*.

Globalization, increasing elaboration of balance sheet issues, and financial innovation are three major themes that emerged during the *BPM6* revision. The *Guide* identifies data sources and adjustments to source data that would be appropriate for compiling data on a *BPM6* basis.

The *Guide* provides guidance that is applicable for different economies—from the smallest and least developed to the most advanced and complex. National compilers should develop and adapt the data sources and compilation methods in ways that are appropriate to their national circumstances, by considering the practical and legal constraints in their own economies.

An economy's data compilation methods should evolve over time as the economy changes. Therefore, the *Guide* does not present a prescriptive or definitive approach to compiling statistics on the balance of payments and the international investment position (IIP). Instead, the *Guide* identifies the relative strengths and weaknesses of alternate approaches, and identifies the adjustments that may be required to source data to derive estimates of flows and stocks that are consistent with the recommendations in *BPM6*.

The *BPM6* strengthens the theoretical foundations and linkages with other macroeconomic statistics, and the *Guide* includes elaboration on these linkages. The *Guide* also provides practical advice on using the data from the other macroeconomic accounts in compiling the international accounts.

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The *Guide* was produced under the direction of two Directors of the Statistics Department (Adelheid Burgi-Schmelz [2008–2012] and Louis Marc Ducharme [2013–]). Robert Heath was the responsible Deputy Director.

In the Balance of Payments Division, the coordinator was Ms. Tamara Razin (Senior Economist), who also drafted some of the chapters and edited the contributions of others. The work was undertaken under the close supervision and guidance of Mr. Ralph Kozlow (Chief). Many other staff in the division also contributed to the project, including Eduardo Valdivia-Velarde (Deputy Chief), Mr. Paul Austin, Mr. Jose Carlos Moreno-Ramirez, Ms. Silvia Matei, Ms. Rita Mesias (all Senior Economists), Ms. Emma Angulo and Ms. Cornelia Hammer (both Economists), Ms. Colleen Cardillo and Mr. John Joisce (retired, formerly Senior Economists), Ms. Loida Cruz (former Senior Economist, currently with the Bank of Philippines), and Ms. Bianca Ully (former special appointee, currently with the Österreichische Nationalbank).

Staff from other divisions of the Statistics Department also contributed to the text: Data Dissemination and Review Division (Mr. Andrew Kitili, Deputy Chief and Mr. Mark van Wersch, Senior Economist), Financial Institutions Division (Mr. Artak Harutyunyan, Deputy Chief), Government Finance Division (Ms. Sagé de Clerck, Senior Economist), Real Sector Division (Mr. Kim Zieschang, Chief, Mr. Robert Dippelsman, Deputy Chief, and Mr. Thomas Alexander, Senior Economist), Statistical Information Division (Mr. René Piché, Deputy Chief, and Mr. James Chan, Information Management Assistant).

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Abbreviations

ABO	accrued benefit obligation
AP	approval of foreign investment
BD4	OECD <i>Benchmark Definition of Foreign Direct Investment</i> , fourth edition
BEC	Broad Economic Category
BIS	Bank for International Settlements
BLA	Bilateral Loan Agreements
BML	broad-money liability
BOM	Bank of Mauritius
<i>BPM5</i>	<i>Balance of Payments Manual</i> , fifth edition
<i>BPM6</i>	<i>Balance of Payments and International Investment Position Manual</i> , sixth edition
c.i.f.	cost, insurance, and freight
CB	central bank
CBS	central bank survey
CDIS	Coordinated Direct Investment Survey
COPC	Current Operating Performance Concept
CPC	Central Product Classification
CPIS	Coordinated Portfolio Investment Survey
CR	credit
CSDB	Centralized Securities Database
DAC	Development Assistance Committee
DC	domestic credit
DCS	depository corporations survey
DFID	United Kingdom Department for International Development
DI	direct investment
DIENT	direct investment enterprise
DOTS	<i>Direction of Trade Statistics</i>
DQAF	Data Quality Assessment Framework
DR	debit
DSD	data structure definitions
DTC	deposit-taking corporations
e.g.	exempli gratia (for example)
EBOPS	Extended Balance of Payments Services (Classification)
ECB	European Central Bank
EDDI	Enhanced Data Dissemination Initiative
EDS	external debt statistics
EDSG	<i>External Debt Statistics: Guide for Compilers and Users</i>
ESCB	European System of Central Banks
ESO	employee stock option
EU	European Union
f.o.b.	free on board

FDI	foreign direct investment
FDIR	Framework for Direct Investment Relationships
FDR	full direct reporter
FIN	IMF Finance Department
FISIM	financial intermediation services indirectly measured
FMA	Financial Market Authority
FP	financial press
FPSO	floating production, storage, and off-load (vessels)
FS	financial statements of enterprises
FSC	Financial Services Commission
GAB	General Arrangements to Borrow
GATT	General Agreement on Tariffs and Trade
GBC	global business corporation
GDDS	General Data Dissemination System
GDP	gross domestic product
GFS	government finance statistics
<i>GFSM</i>	<i>Government Finance Statistics Manual</i>
GNI	gross national income
HS	Harmonized Commodity Description and Coding System
i.a.	inter alia (among other things)
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBS	international banking statistics
<i>IFS</i>	<i>International Financial Statistics</i>
IIP	international investment position
<i>IIP Guide</i>	<i>Quarterly International Investment Position Statistics: Data Sources and Compilation Techniques</i>
IMF	International Monetary Fund
IMTS	international merchandise trade statistics
<i>IMTS 2010</i>	<i>International Merchandise Trade Statistics: Concepts and Definitions</i>
IO	international organization
<i>IRFCL</i>	<i>International Reserves and Foreign Currency Liquidity: Guidance for Data Template</i>
<i>IRTS 2008</i>	<i>International Recommendations for Tourism Statistics 2008</i>
ISIN	International Securities Identification Number
ISO	International Organization for Standardization
ITRS	international transactions reporting system
JEDH	Joint External Debt Hub
MC	management company
MFS	monetary and financial statistics
<i>MFSM-CG</i>	<i>Monetary and Financial Statistics Manual and Compilation Guide (2013)</i>
MMF	money market fund
<i>MSITS 2010</i>	<i>Manual on Statistics of International Trade in Services</i>
MTO	money transfer operator
n.i.e.	not included elsewhere
NAB	New Arrangements to Borrow
NAV	net asset value
NCB	national central bank
NFA	net foreign assets
NGO	nongovernmental organization
NPA	Note Purchase Agreement
NPISH	nonprofit institution serving households

ODA	Official Development Assistance
ODC	other depository corporations
ODCS	other depository corporations survey
OECD	Organization for Economic Cooperation and Development
OeNB	Österreichische Nationalbank
OFBV	own fund at book value
OFC	other financial corporations
OFCS	other financial corporations survey
OIN	other items net
PBO	projected benefit obligation
PCFS	private capital flows survey
PDR	partial direct reporter
PSA	production sharing arrangement
QEDS	Quarterly External Debt Statistics
RL	register of external loans
RPF	reserve position in the IMF
SBS	security-by-security
SDDS	Special Data Dissemination Standard
SDMX	Statistical Data and Metadata Exchange
SDR	special drawing right
SDRF	Supplementary Data Report Forms
SITC	Standard International Trade Classification
SMEs	small and medium-sized enterprises
SNA	system of national accounts
SPE	special purpose entity
SRF	standardized report form
SUR	survey
TIC	Treasury International Capital
U.S.	United States
UCP	ultimate controlling parent
WTO	World Trade Organization
2008 SNA	<i>System of National Accounts 2008</i>

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1

Introduction

Purpose of the *Guide*

1.1 The *Balance of Payments and International Investment Position Compilation Guide (Guide)* is a companion document to the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* published by the International Monetary Fund (IMF) in 2009. The *Guide* updates the *Balance of Payments Compilation Guide* released in 1995. The *BPM6* addresses important developments that have occurred in the international economy since the *BPM5*, including those that have emerged from globalization, increased elaboration of balance sheet issues, and changing patterns of financial intermediation. The purpose of the *Guide* is to show how the conceptual framework described in the *BPM6* may be implemented in practice. Key elements of the framework are described in paragraphs 11–24 of this chapter. The *Guide* is not intended to be a “stand-alone” manual; users of the *Guide* should be familiar with the *BPM6*.

1.2 The important relationship between the *BPM6* and the *System of National Accounts 2008 (2008 SNA)* is explained in detail in the *BPM6* and outlined in Appendix 6 of this *Guide*. The international accounts include the balance of payments, the international investment position (IIP), and the other changes in financial assets and liabilities accounts. The balance of payments statement is equivalent to the rest of the world accounts of the *SNA*,¹ and the IIP statement may be considered a component of the sectoral balance sheet accounts of the *SNA*. Therefore, in describing how the international accounts statements may be compiled, the *Guide* also illustrates how the rest of the world account of the *SNA* may be compiled.

¹The *SNA* rest of the world accounts are presented from the point of view of the nonresident units, whereas the balance of payments presents the same transactions from the point of view of resident units.

1.3 The *Guide* was prepared to assist balance of payments and IIP compilers in understanding the various compilation methods employed throughout the world for the preparation of the international accounts. The *Guide* should be useful to national accounts compilers that prepare the rest of the world account by using the balance of payments statement or balance of payments data sources.

1.4 The *Guide* can be of interest to users of balance of payments and IIP statistics who wish to understand the nature and quality of data sources and methods underlying the international accounts and related national accounts tables. For instances when national concepts, sources, and methods are set out in published documents by national compilers, they can be compared with best practices provided in this *Guide*.

1.5 The preparation of the *Guide* included extensive consultation with international accounts compilers and other interested parties worldwide, including the IMF Committee on Balance of Payments Statistics.

Scope of the *Guide*

1.6 Preparation of the *Guide* included consideration of the main tasks that balance of payments and IIP compilers normally perform. While such tasks vary from economy to economy, the following list represents a fairly typical set:

- Extraction of data from collections (e.g., international merchandise trade statistics, migration statistics, and other official sources) over which the compiler may have some influence but not full control
- Extraction of data from collections (such as reporting systems for foreign exchange and other international transactions and surveys of businesses) managed, either solely or jointly with

other statistical compilers, by the balance of payments compiler

- Compilation of the international accounts, including balance of payments, supplementary balance of payments series, and the IIP statement
- International accounts data management, publication, dissemination, and communication with users
- Evaluation and development of data sources and compilation methods as necessary
- Assessment of data quality

1.7 The *Guide* covers all the tasks or functions in the preceding list. For example, the *Guide* includes descriptions of data sources used by the balance of payments and IIP compiler. For sources that the compiler typically manages, a discussion of the design and management of data collection is also included.

1.8 Articulating balance of payments and IIP compilation methodology is difficult because economies have developed procedures independently, and each national methodology may be considered unique. Some patterns emerge, but different national experiences have created different approaches as to the most appropriate methodology. Consequently, it is not possible to present a single methodology suitable in all cases. Instead, the *Guide* outlines various options that may be available. In addition, for economies that have well-developed compilation systems, the *Guide* contains criteria against which these compilation systems may be compared and evaluated. For economies that may need to improve parts of their compilation systems, the *Guide* presents information on approaches used elsewhere. For economies that do not have well-developed systems, the *Guide* contains advice for compiling balance of payments and IIP items and a set of model collection forms that can be used as a starting point to develop a data collection system.

Organization of the *Guide*

1.9 The *Guide* has 17 chapters and eight appendices. Chapters 2 through 9 describe sources that can be used to compile balance of payments and IIP statistics. Chapters 10 through 16 deal with the compilation of specific components of balance of payments, IIP, and related statistics, including the recording of exceptional financing transactions in the balance of

payments. Chapter 17 discusses two aspects of data quality assessment—namely, accessibility and serviceability of these statistics.

1.10 The *Guide* includes eight appendices discussing complex methodological and compilation issues, as well as other issues that go across several accounts. A conversion matrix that matches the standard components of the *BPM5* with the standard components of the *BPM6* is presented in Appendix 1. The next three appendices discuss issues related to the compilation of estimates of insurance, pension and standardized guarantees schemes (Appendix 2), financial intermediation services indirectly measured—FISIM (Appendix 3), and foreign direct investment (Appendix 4). Methods for the compilation of balance of payments on a regional basis (by partner economy or group of economies) are examined in Appendix 5. Appendix 6 presents the linkages of the international accounts to the national accounts, monetary and financial statistics, and government finance statistics, including a presentation in parallel of the recording of flows and positions in the *SNA* and the *BPM6*. Appendix 7 introduces the balance of payments coding system, and finally, a set of 23 model survey forms is presented in Appendix 8.

1.11 An element of repetition is present in the *Guide*. Some specific balance of payments and IIP components are described in different parts (e.g., direct investment is covered in Chapter 3, Specific Surveys for Balance of Payments and International Investment Position; Chapter 9, The International Investment Position; Chapter 10, The Financial Account; and Appendix 4, Foreign Direct Investment). The description of such specific components is done in the context of the respective chapter/appendix and ensures an adequate coverage of the subject.

Conceptual Framework

1.12 A brief outline of the conceptual framework underlying the international accounts must precede discussion of data sources and methods used to compile the balance of payments and IIP statements. The following outline provides a summary of the *BPM6*. For a more complete presentation, please consult the *BPM6*. In instances where the reader might consider that the conceptual advice in this *Guide* could be interpreted as deviating from the *BPM6*, the *BPM6* is

to be used as the prime source of conceptual advice. The concepts of the international accounts are harmonized with the *SNA*, so they can be compared or aggregated with other macroeconomic statistics.

1.13 The international accounts for an economy summarize the economic relationships between residents of that economy and nonresidents and provide an integrated framework for the analysis of an economy's international economic relationships. They comprise the following statistical statements:

- The IIP—A statement that shows at a point in time (1) the value of financial assets of residents of an economy that are claims on nonresidents or are gold bullion held as reserve assets, and (2) the liabilities of residents of an economy to nonresidents
- The balance of payments—A statement that summarizes economic transactions between residents and nonresidents during a specific time period
- The other changes in financial assets and liabilities account—A statement that shows other flows, such as valuation changes, that reconciles the balance of payments and IIP for a specific period, by showing changes due to economic events other than transactions between residents and nonresidents

1.14 An economy consists of all the institutional units that are resident in a particular economic territory. The most commonly used concept of economic territory is the area under the effective economic control of a single government. For the purposes of global statistics and reporting to the IMF, it is important to have data on all areas under control of a particular government, including special zones, even if for some of the government's own purposes, those zones are excluded or shown separately. Economic entities who have closer associations with other economies are nonresidents.²

Flows and Positions

1.15 Flows refer to economic actions and effects of events within an accounting period, and positions refer to a level of assets or liabilities at a point in time. International flows are recorded in the accounts as trans-

actions (balance of payments) and other flows (other changes in financial assets and liabilities account). Positions of external financial assets and liabilities are recorded in the IIP. Flows and positions are integrated so that all changes in positions between two points in time are fully explained by the recorded flows. Positions and flows of financial assets and liabilities are grouped according to the functional and instrument classifications of financial assets and liabilities. Nonfinancial transactions are generally grouped according to their nature and characteristics. Flows and positions are discussed in detail in the *BPM6*, Chapter 3.

1.16 A *transaction* is an interaction between two institutional units that occurs by mutual agreement or through the operation of the law and involves an exchange of value or a transfer. The definition is extended to cover actions within an institutional unit that are analytically useful to treat and separately identify as transactions, often because the unit is operating in two different economies, such as where one part operates as a nonresident branch. The definition is also extended to cover unrequited transfers, by the identification of transfers as the corresponding flow to the economic value supplied. Transactions recorded in the international accounts are between two institutional units, one a resident of the compiling economy and the other a nonresident, and which represent a change of economic ownership between the units.

1.17 *Other flows* are changes in the volume, value, or classification of an asset or liability that do not result from a transaction between a resident and a nonresident. Other flows cover two broad types: (1) other changes in the volume of assets and liabilities, which reflect entrances of new assets into balance sheets and exits of existing assets and liabilities from balance sheets that are not caused by interactions by mutual agreement between institutional units (i.e., transactions); and (2) revaluations (holding gains and losses) on an asset or liability arising from exchange rate changes or from other changes in prices.

1.18 *Positions* refer to the level of financial assets or liabilities at a point in time and are recorded in the IIP. Positions at two points of time are connected with flows during the intervening period because changes in positions are caused by transactions and other flows.

²The concept of residency is fully discussed in Chapter 4 of the *BPM6*.

Accounting System

1.19 The international accounts for an economy are to be compiled on a vertical double-entry bookkeeping basis from the perspective of the residents of that economy, set out in two columns.³ Because each transaction is either an exchange or a transfer, it requires two entries of equal value. Vertical double-entry bookkeeping ensures that the total of all credit and that of all debit entries for all transactions are equal. In the international accounts, the net IIP provides a measure of net financial claims with nonresidents plus gold bullion held as monetary gold.

1.20 In the current and capital accounts, a credit denotes entries from exports of goods and services, primary income receivable, transfers receivable, and disposals of nonproduced nonfinancial assets. A debit is used to record entries for imports of goods and services, primary income payable, transfers payable, and acquisitions of nonproduced nonfinancial assets. In the case of transactions in financial assets and liabilities, the use of the terms “net acquisition of financial assets” and “net incurrence of liabilities” highlights the impact of the financial account on the IIP. Financial account items are recorded on a net basis separately for each financial asset and liability (i.e., they reflect changes due to all credit and debit entries during an accounting period). A positive change indicates an increase in assets or liabilities, and a negative change indicates a decrease in assets or liabilities.

1.21 The *BPM6* recommends the use of the accrual basis for determining the *time of recording* of flows. The accrual basis provides the most comprehensive information because all flows are recorded (including nonmonetary transactions, imputed transactions and other flows). The change of economic ownership is central in determining the time of recording on an accrual basis. A change in ownership from an economic point of view means that all risks, rewards, and rights and responsibilities of ownership in practice are transferred.

1.22 An important issue for the balance of payments compiler is the conversion of transactions and

positions data expressed in one currency to the currency (unit of account) in which the balance of payments accounts are compiled.⁴ The *BPM6* recommends that flows be converted at the rate prevailing when the flows take place and positions at the rate prevailing on the balance sheet date. The midpoint between the buying and selling rates should be used at the time of transactions and at the close of business on the reference date for positions.

1.23 Although the balance of payments accounts are in principle balanced, imbalances result from imperfections in source data and compilation. This imbalance—known as net errors and omissions—is a usual feature of balance of payments data and should be identified separately in published data.

Classifications Used in the International Accounts Statistics

1.24 The different accounts within the balance of payments are distinguished according to the nature of the economic resources provided and received. The current account shows transactions of goods, services, primary income, and secondary income between residents and nonresidents; the capital account shows credit and debit entries for nonproduced nonfinancial assets and capital transfers between residents and nonresidents; and the financial account shows net acquisition and disposal of financial assets and liabilities. The sum of the balances on the current and capital accounts represents the net lending (surplus) or net borrowing (deficit) by the economy with the rest of the world. This is conceptually equal to the net balance of the financial account. The financial account plus the other changes account explain the change in the IIP between the beginning- and end-of-periods.

1.25 Financial assets are residents’ financial claims on nonresidents and gold bullion, and financial liabilities are nonresidents’ financial claims on residents. The major classifications of financial assets and liabilities in the financial account and in the IIP are as follows:

- Functional type of investment (direct investment, portfolio investment, financial derivatives (other than reserves) and employee stock options, other investment, and reserve assets)

³The accounting system underlying the international accounts, in addition to the vertical double-entry bookkeeping, derives from two other bookkeeping principles (a horizontal double-entry bookkeeping and quadruple-entry bookkeeping). These accounting principles are explained fully in Chapter 3 of the *BPM6*.

⁴For some economies, the unit of account is the national currency, and for others another currency (e.g., U.S. dollars) may be used.

- Instrument of investment (equity and investment funds shares, debt instruments, and other financial assets and liabilities)
- Sector of the domestic transactor (central bank, general government, deposit-taking corporations, except the central bank, and other sectors—other sectors are further broken down between other financial corporations, nonfinancial corporations, households, and nonprofit institutions serving households).

Data Sources Used to Compile International Accounts Statistics

1.26 Chapters 2 through 9 present and analyze the main data sources that may be used to compile balance of payments and IIP statements, ranging from enterprise surveys to the use of individual counterpart economy data available in international databases. Special features of these sources are noted. Enterprise surveys are treated in Chapters 2 (how to conduct a survey) and Chapter 3 (specific surveys for balance of payments and international investment position). The use of an international transactions reporting system and of the international merchandise trade statistics is discussed in Chapter 4 and Chapter 5, respectively. Other official and administrative data sources (for the general government and central bank sectors and data gathered by government institutions as a by-product of carrying out their various functions) are discussed in Chapter 6. Data provided by the IMF and other international organizations

and international databases with individual counterpart economy data (such as the international banking statistics, coordinated direct investment survey, and coordinated portfolio investment survey) are discussed in Chapter 7. Institutional arrangements, estimation techniques, and other issues that may affect the compilation of international accounts are discussed in Chapter 8. Data sources for developing an IIP statement, including deriving quarterly position data from quarterly transactions data, are discussed in Chapter 9.

Compiling and Disseminating International Accounts Statistics

1.27 Chapter 10 covers topics relevant to preparation of the financial account, including estimation techniques when relevant data are either untimely or unavailable. Chapters 11 through 15 focus on individual balance of payments categories: goods (Chapter 11), services (Chapter 12), primary income (Chapter 13), secondary income (Chapter 14), the capital account (Chapter 15), and exceptional financing (Chapter 16).

1.28 Chapter 17 focuses on two important aspects of the data quality assessment. Serviceability relates to the dissemination of data with an appropriate periodicity and timeliness, and consistent internally and with other macroeconomic datasets. Accessibility relates to the dissemination of data and metadata clearly, on an easily available and impartial basis, and with suitable support service for users.



2

How to Conduct a Survey

Introduction

2.1 This chapter provides some general information and rules on what needs to be done to conduct enterprise surveys. However, these procedures can also be applied to other business or household surveys if conducted for balance of payments purposes. Many economies continue to use a bank international transactions reporting system (ITRS); however, some economies are moving to survey-based collection systems. Individual economies decide on the general approach to adopt, but it is considered that a survey-based system is better able to collect the data for the balance of payments and IIP as transactions become increasingly complex, while in some more “basic” circumstances the ITRS is still effectively used.

2.2 Enterprise surveys can be used to capture data for most elements of the balance of payments and IIP. They all have common operational aspects. This chapter begins with a description of the steps that are involved in conducting an enterprise survey. The general principles set out in this chapter are applicable in all cases, even though the collection process may range from data collection by telephone from a few large companies to highly organized, large-scale, mail-based or Web-based surveys. A survey may also be designed to capture a specific type of data or to obtain data that supplement other sources, such as an ITRS.

2.3 Surveys should be based on clearly defined objectives, sound collection methodology, and a well-established legal basis. Properly designed collection forms, full coverage of the population, well-defined data structures and classifications, and effective data validation and aggregation procedures are also required for enterprise surveys.

Timetable

2.4 Compiling agencies that have never conducted a survey will have a different timetable from those agencies that conduct them regularly. Box 2.1 sets out

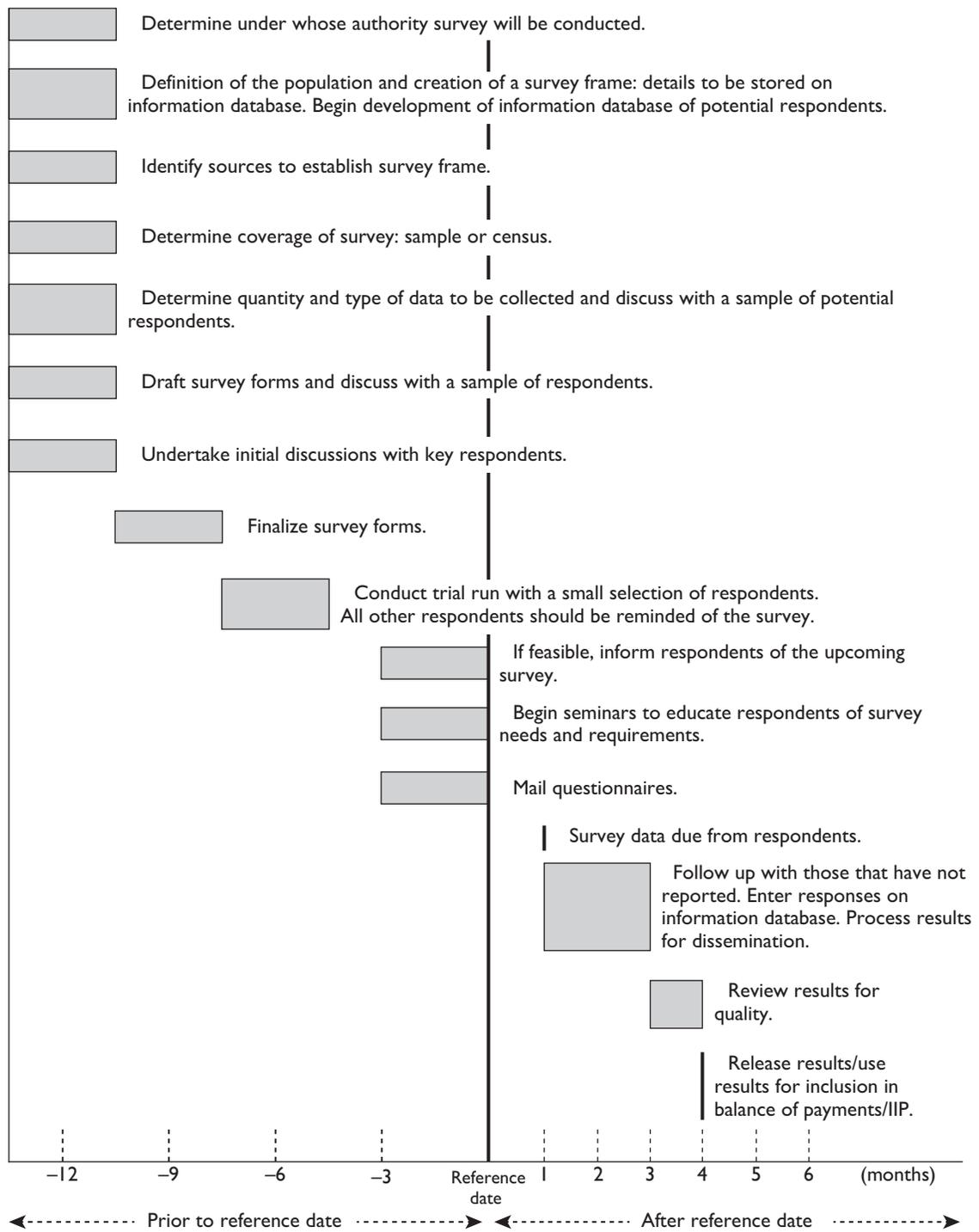
a broad framework for a timetable, covering most of the aspects compilers will need to take into account when developing a survey. Each of the steps is elaborated further in this chapter. The timetable can be adapted to national circumstances, but in general the steps apply to most surveys. Agencies with more practice and experience, or topics that are not as complicated as others, may not need as long a lead time prior to conducting the survey, and also may not need as much lead time for editing, processing, and disseminating responses to the survey.

Responsibility for Producing Official Statistics

2.5 In many economies, a statistics act or formal legal arrangements exist under which the central bank or statistical agency has the authority to collect information or conduct a survey. In some economies, there may be no such legal authority. In those circumstances, proceeding with a collection on a voluntary basis may be appropriate, depending on the general relationship between the collecting agency and the companies being surveyed, but it is preferable to have legal authority as soon as possible. Good legal authority needs to state that reporting of statistical information is mandatory, especially for large companies.

2.6 In some economies, responsibility for collecting data for balance of payments purposes may be split between two or more agencies. For example, central banks may have responsibility for obtaining data from financial institutions, while the national statistical agency may have responsibility for the nonfinancial entities. In other economies, an investment approval agency or a financial supervisor may be a very important source of information about cross border transactions. Whereas involving all the relevant agencies in the survey design will improve the relevance, as well as the overall coverage and accuracy, of the data eventually collected, it is important that the legal authority for the collection of these data allows all appropriate

Box 2.1 Draft Timetable for Conducting an Enterprise Survey



agencies to access the information. The survey questionnaire should make clear which agencies have access to the reported data. More information on institutional arrangements for compiling external sector statistics is presented in Chapter 8 of the *Guide*.

Creating or Updating a Survey Frame

2.7 The survey frame comprises the set of units subject to the survey and the details about those units that can facilitate conducting of the survey. The survey frame can be used to list units as well as to facilitate some of the steps involved in conducting the survey, notably through storing and tracking information on the units being surveyed.

Developing a Register

2.8 The sources of information on potential survey respondents are varied, and the work required in compiling a register to conduct a survey for the balance of payments purposes will depend on the extent to which a register already exists. A register is a set of records containing information on economic units that are included, or have the potential to be included, in balance of payments surveys.

2.9 If there is no existing register or if it is only rudimentary, these are some of the sources that could be used to build a register:

- Existing registers of companies maintained by the statistical agency or other government agencies for other purposes that might serve to provide useful information on those companies with international transactions or positions
- Government administrative sources; depending on legislation and administrative arrangements or the authority of the collection agency, these might include taxation records, files, or lists (including value added tax files and Customs files)
- Information held by foreign investment approval agencies or marketing boards
- Information held by regulatory authorities (such as those responsible for supervision of financial institutions)
- Statutory company reports and company registration details
- Records held in foreign exchange control or international transactions reporting systems

- Media reports (e.g., business magazines, newspapers, or trade journals)
- Publicly available databases and reports such as the stock exchange register, commercial equity registry information services, international credit rating agencies' publications, market research reports or services by accounting or brokerage firms
- Industry and trade associations; these associations can make available lists of members, often with indications of their financial size
- Telephone directory.

2.10 All of these sources have limitations and should be used together. Moreover, the extent of their coverage may be larger, smaller, or different from those for statistical purposes. However, most of them will help build a register, such as by providing information on the size of company activity. For example, a list of importers from international trade statistics may classify importers by size of importing activity in a specific time period.

2.11 The development of the balance of payments register may be regarded as a two-part activity. In the first phase, companies with potential balance of payments transactions are identified as being engaged in cross border activities via sources previously described. The register then becomes the source list for companies to be included in balance of payments surveys. These companies are then compared with units already listed on the register. The compiler should make every effort to identify all units with potentially significant balance of payments transactions.

2.12 In the second phase, more information is obtained on companies that were identified from initial sources and are not yet in the register. It is unlikely that all companies identified will be entered in the balance of payments register because some units will not be engaged in activities of interest. An exploratory survey may be used to discover what, if any, balance of payments activities the companies are involved in and the size of those activities. Model form 1 in Appendix 8 is an example of a form that could be used for an exploratory survey. In such surveys, the form should be kept simple so that collection and processing costs are minimized. Implementation of the exploratory survey may reveal problems with source data; for example, a number of duplicates may

be found, or it may be difficult, in practice, to identify all units listed by a source.

2.13 Companies determined from the exploratory survey not to be engaged in balance of payments activity should be recorded on a list of residual companies and monitored. These companies should be approached in future exploratory surveys approximately once every five years.

2.14 A threshold can be established for including companies in the exploratory survey—particularly if source lists are large. However, the compiler may wish to add units of particular significance directly to the register, rather than including them in the exploratory survey, so that these units participate in balance of payments collections as soon as possible. Units below the threshold may be recorded on supplementary lists.

2.15 If units in the balance of payments register are stored at the company group level, the register should include some information on company group structures. This information is important if a company is identified as potentially suitable for inclusion in the balance of payments register. In these cases, the compiler must know whether the company is part of a group that has already been identified. A company register for an international transactions reporting system could also record information on a group basis even though the collection (survey) may use the company as the statistical unit.

2.16 Once the balance of payments register is established, it should be updated and extended as necessary. The compiler should keep abreast of developments taking place in the economy—for example, by reading the financial news. He or she should also be alert to any major changes among sources used for initial identification of companies with potential balance of payments transactions. Some companies will need to be dropped from the register as they do not have the type of transactions/positions being measured, while others will need to be added.

2.17 The register should include unit name, address, contact officer, telephone and facsimile numbers, and area and size of balance of payments activity. While the balance of payments register is a logical database, it need not be physically separated from other statistical registers. For example, some national statis-

tical offices maintain a single register for all surveys, including balance of payments collections. Model form 2 in Appendix 8 is an example of a form that could be used to collect data to build up a register.

2.18 Periodic references to the foregoing sources are necessary to keep the register current. Some companies may be surveyed for a variety of topics, while others may be surveyed for only one. Some will be covered in an ongoing survey; some only in a benchmark survey or in censuses conducted infrequently. As a consequence, the register of companies will need to cover many of the elements of the system.

2.19 Register's sources should be reviewed progressively, and lists of units newly identified from these sources should be checked against the existing register. Unless more immediate action is required, information on newly identified units could be obtained by including them in the next exploratory survey.

Building the Survey Population

2.20 After the development of the register, the compiler needs to produce a list of potential respondents. A decision needs to be made as early in the exercise as possible as to whether to undertake a census or compile data from as large a sample survey as possible. In determining the reporting population, various approaches are possible. In practice, compilers in many economies use a combination of two or three approaches when collecting data from companies:

- *Census*—Includes all members of the population
- *Partial coverage collection survey*—Includes all companies above a certain threshold measured in terms of their dimensions (e.g., nominal capital) or other variables (e.g., significant cross border activity)
- *Random sample survey*—Includes companies that are preferably selected according to rigorous sampling procedures, with the results “grossed” up for the whole population
- *Stratified random sample*—Groups population components according to the size of selected activity so that companies within different strata have different probabilities of selection; usually, this is a combination of the partial coverage and random sample options but is more sophisticated and might produce a high level of coverage while remaining relatively cost-effective.

2.21 A census is useful to provide the benchmark for estimating the universe in subsequent surveys when samples may be used. However, for most activities, it is not necessary that the compiling economy conducts a census covering all companies as it would be too much burden and many economies are not equipped for it. Maintaining an up-to-date information database of all additions (and deletions) of companies in the register is an essential part of keeping the estimates as accurate as possible.

2.22 For economies that have not undertaken an enterprise survey before, it will be highly beneficial to initially focus on the largest firms in their economies that are involved in the activity being measured, with less attention given to smaller firms. Consideration should be given to more sophisticated methods of compiling data, only after experience has been gained in conducting the survey, such as by conducting a sample survey with estimation for nonsample firms. Undertaking a sample survey without a good understanding of the relative size and importance of the companies being surveyed may produce data that cannot be reliably grossed up to a universe total (more details on grossing up techniques are presented ahead).

2.23 Grossing up the data without a census is more difficult than conducting a survey, which requires prior knowledge of the approximate size of the universe. The size of the universe involves two major dimensions: the number of entities in the universe, and the individual weight of each enterprise's transactions/positions. As economic statistics are primarily concerned with values, in any survey, the focus of a survey should be on those companies with the highest weights. In this regard, it may be appropriate to conduct a census of those companies that constitute, for example, 90 percent of the total activity/position being targeted and to conduct a sample survey or use models to estimate the remaining 10 percent of data. However, it is also important to stress that there are increasing demands for data on small and medium-sized companies (SMEs), so that, if a sample survey is employed for those companies with the smallest contribution to the total, it may be useful to bear this information in mind when the sample is designed, so that the detail on the SMEs is sufficiently robust for analysis, especially at the industry level.

2.24 The exploratory survey can be used to collect broad information on the size of balance of payments transactions of individual transactors in the population frame. This information could be used directly to estimate the impact of units not surveyed in the partial coverage collection, or it could be used indirectly in the creation of a framework for a sample survey. Because sample surveys are relatively inexpensive, they can be conducted at frequent intervals—for example, annually or quarterly—and can provide high-quality factors for expanding results from partial coverage surveys. Another advantage with sample surveys is that the impact of nonresponse may be reduced. The disadvantage with sample surveys is the presence of sampling error.

2.25 Nonetheless, nonresponse is likely to be a concern with either a census or a sample survey. An appropriate approach to dealing with it should be decided before the data are collected (see paragraphs 2.56–2.62), and applied in a flexible way as the survey develops.

2.26 Large transactors must be approached each time a partial coverage collection is conducted. It is therefore important that the list of large transactors be kept up-to-date. Use of partial coverage collections can provide cost savings without much loss of quality. If the partial coverage approach is used for balance of payments surveys, the compiler should develop methods to measure, at frequent intervals, the contribution to balance of payments activity of all members of the population. These measurements could be made by using an exploratory survey, a sample survey of smaller units, or a benchmark census.

2.27 Efficient sampling procedures seek to keep both the number of units selected and the sampling error to a minimum. These objectives are usually achieved by stratifying the population. Two factors predominate in the determination of sampling error. One is sample size; the larger the sample, the smaller the sampling error. The other is the variability of the activity being measured; the wider the dispersion of the activity, the greater the sampling error. Population size is not an important factor unless the population is very small or the sample size approaches the size of the population. Stratification involves grouping the units into similar size bands and selecting an independent sample in each band. Variability of units in each band is less than the variability of the population

of units as a whole. Typically all units in the largest size stratum are enumerated. By using stratification techniques, the compiler essentially increases sample size for units likely to have large absolute variability in size of activity.

2.28 In addition to supplementing partial coverage surveys, sample surveys can also be used as the primary survey method. For example, the compiler can use sample surveys as the principal source of information on international trade in selected services. However, compilers in many economies choose not to use a sample survey approach to supplement partial coverage surveys. Instead, they use benchmark censuses to establish the contribution of smaller units. These censuses are usually costly and undertaken infrequently. Therefore, revisions to results may be made at greater intervals. However, benchmark censuses typically provide more detailed information than other approaches and also establish whether some companies, which should now be included in the completely enumerated partial coverage survey, have changed size during intercensus periods.

2.29 The compiler must be careful to select the correct population. To do so, the appropriate target group, probably the larger companies, should be engaged through consultation meetings. These discussions should make these companies aware of the purpose of the survey and help the statistical agency design the survey so that it is most efficient in obtaining the desired information. Even where the statistical agency has the legal right to collect the data, this does not guarantee the cooperation of the target group—and cooperation is essential for good results.

2.30 In approaching the target group, the compiler needs to know not only the concepts that are to be measured but also the nature of the business activities that are being surveyed. He or she also needs to be aware of such things as the terminology used in the business activity, the nature of the operations, record keeping, and accounting practices of the target businesses in order to be able to communicate with the target group and to gain their respect and cooperation. Businesses are not all structured in the same manner. The information sought may be recorded in different ways in different organizations—especially for large, complex companies—so some flexibility in how the data are captured is helpful.

Information Content of the Survey Frame

2.31 Depending on the topic, the survey frame should be developed well in advance of the reference date (for more complicated topics, a lead time of 12 or even 18 months may be appropriate).

2.32 The survey frame should include relevant information on each respondent and may serve as a tracking system for contacts with respondents. Relevant information to maintain on the respondent includes the following:

- Respondent name
- Respondent ID code/registry or business number
- Respondent address
- Respondent contact person/authorized person to sign form
- Designation of contact person/authorized person
- Phone number of contact person/authorized person
- Facsimile number and e-mail address of contact person/authorized person
- Activity code of respondent (i.e., business sector of respondent)
- Financial/fiscal year of respondent's enterprise (i.e., accounting period).

Survey Log

2.33 A well-integrated data collection provides comprehensive response logs containing information about the respondent and to track response status.

Response log details

- Date letters/questionnaires are sent (could be automatically entered by computer)
- Date due
- Response status (responded, liquidated, no response, respondent owned by another enterprise, which will respond)
- Date first response received
- Date of first and subsequent follow-up and nature of discussion and outcome
- Edit date and date of follow-up, if appropriate.

Computerizing the Survey Frame

2.34 Computerizing the survey frame may save the compiler time and effort and reduce the scope

for error in dealing with survey respondents. Careful maintenance of the database is also required—for example, updating address changes, company name changes, and so forth. The types of issues and tasks that national compilers need to consider include the following:

- Taking account of the information flows to and from the database (the use of charts and diagrams may be useful in the planning phase)
- Taking account of the specifications required to query the frame and to generate reports
- Designing a coding structure that embodies important defining characteristics of each respondent; this allows the sorting and analysis of respondents and the tracking of nonresponse
- Ensuring that supporting hardware/software is sufficient for the task—for instance, that the memory and processing capabilities are such that response and retrieval times are acceptable
- Allowing time for a thorough tryout of the system before “live” use
- Backing up copies of data and software on a regular basis and storing them both on-site and at a remote location so that the files can be restored in the event of a system breakdown
- Ensuring appropriate systems security and access authorization
- Producing thorough documentation on the system
- Providing for a suitable filing system for associated papers, not least the completed survey forms.

Use of the Survey Frame

2.35 Once the survey is under way, the benefits of an efficient computerized survey frame become apparent. The benefits accrue both at the initial stage of distributing the survey forms and at the follow-up stage and beyond. Some of these benefits are presented ahead to provide the compiler with an idea of the capabilities of a computerized information database.

2.36 At the initial stage, the compiler need to prepare and dispatch (either electronically or via the mail service) the survey forms and companion transmittal letters. The compiler can generate the mailing labels from the computerized information database. At the same time, a record can be made noting which survey

respondents will be sent a questionnaire (e.g., mail status to “yes”). The compiler can also perform a quality check to ensure that the right respondent is receiving the right survey form(s).

2.37 This is particularly important if the mailing includes more than one type of survey form. If the statistical agency has never previously conducted such a survey, it may be useful to include with the survey form a postcard (or use some similar technique) that respondents use to acknowledge receipt of the questionnaire and identify the person to contact. In this way, the compiler can quickly identify problems and initiate follow-up action. The national compiler should note, in the response log, those companies that have returned the postcard. The compiler should record the return of the completed survey form in the response log, along with the date of receipt, and any changes required to the information database (for instance, name, address, etc.). The compiler could run a report to verify that the correct entries have been made. Thereafter, he or she could distribute survey forms to the appropriate person for data capture and editing.

2.38 For a number of reasons, respondents may wish to contact the compiler using the contact information printed on the questionnaires. The compiler should keep a record of significant phone calls and/or correspondence (such as requests for extension of the survey due date) either in a manual file or as a note against the appropriate record in the response log file, along with a notation on how the matter was resolved. If a survey respondent requires more time to complete the survey form, the compiler should note this information so that reminders are not sent. In such a case, the response log status is changed to indicate “in contact,” and follow-up procedures are suspended for a specified period. If nothing is received from the respondent by the agreed date, the system should indicate this and prompt the compiler to recontact the respondent. When new copies of the survey forms are requested, a remail is initiated, and additional forms are sent to the respondent with the follow-up procedures kept in place. The compiler must update the information database if updated information is provided and run a check to confirm that correct details have been stored.

2.39 At the planning stage, it is important to consider which fields will be automatically completed by

the computerized system. For example, would the “date mailed” field be updated directly by the mailing program? Provide sufficient space for addresses and so forth; it may be appropriate to subdivide fields for some items (e.g., distinguishing the postal code from the remainder of the address). Care needs to be taken when assigning default values to fields. As a safeguard against inputting errors, an accessible, online, separate file should be maintained that lists inputs that are currently acceptable for a specified field, so that unacceptable inputs will be rejected—for instance, entering an “alpha” value in a field where only numeric values are appropriate. It is also useful to have a comment area for the compiler’s use.

2.40 When the closing date for the return of completed survey forms has passed, the compiler can identify the overdue survey respondents from the response log, based on the response status of “outstanding” and the mailing date, and prepare labels for envelopes and follow-up documents.

2.41 A number of reports can be produced on a regular basis to assess the status of the survey:

- *Transaction reports*—Lists of changes to records sorted by name, ID code, date, and so forth.
- *Response log reports*—Summary counts of survey forms mailed, received, and percentage outstanding; response log listing all survey respondents, survey status sorted by name, ID code, and so forth.

Draft Survey Questionnaires

2.42 The model survey forms provided in Appendix 8 could serve as a starting point for the questionnaires to be used to collect the data and could be modified for local circumstances.

2.43 The basis for much of the information to be collected—especially for financial data—should be available from the business accounts (such as its income and expenditure statement, the statement of changes in financial position, and the balance sheet), and the information collected should consider the accounting standards that respondents routinely follow in preparing and maintaining their records. However, as some of the information needed for the international accounts is not necessarily standard for drawing up the accounts, respondents may not have ready

access to the data, or the data may require combining (or even disaggregating) data in the underlying management information system. Contact with respondents is, therefore, essential to ensure that there is sufficient lead time for them to put in place the systems needed to extract the data.

2.44 Balance of payments and IIP concepts and definitions need to be considered when designing surveys, and need to be carefully compared to the concepts and definitions used in surveys. For instance, identifying residents and nonresidents may be difficult. The compiler may need to advise surveyors on suitable questionnaire design (e.g., to ensure that the relevant components of remittances can be estimated).

2.45 The questionnaire should indicate under what authority the information is being collected, that the information is for statistical purposes, and that no confidential information will be divulged without the consent of the individual respondent to which this information pertains and only aggregated data will be published. Commercial and personal data are available only to compilers of balance of payments and related statistics. The questionnaire and the transmittal letter should also indicate the reason that the information is being collected. As well, the questionnaire should provide advice on how the information is to be provided, setting out the measurement date, the currency of valuation, and the valuation principles, as well as some additional information (such as the contact person’s details, and the industry of the company).

Initial Discussions with Key Respondents

2.46 The following is an approximate timetable for conducting a survey for the first time. Once a survey is being conducted on a regular basis, some of these steps may not be necessary or the lead time may not need to be so long.

About 12 Months before the Reference Date of the Survey

2.47 Having identified many of the major companies to survey, the compiler needs to complete the development of an appropriate survey form, which should be field-tested with the key respondents to

(1) inform them that the survey will be undertaken in the coming year or so, and (2) to give the respondents an opportunity to provide comments on the survey form and to ask questions.

2.48 Having face-to-face discussions with key respondents is a very efficient way of eliminating potential reporting problems, thereby limiting the extent of the need for follow-up and raising the quality of the data. As was mentioned earlier, in surveys for the compilation of economic statistics, accounting records are central. It is often the case that accountants and economic statisticians use the same terminology, yet the meanings may not be the same. Equally, economic statisticians may use terms (such as “financial intermediation services indirectly measured,” “trade credits,” or “foreign direct investment”) that may not be understood in accounting terminology. Such matters can be clarified and the draft reporting instructions improved.

2.49 The survey form needs to identify the agency responsible for conducting the survey and under which authority the data are being collected, including sanctions for nonreporting, as relevant.

About Six Months before the Reference Date of the Survey

Trial run, if feasible

2.50 Conducting a small-scale trial run with a sample of respondents no later than about six months before the reference date (even earlier may be useful) may provide many benefits, resources permitting. It may highlight where respondents have problems interpreting the questionnaire, and it may also serve to test the compiler’s processing system. Highlighting and addressing problems at this stage will reduce problems at a later, and more crucial, stage.

About Three Months before the Reference Date of the Survey

Advance notification to identified respondents, if feasible

2.51 About three months before the reference date, resources permitting, the compiler could send a notification to all identified respondents to advise them that the survey will be conducted, including the reference date and a summary of the information that will be requested.

Training seminars, if feasible

2.52 In addition to having one-on-one or small group meetings with some key respondents, resources permitting, it may be useful for the compiler to arrange larger seminars for respondents. These seminars could review the survey form and identify any areas where respondents may not be familiar (such as the concept of *residence* or *center of predominant economic interest*). The point should be made that the information provided is confidential and only aggregated data will be published. The seminars also help public relations, and allow the compiler to advise respondents of the reasons for the survey. The seminars should serve as another opportunity to fine-tune the questionnaire.

About One Month before the Reference Date of the Survey

Recontact respondents to remind them of the survey

2.53 It may help the response rate (at least, initially) if respondents are contacted (by mail or e-mail) to remind them of the survey’s reference date and when data are due to be reported.

During the First Month after the Reference Date of the Survey

Mail out survey, along with acknowledgment cards, if feasible

2.54 As part of the questionnaire that is sent to the respondents, resources permitting, it may be helpful to include acknowledgment cards, which respondents should return to the compiler, to indicate that the survey has been received. Respondents should be asked to return these cards immediately upon their receipt. For responses that have been received, this should be entered on the information database. For those requiring follow-up, this should also be noted on the information database.

Between One and Three Months after the Reference Date of the Survey

Reporting date by respondents

2.55 It is recommended that data for an initial survey be requested within one to three months after the reference date, depending on the complexity of the survey and how readily respondents can access the information from the management

information systems. If it is later than this, respondents may forget to complete and return the questionnaire. After the lapse of this time, for those respondents that have not reported, the compiler should follow up more or less immediately after the due date. Responses that have been received should be recorded on the information database and made ready for processing. The information database should also note cases where follow-up is needed, either due to nonresponse or due to an inquiry or response that requires an action by the compiler.

Low Coverage or Low Response Rates

2.56 Hopefully a substantial share of the requested data will be received within the time allotted for the collection of the data, although there are likely to be some responses that remain outstanding, particularly if the questionnaires were not delivered and collected by enumerators. In order to obtain data that approximate the universe, there are various ways to estimate for low response or low coverage rates.

2.57 For economies that have conducted surveys previously and prepared universe estimates of positions, the previous estimates can be used as a starting point. For example, if a survey requested data from 100 companies, and by the cut-off date, returns have been obtained from only 70 companies, the compiler has to estimate the data for the missing 30 companies on the basis of the most recently reported data for these companies. These estimations can be calculated as follows: the changes reported by the remaining 70 companies that filed surveys are considered in relation to the volume percentage of the companies, reported vis-à-vis not reported, from the previous period. This technique can be refined by analyzing the changes by sector. If there has been a history of making estimates that have subsequently been revised, and if there is a consistent upward or downward bias in the initial estimates, the compiler should take this bias into account when calculating the estimates.

2.58 If the survey is not a census, the results should be grossed up to produce a universe estimate, perhaps using an earlier benchmark survey or census as the basis for the grossing up factors. When the next census or benchmark survey is conducted, it may be found that the weights for the unsurveyed portion of the universe have changed. In that case, the data

for the periods between the census/benchmark surveys should be revised to reflect this. The change in weights of the unsurveyed companies between the two censuses/benchmark surveys should be introduced gradually over the period for which the data are being revised, rather than introduce the change in weights all at once. Further details regarding grossing up and estimating data appear in Chapter 8.

2.59 Other adjustments may include: taking account of exchange rate and price movements (especially for surveys of financial assets and liabilities); changes in financial markets that might affect interest and other income flows; for goods and services, adjusting the nominal values to volume measures (e.g., through price deflators) to see whether the nominal values are consistent with the volume measures; noting developments in various types of markets (such as commodities and financial) to ensure that any changes are adequately picked up in the underlying data or to adjust the collection vehicle's questions accordingly; where there have been changes in legal or institutional arrangements (such as changes in exchange control or opening of segments of the local market to nonresident activity—either through direct sales or through permission to make investments) that may result in changes in the nature of cross border transactions and positions.

2.60 Such approaches may provide reasonably good estimates for positions data. The methods used to derive universe estimates, when responses have been less than 100 percent, should be described in metadata.

2.61 However, where response rates are low for a survey that has not been previously conducted, alternative approaches may be required. For example, if the survey requested data from 100 companies, and by the cut-off date, returns have been obtained from only 30 companies, in the absence of any other information about the relative importance of those that did not respond compared with those that did, one very crude technique may be to multiply the reported data by 100/30 to derive an estimate for the total. Although such a crude technique should be a last resort, it might be reasonable for a sector if all companies in it tend to be similar. If there is some indication of the size of the nonrespondents to the survey (such as based on other surveys filed by the same companies, relative employment sizes, value added, or asset size) that could be

used to gain some measure of the relative importance of those that have not reported compared with those that have, then this information should be applied, even if it is only an overall indication of size. In addition, telephone contact should be made to obtain useful input from the companies that are considered to be among the largest nonrespondents to the survey, because it is extremely important to find some method of estimating the data for these companies as accurately as possible. Published information such as financial statements on the Internet may be useful to impute data for large nonrespondent companies. If resources permit it can be useful to inform a large nonrespondent what imputed data for that enterprise will be included, indistinguishably, in the aggregate statistics. The enterprise might be inclined to provide better data.

2.62 Another option where positions data are being surveyed and there has been a low response rate might be, in the absence of any other information, to use the comparative weights for accumulated transactions reported by those that reported transactions for balance of payments purposes versus those that have not and to apply the weight for estimating missing position data.

Editing/Validating Collected Data

2.63 If, despite all the preparations, survey respondents submit poor-quality data, much good work will nonetheless have been accomplished, because the groundwork will have been laid for follow-on, more successful effort.

2.64 The compiler conducting a survey for the first time needs to be especially vigilant in checking data supplied. The more experience the respondent has in completing the survey form, up to a point, the less likely significant errors will be made.

2.65 The compiler can conduct editing/validation control checks on a number of levels. The compiler can include checks in the survey form, cross-check survey data against other reported data, and devise analytical checks.

2.66 This section provides some guidance on a range of possible checks. Nonetheless, it should be borne in mind that the more the survey form fits the domestic circumstances, and the more that survey respondents are consulted about what is required of them, then, *inter alia*, the greater the probability of

receiving good-quality data. Perhaps just as important, the more groundwork that is laid, the greater the likelihood of cooperation, if the national compiler needs to question the respondent about reported data.

Data Editing/Validation through the Questionnaire Form

2.67 The sooner errors are spotted and corrected, the better. For this reason, it is recommended that the compiler consider devising a survey form that explicitly includes quality control checks and/or requires extra information, which can be used as a consistency check. However, if extra information is required, it should be kept to the minimum necessary, and the compiler should be clear as to the purpose of the collection.

2.68 Among the tools that can help raise data quality are various computer systems that can allow for internal edits, including commercial spreadsheets; relational database management systems; and time series database management systems. Simple computer-checking procedures can be written to process reported data. Edit checks could include some of the following:

- Are the results consistent with what might be expected? (This question poses some difficulties for surveys conducted for the first time, but the compiler may be able to use other data sources such as those used for input to the national accounts as an indication of what might be expected from any given respondent.)
- If total assets and liabilities (including shareholders' funds) are to be reported, are they equal?
- Are reported transactions consistent with the reported positions data after taking account of such nontransaction changes as price and exchange rate changes, write-offs, reclassifications? To use this particular quality control check, positions data are required for points in time.
- Where income is reported, do the rates of return on assets/liabilities make sense in light of rates of return available for other companies in the economy?
- More generally, the compiler could require an official of the reporting company to certify that the information provided is complete and accurate; this could help ensure data quality and promote timely reporting. Similarly, requesting the name

of a contact person helps ensure that follow-up enquiries are efficiently directed.

Data Editing/Validation through Analytical Checks

2.69 The degree to which analytical checks can be developed depends on the availability of comparable data. If data are available, the following checks can be devised:

- If position data and flow data are independently assembled, then an attempt could be made to reconcile these data. To do so requires consideration of effects caused by different prices, exchange rates, reporting thresholds, and other factors like write-offs. Checks can be applied at the individual respondent and aggregate data levels.
- For surveys where financial position data are being collected for the first time, but transactions data are available, position data could be compared to transaction data. If sizeable transactions data appear opposite an economy for which reported positions are small, it should be investigated.

Advantages of a Survey as a Data Source

2.70 The main advantage of using surveys as a data source may be that surveyors have more direct control over the information collected, because it is not a by-product of administrative or financial systems. In economies where questions can be added to regular surveys, further useful information—also for analytical reasons—can be obtained whenever the survey is administered. Therefore a survey meets the requirements for compiling the balance of payments and IIP.

2.71 Surveys can also provide insights about for what purpose the transaction is used, which can be useful information for the compiler when evaluating the coverage of data obtained from other sources. It also may provide information to help estimate bilateral flows, which is very useful as transactions become increasingly complex.

2.72 Enterprise surveys of financial components can be conducted specifying opening and closing positions reconciled with transactions, providing in principle more consistent data and permitting sound consistency checks.

2.73 The reporters have greater knowledge of their transactions and are able to convey more accurate information regarding foreign counterparts and level of detail. Therefore enterprise surveys cause less misclassification.

2.74 Enterprise surveys are usually conducted by mail, e-mail, web applications provided by the compiler, or personal interview; therefore the reporting burden and the costs for the reporter usually are moderate.

2.75 Information on other economic activity additional to balance of payments activities can be easily collected through surveys for analytical purposes and for quality control.

Disadvantages of a Survey as a Data Source

2.76 There is the possibility of sampling error, particularly where the target population under study is relatively rare and the number of respondents in the sample small. The target population may not be uniformly distributed among the whole population. Special sampling techniques may be needed to identify them and include them in statistically representative samples.

2.77 Samples may not represent the desired target population. The behavior of the sample could differ from the whole population, and the resulting estimates obtained in this way will contain a bias.

2.78 There is the possibility of nonsampling error. For example, the most significant error in information on personal transfers is that it may be underreported, because these data are often considered sensitive by respondents.

2.79 Conducting a survey may be costly. The costs for the compiler of using surveys vary greatly between economies, in line with the cost of enumeration and the cost of obtaining technical advice. Obtaining estimates with greater precision usually requires larger samples, which increases costs or decreases freshness. The costs of designing surveys vary according to the sampling method used. Adding questions to an existing survey may be a cheaper method of obtaining survey data, but resulting usable sample sizes may be small unless consecutive samples are pooled because some cases are likely to be relatively rare.

Box 2.2 Conducting a Private Capital Flows Survey in Anglophone Africa**United Kingdom Department for International Development—DFID****Background**

This case study gives a brief overview of the IMF/DFID Enhanced Data Dissemination Initiative (EDDI) for Anglophone Africa to introduce annual private capital flows surveys (PCFS) in a number of African economies. The PCFS provides direct reporting of private sector, cross border financial flows and positions that can be used to compile the balance of payments financial account and related IIP account. In some cases, the survey was expanded to include current and capital account transactions and to collect data to meet other local stakeholder needs. However, the central focus of the PCFS was on the balance of payments financial account and the IIP largely because data sources in this area were poor and because of a heightened interest in the IIP.

Identification of the Survey Population

The survey's frame was mainly constructed by including all listed companies and consulting with the main industry associations, large enterprise groups, and relevant government and public sector bodies (such as regulatory agencies, investment agencies, and export processing zones). The survey frames were mostly limited to private companies, although some participating economies included selectively public corporations.

Approach Applied in Conducting the Survey

After the identification of the survey population, an exploratory survey module was added by some economies to existing large frame enterprise surveys or censuses conducted for other statistical purposes. It helped expanding the frame to a size that would support a census of companies that met a threshold of foreign liabilities and assets. The result showed that all companies that met a threshold of foreign assets and liabilities were included in the PCFS. The compilers decided to conduct annual surveys with periodic larger frames and surveys with smaller frames for intermediate years not yet explored. The establishment of close working relationships by balance of payments and IIP compilers with industry associations, the local stock exchange for listed companies, and key major companies prompted the increased use of e-mail communication and resulted in initiatives to establish the electronic reporting by some companies, although this is at an early stage of development.

For most of the economies participating in the EDDI project, a census of companies that met a threshold of cross border financial flows and positions was established. For others, further steps were required to finalize the survey frame through the use of exploratory surveys as well as more detailed checks of the ITRS data for large financial account transactions.

Data Review Process

Most economies built internal review checks into the questionnaire. Control mechanisms were used to check the reported data against previous survey responses, companies' financial statements, and/or annual reports to shareholders. The latest company financial statement and/or annual report to shareholders was requested from reporters together with the completed questionnaire.

During the project the internal review checks built into the questionnaire were adjusted. Investigations showed that the process of data review was best completed if the database was designed to facilitate the data review process. Some economies in the project successfully established databases based on relevant data management software that provides tools for scrolling through an entire enterprise survey to review responses on a company-by-company basis, looking for gaps and outliers that escaped the attention of those completing the data entry screens.

Grossing Up for Nonresponse

Survey response was running at over 70 percent for most economies, although some major companies were reluctant to respond. Response had generally improved with successive surveys. Presurvey sensitization meetings helped in this regard, as well as the publication of reports on the outcome of the surveys. Techniques for grossing up for nonresponse had evolved in the course of the project.

Because most cross border financing is accounted for by the major companies, estimates for nonresponding companies were normally made on a company-by-company basis for the larger companies using available data, such as company financial statements, the application of carry forward techniques to completed questionnaires for the company in earlier surveys, and the use of ITRS data for large financing transactions. For smaller companies, grossing up techniques were applied when an earlier large-frame PCFS was conducted that allowed estimates for nonresponse to be made on the basis of

Box 2.2 Conducting a Private Capital Flows Survey in Anglophone Africa (*concluded*)

the earlier survey. Some economies applied different grossing up techniques for large and small companies. For example, it is likely that for small locally owned companies portfolio investment is small and borrowing from abroad is likely to comprise trade credit received. This information was taken into account when deciding how to gross up the resulting data.

The need for grossing up also arose when successive enterprise surveys had different survey frames, or when there were differential survey responses. Earlier experience with enterprise surveys in the region had been to conduct each survey on a stand-alone basis with its own database. This was true especially where spreadsheet software was used to aggregate the reported data.

Databases were developed using appropriate data management software where it was possible to bring the results of successive enterprise surveys into a single database. These databases made it possible to track the data reported by a single enterprise across all years that had been reported, which may be particularly important where there were mergers and acquisitions.

Other examples of grossing up (or down) techniques that were used concern the use of alternative data sources for balance of payments and IIP compilation (such as ITRS or administrative data sources for investment approvals) that cover earlier/later periods. In the case of trade credit, if a relationship is found between survey data and customs or ITRS to obtain data for imports and exports of goods, some economies worked plans to apply grossing up techniques to estimate trade credit for periods not covered by enterprise surveys.

Incorporation of Survey Results in Balance of Payments and IIP Statistics

On data dissemination issues, the EDDI project follows the IMF's Data Quality Assessment Framework (DQAF) for balance of payments statistics. Since the project is expected to result in substantial revision of balance of payments to ensure their consistency with directly reported IIP statistics, all participating economies were expected to follow the DQAF guidelines on revision policy. These required that the revised data were announced by a press release that explained the reasons for the revisions being made to previously published statistics together with documentation of the details of the revisions that have resulted, and plans for the future. Publication of the resulting balance of payments and IIP data was assessed against the DQAF standards for methodological soundness (in conformity with the *BPM6*, accuracy and reliability, serviceability (periodicity, timeliness, and consistency), and accessibility).

Encountered Difficulties

- For some economies, tax records proved to be of limited use for the identification of the survey population as they did not provide a useful tool for identifying companies with significant foreign liabilities and assets.
- In most cases where no foreign funding was involved, budgetary considerations limited the size of the survey frame. In those cases, it was expected that the results could be recast using appropriate grossing up techniques. A larger-frame survey should be conducted at a later stage.
- Experience in the region in using mail, e-mail, or telephone for contacting companies or sending out company questionnaires was disappointing. For the most part, the use of e-mail and other electronic media had proven effective only once a working relationship with a counterpart in the company had been established, and even then was best suited for collecting data from the larger companies. In practice, for most economies in the region, the preferred way of delivering company questionnaires and collecting completed questionnaires was through the use of enumerators, particularly when the enumerator presented questionnaires to the company physically and returned after two weeks to collect completed questionnaires.

Lessons Learned

- Assuring that all large companies were captured in the survey frame was often difficult. In some cases, ITRS data for large cross border financial transactions that were classified by type of instrument and by the name of the account holder had proven useful as a check on whether all large companies, especially those engaged in major investment projects, were included.
- Presurvey sensitization meetings were very important to increase the response rate.
- For some economies the best way to collect data for the first time was by sending enumerators to the companies instead of mail, e-mail, or telephone surveys.
- Well-defined databases encompassing the enterprise survey data were important in increasing the quality of balance of payments and IIP statistics.



3

Specific Surveys for Balance of Payments and International Investment Position

Introduction

3.1 In Chapter 2, the essential elements in conducting a survey of businesses were discussed. Such surveys, whatever the topic, have many elements in common. This chapter discusses surveys of businesses for several specific topics in both the balance of payments and international investment position (IIP). While there are many elements in common, the specific purpose of the survey and the complexity of aspects of the balance of payments and IIP require consideration of particular design features.

Collections on Goods and Services Statistics

Goods

3.2 International merchandise trade statistics (IMTS) based on administrative records are the primary data source used by compilers in most economies for the compilation of the goods item in the balance of payments. However, in some economies compilers use an international transactions reporting system (ITRS), and in a few economies surveys of businesses are used to collect extensive data for goods.

3.3 As described in more detail in Chapter 11, there are a number of challenges in using the IMTS alone for the compilation of the goods component. In particular, adjustments may need to be made for coverage, classification, valuation, and timing differences between IMTS and trade in goods on a balance of payments basis. Targeted surveys of businesses can be used to support the adjustments from merchandise trade to trade in goods.

3.4 Similarly, if an ITRS is being used as the primary source for the compilation of trade in goods, then targeted surveys of businesses can be used to correct major cases in which the change of owner-

ship and the time of recording of payments do not coincide.

3.5 In addition to the ability to serve as a primary source for trade in goods, or informing adjustments to merchandise trade or ITRS-based trade data, surveys of businesses can be extended to collect information on goods trade-related components of the balance of payments. These components include the two service components associated with the physical movement of goods (manufacturing services on physical inputs owned by others, and maintenance and repair services n.i.e. [not included elsewhere]) and the financial account component on trade credit.

3.6 Model form 4 in Appendix 8 can be used for a comprehensive survey of businesses to compile trade in goods. If used to make adjustments to merchandise trade or ITRS statistics, the form can be tailored to address specific issues. Also, the compiler may need to approach only selected importers and exporters who trade in specific commodities or have large values or volumes of trade in order to achieve material improvements to the balance of payments accounts.

Consignment trade

3.7 Goods shipped on consignment are an example where the timing of a good crossing the customs border does not coincide with the change of ownership—ownership change will occur later than the time the goods cross the border, and it is only when the goods are sold that they should be included in the balance of payments. It would be useful, to ensure consistency of recording, to obtain data on opening and closing positions of goods located abroad that were held, prior to sale, by residents (the same applies to goods held in the resident economy by nonresidents). In each case, values of goods should be deducted from the

merchandise trade statistics in the period in which they cross the border, with the value of the sale added to the merchandise trade statistics in the period in which the sale occurs. Such adjustments would typically be made only when amounts involved are significant. However, the *BPM6* recommends that if it is impractical to make the adjustments as described earlier, the goods for consignment can be recorded in balance of payments by the time of recording in IMTS (*BPM6*, paragraph 10.29).

Merchandising

3.8 Merchandising transactions—that is, the purchase of goods by a resident from a nonresident combined with the subsequent resale of the same goods to another nonresident without the goods being present in the compiling economy—are recorded in the balance of payments as transactions in goods, classified as merchandising. If there is a change in the physical form of the goods during the period they are owned by the merchant as a result of manufacturing services, then the transaction should be classified as general merchandise (not as merchandising). Examples of the treatment of goods under merchandising and manufacturing services on physical inputs owned by others are presented in Box 10.1 of the *BPM6*.

3.9 By the very nature of merchandising, the goods involved do not cross the customs boundary of the economy of residence of the merchant. Therefore, the data need to be collected directly from the companies involved in merchandising. It may be possible to identify such organizations through the maintenance of a business register that may be maintained by the collecting body or central statistical office (if different). Model form 5 requests data required for recording merchandising transactions in the balance of payments. Data should be collected on a gross basis, by commodity, and by partner economy, wherever possible.

Services

3.10 While international merchandise trade statistics are used primarily in the compilation of trade in goods in the balance of payments, some information may be available to assist in the compilation of trade in services. In particular, if total values of freight and insurance costs are available through the merchandise trade system, they can be used to estimate the purchase of freight and insurance services, which is

described further ahead. Similarly, information in the merchandise trade system may allow for the identification of companies who are undertaking manufacturing services on physical inputs owned by others, or supplying maintenance and repair services. However, it is likely that there will be only limited information in the merchandise trade system to support the compilation of trade in services.

3.11 An ITRS can be used for the compilation of trade in services statistics and is likely to have a good coverage across the full range of services. However, as with trade in goods, there may be challenges with differences between the time of delivery of the service and the time of payment, as well as from the “bundling” of the payment for services with payments for goods or financial instruments. Depending on the system, an ITRS may also suffer from undercoverage (payments for some services (e.g., telecommunication) are made on a settlement (net) basis) and present difficulties for classifying to the detailed service type (particularly if classifying by the extended balance of payments services classification recommended in the *Manual on Statistics of International Trade in Services, 2010 (MSITS 2010)*).

3.12 Surveys of businesses can provide the coverage across the full range of services. Model form 6 in Appendix 8 provides guidance on a comprehensive survey of services. As with surveys of businesses for trade in goods, the survey can also be used to collect information on trade credit. Capital account transactions reflecting the acquisition and disposal of nonproduced nonfinancial assets can be difficult to separate from charges for the use of intellectual property (services). As a consequence, the capital account transactions might also be collected in a comprehensive survey on trade in services.

3.13 Business surveys on services have proven successful in a number of economies. However, some general observations are in order. Surveys of businesses are designed to collect both credit (receipts) and debit (payments) items. On the receipts side, the particular service provided is likely to relate closely to the industry activity of the company approached; for example, the legal industry is most likely to provide legal services. This is less true on the import side, although there are likely to be greater associations of certain services with particular industries. Companies

engaged in international trade in services may be those undertaking other international business activities. Therefore, it is possible to identify a large part of the population involved in import of international trade in services by approaching companies involved in a direct investment relationship, companies that have large external assets and liabilities, and companies that have large transactions in goods.

3.14 The nature of individual services and the specialized providers associated with those services means that tailored forms may be appropriate. These instances are discussed in more detail ahead.

Manufacturing services on physical inputs owned by others

3.15 It is often possible to obtain information on manufacturing services on physical inputs owned by others from merchandise trade statistics. Merchandise trade statistics may provide the values of the goods that arrive in the economy where the processing is conducted (values of goods sent from the economy where the goods are owned) and, after processing, the values of goods that are returned to the economy where the goods are owned (values of goods received back by that economy). These transactions may be identified separately in the customs documents, but inconsistent valuation principles may be applied between goods entering and leaving the economy. Even where the valuation principle is the same, the difference between the import price and the export price may not accurately reflect the manufacturing services that have been provided—for example, most of the value of the processed goods may derive from research and development undertaken by the owner rather than the processing, or there may be holding gains or losses on the goods while they are in the processing economy.

3.16 Nevertheless, it is important to identify the merchandise trade values of goods imported/exported to be processed without ownership changing hands to ensure that these goods are excluded from trade in goods in the balance of payments. In addition, the *BPM6* recommends the compilation of supplementary items on the values of goods received and returned (for manufacturing services provided by the reporting economy) and the values of goods sent and returned (for manufacturing services acquired by the reporting economy).

3.17 In order to collect information on the value of the manufacturing services, it may be preferable to conduct a survey of businesses. The number of companies that undertake processing or send goods abroad for processing may be relatively few and could be identified from the customs documentation. Therefore, companies may be able to be surveyed about processing activities in a separate survey. Model form 7 in Appendix 8 contains a sample questionnaire on manufacturing services on physical inputs owned by others.

Maintenance and repair services n.i.e.

3.18 Similar to manufacturing services on physical inputs owned by others, maintenance and repair services often involve the movement of goods across a customs border, although the services can also be delivered in the economy of the owner of the goods.

3.19 Where the goods are being sent to the economy of the service provider and returned, the companies involved in the provision and purchase of the service may be identified through customs documentation. In these cases, there may also be other movements of goods across the customs border and the companies may be involved in survey of businesses on trade in goods more broadly. Model form 4 (for trade in goods) in Appendix 8 includes questions on repair services.

3.20 Alternatively, where the services are provided in the economy of the owner of the goods, the resident (either the provider of the services or the purchaser) may be identified from business registers maintained for balance of payments purposes. The general survey on trade in services (model form 6 in Appendix 8) would capture information on the value of the services provided.

Transport services

3.21 The international transport industry has many unique features that require special attention when balance of payments transactions are measured. Various modes of transport (including sea, air, rail, road, space, pipeline, and waterways) may be employed. A survey of businesses can be used, and may need to be targeted by the residence of the service provider, to measure the transactions associated with each mode. The point-of-valuation convention adopted for

transactions in goods adds to the complexity of recording transport industry transactions in the balance of payments. This is explained more fully in paragraphs 12.35–12.36.

3.22 As mentioned in Chapter 12, paragraph 12.27, to record transport and associated services correctly in the balance of payments, it is necessary to distinguish between owners and operators of mobile equipment, and the compiler should, when using international transport surveys, have a clear grasp of this distinction. International transport services are provided by operators, who may not necessarily be the owners, of the equipment. Owners can engage in balance of payments transactions (such as operational leasing) that are related to transportation.

3.23 A number of persons or companies may be approached for information relevant to the balance of payments. For services provided by equipment operated by residents, the resident company should be a good source of data. Local branches of nonresident operators often possess, or have access to, relevant information on the activities of their head offices. Agents for nonresident operators may have reliable information on services provided and expenses incurred by operators when agents are involved in the provision of services or the payment of expenses. A resident operator may also act as an agent for a nonresident principal, and the resident transport operator may be approached to report in this capacity. Additionally, importers may know the value of freight paid, and government authorities who collect various port charges may have the relevant data.

Model forms

3.24 Model form 8 in Appendix 8 requests the type of data that a compiler could collect from a resident transport operator. In part A of the model form, data items include selected transport earnings and selected expenses incurred abroad. Three categories of passenger fares are collected: nonresidents traveling on international routes of resident carriers (passenger transport service credits), nonresidents traveling on domestic routes (travel credits), and residents traveling on international routes. The last item is not a balance of payments item, but collection may be useful for compiling passenger fares earned by nonresident operators (passenger transport service debits) if total

fares paid by residents is collected through a household survey. Four freight items are collected: freight services on imports (which is not a balance of payments item, but as described ahead can be used with total freight services paid by residents on imports to derive transport debits as a residual), freight services on exports (transport credits), freight services to nonresidents on operations in the home economy (freight credits), and freight services on other foreign routes (transport credits, assuming that all freight services on foreign routes are provided to nonresidents). Remaining items included in the model form pertaining to earnings cover inward mail (transport credits), charter of vessels without crew (operational leasing credits), and other earnings. For the last item, the balance of payments classification should be determined by the description provided.

3.25 While all of the details that model form 8 requests for expenses are not required as standard balance of payments components, separate identification should ensure that complete data are reported. Details sought include expenses on fuel and provisions (goods debits), charters of vessels without crews (operational leasing debits), and advertising (miscellaneous business, professional, and technical service debits). Remaining expense items are included in transport. The more detailed items may also be of analytical interest to users of balance of payments statistics.

3.26 Part B of the form collects information on expected purchases of large equipment such as aircraft and ships. Part C obtains data on passenger fare ticket sales to residents on international routes.

3.27 Model form 9 in Appendix 8 seeks the type of data that a compiler may collect from resident companies providing goods and services to nonresident transport operators or acquiring services from them. Part A of the form seeks data on fuel and provisions (general merchandise credits), advertising (miscellaneous business, professional, and technical service credits), and a number of other items that are included in transport credits. The collection of detailed information should ensure complete reporting of items and may be of interest to users of balance of payments statistics as supplementary information. Part A collects information on transactions in which the resident companies provide services and settle directly with nonresident principals and information

on transactions in which resident companies arrange for services provided by other residents. Data are required on an accrual basis—that is, when the service was provided, not when it was settled.

3.28 Part B collects data on passenger ticket sales and passenger fare revenue, which are discussed further ahead. Part C collects details on various services—such as inland freight (to help estimate freight debits) and mail (postal and courier service debits)—provided by nonresident transport operators to residents.

3.29 In practice, model forms could be modified so that separate forms are designed for each mode of transport (in the case of resident operators reporting on form 8) and for each type of company being approached (in the case of form 9).

Passenger fares—travel revenue or ticket sales

3.30 The compiler has two broad options for measuring passenger fares; he or she may collect information on the basis of travel revenue or on the basis of ticket sales. In international transport surveys, data on both ticket sales and passenger fare revenue could be collected. This approach is adopted in model forms 8 and 9. Judgments can then be made about adjustments appropriate for deriving a reliable passenger fare earnings estimate.

3.31 Data on passenger fare commissions paid by nonresident operators are also collected via the model forms.

International shipping surveys

3.32 As with all surveys, the compiler must first determine the statistical unit for which data are to be collected. For international shipping activity, this is often more difficult than for other surveys. It is important that the place of registration not be assumed to be the residence of the operator. Moreover, as ships are often leased, it is important to know whether the lease is an operational or finance lease.

3.33 Lloyd's of London has developed an international Register of Ships¹ that lists a reference number, vessel name, country of registration (or national flag), owner's name and address, vessel description, type

(tanker, passenger cruise vessel, bulk carrier, etc.), and capacity for each vessel. A compiler could use register data in surveying operations of individual vessels or in linking individual vessels to owners or other principals. In a shipping register, the name of the lessor (typically a financial institution) is usually recorded for a vessel operated under a financial lease. It is important to recall that for balance of payments purposes, the operator (the lessee), not the legal owner, determines the provider of the services. Other names (and addresses) recorded as owners may, in fact, be nominees rather than actual owners.

3.34 It should be possible to collect accurate and relevant data from resident companies in respect of international transport transactions. There may be some complex operational arrangements, but, with clear instructions to the reporting companies involved, high-quality data can be obtained. Sometimes it may be difficult to identify all resident operators: the compiler may have to use an exploratory survey or attempt to identify operators from owners listed on a shipping register.

3.35 It may not be possible to obtain information from nonresident principals because a statistical compiling agency is generally not in a position to require nonresident companies to report. On the other hand, a significant part of the shipping may be handled by a small number of nonresident companies that have local branches or agents with thorough knowledge and records of nonresidents' earnings and expenses; such is most likely to be true for petroleum transport and the transport of major export or import commodities. Agents should be defined to include branches of nonresident companies acting on behalf of their head office principals, resident shipping operators who act as agents for nonresident principals, and importers and exporters who act as agents. Overlap may occur if more than one collection approach is adopted. For example, a petroleum importer may be both a branch of a nonresident enterprise and an acting shipping agent for its nonresident parent. Shipping agents could also be asked to report details of agent fees earned from nonresident principals.

3.36 In respect of inland freight charges earned by nonresident operators, only a small number of operators with relatively few clients (who may also act as agents for nonresident principals) may be involved.

¹The Register of Ships is available through purchase.

Therefore, collection of data may be a straightforward matter. If this activity is more widespread, an exploratory survey may be needed to identify the principals, their agents, or companies using the freight services.

3.37 In respect of other transport services (such as passenger services and mail) provided by nonresident operators, it should not be difficult to identify resident companies acquiring these services or arranging the sale of such services on behalf of nonresident principals. In many instances, the sales office may be a branch of the nonresident operator.

3.38 Data on services (such as stevedoring and provisioning) supplied to nonresident operators may be obtained by approaching suppliers of these services—if suppliers can distinguish between services provided to resident operators and those provided to nonresident operators. Similarly, government authorities could be approached to obtain details of fees charged. Alternatively, agents for nonresident operators could be asked to supply details of all expenses met by them on behalf of their principals.

3.39 It can be difficult to determine whether coverage of shipping operators is complete. In some economies, all vessels that enter and leave ports can be identified from lists supplied by port authorities or other sources. Such lists could be used to ensure that resident shipping companies and agents for nonresident shipping companies supply data in respect of each vessel entering and leaving a country's waters. Resident shipping companies and agents could report on the basis of each voyage, on the basis of a consolidated period, or on a vessel at a single port. When reporting is done on a consolidated basis, a list of vessels and ports visited should also be provided to ensure that there is no duplication or omission in reporting. It is not unusual for different agents to act for one vessel in different ports. Account should be taken of such arrangements when collection methodologies are determined.

3.40 To obtain a list of vessels owned or operated by residents and operating abroad during an entire reference period, the compiler could approach resident companies directly, consult the Lloyd's register, or consult trade journals. A combination of such methods is likely to give the best results and may identify resident operators previously unknown to

the compiler. Lists of ships could also be employed to facilitate sample surveys (at least for measurement of nonresident earnings and expenses), and the use of such lists could alleviate some of the reporting burden on shipping agents. Insufficient resources may make it difficult or impossible for the compiler to collect information on individual vessels. In such cases, the compiler must provide clear reporting rules for shipping operators and agents to follow to ensure complete coverage and avoid duplication.

3.41 Circumstances arising from flags of convenience should also be noted. Most economies have legislation on shipping registration. Some economies frame their legislation (usually by imposing fewer obligations and costs) to attract shipping company registrations and thus generate fees for national authorities. The general rules for determining a service provider's residence (see *BPM6*, Chapter 4) apply to shipping transport, with the result that the country of registration is not a criterion for determining the residence of the provider.

International airline surveys

3.42 The statistical unit in surveys of the international airline industry is generally the airline operator, and this fact presents no major problems. However, there may be a number of financing and leasing arrangements of which the compiler should be aware.

3.43 Financing of aircraft is often undertaken under financial lease arrangements. The treatment of financial leases is straightforward; therefore the compiler should have no difficulty in imputing a change of ownership to the airline operator when necessary and in measuring the transport activity appropriately. The treatment of financial leases is discussed in Chapter 10, paragraph 10.80.

3.44 It is common for airlines to lease aircraft without crews from one to another for several years at a time. These charters are usually known as "dry charters," and the charterer is regarded as the operator. Under such arrangement, the owner of the aircraft will be renting the plane to the dry charterer, and this rental agreement should be recorded under "operating rentals" (as a service debit if the owner is a nonresident). The dry charterer will earn transport credits in the balance of payments to the extent it provides transport services to nonresidents.

3.45 “Wet charters” are akin to “voyage charters,” and the plane is hired with a crew. In this case, the company responsible for the crew is regarded as the operator, and charter payments are recorded as payments for transport services.

3.46 There are some complex joint venture arrangements in the international airline industry. Various treatment options are outlined in Chapter 12, paragraph 12.34. Compilers in most economies where surveys are used to collect data on international airline operations normally approach resident airline carriers and the resident offices of nonresident airline carriers. Such collections tend to be relatively small and are usually readily managed. Model forms 8 and 9 can readily be tailored specifically to the airline industry.

3.47 While coverage of normal commercial operations should be easy to maintain, coverage of private charters and foreign military flights may be less easily measured. If these are missed, balance of payments service credits (such as airport fees in the compiling economy) could be understated. Monitoring such activity should be possible in conjunction with civil airline and defense authorities.

Rail transport

3.48 In Chapter 4 of the *BPM6*, the criteria for determining residence are set out. If these criteria are met for a rail operator, the company is treated as a resident of the economy. When a rail company operates outside its economy and meets the definition of a branch in the economy of operation,² a separate institutional unit is recognized and the railway system in the second economy would be regarded as a resident direct investment enterprise in the host economy. If the activity of the rail company does not allow for the recognition of a branch in the economy of operation, the rail company (in the home economy) is deemed to be providing transport services in the host economy. Obtaining these credits in the home economy should be relatively straightforward as the unit is a resident of that economy. For the travel debits, however, it is less easy: in this situation, the railway company may have an agent in the host economy that could be approached for the information.

²The factors used for identifying a branch are presented in the *BPM6*, paragraphs 4.26–4.28.

Other modes of transport

3.49 Other modes of transport include roads, waterways, pipelines, electricity cables, and space.

3.50 When a company providing road transport services operates in more than one economy, the separate operations of the company in each economy should be regarded as resident units of those economies if the criteria for recognizing a branch are generally met. Thus, it follows that it is the principal center of economic activity that determines the residence of the unit, not the location of the mobile equipment.

3.51 Unlike rail transport, road transport services may be provided by many companies and, as in the shipping industry, there may be many complex ownership and operation arrangements. Collection of complete data may be difficult, in practice, because of the large number of companies involved, the complex ownership and operating arrangements, and the necessity to split, for balance of payments purposes, inland freight (the carriage of goods within an economy or to the border) and international transport (the carriage of goods outside the exporting border). In addition, it may be difficult to distinguish services provided to nonresidents from those provided to residents. Although it may be difficult to obtain complete coverage of these activities, larger trucking and bus companies could be approached, and collection of the necessary data negotiated—these companies may be able to make a reasonably good estimate on the proportion of their business that is provided to nonresidents compared with residents. Such estimates may be easier for these companies to make for goods transport than for passenger transport. If the breakdown between passenger services provided to nonresidents compared residents is too difficult for these companies to make, it may be necessary for the compiler to undertake various on-site surveys of the passengers themselves. Data on freight rates and cost factors may be obtained, and these could then be applied to some benchmark data collected by national statistical authorities on road transport activity.

3.52 Transport by inland waterways should have many features in common with rail systems; relatively few operators are involved in most economies. However, in some economies, there are many operators, and in these economies the compiler could explore the possibilities for developing collection strategies

similar to those described for international shipping or for road transport.

Postal and courier services

3.53 Under the *BPM6*, postal and courier services are also included under transport. The data could be collected through survey of post offices; model form 6 from Appendix 8 could be used for this purpose.

Travel services

3.54 Surveys of businesses can be used to measure expenditure by residents traveling abroad (travel debits) or travel expenditure by nonresidents in the host economy (travel credits). Companies engaged in providing the means to pay for travel can provide information on both travel credits and debits, while companies that provide travel services to nonresidents can provide information on travel credits. Model form 10 in Appendix 8 requests the type of information that could be collected in a survey of businesses of international travel. It is important to distinguish between payments for international passenger services and international travel. The former are in the balance of payments under passenger services (part of transportation services), while the latter are included in travel. Surveys of businesses for travel purposes are often used to supplement or to provide indicator series where surveys of households may be too expensive to conduct on a frequent basis.

3.55 Businesses that provide the means to pay for travel include institutions involved in issuance of credit, debit, and cash cards, and traveler's checks, wire transfers, and the sale or purchase of foreign exchange (usually banks or similar financial institutions); travel agents; tour wholesalers; and retailers providing prepaid or package tours. Hotels and car rental companies may also be able to provide the information for (some) credits data. Surveys of such companies could be supplemented by estimates of travel expenditures paid with other instruments (e.g., cash expenditure).

3.56 Many travel charges are made through credit and debit cards, or through the use of automatic teller machines. Data on expenditures by nonresidents in host economies and by residents who travel abroad and use credit, debit, or cash cards are typically available from card-issuing companies. These businesses should be able to distinguish foreign payments and

receipts from domestic payments and receipts. As relatively few institutions issue credit and debit cards, this would be a small collection sample. Part A of model form 10 contains the type of questions that may be asked. Data should be collected before fees payable by, or to, nonresident companies are deducted.

3.57 Wire transfers may be used by individuals and travel organizers to pay for certain travel expenses. However, wire transfers are also used for other purposes (such as remittances), so it is important that the purpose of the transfer is clearly identified at the time of the transaction so that it can be properly classified.

3.58 Caution must, however, be exercised when credit or debit card information is used without supporting information on the transactions covered. Payments may relate to nontravel items (such as imports of goods) in the balance of payments, and the residence of cardholders (as perceived by the issuing company) may differ from balance of payments definitions. Equally, some travel debits that are paid for on credit or debit cards may be to a resident organizer or wholesaler, so there may be a need to survey these companies as well, and ensure there is no undercounting. Moreover, if travel transactions for car rental or accommodation, for example, are obtained directly from these businesses, it is important that such transactions be identified separately in data obtained from the credit or debit card companies so that these data can be adjusted to avoid double counting. Moreover, as such data sources are based on the time of the payment, and not necessarily the time of the travel, it would be useful to obtain some indicator as to when the travel took place or will take place. Nevertheless, in the absence of comprehensive surveys of individuals traveling abroad, data on credit or debit card expenditures can often serve as the basis for a useful estimate of part of travel expenditure.

3.59 To measure some prepayments, including package tour payments, it is necessary to identify wholesale and retail travel businesses. An exploratory survey could be used to identify companies receiving (or making) payments from (or to) abroad. Companies involved in this activity on a significant scale could be asked, subsequently, to complete a more detailed questionnaire. Gross amounts involved should be collected so that travel expenditure and commissions can be separately distinguished. The compiler, in establishing a survey of

wholesale and retail travel businesses, should pay particular attention to reporting rules so that no overlap or duplication of reporting occurs. Part C of model form 10 requests the type of information that could be collected.

3.60 With the increased use of credit, debit, and cash cards, traveler's checks are less important than they used to be. Nonetheless, they remain important for some individuals traveling abroad. Part B of model form 10 seeks data that could be collected on the value of the following:

- Traveler's checks (less refunds to original purchasers) that are issued abroad by nonresident companies on behalf of your enterprise and used during the recording period (travel credits)
- Traveler's checks that are issued by resident companies to residents and presented for collection by nonresident banks (travel debits)
- Traveler's checks (less refunds) that are issued to residents by resident companies on behalf of nonresident banks (travel debits)
- Traveler's checks that are sent for collection to nonresident banks—that is, traveler's checks issued abroad by nonresident institutions and purchased by resident companies from nonresident individuals traveling in the compiling economy (travel credits).

3.61 Gross data should be collected for all payment means, and fees and commissions should be collected separately and treated as financial services for traveler's checks, wire transfers, credit, debit, and cash card transactions.

3.62 Businesses that issue traveler's checks can identify the name of the bank or other agent—and the economy—that sold the traveler's checks (this information is encoded in the number printed on the traveler's check) and any refunds on unused checks. These businesses are also able to identify (or estimate) the value of traveler's checks used in each economy. Companies acting as traveler's check sales agents for issuing companies have information on locations at which traveler's checks are sold and on details about refunds. Staff of banks accepting traveler's checks know the values of checks sent abroad for collection by the banks. Therefore, for balance of payments compilation purposes, it should be possible to identify flows associated with traveler's checks.

3.63 As relatively few institutions (mostly banks) issue and redeem or buy and sell traveler's checks, data should be readily available. The compiler, in establishing a survey of traveler's check transactions, should pay particular attention to inclusion and exclusion rules so that all transactions are reported without duplications. The resident transactor undertaking the settlement with the nonresident party is usually designated as the reporting company in model forms.

3.64 Business surveys may also be used to measure actual travel services provided. Some compilers collect, from hotels and tourist resorts, data on numbers of nonresident individuals staying at these establishments, numbers of nights spent, and expenditures on accommodations and food. If conducting a regular survey to collect these data is not possible, it may be possible to obtain the numbers of visitors, hotel guests, and so forth and use an average from a benchmark survey (conducted annually) to estimate the subannual transactions. However, in economies with large seasonal travel flows, or with changes in the types of travelers in different seasons, an annual survey may mask important seasonal differences. In those instances, subannual surveys should be conducted whenever possible, or, if regular subannual surveys are not possible, it is preferable to conduct a benchmark survey once every three to five years that captures seasonal variations.

3.65 In economies where nonresident individuals stay at relatively few such establishments, a survey of hotels may be a good data source. A survey of businesses can also be used to obtain data from other establishments likely to provide significant services to nonresident travelers. Such services may be provided by restaurants, car rental companies, tour and transport operators, casinos, entertainment centers, and so forth. To obtain a profile of nonresident travel expenditure, the survey could collect the total value of services provided or partial information, which could be combined with information from other sources to measure travel credits. Part D of model form 10 contains the types of questions that could be used. The rules about which businesses should report must be clearly understood so that no overlap or duplication occurs. In the model form, data are collected on the basis of the institution that receives the payment rather than the institution that provides the service.

3.66 Expenditure by resident employees working abroad or nonresident employees working in the compiling economy should be treated as travel. These expenditures may best be obtained through surveys of households (see this chapter, Collections from Persons and Households).

Construction services

3.67 Construction covers the creation, management, renovation, repair or extension of fixed assets in the form of buildings, land improvements of an engineering nature, and other constructions such as roads, bridges, and dams. It also includes related installation and assembly work, site preparation and general construction, and specialized services such as painting, plumbing, and demolition.

3.68 Model form 11 could be used for collecting information on construction abroad and construction in the compiling economy. The former covers the construction work for nonresidents by residents and the goods and services acquired from the economy in which the construction activity is being undertaken, from the economy of the construction company, and from a third economy. The latter includes construction work for residents by nonresident construction companies, and goods and services acquired in the compiling economy by the nonresident construction companies.

3.69 The form also collects data on both short-term and long-term construction projects. However, only the short-term projects should be included under services, while long-term projects should be treated as foreign direct investment.

Insurance services

3.70 International insurance transactions include insurance placed abroad by agents and brokers, other insurance placed directly abroad, insurance received from abroad, reinsurance received from abroad, and reinsurance placed abroad. Also, it may be desirable to distinguish between insurance on goods, other casualty insurance, and life insurance. See Appendix 2, "Insurance Transactions and Positions," for a discussion on how to classify a transaction in insurance into the service, income, transfer, and financial account components.

3.71 Model form 12 in Appendix 8 requests data that could be collected from businesses and used for

compiling insurance services and related balance of payments items. Part A of the form contains premium and claim items that may be collected from resident insurance companies.

3.72 In addition to the claims and premiums information that can be used to estimate the insurance services, model form 12 provides examples of the information that could be collected to assist the compilation of claims on technical reserves, income on technical reserves (and premium supplements), current transfers (secondary income), and capital transfers.

3.73 A list of insurance companies conducting both insurance and reinsurance business should be available from the authority that issues the licenses for insurance businesses to operate. Resident insurance companies should report details of premiums and claims in respect of business obtained from abroad and in respect of international reinsurance flows. In addition, these companies may be asked to report separate details of premiums and claims in respect of insurance written by them on imports (see paragraph 3.79).

3.74 In regard to goods imports, data regarding premiums on insurance placed directly abroad and data on associated claims may be collected by approaching importers. However, if such data are not available from importers, an alternative is to deduct from the estimate of total insurance premiums on imports those insurance premiums on goods imports paid to resident insurance companies and collected from these businesses. In other words, for goods imports, insurance premiums paid to nonresidents can be derived as a residual. To obtain data on claims received by importers when data from importers are not available, data on premiums received and claims paid by resident insurance companies on goods imports could be used to calculate a claims to premiums ratio that can be applied to insurance placed with nonresidents. Care needs to be taken to avoid sample bias—that is, where the nature of the goods being insured is related to whether the imports are insured with resident insurers or nonresident insurers.

3.75 Data on insurance that covers insured items other than goods imports and is placed directly abroad could be obtained from a broad survey of businesses. Branches and subsidiaries of nonresident companies (direct investment enterprises) are

more likely to place insurance abroad than are other companies—especially when the head office of a multinational enterprise group takes out a global policy or self-insures and recoups premiums from subsidiaries and branches. Similarly, resident companies with foreign operations that do not meet the criteria for recognition of a branch may insure in the economy where the activity is taking place.

3.76 Care should be taken in the case where a multinational company self-insures. In this case, claims of the insured companies on their insurer (and the related income flows) are treated as direct investment debt instruments (asset/liability) (and direct investment income flows). Sometimes the direct investor—that is, the insurer—will reinsure with an unaffiliated reinsurer.

3.77 Insurance agents and brokers are usually required to register with insurance authorities; therefore, a list of these businesses should be readily available from official sources. An exploratory form could be used to identify agents and brokers placing insurance abroad. These agents and brokers would then be asked to complete a more detailed questionnaire. Data required on insurance transactions include details of premiums paid abroad and claims received. On model form 6, in the section to be completed by agents and brokers, insurance on goods imports is required as a separate category to ensure that it is not double counted. Insurance agents and brokers may satisfactorily report data on premiums paid abroad, but they may not be aware of claims received by residents. Therefore, the compiler may wish to adjust the claims data accordingly. The adjustment should be made in consultation with agents and brokers or by using a claims-to-premiums ratio that domestic insurers think is appropriate. If such an adjustment is made, the compiler should ensure that allowance is made for any claims information collected directly from the recipient—allowance should be made to the extent that such claims relate to premiums paid through resident agents.

3.78 Households may obtain insurance coverage for both life and nonlife from insurance companies abroad. Some may be obtained through agents or brokers in the resident economy, and the data may be obtained through a survey of businesses of these companies. However, households may obtain such coverage directly from nonresident providers. Such

coverage may be increasing, especially through the use of the Internet. Therefore, the compiler may need to undertake periodic household surveys (see this chapter, Collections from Persons and Households) or use bilateral data, if available, from those economies where residents place most of their direct insurance coverage.

Freight and insurance services on imports

3.79 Data for freight and insurance on imports may be required for a number of balance of payments purposes. If imports are recorded on a c.i.f. basis in merchandise trade statistics, data on freight and insurance are necessary to adjust imports to an f.o.b. basis. Data also are necessary to estimate freight and insurance premiums paid to nonresident insurers. A common practice is to collect data on resident carrier earnings from freight services on imports and data on insurance premiums paid to resident insurance companies on imports; to deduct these amounts from estimates of total freight services and insurance on imports; and thereby derive the residual figure for freight services and insurance premiums attributable to nonresidents. See Appendix 2 for a further discussion on how to classify a transaction in insurance into the service, primary income, secondary income, and financial account components.

3.80 This process requires information on the total payments for freight services and insurance on imports. It may be that customs documentation includes both c.i.f. and f.o.b. valuations on imports, allowing the calculation of total freight and insurance. Alternatively, an across-the-board survey of importers can be used to obtain the total value of freight and insurance. Importers may be asked to supply data on imports on an f.o.b. (or c.i.f.) basis and on freight and insurance components separately. These data may be requested for total imports or, preferably, for imports at each commodity level. Part B on import of goods in model form 4 in Appendix 8 includes questions on the value of freight services and insurance. A survey of importers could also seek information on how much of the freight services and insurance was paid to resident transport and insurance companies.

3.81 The survey of importers does not need to be conducted every quarter or even every year. Ratios can be calculated between the value of the goods being imported (either on a c.i.f. or f.o.b. basis) and the charges

for freight services and insurance. These ratios can then be applied to the value of similar goods in subsequent periods. A benchmark survey of importers conducted every three to five years may be sufficient if there is a relative degree of stability in the origin and composition of the imports. A subsample may be conducted on a more frequent basis in order to determine whether the ratios have changed significantly from those calculated from the benchmark survey.

3.82 If a comprehensive survey is not possible, the compiler could still approach selected companies to obtain data on freight and insurance for certain commodities, particularly those where charges may be a considerable part of the c.i.f. value (e.g., insurance charges on petroleum). Even though the compiler may still have to estimate freight and insurance for some commodities, the scope of estimation is reduced.

Pension services

3.83 International pension services include residents receiving pension services from nonresident pension fund operators, and services provided by domestic pension funds. Services are delivered continuously by pension funds (usually associated with employment), contributions are received, benefits are paid, and assets are invested and managed. As the recipient of pension services is always an individual, information will generally be difficult to collect through a survey of businesses for services debits. “Employment-Related Pension Schemes and Social Security Schemes” of Appendix 2 contains a discussion of the classification of the various transactions associated with employment-related pensions and social security.

3.84 Model form 13 in Appendix 8 requests data that could be collected from businesses and used for compiling pension service credits and related balance of payments items. Parts A and B of the form contain items for contributions to the fund and pensions paid out of the fund. The model form can also be used to collect data on secondary income, the technical reserves of the pension fund, and income on the technical reserves.

3.85 A list of pension fund operators should be available from the authority responsible for licensing pension funds to operate. Resident pension fund companies should report details on contributions to the fund, reserves held by the fund, and pensions paid

out of the fund to nonresidents. Fund operators may be readily able to identify nonresident members of the fund based on the addresses of the members.

3.86 There are some instances where there may be domestic sources of information on pension service debits. In some economies, it is possible for individuals to determine their own pension funding arrangements. In these cases, agents and brokers may offer services including the placement of funds abroad—these agents do not take the liability onto their own books, but rather arrange for the funds to be invested by nonresident pension funds. In model form 6, Part D requests information from brokers and agents on the placement of monies in nonresident pension funds. Regardless, the agents and brokers are unlikely to be aware of the pension benefits being paid out of the fund, so they are only a partial source of information. Ratios from domestic funds or actuarial assumptions can be used to estimate positions in the fund and pensions paid from the fund based on the partial information.

3.87 Branches and subsidiaries of nonresident companies (direct investment enterprises) may require their employees to participate in specific funds associated with the multinational group. Information may be available from the branches or subsidiaries on their payments to the foreign pension funds. While information on pensions paid out of the fund may not be known by the local enterprise, the estimation of pensions and positions in the fund may be based on local ratios or actuarial assumptions.

3.88 Most individuals who have claims on nonresident pension funds will deal directly with the fund or through a nonresident employer (in the case of some payments into the fund). Information on payments into the fund, claims on the fund, and pensions received may be available only from the resident, who, in this case, is an individual. Therefore, the compiler may need to undertake periodic household surveys (see this chapter, Collections from Persons and Households). Alternatively, the compiler may use bilateral data, if available, from those economies where residents are employed.

Financial services

3.89 Financial services include explicit fees associated with loans, deposits, asset management, brokerage fees, and the implicit service charge on loans and deposits reflected in the difference between the

interest charged (earned) on loans (deposits) and a reference rate, such as interbank rate. This implicit service charge is known as financial intermediation services indirectly measured, or financial intermediation services indirectly measured (FISIM).

3.90 Explicit fees are generally associated with external financial assets or liabilities. Model form 17 in Appendix 8 is an example of a comprehensive survey of financial claims and liabilities to nonresidents. This form also requests data on the explicit fees charged between residents and nonresidents on these positions.

3.91 Appendix 3 provides a discussion of the estimation of FISIM.

Other services

3.92 Collection of data on services such as communications, construction, certain financial services, computer and information services, royalties and fees, other business services, and other personal services are included under other services. The classification of services according to the *BPM6* appendix is presented in Table 3.1, along with the more detailed Extended Balance of Payments Services

Table 3.1 Classification of Services

Balance of Payments (<i>BPM6</i>) ¹	Extended Balance of Payments Services Classification (<i>EBOPS—MSITS 2010</i>)
1.A.b.1 Manufacturing services on physical inputs owned by others <i>1.A.b.1.1 Goods for processing in reporting economy</i> <i>1.A.b.1.2 Goods for processing abroad</i>	1 Manufacturing services on physical inputs owned by others <i>1.1 Goods for processing in reporting economy</i> <i>1.2 Goods for processing abroad</i>
1.A.b.2 Maintenance and repair services n.i.e.	2 Maintenance and repair services n.i.e.
1.A.b.3 Transport 1.A.b.3.1 Sea transport 1.A.b.3.1.1 Passenger <i>Of which 1.A.b.3.1.1.1 Payable by border, seasonal, and other short-term workers</i> 1.A.b.3.1.2 Freight 1.A.b.3.1.3 Other 1.A.b.3.2 Air transport 1.A.b.3.2.1 Passenger <i>Of which 1.A.b.3.2.1.1 Payable by border, seasonal, and other short-term workers</i> 1.A.b.3.2.2 Freight 1.A.b.3.2.3 Other 1.A.b.3.3 Other modes of transport 1.A.b.3.3.1 Passenger <i>Of which 1.A.b.3.3.1.1 Payable by border, seasonal, and other short-term workers</i> 1.A.b.3.3.2 Freight 1.A.b.3.3.3 Other 1.A.b.3.4 Postal and courier services For all modes of transport: 1.A.b.3.0.1 Passenger <i>Of which 1.A.b.3.0.1.1 Payable by border, seasonal, and other short-term workers</i> 1.A.b.3.0.2 Freight 1.A.b.3.0.3 Other	3 Transport Alternative 1: Mode of transport 3.1 Sea transport 3.1.1 Passenger <i>Of which 3.1.1.1 Payable by border, seasonal, and other short-term workers</i> 3.1.2 Freight 3.1.3 Other 3.2 Air transport 3.2.1 Passenger <i>Of which 3.2.1.1 Payable by border, seasonal, and other short-term workers</i> 3.2.2 Freight 3.2.3 Other 3.3 Other modes of transport 3.3.1 Passenger <i>Of which 3.3.1.1 Payable by border, seasonal, and other short-term workers</i> 3.3.2 Freight 3.3.3 Other 3.4 Postal and courier services 3.5 Space transport 3.6 Rail transport 3.6.1 Passenger 3.6.2 Freight 3.6.3 Other 3.7 Road transport 3.7.1 Passenger 3.7.2 Freight 3.7.3 Other 3.8 Inland waterways transport 3.8.1 Passenger

Table 3.1 Classification of Services (*continued*)

Balance of Payments (BPM6) ¹	Extended Balance of Payments Services Classification (EBOPS—MSITS 2010)
	3.8.2 Freight 3.8.3 Other 3.9 Pipeline transport 3.10 Electricity transmission 3.11 Other supporting and auxiliary transport services For all modes of transport: Alternative 2: What is carried 3a.1 Passenger <i>Of which 3a.1.1 Payable by border, seasonal, and other short-term workers</i> 3a.2 Freight 3a.3 Other 3a.31 Postal and courier services 3a.32 Other
1.A.b.4 Travel 1.A.b.4.1 Business 1.A.b.4.1.1 <i>Acquisition of goods and services by border, seasonal and other short-term workers</i> 1.A.b.4.1.2 <i>Other</i> 1.A.b.4.2 Personal 1.A.b.4.2.1 <i>Health-related</i> 1.A.b.4.2.2 <i>Education-related</i> 1.A.b.4.2.3 <i>Other</i> For both business and personal travel: 1.A.b.4.0.1 <i>Goods</i> 1.A.b.4.0.2 <i>Local transport services</i> 1.A.b.4.0.3 <i>Accommodation services</i> 1.A.b.4.0.4 <i>Food-serving services</i> 1.A.b.4.0.5 <i>Other services</i> Of which 1.A.b.4.0.5.1 <i>Health services</i> Of which 1.A.b.4.0.5.2 <i>Education services</i>	4 Travel 4.1 Business 4.1.1 <i>Acquisition of goods and services by border, seasonal and other short-term workers</i> 4.1.2 <i>Other</i> 4.2 Personal 4.2.1 <i>Health-related</i> 4.2.2 <i>Education-related</i> 4.2.3 <i>Other</i> Alternative presentation for travel (for both business and personal travel): 4a.1 <i>Goods</i> 4a.2 <i>Local transport services</i> 4a.3 <i>Accommodation services</i> 4a.4 <i>Food-serving services</i> 4a.5 <i>Other services</i> Of which 4a.5.1 <i>Health services</i> Of which 4a.5.2 <i>Education services</i>
1.A.b.5 Construction 1.A.b.5.1 <i>Construction abroad</i> 1.A.b.5.2 <i>Construction in the reporting economy</i>	5 Construction 5.1 <i>Construction abroad</i> 5.2 <i>Construction in the reporting economy</i>
1.A.b.6 Insurance and pension services 1.A.b.6.1 <i>Direct insurance</i> 1.A.b.6.2 <i>Reinsurance</i> 1.A.b.6.3 <i>Auxiliary insurance services</i> 1.A.b.6.4 <i>Pension and standardized guarantee services</i>	6 Insurance and pension services 6.1 <i>Direct insurance</i> 6.1.1 <i>Life insurance</i> 6.1.1 a <i>Gross life insurance premiums receivable (credits) and payable (debits)</i> 6.1.1 b <i>Gross life insurance claims receivable (credits) and payable (debits)</i> 6.1.2 <i>Freight insurance</i> 6.1.2 a <i>Gross freight insurance premiums receivable (credits) and payable (debits)</i> 6.1.2 b <i>Gross freight insurance claims receivable (credits) and payable (debits)</i> 6.1.3 <i>Other direct insurance</i> 6.1.3 a <i>Gross other direct insurance premiums receivable (credits) and payable (debits)</i> 6.1.3 b <i>Gross other direct insurance claims receivable (credits) and payable (debits)</i> 6.2 <i>Reinsurance</i>

Table 3.1 Classification of Services (*continued*)

Balance of Payments (BPM6) ¹	Extended Balance of Payments Services Classification (EBOPS—MSITS 2010)
	6.3 Auxiliary insurance services 6.4 Pension and standardized guarantee services 6.4.1 Pension services 6.4.2 Standardized guarantee services
1.A.b.7 Financial services 1.A.b.7.1 <i>Explicitly charged and other financial services</i> 1.A.b.7.2 <i>Financial intermediation services indirectly measured (FISIM)</i>	7 Financial services 7.1 Explicitly charged and other financial services 7.2 Financial intermediation services indirectly measured (FISIM)
1.A.b.8 Charges for the use of intellectual property n.i.e.	8 Charges for the use of intellectual property n.i.e. 8.1 Franchises and trademarks licensing fees 8.2 Licenses for the use of outcomes of research and development 8.3 Licenses to reproduce and/or distribute computer software 8.4 Licenses to reproduce and/or distribute audio-visual and related products 8.4.1 Licenses to reproduce and/or distribute audio-visual products 8.4.2 Licenses to reproduce and/or distribute other products
1.A.b.9 Telecommunications, computer, and information services 1.A.b.9.1 <i>Telecommunications services</i> 1.A.b.9.2 <i>Computer services</i> 1.A.b.9.3 <i>Information services</i>	9 Telecommunications, computer, and information services 9.1 Telecommunications services 9.2 Computer services 9.2.1 Computer software <i>Of which 9.2.1 a Software originals</i> 9.2.2 Other computer services 9.3 Information services 9.3.1 News agency services 9.3.2 Other information services
1.A.b.10 Other business services 1.A.b.10.1 Research and development services 1.A.b.10.2 Professional and management consulting services 1.A.b.10.3 Technical, trade-related, and other business services	10 Other business services 10.1 Research and development services 10.1.1 Work undertaken on a systematic basis to increase the stock of knowledge 10.1.1.1 Provision of customized and non-customized research and development services 10.1.1.2 Sale of proprietary rights arising from research and development 10.1.1.2.1 Patents 10.1.1.2.2 Copyrights arising from research and development 10.1.1.2.3 Industrial processes and designs 10.1.1.2.4 Other 10.1.2 Other 10.2 Professional and management consulting services 10.2.1 Legal, accounting, management consulting and public relations services 10.2.1.1 Legal services 10.2.1.2 Accounting, auditing, bookkeeping, and tax consulting services 10.2.1.3 Business and management consulting and public relations services 10.2.2 Advertising, market research, and public opinion polling services <i>Of which 10.2.2.1 Convention, trade-fair and exhibition organization services</i>

Table 3.1 Classification of Services (*concluded*)

Balance of Payments (BPM6) ¹	Extended Balance of Payments Services Classification (EBOPS—MSITS 2010)
	10.3 Technical, trade-related, and other business services 10.3.1 Architectural, engineering, scientific, and other technical services 10.3.1.1 Architectural services 10.3.1.2 Engineering services 10.3.1.3 Scientific and other technical services 10.3.2 Waste treatment and de-pollution, agricultural and mining services 10.3.2.1 Waste treatment and de-pollution 10.3.2.2 Services incidental to agriculture, forestry and fishing 10.3.2.3 Services incidental to mining, and oil and gas extraction 10.3.3 Operating leasing services 10.3.4 Trade-related services 10.3.5 Other business services <i>Of which 10.3.5.1 Employment services, i.e., search, placement, and supply services of personnel</i>
1.A.b.11 Personal, cultural, and recreational services 1.A.b.11.1 Audiovisual and related services 1.A.b.11.2 Other personal, cultural, and recreational services	11 Personal, cultural, and recreational services 11.1 Audio-visual and related services 11.1.1 Audio-visual services <i>Of which 11.1.1.a Audio-visual originals</i> 11.1.2 Artistic related services 11.2 Other personal, cultural, and recreational services 11.2.1 Health services 11.2.2 Education services 11.2.3 Heritage and recreational services 11.2.4 Other personal services
1.A.b.12 Government goods and services n.i.e.	12 Government goods and services n.i.e. 12.1 Embassies and consulates 12.2 Military units and agencies 12.3 Other government goods and services n.i.e.
<i>1.A.b.0.1 Tourism-related services in travel and passenger transport</i>	<i>4.0 Tourism-related services in travel and passenger transport</i> C.1 Audio-visual transactions <i>Of which C.1.1 Licenses to use audio-visual products</i> C.2 Cultural transactions C.3 Computer software transactions <i>Of which C.3.1 Licenses to use computer software products</i> C.4 Call-centre services C.5 Total services transactions between related companies C.6 Total trade-related transactions C.7 Environmental transactions C.8 Total education services

¹Italicized items are supplementary items.

classification described in the *MSITS 2010*. The transactions in services that can be collected by survey of businesses are listed in model form 6 in Appendix 8, and the notes in that form describe the services that should be reported.

3.93 The design of surveys of services should follow the description provided in Chapter 2. While a

thorough approach to population identification is required, such as through a screening question in a general questionnaire sent to all businesses on a business register, or through taxation records (where such data sharing agreements exist between the agency in charge of compiling balance of payments and IIP statistics and the tax authorities), a list of the types of

companies just mentioned is a useful starting point. “Creating or Updating a Survey Frame” in Chapter 2 discusses population identification more thoroughly. There are some areas in which the boundaries of international service activity must be established. For example, the boundary for construction services is a complex issue, which is discussed in Chapter 12.

Foreign embassies

3.94 Transactions between foreign embassies and their host economies are balance of payments transactions. These transactions may take the form of employment of local workers and purchases of goods and services. The purchases of goods and services by staff of the embassy and assets and liabilities (e.g., bank accounts) in the host economy will also generate balance of payments transactions and IIP.

3.95 Model form 14 in Appendix 8 requests data that could be collected from embassies and used for compiling the trade in goods and services, primary income, secondary income (current transfers), capital transfers, and financial account transactions associated with the presence of the embassy in the host economy. Similar information should be available for official expenditure of the embassies of the compiling economy from official records of the external affairs ministry.

3.96 Foreign embassies do not come under the jurisdiction of the host economy, so that legislation compelling businesses and individuals to respond to statistical requests will not apply to the collection of these data. Good response rates from embassies will require the development of good relationships and sound form design to ease the reporting burden. However, in practice often it is not feasible for the compiler to establish open relationship with foreign embassies, and the compiler should consider other approaches for compiling data on the foreign embassies’ transactions in the compiling economy (e.g., applying ratio of costs per embassy staff).

3.97 Care needs to be taken to ensure that the distinction between employing local individuals as staff and contracting local services is applied correctly. Paragraphs 11.12–11.13 of the *BPM6* list the criteria for determining whether an individual is to be treated as an employee or as a self-employed person providing services.

Collections on Primary and Secondary Income Statistics

3.98 The primary and secondary income components cover a range of balance of payments transactions. Some of these transactions may be associated with other transactions in the balance of payments (e.g., social contributions in the secondary income account being associated with compensation of employees in the primary income account, or investment income being associated with transactions and positions in external assets and liabilities). These relationships can assist in identifying the companies that need to be covered by surveys on primary and secondary income statistics, and can also guide the information to be requested in the surveys.

Transactions Associated with Foreign Workers

3.99 Business surveys of employers and employment agencies engaging foreign workers, as well as data available from banks, may be used as sources to measure the balance of payments transactions associated with foreign workers. Foreign workers include border workers (those crossing a border from a residence in one economy to a place of employment in another economy on a daily or other short-term regular basis), seasonal workers (undertaking seasonal work often associated with agriculture or tourism), and short-term migrants (e.g., on working holidays of less than one year’s duration). They also include foreign workers that are employed under long-term contracts (more than one year) and are considered residents of host countries.

3.100 The residence of workers needs to be carefully ascertained, particularly given that these individuals may have close links to both the economy in which they work and other economies where they maintain residences. Paragraphs 4.116–4.120 of the *BPM6* discuss the criteria for identifying the residence of households, and paragraph 4.125 discusses the residence of cross border workers in particular.

3.101 In designing a survey of employers, the compiler should take into account the scope and nature of information known to employers. Total wages, salaries, duration of the employment contracts, and supplements should be known. Employers probably do not know workers’ actual expenditures in the domestic economy or amounts remitted to home economies.

Some employers may be able to provide information on actual cash remittances. Any approach to collecting information from employers should request data on values of wages, salaries, and supplements and on numbers of foreign workers employed on a short- and long-term basis. Such data may be used in the development of a profile of foreign workers, which would be helpful for estimating transactions that are of interest to the compiler.

3.102 Employers should also be aware of pension fund arrangements, where appropriate, for their foreign employees. Employers' contributions to these funds on behalf of short-term foreign workers together with employees' contributions should be included in the compensation of employees. The contributions paid by the employers and employees to both pension schemes and social security schemes are recorded as current transfers; however, for the former they are also recorded in the financial account as pension entitlements while for the latter no financial account entries need to be registered (see *BPM6*, paragraphs 12.37–12.39). In both cases, the social security benefits are recorded in the secondary income account as payable (in the economy of social security fund) and as receivable (in the economy of employee). Taxes withheld from the wages and salaries of foreign workers are recorded as current taxes in the secondary income account.

3.103 Taxes withheld from the wages and salaries of short-term foreign workers should be available to be collected from the employers; however, the cross border pension services are better captured from the resident pension funds.

3.104 Care needs to be taken to ensure that the distinction between employing short-term foreign workers and contracting foreign services is applied correctly. Paragraphs 11.12–11.13 of the *BPM6* list the criteria for determining whether an individual is to be treated as an employee or as a self-employed person providing services. In particular, responsibility for the payment of social contributions is one indicator of employment—if the resident business is responsible for the social contributions, it is likely that the nonresident is a foreign worker, whereas if the nonresident is responsible for social contributions, it is more likely that the nonresident is self-employed and the resident business is contracting services (with payments to be recorded as trade in services).

3.105 Domestic banks may, in special circumstances, have information on foreign workers that could be used in calculating compensation of employees and personal transfers (e.g., workers' remittances) and changes in nonresident bank deposits. Another potential source of information is employment agencies, which may be responsible for recruiting foreign workers to be employed in the domestic economy. Any approach to collecting information from employment agencies should request data on values of wages and salaries, duration of the contracts, remittances and the like, and numbers of foreign workers employed. If employment agencies do not have actual data, staff may know numbers of workers placed, employment conditions, contractual arrangements, and so forth, and such information may be useful for constructing a data model on foreign workers.

3.106 Business surveys may also be used to measure the balance of payments transactions of residents working abroad. A number of sources could be approached for information. The compiler could survey employment agencies that recruit residents to work abroad. The amount of detail and the scope of information possessed by such organizations may vary, but data on wages and salaries paid in cash and in kind, duration of the employment, living expenses, and remittances to home economies could be available. Data may also be available by industry and economy. Information on the numbers of workers involved and, if possible, data on their wages and salaries should be collected. Adjustments may have to be made to ensure that, in the overall measure of wages and salaries, employers' contributions to insurance and pension schemes are included. In some instances, industry associations may have information on the numbers of employees working abroad and their approximate remuneration.

3.107 Such aforementioned surveys of businesses may also need to be conducted in conjunction with periodic household surveys (see this chapter, Collections from Persons and Households). Such household surveys could capture not just the amounts of compensation of employment but also expenditures by resident workers abroad (from resident households) or by nonresident workers in the resident economy where the employees have an abode without it becoming their predominant center of economic interest. Such expenditures should be classified as travel. The survey should also cover remittances sent abroad by workers that are not citizens of the compiling economy who

reside there for one year or more (residents of host economy), or remittances received from nonresident workers abroad (citizens of the compiling economy who reside abroad for one year or more and are residents of their host economies).

3.108 Information on employees working abroad and their compensation may also be available from tax authorities, where such data sharing agreements exist between the statistical agency and the tax authorities.

3.109 Special bank tabulations of data may be available to measure components of compensation of employees and personal transfers. In some economies, arrangements exist for banks to establish special accounts for certain types of clients, such as foreign nationals working in a host economy or citizens working abroad. These accounts may be a useful source of information on such balance of payments items as employee compensation and personal transfers. Monitoring of bank accounts held by embassies, by military establishments of foreign governments, and by international institutions may be a useful way to measure transactions with the compiling economy of certain foreign governments and international institutions.

3.110 Domestic pension funds and social security schemes may have information on the contributions that they receive in regard to foreign workers (social contribution credits) and the social benefits that they pay out to beneficiaries (social benefit debits). In addition to actual contributions and payments, pension funds will have access to information on the investment income due to the nonresident members of the fund (investment income debits) and any explicit fees and charges levied on members' funds (netted from social contribution credits). See Appendix 2, "Employment-Related Pension Schemes and Social Security Schemes," for further discussion of pension schemes and social security schemes, including the calculation of the adjustment item.

3.111 Where individuals are classified as residents in the economy in which they work, but they have close economic ties to another economy (e.g., they have family residing in another economy), they may regularly remit payments to the other economy, or have their salary paid directly into accounts in that economy. In addition to collecting information on border workers, information may be collected also on the remittances by these workers.

Investment Income

3.112 All of the instruments on which investment income is earned or paid are recorded in the financial account and IIP. The identification of companies earning or paying investment income will be an important dimension of the survey of businesses to collect data on transactions and positions in financial assets. Collections covering external assets and liabilities are discussed ahead. Model form 17 in Appendix 8 requests information for the compilation of investment income in a comprehensive survey of transactions, positions, and income accruing on external assets and liabilities.

Private Aid and Charitable Organizations

3.113 Religious organizations and other organizations involved in collecting or distributing goods, services, and funds to be used for development or other assistance can be approached for information on related balance of payments transactions. Sometimes the compiler may collect relevant data from an umbrella organization formed for the purpose of coordinating these types of activities.

3.114 Model form 15 in Appendix 8 requests information from private aid and charitable organizations for the compilation of current transfers in the secondary income account. In addition to grants to related institutions, disbursements of aid in cash or kind, and investment grants, information is requested on sources of income (including donations and gifts from nonresidents and income from investment in external assets) and on foreign staff employed within the organization.

3.115 Lists of charitable organizations will usually be available from the tax authorities where there are special taxation arrangements for donations to the organizations. Not all charitable organizations will have transactions of interest to the compiler, so exploratory surveys can be used to identify those needing to be surveyed on a regular basis.

Other Primary and Secondary Income Items

3.116 Exploratory surveys used to identify businesses with operations abroad may identify resident companies with foreign operations that do not meet the criteria for the identification of branches (e.g., small construction projects). These operations remain of interest to the compiler; in addition to provision and purchase of goods and services in the host

economy, there may be primary and secondary income transactions associated with the operations. The number of companies operating in this way is usually small, and so the population is manageable from a survey perspective.

3.117 When companies have activities abroad that do not constitute branches, there may still be land and offices being rented. The rent paid for the use of land without structures is a primary income transaction to be recorded as rent debits.³ Also, while not meeting the criteria for a branch, the operations may still be subject to taxation obligations in the economy where they are taking place. To the extent that a tax obligation is accruing, data on primary income (taxes on production or value-added taxes) and secondary income (taxes on income) debits should be collected.

3.118 Data collected on credit transactions might have a better coverage because the activities involved are conducted offshore but not through a formally organized branch. As the criteria for identifying branches have not been met (e.g., the offshore activity does not have its own balance sheet and it is not possible or meaningful to compile these data), the resident company would have the relevant information that could be collected. As far as rent is concerned, commercial real estate agents may have some information that is able to be used to support the estimation of credits.

3.119 Insurance net premiums and claims due are generally recorded as secondary income transactions, although in some circumstances, claims may be treated as capital account transactions. Model form 12 in Appendix 8 requests data that can be used to compile insurance premiums and claims items in addition to the services and financial accounts transactions. Surveys of businesses concerning insurance are described more fully in “Collections on Goods and Services Statistics,” in this chapter, and in “Insurance Transactions and Positions,” in Appendix 2.

3.120 Model form 16 requests information on current transfers, grants, and technical assistance. Part A of the form seeks information on transfers in cash and in kind received by the government and the pri-

vate sector, including nongovernment organizations. The information can be used for the compilation of current transfers in the secondary income account and capital transfers in the capital account. Part B of the form pertains to technical assistance of project work/staffed missions received by the economy.

Collections on External Assets and Liabilities

3.121 Surveys of businesses may be used to measure positions; financial transactions; investment income; financial services; and withholding taxes associated with liabilities to, and claims on, nonresidents. Data on positions of external assets and liabilities are required for the IIP statement; data on financial transactions are required for the financial account of the balance of payments. Remaining items are required for the current account: investment income (for inclusion in the primary income item), financial services (for inclusion in services), and withholding tax (for inclusion in secondary income).

3.122 Companies may not always be aware that some of their liabilities (which take the form of tradable securities issued in the domestic market) may be managed by domestic financial intermediaries on behalf of nonresidents. The measurement of these external liabilities is also complicated by the existence of secondary markets. Collection issues associated with international securities are examined further in the section “Collections on International Activity Associated with Securities,” in this chapter.

3.123 The compiler often conducts survey of businesses to measure financial flows, positions, investment income, associated financial services, and withholding taxes. Through these surveys, many different approaches are taken. The compiler may conduct an across-the-board survey of external assets and liabilities; or use surveys of businesses to measure certain components, such as direct investment and loans from nonresidents, and use other methods, such as an ITRS, for the remainder.

Model Forms

3.124 Model form 17 in Appendix 8 seeks the type of data on external assets and liabilities that the compiler could collect through a survey of businesses. This comprehensive form could be sent to any type of

³The rent paid for the lease of structures and offices is classified as operating leasing in services account. See also “Other Business Services: Operating Leasing” in Chapter 12 and “Rent” in Chapter 13.

company (a direct investor, a direct investment enterprise (DIENT), a public company, or any other type of company) for completion.

3.125 The form contains a classification framework for financial flows, positions, reconciliation items, investment income, and explicit fees and charges on transactions. These classifications are consistent with the standard components of the *BPM6*. Model form 17 should be of assistance to the compiler who must record wide-ranging international financial transactions and wishes to compile comprehensive data. Less detailed forms (covering only a subset of information from the model form, or collecting data on several instruments together) may be used by the compiler for economies that have less developed financial structures. As separate forms could, in practice, be used for different types of companies, model form 17 could be divided into several forms; it also could be used for collecting data for the IMF's Coordinated Portfolio Investment Survey (CPIS).

3.126 One specific example where a form can be tailored for specific companies or instruments is the collection of data on direct investment (DI). Model form 18 in Appendix 8 is an example of a form tailored in this way. Direct investment is of analytical interest in its own right, and is the subject of separate collection by the IMF in the Coordinated Direct Investment Survey (CDIS).

3.127 In the model form 17, data are requested separately on external assets and external liabilities. In turn, there are separate items for positions (both opening and closing), transactions (increases, decreases, and net), other changes (exchange rate, price, and other), associated income, withholding taxes and explicit fees and charges on transactions. The collection of additional items on withholding taxes and explicit financial fees within the same form as information on financial positions, transactions, and related income flows can emphasize that reporting of these transactions is required on a gross basis before fees and taxes are deducted.

3.128 Assets and liabilities are separately classified as representing claims by direct investors on DIENTs, claims by DIENTs on direct investors, claims on fellow enterprises, or claims on other nonresident companies.

3.129 In collecting information on equity claims of direct investors on DIENTs, sufficient information is

requested to enable the calculation of reinvestment of earnings and reinvested earnings in the direct investment relationship (see ahead).

3.130 Data are requested by the partner economy to support the development of bilateral statistics.

Reconciliation of Positions and Flows Data

3.131 Model form 17 collects data in a reconciliation statement—opening and closing positions and the reasons for change between the two positions (transactions, valuation changes due to exchange rate and price changes, and other changes in volume). In addition, the statement includes investment income because it is important to link investment income with corresponding position data. Any data collection of positions, financial flows, and investment income should be built around these basic relationships. By collecting data in the form of a reconciliation statement and linking it to related income items, the compiler should ensure the consistency of data collected.

3.132 Changes in positions will arise from transactions such as the provision of financing (e.g., a new equity investment, a loan drawing, or the purchase of a security) less the repayment of financing (e.g., share buyback, repayment of a loan, or collection of an account receivable). In model form 17, the provision of financing is referred to as an increase, and repayment/withdrawal is called a decrease.

3.133 Other changes in the value of a financial asset and liabilities may occur without any transaction. For example, the value of an asset denominated in one currency may change when the value is expressed in another currency and the relative values of the two currencies change. A write-off of debt by the creditor and a movement in the market price of a tradable instrument are other examples.

Validation of the reconciliation statement

3.134 In a statistical collection, the nontransaction components of changes in levels may also reflect errors, other discrepancies, or changes in the treatment of items. For example, in sample surveys, the rotation of units in and out of collections may introduce sampling errors if the sample is not an accurate representation of the universe. Also sometimes reporters who discover that previously reported transactions and

position data are incorrect do not provide revised data. If such differences have significant impacts on survey results for past periods, revised figures should be produced. The compiler should attempt to measure the causes of the other changes item and keep the statistical error component within acceptable bounds.

3.135 As shown in model form 17, the collection of investment income ensures that investment income, financial flows, and position items are consistently classified; in addition, the collection of investment income facilitates income yield analysis, which enables the compiler to verify the quality of data reported on investment income and to identify possible misreporting of income or positions. Published data on income yields are useful for purposes of analysis. Investment income on loans assets and deposits liabilities of deposit-taking corporations should be adjusted by the compiler for FISIM. (Further discussion of FISIM is provided in Appendix 3.)

Reinvested Earnings and Reinvestment of Earnings

3.136 In addition to the usual reconciliation format, model form 17 collects information on the total equity value of DIENTs, their total operating profit, tax payable on the income, and dividends or profits remitted during the period. The difference between the profits accruing and the dividends or profits remitted to the direct investor is the reinvested earnings (returned earnings) (primary income account) accruing to the direct investor. An offsetting transaction, reinvestment of earnings, is to be recorded in the financial account.

3.137 For resident direct investors, model form 17 requests information on dividends or profits remitted in the reference period and the before-tax operating profit attributable to the equity holding in the non-resident DIENT. The difference between these two values is reinvested earnings credits accruing to the resident direct investor. An offsetting transaction, reinvestment of earnings, is to be recorded in the financial account.

3.138 When collecting data in a reconciliation statement, care must be taken with the treatment of reinvestment of earnings as a financial transaction, particularly for listed companies. These companies could consider that the retention of earnings has impacted

on their valuation through a price change (as reflected by an increase in their share price on equity markets) rather than as a transaction. After the compiler has calculated reinvested earnings and the offsetting reinvestment of earnings has been included as a financial accounts transaction, a similar offsetting adjustment will need to be made to price changes to retain the consistency of the reconciliation statement. This adjustment may impact the validation of price changes on equity reported by such companies (which should be made prior to adjustment) mentioned earlier.

Classification of Positions, Financial Transactions, and Investment Income

3.139 It is important that forms used to obtain information from businesses for classifying transactions and positions are consistent with requirements of the *BPM6*. As financial transactions, investment income, and the IIP are classified in similar ways, the use of the reconciliation statement to collect information on the external assets and liabilities of a company facilitates consistent classification of balance of payments and IIP items.

3.140 Model form 17 is designed to permit classification of transactions into the standard components of the *BPM6*. In addition, the form also allows for certain supplementary classifications, such as partner economy data (see Appendix 5), currency denomination of instrument, and sector of nonresident counterparty.

Conversion of Foreign Currency Positions and Transactions to the Unit of Account

3.141 In surveys of businesses, as in other balance of payments collections, instructions should be given to reporters on how to convert positions and transactions expressed in foreign currencies to the unit of account (alternatively, some compilers may prefer to collect data denominated in original currencies and undertake the conversions themselves—in which case, it is important that the reporter identifies the different currencies, the amounts associated with each, and when the transactions took place). The instructions should follow the recommendations of paragraph 3.104 of the *BPM6*, which states that: positions of external assets and liabilities should be converted to the unit of account at the midpoint market rate of exchange applicable to the date of measurement of position data; and transactions should

be converted on the basis of the midpoint rate applicable to the transaction date. If the actual rate of exchange is unavailable for transactions (e.g., the compiler is performing the conversion and does not have access to information on the date of the transaction), an average for the period in which the transaction took place could be used, but the shorter the period the better—therefore, an average of the rate for the day on which the transaction took place is preferable to an average for the week.

Surveys of Banks and Other Financial Institutions

3.142 In some economies, data collected by compilers of money and banking statistics, or by compilers of other financial statistics, on surveys of businesses (of banks and other financial institutions) are used to compile some components of the balance of payments and IIP statements.

3.143 Such surveys generally collect balance sheet data and request classification by instrument and sector of creditor (in the case of banks' liabilities) and debtor (in the case of banks' financial assets). The sector classification enables the analyst to identify financial flows between banks and the monetary authorities and between banks and other sectors. Also, these surveys typically identify claims on, and liabilities to, residents and nonresidents; therefore, the data may be used as a basis for compiling certain balance of payments and IIP statistics.

3.144 While these surveys can be a good source of data, for several reasons, the balance of payments compiler should take care in using data collected through them. One reason for caution is that, while survey data are collected on a balance sheet—or position—basis, the balance of payments requires data on a transactions basis (Box 10.2 describes a method for compiling flow data from positions data). Using position data to derive transactions is nearly always a second-best solution. It is usually preferable, if possible, to obtain transactions data directly—for example, for loans to and from nonresidents, data could be collected on drawings and repayments—and to use changes in balance sheets (even with adjustments) only when it is not possible to obtain transactions data. However, obtaining transactions on currency and deposits is usually not possible as the volumes are often very high. In that case, changes in positions can be used, provided there are

sufficient other data also available to make the appropriate adjustments.

3.145 A second reason for caution is that data provided on foreign and domestic currencies are sometimes used as proxies for residency. That is, foreign currency denominated claims (and liabilities) are regarded as claims (liabilities) on (to) nonresidents, while domestic currency claims (and liabilities) are regarded as claims (liabilities) on (to) residents. These assumptions are often incorrect, and the compiler should strive to collect data on a balance of payments residence basis.

3.146 Furthermore, balance sheet information may be provided on the basis of historical cost rather than market value. The difference could have implications for compilation of both the balance of payments and the IIP. This is important not only for the determination of the current market position of the asset or liability, but also it is an important adjustment to the data if transactions are being derived from changes in positions. If historical cost data are provided, the balance of payments compiler should approach banks and/or other institutions for information to adjust valuations to the preferred market value basis.

3.147 The reference period used in some economies may not be consistent with balance of payments periodicity. For example, bank accounting periods may end on a particular day of the week, such as the last Wednesday of the month, rather than the last day of the month. The occurrence of large daily fluctuations in the external liabilities and assets of banks may lead to significant timing discrepancies in the balance of payments.

3.148 Some bank collections do not provide details of either nonresident investment in the equity of the bank or of the bank's equity in companies abroad. This omission may be important, especially when the bank is partially owned by nonresidents or has branches and subsidiaries located abroad. In these cases, the balance of payments compiler may have to collect data on equity separately.

3.149 The treatment of offshore banking units may not be consistent with balance of payments requirements; therefore, the compiler may have to collect information directly from offshore units. According to the *BPM6*, offshore banking units are resident entities of the economies in which they are incorporated,

registered, or have their legal domicile. The same data collected from other resident banks on financial flows, positions, income, services, and so forth should be collected from them.

3.150 Some of the other classifications, such as partner economy data or currency composition of financial assets and liabilities, required by the balance of payments compiler may not be available from these surveys. Therefore, the compiler should approach banks and other financial corporations separately for this information.

3.151 The surveys for use in the compilation of money and banking statistics may not be designed for balance of payments purposes and therefore may not satisfy the requirements of the balance of payments compiler. A good approach (described previously in this chapter) may be to include banks and other financial institutions in a survey of businesses of external assets and liabilities. In such circumstances, balance of payments and money and banking data compilers should attempt to coordinate their requirements so that the same definitions of instruments and of residency are used. It is highly desirable that positions reported in the balance of payments and money and banking surveys should be compared on a bank-by-bank basis to ensure consistent reporting and treatment as far as possible. Differences existing between the two data sources should be reconciled; if necessary, any difference between treatments in the two sets of statistics should be drawn to the attention of users from time to time—special articles could be published to call attention to and, if possible, quantify the various differences between these data sources.

Collections on International Activity Associated with Securities

3.152 Earlier in this chapter, “Collections on External Assets and Liabilities” discusses surveys of businesses that are used to approach principals to measure liabilities to, and claims on, nonresidents. However, additional collection arrangements may be required in economies in which (1) securities are issued by residents and acquired by nonresidents—particularly if the securities are held by resident custodians on behalf of the nonresident principals; (2) securities are issued by nonresidents and acquired by residents; or (3) portfolio managers place funds abroad on behalf of

clients. Similarly, an economy that uses an ITRS may have to make special arrangements to collect data on transactions that involve resident intermediaries acting on behalf of nonresidents. This section examines the role of financial intermediaries in transactions (and positions) in securities with nonresidents and their impact on the balance of payments, and outlines ways in which the compiler may collect appropriate balance of payments data on securities traded/held between residents and nonresidents.

3.153 The term “intermediaries” is used broadly to include deposit-taking corporations, security dealers, and custodians—which may also be deposit-taking corporations—as well as companies that manage large share or bond registers in respect of their own shares or bonds. The term “securities” includes shares in corporations, bonds, notes, and money market instruments (see *BPM6*, Chapter 5, for a fuller description of securities). An important feature of a security is the fact that it is designed to be traded.

3.154 International security markets are complex, and the compiler may require a number of data sources to compile the balance of payments statistics related to these markets. Also, security transactions between residents of securities issued by nonresidents are not included in the balance of payments. However, such changes in holdings should be captured in the other changes in financial assets and liabilities account in order that the correct sector holdings be recorded in the IIP and the CPIS, as well as to ensure consistency with the national accounts. In practice, however, it may not be possible to identify such transactions between residents as the parties involved may not know, and may have no reason to know, which the counterparty is. Under such a situation, it may be unavoidable that transactions between residents in securities issued by a nonresident are included in the balance of payments. As such transactions should in theory often cancel each other out, there is no net effect in the financial account of the balance of payments. Likewise, in principle, the converse applies: that is, transactions between nonresidents in a security issued by a resident should not be included in the balance of payments but should be included in bilateral positions data. However, the resident compiler often is unaware of these transactions. Accordingly, the compiler may wish to use counterpart asset data in

the CPIS as a possible source of information to use for estimating bilateral holdings.

Data Requirements

3.155 It is useful to think of data requirements in terms of a data model. The data model should contain information on positions, financial and income flows, financial service flows, and withholding taxes. Also, the data model should distinguish the following categories of information:

- The type of instrument
- The issuer of the instrument—that is, the company with the liability
- The economy of residence of the issuer
- The sector of issuer
- The owner of the instrument
- The sector and economy of residence of the owner
- The economy (market) in which the instrument is issued
- The issue price
- The currency in which the instrument is denominated
- The date of maturity (for a debt instrument)
- The coupon rate (if any)
- Whether the interest is fixed or floating rate, and if the latter, what determines the change(s) in interest rate
- The frequency and date(s) of the coupon payments.

3.156 Other useful information that could be obtained is as follows:

- Any embedded (put or call) options
- Any convertible features (such as from debt into equity)
- Whether the instrument has a reducing balance (such as with some asset-backed securities, such as mortgages).

3.157 Additional information needs to be obtained on securities involved in a repurchase agreement or securities lending transaction—for example, if lending is with or without cash collateral.

3.158 The *BPM6* classifies securities into equity (such as ordinary shares and voting stock); long-term debt securities (such as bonds, debentures, certifi-

cates of deposit and notes with original maturities of more than one year, and nonparticipating preference shares); and short-term debt securities (such as bills and notes with original maturities of one year or less).

3.159 Ascertaining issuers and owners of securities is essential to identify external assets and liabilities. For the balance of payments, the compiler should measure securities that are issued by residents and acquired (and held) or relinquished by nonresidents and, similarly, securities that are issued by nonresidents and acquired (and held) or relinquished by residents.

3.160 The economy (market) in which a security is issued (the domicile of the issue) can be an important piece of information. It may be a decisive factor in determining the appropriate collection mechanism, and it may be of analytical interest. It should be remembered, however, that the domicile of the issue does not determine the residence of either the issuer or the holder of the security—the security may be issued in an economy other than that of either the issuer or the holder. Securities that are issued abroad by residents, and held by residents, are not within the scope of the balance of payments or IIP as they are resident-to-resident transactions despite being intermediated through a foreign market. However, there may be explicit fees and charges levied on either (or both) the issuer or the purchaser by nonresidents associated with the security.

3.161 Depository receipts are securities that represent ownership of securities listed in other economies. Depository receipts listed on one exchange represent ownership of securities listed on another exchange, and ownership of the depository receipts is treated as if it represents direct ownership of the underlying security. Generally, depository receipts are listed on an exchange in an economy other than that in which the underlying securities are listed. The treatment of depository receipts is the same as where the issuer of the security has listed directly onto the nonresident exchange—local holders of the depository receipts have a claim on the issuer that is within the scope of the balance of payments and IIP.

3.162 Data on the currency in which the instrument is denominated is important for analytical purposes and may facilitate compilation if the compiler must estimate certain data items (such as flows or

income) from other data items (such as positions). In particular, the interest or coupon rates on debt instruments are likely to be related to the currency of denomination as well as the creditworthiness of the issuer.

3.163 For certain types of securities, it may not be possible to obtain data from a single source. Rather, the compiler may have to use information from different sources and collate data to ensure consistency. Anomalies appearing in collated data should be investigated and resolved. In fact, such anomalies may point to important gaps in data. Therefore, the collation process may be a useful tool for improving the overall quality of the balance of payments.

3.164 To measure transactions in securities, it is highly desirable to collect gross data on new issues and redemptions, and on secondary market sales and purchases. Such information is especially useful for international debt analysis—as in the calculation of debt service ratios.

3.165 Security transactions should be recorded apart from related fees and commissions, which should be included in financial service items (or secondary income, in the case of taxes) in the balance of payments. Similarly, when data on interest receivable and payable are collected, withholding taxes should be included in the gross amounts of income recorded, and offsetting entries should be included in withholding taxes in the secondary income account.

Identifying Security Issuers and Owners

3.166 Institutional arrangements for security transactions vary from economy to economy. However, some features seem to be generally applicable.

3.167 Prior to issuing a security, the issuing company—or a security broker acting on behalf of the issuing company—usually must approach a government regulatory body or quasi-official body, such as a stock exchange, to obtain certification that the security issue meets certain statutory requirements. Each security is usually assigned a unique reference number, and certain information about the security is published. This information consists of the identity of the issuer, the type of security, coupon payments, maturity, and currency of denomination. (In the case of equities, not all of these categories apply.) It would therefore be possible for the compiler to develop a database containing in-

formation about each security issued—or at least about those issued in the home economy. This database could be useful for checking information reported by respondents or for estimating items that may not be directly measurable. If, in some economies, a unique reference number is unavailable, the compiler may wish to devise a coding system. “Portfolio Investment” in Chapter 10 provides more details on a security-by-security database.

3.168 Security ownership may be documented. In most cases, financial institutions (such as custodians or other major financial intermediaries) will maintain records of the security owners’ details. In some economies, primary registers of security owners are held by companies issuing the securities or by security dealers authorized by issuers. In many European economies, banks maintain primary registers of security owners. Security registers are usually in the form of electronic files—paper records are increasingly rare. The register may identify the owner as a resident individual or company, a resident nominee holding a security on behalf of a client, or a nonresident owner or nominee. The resident nominee may be regarded as holding a second register—which, in turn, records the names and addresses of owners. From the second register, one can determine whether the security owners are resident individuals, resident companies, resident nominees acting on behalf of clients, and/or nonresident owners or nominees. (The word “nominee” is used in a broad sense to cover portfolio managers, trustees, custodians, fund managers, banks performing similar functions, etc.) It is possible for a security to be recorded in a number of secondary registers that are maintained by nominees; however, each security must ultimately be attributable to a resident or nonresident company or other entity. However, where a security is a bearer instrument, such information is usually not readily available and the balance of payments compiler will need to use alternative sources of information to attribute such an instrument to its owner.

3.169 It may be possible for resident organizations managing primary or secondary registers to identify (for each security that they manage) the issuer, the number of units held, and the value of a security or securities on issue, and whether they are held on behalf of residents or nonresidents. From these registers, it should also be possible to identify income

transactions with nonresidents and financial fees and withholding taxes paid by nonresidents.

3.170 Some purchasers of shares or other securities may not wish to have their names recorded on the primary register of a company and therefore arrange to have a nominee registered as the nominal owner. Sometimes the purpose is to mask the identity of a shareholder who is planning some takeover action, although many economies have enacted legislation requiring a shareowner with a beneficial interest greater than a certain threshold, such as 10 percent, to declare his or her ownership interest.

3.171 More often, the use of a nominee is a matter of administrative convenience. For example, if an investor maintains a portfolio, it may be convenient to have all holdings administered by a portfolio manager (or bank) that may also perform the functions of a nominee. The nominee receives annual reports, ballot papers, income payments, and so forth from the holder of the primary register. In turn, the nominee acts according to the general instructions of the investor.

3.172 Often, nominees also act on their own behalf; therefore, any approach to resident nominees should capture both own-account and client claims that are relevant to the balance of payments. However, under “Know Your Customer” legislation in many economies, nominees are required to know for whom they are acting. So, if the compiler approaches a nominee (which may or may not be a custodian), it is important to stress that the data on transactions and positions should be reported on the basis of the customer.

3.173 When securities issued by nonresidents are owned by residents, it will generally be necessary to approach either the owner of the security or a resident custodian to obtain data required to compile the balance of payments and the IIP because the security register will typically not be available to the balance of payments compiler. However, for securities issued by nonresidents in the compiling economy’s financial markets, a register may be maintained in the compiling economy. This register could provide information such as the value of, and the income earned on, securities owned by residents.

3.174 It may not be necessary to approach resident owners of nonresident securities when securities are part of portfolios managed by resident fund manag-

ers, trustees, and so forth. In these cases, fund managers should be able to provide relevant information on transactions, positions, and income, as well as related information (such as withholding taxes collected by foreign governments and any financial services provided by nonresidents). Such companies may use local and foreign custodians.

Identifying the Transactors

Issuance and redemption of securities

3.175 Security issuance and redemption are frequently managed by security brokers; in many European economies, this function is carried out by banks. Intermediaries arranging a security issue act on behalf of clients. Also, it is not uncommon for issuers to bypass brokers and make direct placements with investors.

3.176 From their computer-based records, security brokers should be able to identify securities that they have issued and redeemed and the acquirers and relinquishers of these securities. Security dealers may also have own-account transactions that are relevant to the balance of payments. In addition, security brokers may deal with resident nominees acting for nonresident principals. Therefore, it is important that any collection of information from security brokers encompass all of the previously described transactions and that care is taken when reporting rules are specified. For direct placements or direct redemptions of securities by issuers, data should be reported by the parties involved.

Secondary market transactions

3.177 In most markets, secondary market transactions—that is, purchases and sales of existing securities—are largely arranged by brokers. In many European economies, this function is usually undertaken by banks. In a typical transaction, one broker acts for the buyer and another for the seller of a security. There may also be off-market transactions in which buyer and seller come together directly without a broker.

3.178 Security brokers should be able to identify from their (largely computer-based) records the securities they have bought and sold and the residence of clients on whose behalf they acted. In any collection of data on security transactions, care should be taken

to include own-account transactions of dealers and off-market transactions.

3.179 When a resident enterprise buys or sells a security through a nonresident broker, it is generally the resident principal who should be approached for balance of payments information as there often is no other means presently available for collecting the data. In the absence of any other information, it may be appropriate to assume that all transactions by residents through nonresident brokers are balance of payments transactions.

Data Sources

3.180 For economies that do not have established secondary security markets, the collection of security data should be relatively simple. Should a company issue securities abroad or acquire securities issued abroad, relevant data can be collected from the company issuing or acquiring the security. Model form 19 in Appendix 8, discussed further in this part, is suitable for this purpose. However, additional collection arrangements may be required in economies in which:

- Securities are issued by residents in domestic financial markets and acquired by nonresidents—particularly if the securities are held by resident nominees on behalf of nonresident principals.
- Securities are issued by nonresidents in domestic financial markets.
- Portfolio managers (banks or other fund managers) place funds abroad.

3.181 There are two primary approaches to obtain data on cross border positions in securities. The first method is to have an “end-investor” survey. Such surveys approach resident enterprise that are likely to be major holders of securities issued by nonresidents (such as deposit-taking corporations, insurance corporations and pension funds, mutual funds / unit trusts, or similar entities) or who manage securities portfolios on behalf of others. End-investors should be requested to identify those securities that are managed by resident portfolio managers to make sure that there is no double counting.

3.182 The end-investor approach will ensure that the respondent covers all its holdings, whether held in the compiling economy or in another economy. With this approach, securities in repurchase agreements and securities lending would be attributed to

their economic owner (for the recommended treatment of securities under repurchase agreements and securities lending arrangements, see *BPM6*, paragraphs 5.52–5.54). However, this approach is unlikely to cover holdings by smaller investors, especially households. This could become a major shortcoming as households increase their cross border investment in securities through the use of the Internet and other changes in financial markets that make it easier for households to buy securities directly, without using the services of a local broker.

3.183 The alternative approach is to use a survey of custodians. Such an approach has the advantage of covering all residents, including households that use the services of resident custodians. However, it will not capture those resident holdings that are held in custody abroad and it is often difficult for custodians to identify a security that is under a repurchase agreement or a securities lending arrangement.

3.184 A possible way around this problem is to combine the two approaches: to survey custodians and end-investors. To avoid double counting, end-investors could be asked to report only their holdings with nonresident custodians. End-investors could also be asked to identify those securities that are under a repurchase agreement or securities lending. If the securities are reported on a security-by-security basis by both the custodians and the end-investors, it may be possible to run (electronic) checks to see that these have been treated correctly by both respondents. In using the combined approach, the compiler should carefully define the boundary between the collections to ensure that no duplication or omission of reporting occurs. Typically, a combined approach would be successful only if security registers and intermediaries can identify the types of owners. However, none of these approaches will capture households’ holdings of securities issued by nonresidents that are held directly or held with nonresident custodians. These may be an important, and probably growing, element in cross border holdings.

3.185 The foregoing approaches may also be used for transactions, which would produce better reconciliation between transactions, other flows, and balances. However, they may involve too much respondent burden, as well as being somewhat resource-intensive for the compiling agency, especially for subannual data

needs. Moreover, they may be too time-consuming for data processing. An alternative is to approach brokers for transactions data, as indicated earlier. They should be able to provide data for many of these transactions at a significantly lower resource cost and in a much more timely fashion, especially for subannual data. Even so, if data on transactions, other flows, and balances can all be obtained from the same source on an annual basis that would mean that the integration of the data would be maintained. Such annual

reconciliation could then be used to improve the quality of the subannual data.

3.186 Table 3.2 illustrates a set of collection arrangements. These suggest a particular approach, but other approaches (such as the use of an ITRS for some or all of the data) are possible. It is important for collection rules to be clearly defined so that there are no omissions or duplications in the recording of security transactions.

Table 3.2 Sources of Data Associated with International Securities

Place of issuance	Data item required	Source
Securities issued by residents		
1. In domestic capital markets	Nonresident holdings (position of liabilities); income payable to nonresidents (debit); fees and withholding taxes payable by nonresidents (credit)	Primary and secondary registers of securities (e.g., Central Securities Depository), or custodians
	Issues to and purchases by nonresidents (increase of liabilities); redemptions from and sales by nonresidents (decrease of liabilities); brokerage and other fees payable by nonresidents (credit)	Security brokers, investment dealers, domestic stock exchange; adjustments to include off-market transactions
2. In foreign capital markets through a nonresident intermediary	Nonresident holdings (position of liabilities); issues (increase of liabilities) and redemptions (decrease of liabilities); income and fees payable to nonresidents (debit); withholding taxes payable by nonresidents (credit)	Resident enterprise issuing securities, domestic stock exchange or other official bodies informed about new issues by quoted companies, BIS international securities database
	Net purchases or sales by residents	Resident enterprise issuing securities (from analysis of registers), resident companies involved in transactions, or security brokers
3. In foreign capital markets through a resident intermediary or managed (on behalf of the issuer) by resident investment managers	Nonresident holdings (position of liabilities); issues (increase of liabilities) and redemptions (decrease of liabilities); income payable to nonresidents (debit); withholding taxes payable by nonresidents (credit)	Resident enterprise issuing securities or resident investment managers, resident custodians
	Net purchases or sales by residents	Resident companies issuing securities or resident portfolio manager (from analysis of registers); resident companies involved in transactions
Securities issued by nonresidents		
4. In domestic capital markets	Resident holdings (position of assets); income receivable by residents (credit)	Resident owners of securities or primary and secondary registers of securities, resident custodians
	Issues to and purchases by residents (increase of assets); redemptions from and sales by residents (decrease of assets)	Resident owners of securities or security brokers, adjustments to include off-market transactions

Table 3.2 Sources of Data Associated with International Securities (concluded)

Place of issuance	Data item required	Source
Securities issued by residents		
5. In foreign capital markets; owned by residents; not managed by resident investment managers	Resident holdings (position of assets); issues to and purchases by residents (increase of assets); redemptions from and sales by residents (decrease of assets); income receivable by residents (credit); brokerage, other fees, and withholding taxes payable by residents (debit)	Resident owners of securities or resident nominees
6. In foreign capital markets; owned by residents; managed by resident investment managers	Resident holdings (position of assets); issues to and purchases by residents (increase of assets); redemptions from and sales by residents (decrease of assets); income receivable by residents (credit); brokerage, other fees, and withholding taxes payable by residents (debit)	Resident investment managers, resident owners of securities, or resident nominees

Source: IMF staff.

3.187 Some comments on Table 3.2 are necessary. Data on transactions in securities issued in domestic financial markets both by residents (category 1) and nonresidents (category 4) may best be collected in surveys of security registers and intermediaries, such as brokers. Alternatively, in the case of category 4, resident owners of the securities could be surveyed as sources of data. However, if there are numerous resident owners or if the owners are difficult to survey, this approach may not produce the best results. These problems are particularly likely to occur if resident households have significant holdings of securities issued domestically by nonresidents.

3.188 For securities issued abroad by resident companies (categories 2 and 3), most of the necessary information could be collected from the resident companies issuing the securities. However, when a resident intermediary is involved in the issue or when a resident institution manages the register on behalf of the issuer, it may be preferable to survey these organizations for some or all of the data items. Also, it would be important to define reporting rules clearly. There may be an assumption that securities issued abroad are wholly acquired by nonresidents or that any resident acquisition is small enough to ignore. However, this assumption sometimes may not be valid, in which case data on acquisitions by residents should be collected so that nonbalance of payments transactions can be deducted from the total reported by the issuing

company. Such information on resident ownership of securities issued abroad by residents could be obtained from issuing companies (or the security register manager), residents involved in the transactions, or resident security dealers. For bearer securities, the first-mentioned approach would not be feasible.

3.189 Data on securities issued abroad by nonresidents and acquired by residents could be collected using either the end-investor approach or the custodian approach (or a combination of these) as described earlier. Apart from any other reason, these approaches are more cost-effective (the number of companies to approach will probably be relatively small, in comparison with the number of owners) and the quality of the responses is likely to be much higher (these companies will more likely have the information required in a more readily accessible format). These observations are particularly true for securities owned by households that use resident custodians. However, as noted earlier, such surveys cannot measure investments made directly abroad by the resident household sector.

3.190 It may not be possible to collect the full range of information outlined in the “Data item required” column of Table 3.2. However, it may be possible to estimate missing items by using other information. For example, if it is not possible to collect data on financial transactions, it may be possible to derive these from positions information. On the other hand, it

may also be possible to derive positions from transactions. Techniques that can be used to make these derivations are discussed in Chapter 10, though they must be regarded as very much second-best alternatives. Investment income may be derived from information on the scheduling of coupon payments and current market prices, or from known (or assumed) relationships between positions and income. Techniques for estimating income are described in Chapter 13.

3.191 All the collection approaches set out in Table 3.2 are based upon the assumption that owners and intermediaries can distinguish between resident and nonresident issuers and holders. Many institutions may not readily know which companies are residents and which are nonresidents. To overcome this problem, at least as far as the issuing company is concerned, having the data reported on a security-by-security basis will allow the compiler to determine the residence of the issuer, especially if the compiler maintains its own register of issues, or has access to one in which it has confidence.

3.192 To determine the residence of the holders of securities, companies and intermediaries could be asked to enter codes or flags in their databases to identify resident and nonresident clients. In many cases, the distinction may be made with reference to some type of legislation or official administrative arrangement that “classifies” companies as residents or nonresidents for particular purposes. For example, companies that are exempt from value-added tax or those that pay withholding taxes may be regarded as nonresidents—although such “classifications” may be made on the basis of address. Some cases may not always be clear, and the compiler should provide guidelines to owners and intermediaries, and advise them of the residence status of particular companies. It is important for the compiler to have a good understanding of institutional arrangements and the nature of record-keeping practices in order to give the best advice to companies.

3.193 Alternatively, the compiler may have to examine security registers directly. This task could be immense and may be only a periodic option. The aim should be to capture large transactions and holdings, and this activity should be supplemented by properly designed sample surveys to measure smaller holdings and transactions.

Model Collection Form

3.194 Model form 19 could be used to collect data on securities issued by resident companies and owned by nonresidents and securities issued by nonresidents and owned by resident companies. However, different approaches may be preferred and additional collection forms may be necessary for some types of securities. Whichever methodology is adopted, instructions should be added to model form 19 to specify clear rules about what should be included and omitted from the survey form. If resident companies hold bearer securities that are issued internationally by other resident companies, model form 19 could be amended to collect the necessary information for clarifying data reported by the issuing company.

3.195 Similarly, ITRS forms may be used to collect data on security transactions. However, in economies where international intermediation is significant, the rules of the ITRS must clearly define which institutions should report which transactions. Also, it will generally be necessary to supplement the ITRS with a collection of data on positions.

3.196 Model form 19 has been designed to collect data from intermediaries (such as brokers, nominees, custodians, and/or institutions responsible for managing security registers) and is based on a number of assumptions. Via the form, intermediaries are asked to report—for each combination of security and owner—details of positions, transactions (issues, redemptions, sales, and purchases), income, fees, and withholding taxes. However, in practice, it may not be possible to obtain the full range of information about each combination from one respondent. For example, for securities issued by resident companies, nominees might have details on positions but not on transactions—which, in turn, may have to be reported by brokers. Other cases will arise as reflections of circumstances in the compiler’s economy, and the compiler should take care to ensure that reporting instructions are clear and appropriate. It is particularly important that duplication of reporting be avoided or, if this is not possible, identified so that any double counting can be eliminated.

3.197 For resident companies issuing securities, reporters are asked to provide an identification or reference number and an owner code for each combination of security and owner. The reference code, when

linked to a database on security issues, would establish the type of security, the currency of denomination, the redemption date, coupon payments, and so forth. The owner code would identify the economy of residence (and, perhaps, sector) of the nonresident party.

3.198 For nonresidents issuing securities, reference numbers of securities and resident owner codes would be provided. Security reference numbers would permit identification of sectors and economies of residence of nonresident parties, and resident owner codes would permit identification of sectors and industry codes of resident owners.

3.199 With regard to security reference numbers, it is possible that these could be specially established by the balance of payments compiler. The disadvantage with this task, though, is that it would be onerous to maintain the list and communicate the information to respondents. A better alternative would be to use a domestic, or preferably international, security reference system that has been accepted by organizations most likely to be approached in the collection of information.

3.200 Security reference numbers—when properly utilized—allow the compiler to develop comprehensive information about each security traded internationally. Such information would be of assistance in identifying and rectifying any errors, duplications, or omissions in reporting.

3.201 The categories of securities reported are broadly consistent with Table 3.2. They include the following:

- Securities issued in the domestic economy by residents and owned by nonresidents
- Securities issued in the domestic economy by nonresidents and owned by residents
- Securities issued abroad by residents and owned by nonresidents
- Securities issued abroad by nonresidents and owned by residents

3.202 Model form 19 does not contain precise rules (such as who should report what) about reporting arrangements or define the relationship between model forms 17 and 19. The individual compiler is left to determine these arrangements. The model form also collects data on the intermediary's own account.

3.203 It is assumed that intermediaries will report data electronically. While not stated on the model

form, it should be possible to introduce, if the use of such techniques reduces reporting and processing costs, suitable thresholds or sampling techniques for smaller holdings and transactions. These techniques are discussed in further detail in Chapter 2.

Overcoming Possible Problems

3.204 It may appear that model form 19 represents a highly ambitious approach. However, a number of economies collect data on this basis.⁴ Respondents, whether end-investors, portfolio managers, or custodians, could be asked to provide an electronic file of all their holdings, which reduces the burden on the respondents to sort the information requested. However, it can place considerable burden on the compiling agency, and for economies with relatively small securities activity or with limited resources for balance of payments / IIP purpose, this may not be a viable option. That being the case, requesting data on an aggregated basis may be sufficient, especially if there are other data checks embedded in the information (such as a reconciliation between opening and closing balances, via financial transactions and other changes, and income transactions). Failing that, certain assumptions about undercoverage, income, other changes, and so forth may need to be made to develop a complete set of financial and income transactions and position data, but these assumptions should be reviewed and verified from time to time (preferably no less frequently than annually).

3.205 When data come from two or more sources, such as both nominees and brokers, it may be difficult to collate the information. By collecting the data on a security reference number basis, it should be possible to resolve most inconsistencies between positions and transactions through accurate validation and careful querying procedures. When data come from different sources, it may be necessary to develop several types of forms to collect appropriate information.

⁴One of the important developments in the collection of data on cross border transactions and positions in securities has been the CPIS. This survey prompted many economies to set up collection systems that would be a considerable improvement over their previous approaches. Many of the participants in the CPIS collect data on a security-by-security basis. These data, when compared with databases on securities issued in and outside their own economies, have resulted in major improvements in the data quality of these economies' balance of payments and IIP.

3.206 Some compilers may not have the necessary authority to collect all data required or may prefer not to collect detailed information. In these instances, an intermediary (such as a securities exchange) could be asked to prepare tabulations that the compiler would otherwise prepare. At a minimum, the compiler should attempt to obtain items that are classified by sector of issuer and owner's economy of residence (for securities issued by residents) and issuer's economy of residence and sector of owner (for securities issued by nonresidents and held by residents). The use of analyses undertaken by intermediaries to provide the compiler with various tables is akin to the use of an ITRS that does not give the compiler access to individual records. In these situations, the compiler should attempt to ensure that those who undertake the basic compilation (in the case of an ITRS, commercial banks, and, in the case of securities, intermediaries) have a thorough understanding of the requirements and the type of approach that the compiler wishes to be taken.

3.207 There may be numerous problems in collecting information on international security transactions, which constitute one of the most complex areas of the balance of payments. However, more accurate data are likely to be collected if the compiler is very familiar with institutional arrangements and record-keeping practices, has the necessary legislative authority to require that suitable information be reported, can persuade the industry to provide necessary data, and is in a position to analyze data closely to correct any apparent anomalies. One should not underestimate the research necessary to gain an understanding of institutional arrangements in each economy. Intermediary companies are often complex, and the compiler may wish to review the activities of the intermediary in some detail, to determine whether it performs one of the many functions that the compiler should measure. Chapter 2, which examines the issue of form design and testing, is particularly applicable to collections from intermediaries.

3.208 One particular challenge for security-by-security collections is the stapling of securities. In some instances, different securities are "stapled" together so that transactions can take place only in the combination of the securities—the individual securities cannot be traded in isolation. The securities can be treated as a single security when the issuers of the components of the staple are resident in the same economy, are classified to the same institutional sector, and the se-

curities are classified as the same instrument (equity, long-term debt securities, or short-term debt securities). Where any of these do not hold, the compiler should attempt to "unstaple" the securities, in which case estimates will need to be made of the value of each of the components as there is no observable market valuation.

Collections of Data on Financial Derivatives

3.209 A financial derivative contract is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (such as interest rate risk, foreign exchange risk, equity and commodity price risks, credit risk, and so on) can be traded in their own right in financial markets.

3.210 Transactions of resident companies that have derivative contracts with nonresidents can be covered through a survey. Respondents will include mostly banks and other financial corporations, and some large nonfinancial corporations.

3.211 Model form 20 could be used to collect information on holdings of and transactions in financial derivatives contracts with nonresidents. The data are collected by types of derivative instruments (options, futures and forwards, and swaps). The reporting instructions explain how the forms are to be completed.

Collections from Persons and Households

3.212 This section discusses collections of data from individuals and households, which are groups of persons with common economic interests, for measurement of various household sector transactions in the balance of payments. It describes migration statistics and similar statistics on movements of persons across national borders, surveys collecting data on travel expenditure, and other household surveys. The household sector transactions included in the balance of payments and the categories where they typically fall are presented in Table 3.3.

3.213 Sources described elsewhere in this *Guide* could be used to collect data for the household sector. For example, many household transactions should be included in a well-designed ITRS. However, the ITRS must be designed to capture and classify small value transactions that are typical of households.

Category	Recording
Import of goods and services by households (e.g., via Internet)	Is recorded in the current account under the respective category of goods and services
Expenditure on goods and services by persons traveling abroad	Is recorded in the current account under passenger fare and travel items
Expenditure by students studying in economies other than their home	Is recorded in the current account under travel services, and, if the student is financed under a foreign aid program, an offset entry is included in the secondary income account as miscellaneous current transfers
Health care services provided to nonresident patients	Are recorded in the current account, under travel
Employment earnings of residents who work abroad for nonresident employers for less than 12 months	Are included in the primary income account, under compensation of employees
Expenditures made by these workers on goods and services in host economies	Are included in the current account, under travel
Employment earnings by persons who work for a nonresident entity such as a foreign embassy	Are included in the primary income account, under compensation of employees
Remittances, by residents, of funds to households abroad (e.g., by foreign workers living in an economy for 12 months or more)	Are included in the secondary income account, under personal transfers
Pensions and social security contributions by residents to nonresident governments or pension funds	Are included in the secondary income account, under social contributions
Pensions and social security payments received by residents from nonresident governments or pension funds	Are included in the secondary income account, under social benefits
External financial investments by households	Are included in the financial account and the IIP
Migrants' financial assets and liabilities that remain in the economy of origin Migrants' personal effects that are imported	Are not included in the balance of payments but should be included in the other changes in financial assets and liabilities account, under other volume changes for the relevant functional category and instrument (and, by extension, be included in the relevant category of the IIP), until such time as these assets are liquidated (and the proceeds sent to the migrants' new economy of residence) or the liabilities are redeemed. When that happens, these transactions should be included in the financial account of the balance of payments. Are excluded from goods in the current account (as no change of ownership took place and, consequently, no transaction has occurred)

Source: IMF staff.

Surveys of businesses of transportation companies could be used to measure passenger fares; survey of businesses of the travel industry to measure travel; official sources or surveys of businesses of health and education institutions to measure health and education services provided to nonresidents; surveys of employers and employment agencies to measure compensation of employees and possible personal transfers (such as workers' remittances); various official

sources and surveys of pension funds to measure pensions and social security transactions; and fund managers to measure financial investment abroad by households. In addition, the compiler may be able to approach some partner economies to collect required data. However, such sources may not always be adequate for the compiler's purposes, and conducting personal and household collections may be necessary. In addition, household collections may be

a useful check on the validity of data collected from other sources.

3.214 The remainder of this section reviews the primary types of household collections (migration statistics, alternative statistics on across-the-border movements, surveys of individuals traveling, and other household collections) that could be available to the balance of payments compiler.

Migration Statistics

3.215 Migration statistics are designed to measure the number of persons crossing an economy's frontier; these statistics usually distinguish between visitors, other short-term individuals traveling abroad, and migrants. A visitor is defined as person staying, or intending to stay, in an economy other the one in which the person is normally a resident for less than 12 months for purposes other than to be employed by a resident employer.⁵ Other short-term individuals traveling abroad include border, seasonal, and other short-term workers and nomads. Migrants are persons moving permanently or for periods of 12 months or longer; the persons do not need to be resident for 12 months before being classified as residents (exceptions to the 12-month rule are made for students and medical patients who may be in an economy for longer than 12 months and not change residency if they intend to return to their home economy at the completion of their studies/treatment). The intention of doing so at the time of entry into the economy is usually sufficient. Migration statistics should not include movements of military personnel or civilian government employees and their dependents living abroad because they are considered residents of their home economies.

3.216 Visitors, other short-term individuals traveling abroad, and migrants are all of interest for balance of payments purposes. For visitors and other short-term individuals traveling abroad, the objective is to measure their earnings and expenditures abroad (for residents) or in host economies (for nonresidents). For balance of payments purposes, migrants are regarded as having changed residence. Migrants are of interest because they are likely to move financial assets (and liabilities) when they move from one economy to another, or they may maintain financial assets and liabilities in their former economies of residence. These aspects of migration do not represent transactions (until such time as the assets/liabilities are liquidated / paid off,

when they should be recorded in the financial account of the balance of payments), but they should be measured for inclusion in the other changes in financial assets and liabilities account, and by extension, in the IIP.

3.217 Data on the number and characteristics of migrants and visitors and other short-term individuals traveling abroad are usually obtainable from international migration statistics, guidelines for which may be found in *Recommendations on Statistics on International Migration*, Revision 1, 1998, in the United Nations Statistical Papers.

3.218 International migration statistics may be based on measurements of persons as they cross national borders or arrive at airports, population registers, or field surveys. Recording of persons at border crossings and at airports is likely to provide better data on visitors and other short-term individuals traveling abroad than population registers and field surveys. Whatever the data source used, the compiler should be aware of its limitations.

International guidelines on migration statistics

3.219 The *Recommendations on Statistics on International Migration* represent an update on the 1976 recommendations. These guidelines define categories of arrivals and departures that migration statistics should measure. In the guidelines, emphasis is placed on measuring the length of stay and on using 12 months as the dividing line between short-term and long-term migrants.

3.220 The guidelines identify four broad methods for measuring migration—administrative registers, other administrative sources, border collection, and household-based field inquiries. The guidelines also contain discussion of the relative merits and challenges of each approach to measuring migration.

Measuring the number and characteristics of arrivals and departures

3.221 Data on border crossings are typically produced as a by-product of an administrative process designed to identify and control persons entering and leaving an economy. The essential procedure requires such persons to complete and submit a migration card or form. Data collected may include the person's name, sex, nationality, date and country of birth, passport number, marital status, intended address in host economy, flight number or other transport details, intended

⁵ See *Tourism Satellite Account: Recommended Methodological Framework 2008*.

or actual length of stay, and purpose of visit. These data are required for migration officials to check the identity of the person traveling, as well as to administer migration policy. The information may also be used for statistical purposes; for this reason, requests for additional data may be added to migration cards or forms. The compiler may, from time to time, have the opportunity to influence the design of these documents and should take advantage of these opportunities to facilitate data collection for balance of payments purposes. Data from these cards or from population registers or field inquiries are the basis of migration statistics.

3.222 From the compiler's viewpoint, the information shown in Table 3.4 is generally required to compile various balance of payments transactions data. For each category shown in the table, data may also be required on economy of destination or origin, purpose of journey, and so forth. Also, supplementary data may be required on nonresident students or patients who stay in host economies for periods of 12 months or longer, or on national students or patients who leave for a month or longer, in order to treat these cases correctly in the balance of payments.

	Residents visiting abroad	Nonresidents visiting compiling economy
Arrivals	Number of arrivals and actual length of stay abroad from migration records Actual expenditure while abroad from survey	Number of arrivals and expected duration of visit from migration records Anticipated expenditure while visiting compiling economy from survey
Departures	Number of departures and expected length of stay abroad from migration records Anticipated expenditure while abroad from survey	Number of departures and actual length of stay from migration records Actual expenditure while visiting compiling economy from survey
Field inquiries	Actual expenditure while abroad	Not applicable

3.223 Model forms 21 (returning residents) and 22 (departing nonresidents) request information that can be useful for compiling estimates of travel expenditure. Further information on the use of surveys of individuals traveling abroad is provided ahead.

3.224 These data, together with data on patterns of expenditure and compensation of employees, could form the basis for a data model to estimate various balance of payments items. In particular, travel services can be estimated by multiplying the actual number of visitors and other short-term individuals traveling abroad (residents visiting abroad) by the estimate of per capita expenditure from surveys of actual expenditure. Preliminary estimates for a period can make use of data on the expected length of stay and anticipated expenditure.

Alternative Statistics on Across-the-Border Movements

3.225 An economy's official migration statistics are usually compiled, in conjunction with the migration authorities, by the central statistical agency. However, these statistics—especially in relation to visitors and other short-term individuals traveling abroad—may not always be available, so the compiler may require another source of data on short-term movements. As an alternative to migration statistics, the compiler could investigate using data, to be provided by transport companies, on the number of passengers moving across an economy's borders by means of various transport modes (such as aircraft, ship, train, or bus). Data on passengers traveling by road may also be available from official sources. For island economies and economies where the majority of across-the-border movement of persons is via organized transport, data from transport companies can be an effective source for measuring such movements. Data on the number of nonresidents registering at hotels may also be available as a source of information on some visitors and other short-term individuals traveling abroad (although hotel registrations will double count such travelers staying at more than one hotel and miss those who do not stay at hotels). The compiler should become aware of these sources and seek to influence their development when they prove useful in balance of payments compilation.

Surveys of Individuals Traveling Abroad

3.226 Surveys in various forms are conducted by many economies to measure activities of individu-

als traveling abroad. Some surveys may be designed purely to meet balance of payments requirements for measuring travel and possible other forms of expenditure and income. Other surveys with broader purposes may contain information on travel expenditure and therefore be of interest to the compiler. Individuals traveling may be surveyed when they arrive or depart or sometime after they have returned to their home economies. Table 3.4 sets out various categories of surveys and whether these surveys measure anticipated or actual expenditure (and receipts).

3.227 Surveys of arrivals measure actual expenditures abroad of residents returning home and anticipated expenditures of nonresident visitors and other short-term individuals traveling in the economy. Conversely, surveys of departures measure actual expenditures of departing nonresident visitors and other short-term traveling individuals and anticipated expenditures of departing resident visitors and other short-term traveling individuals. Surveys of returned individuals from travel abroad collect data from residents sometime after they return home. In some economies, these surveys include questions on employment income (compensation of employees) and other possible balance of payments transactions, such as transfers and financial account transactions.

3.228 Survey methodology may take a number of forms. If a survey is made in respect of arrivals or departures, it may take place on board aircraft or in passenger terminals. If conducted in passenger terminals, access to passengers in airline lounges will need to be negotiated as these passengers are likely to have different characteristics to those not located in lounges—for example, a higher proportion of individuals in lounges may be business travelers. The survey may be conducted by distributing and collecting forms or by personal interview. Surveys of returned visitors and other short-term traveling individuals may be conducted by mail or by personal or telephone interview. In these surveys, returned visitors and other short-term traveling individuals can be identified from migration cards or similar sources. Surveys may be carried out by an official statistical organization, another government agency, or a private agency working on behalf of an official agency.

3.229 A number of economies, particularly those whose primary territory consists of one or more islands,

conduct surveys based on interviews of departing nonresident visitors and other short-term traveling individuals. In some economies, this approach is also used to measure expenditure by returning residents. These surveys are often conducted on behalf of the national tourist authority by a private survey company. The primary purpose of the survey is to gather information on travel activities and attitudes of departing (or returning) visitors and other short-term traveling individuals to facilitate tourism analysis and policy development. Interviews include many questions; those of particular interest to the balance of payments compiler concern travel expenditure by, and earnings of, nonresident visitors and other short-term traveling individuals in the host economy and similar information for residents returning from abroad. Travel expenditure may be broken down into a number of categories, including expenditure at hotels and restaurants and on transportation, entertainment, shopping, and other services. Additionally, travel expenditure may be classified by type of payment used (e.g., package tour, credit cards, cash, wire transfers, and traveler's checks) to reconcile such data with data from other sources.

3.230 Some economies use surveys of international air passengers to provide information on travel and passenger fare receipts and payments. Cooperating airlines distribute questionnaires (to be completed on a voluntary basis) to all passengers on selected flights, collect completed forms, and return the forms to the balance of payments compiler. Like surveys based on interviews, these typically serve the interests of the tourism industry as well as those of the balance of payments compiler. Key items for the compiler include destination or origin, expenditures in host economies, length of stay, and passenger fares. Information is combined with migration statistics to produce final results. However, where the data are obtained on a voluntary basis, such as surveys conducted on aircraft, the compiler should be conscious of potential bias in the results. These can be addressed through the use of estimation techniques.

3.231 As surveys of visitors are typically sample surveys, results should be expanded to determine aggregate results for the population of visitors and other short-term individuals traveling abroad. Aggregates can be obtained by number raising (i.e., results for each person sampled are expanded by the inverse of

their chance of selection adjusted for nonresponse) or by using a poststratified estimator (the results are expanded by the ratio of the number of persons in the population in a particular category—as identified from migration statistics—to the number of persons in the sample in the category). A poststratified estimation procedure should produce more accurate results but can be subject to bias. Less rigorous sampling techniques may be acceptable if the survey is simply designed to derive per capita estimates for input into data models rather than actual aggregate travel expenditure. In any case, the compiler should either gain some familiarity with statistical theory and mathematical aspects of sample design and selection and/or seek professional assistance from mathematical statisticians. Sample surveys are discussed further in Chapter 2.

3.232 In surveys of visitors, group travel, which is largely associated with families, requires particular attention. It is important to determine whether a visitor or other short-term individuals traveling abroad is a member of a traveling group. As sample expansion procedures usually are based on the individual as the statistical unit, it is necessary to assign group travel expenditure to individuals. It is possible to adopt a variety of procedures, but the procedures must be consistent. One procedure is to prorate all group expenditure to adults in the group (an adult could be defined as a person of more than a certain age). A related issue is the expenditure of children. In many surveys of visitors, children are not included in the sample. As children (other than students) often travel in groups with adults, their omission should not be a concern, especially if there are alternative methodologies for measuring students' expenditures when amounts are significant. Procedures should be developed, however, for assigning the expenditure of nonstudent children traveling in a group. For example, all expenditure of children could be assigned to the head of the household or to another adult. Also, it is important that the absence of children be taken into consideration in any sample estimation.

3.233 One problem with surveys of visitors is memory recall. This difficulty can be partly overcome in interview surveys by encouraging the interviewee to consult records and/or by providing suitable prompts. During the interview, the interviewer may encourage the interviewee to consult credit card slips, traveler's checks records, and so forth. Economies

that conduct surveys of individuals traveling abroad sometime after their return almost always collect expenditure information classified by type of payment, rather than by types of goods and services acquired, because the financial records required to support this approach are more likely to be retained by individuals traveling abroad than the recollection of which items were acquired.

3.234 Another problem, particularly for package tours, is the splitting of expenditures into passenger fare (included in transport, except for any transport provided internally to the economy visited) and travel components such as accommodation and meal costs, transfers between airport and hotel, or site entry charges. To overcome this problem, survey questionnaires may seek the total value of a trip—that is, passenger fares plus those travel costs that are covered by the package cost. The balance of payments compiler could then estimate the travel expenditures by deducting from the total value of the trip an estimate of international passenger fares obtained from another source, such as a survey of businesses of transportation companies (described in Collections of Goods and Services Statistics, this chapter). Alternatively, the balance of payments compiler could consult with travel industry representatives to break down trip expenditure into the two components. If the package tours have been arranged by nonresident organizers, the balance of payments compiler may explore the likely breakdown between transport and travel costs with resident organizers.

3.235 In collecting the information from individuals traveling abroad (regardless of whether for package tours), it is important that the compiler ascertain the residence of the transport company to determine whether the services provided would be included in the compiler's economy's balance of payments. For example, if a resident airline is providing transport services to residents, this is not a balance of payments transaction. Similarly, if a nonresident airline is providing transport services to nonresidents; these services are not included in the compiling economy's balance of payments. On the other hand, where a resident airline is providing transport services to nonresidents, this is a transport credit for the resident economy. Where a nonresident airline is providing transport services to residents, this is a transport debit for the resident economy.

3.236 The compiler should play an active role in the development and monitoring of survey of visitors conducted by other agencies. Particular attention should be paid to the wording of questions, the location of questions on forms or the sequence of questions in interviews, the training of interviewers, and data validation and sampling techniques. It is desirable that individual records (or completed forms) from surveys be given to the compiling authority for validation checks of data, examination of collection procedures, review of possible sample problems (such as outliers), and expansion of sample results via, for example, a poststratified estimation procedure used in conjunction with international migration statistics.

Other Collections

3.237 Many economies conduct household expenditure surveys (e.g., to arrive at weights for consumer price indexes). These surveys could be used to estimate travel expenditure abroad, which is a component of household expenditure. Experience with this approach is not particularly encouraging as the sample of persons who travel abroad is usually not large enough to provide robust estimates for balance of payments purposes. This problem with sampling sparse populations can be addressed if there is a special supplementary survey to expand the number of responding households. However, in the absence of alternative data sources or a larger sample, this approach could be used to generate broad estimates of travel and also to provide estimates of remittances to persons abroad (the survey could include a supplementary question on this issue).

3.238 Another strategy to improve the proportion of the sample that provides information of interest to the compiler is to limit the sample in some way. For

example, it may be limited to areas close to borders (for border workers and seasonal workers); to workers employed in particular industries (for seasonal workers and short-term workers—for example, on fly-in-fly-out contracts); or to lists of immigrants available from the relevant authority. The survey could target transactions of particular interest to the compiler, including income from employment, taxes paid in the economy of employment, social contributions paid, social benefits received, travel expenditure, or financial transactions and positions (for border workers, etc.). In addition or instead, transport and travel associated with visits to the economy of former residence, remittances, financial assets and liabilities, and social benefits received (for immigrants) could be covered. Model form 23 in Appendix 8 requests data that would be of specific interest for these populations.

3.239 A further population of particular interest is that of nonresident students, who can be identified from the visa-issuing authority or from education institutions. Surveys can be used to seek information on where the students source their funds and to identify their expenditure patterns.

3.240 Closely related to household expenditure surveys are household income surveys, which obtain information on household sources of income. The balance of payments compiler could investigate the possibility of using (particularly in the absence of alternative data sources) these surveys to measure personal transfers received from relatives working abroad and employment income earned from household investments made abroad. As the number of households may not be sufficiently large to provide robust estimates of balance of payments data, a supplementary survey may be conducted to endeavor to address the sparseness of the population of interest.



4

International Transactions Reporting System

4.1 The international transactions reporting system (ITRS)¹ is part of the broader institutional data collection framework of many economies. It differs from economy to economy, drawing from economies' legal framework, accounting systems, and foreign exchange regulations; however, virtually all such systems have certain features in common. Most ITRS (formerly known as foreign exchange record systems) evolved as by-products of foreign exchange control systems. However, as foreign exchange restrictions were eased or lifted, many systems were extended beyond their original purpose of measuring foreign exchange transactions; hence, a broader designation is necessary to describe them. This chapter outlines features of an ITRS and also discusses the use of an ITRS in compiling balance of payments and IIP statistics.

4.2 As a general rule, an ITRS is a data collection system that obtains data from banks and companies at the level of individual transactions. The most comprehensive "traditional" ITRS measures: (1) cash transactions with nonresidents that pass through domestic banks; (2) cash transactions that pass through enterprise accounts with banks abroad; (3) transactions on intercompany accounts with nonresident companies; (4) positions; and (5) noncash transactions. Statistics are compiled from forms submitted to/by domestic banks and from forms submitted by companies.

ITRS Reporters

4.3 An ITRS typically collects data from reporters in the banking sector including the central bank, and selected companies called direct reporters that report directly to the balance of payments compiling institution.

4.4 The banking sector is central to the ITRS. Banks report all operations that are carried out between residents and nonresidents through their books on their own account and on the account of their clients. In economies with foreign exchange restrictions that do not allow residents to hold foreign exchange accounts with resident banks, clients' foreign exchange purchases and sales transactions with nonresidents can be captured. Also, nonresidents' accounts in domestic currency with resident banks should be monitored, if nonresidents are allowed to hold such accounts.

4.5 In economies where residents can hold foreign exchange accounts, the ITRS is focused on collecting transactions going through banks' correspondent accounts. Such accounts include (1) *nostro* accounts—correspondent accounts of resident banks with banks abroad² and (2) *vostro* accounts that are nonresident banks' accounts with resident banks.³ In addition, the ITRS includes resident companies' accounts with nonresident banks and nonresidents' accounts (other than banks) with resident banks. Regarding the banks' own transactions, banks should account for foreign currency (banknotes) accounts, their correspondent and deposit accounts with nonresident banks, nonresident banks accounts in domestic banks, and other security and loan accounts that involve transactions with nonresidents.

4.6 Other ITRS reporters are companies called direct reporters. Two types of direct reporters could be identified:

- (1) Full direct reporters (FDR) are companies with a high degree of cross border transactions that

¹ITRS sometimes refers to an international transaction reporting system (singular), and sometimes refers to international transactions reporting systems (plural).

²In some cases, ITRS also includes *nostro* accounts with resident banks, for banks that are not licensed to have correspondent accounts with nonresident banks.

³A *vostro* (your) account is another bank's account with the reporting bank, while a *nostro* (our) account is the reporting bank's account with another bank.

conduct their transactions through accounts with domestic banks and, in some cases, through accounts with banks abroad and intercompany accounts. FDRs report to balance of payments compilers all transactions and positions with nonresidents conducted through all mentioned accounts. In a closed system, domestic banks will also report FDR transactions conducted through domestic accounts; however, they will classify these transactions as neutral, to avoid duplication.

- (2) Partial direct reporters (PDR) are companies that have accounts with nonresident banks and are not FDRs. PDRs report directly to the compiler only transactions through accounts abroad.

Comprehensiveness of ITRS

4.7 The comprehensiveness of ITRS may vary, and it in general determines to which extent the compilation of the balance of payments depends on other sources. A fully comprehensive ITRS must include banks and direct reporters' transactions, which are reconciled with resident banks' foreign currency positions or with external assets and liabilities positions of direct reporters. In terms of comprehensiveness, the ITRS can be closed, partial (semiclosed), or open. A closed ITRS accounts for all transactions and reconciles all transactions going through targeted accounts with corresponding changes in positions. An open ITRS does not allow such complete accounting and reconciliation. In a partial ITRS, certain balance of payments transactions are not recorded or the system allows for reconciliation of flows and positions only for some accounts. For example, the system may not include transactions involving exports and imports of goods, although it may provide for reconciliation of data on certain flows and positions.

Data Items Collected

4.8 The report form is completed by the bank client and/or by the bank staff based on information/documents provided by the client. The report form includes the reference number of the transaction, the reference period, the identity of the transactor, the identity of the bank accepting the form, the currency used in the transaction, the value of the transaction

(either in terms of the currency used, the unit of account, or both), the classification and description of the purpose of the transaction (i.e., payment/receipts for import/export of goods), and the economy of the nonresident party. Banks record also their own transactions and details of their foreign currency (and other external asset and liability) positions for purposes of providing IIP data and for reconciling transactions and positions.

4.9 Appendix 8 presents model ITRS collection forms, as well as their outline. The model collection forms are designed for a closed ITRS and include the following:

- Form 3-1 ITRS-Payments and Receipts—Single transactions reported to the banking system by banks' clients or by banks on behalf of their clients
- Form 3-2 ITRS-Imports and Exports—Demonstrates how an ITRS could be used to capture data on goods transactions; although it is not recommended to compile goods statistics based on ITRS due to limitations described in Chapter 11
- Form 3-3 ITRS-Companies—For FDRs it covers transactions passing through company foreign currency accounts at domestic banks, bank accounts with nonresident banks, noncash transactions, and external asset and liability positions. For PDRs, it includes transactions passing through company bank accounts with nonresident banks, including positions
- Forms 3-4 ITRS-Banks and 3-5 ITRS-Banks' Record of Transactions—Includes the reporting of banks' own transactions and positions and data reconciling positions and flows.

4.10 The presented forms could be used for collecting data with or without a threshold. If a threshold is established, it is beneficial if transactions below the threshold level, if material, are reported in an aggregated amount classified using the appropriate code.

4.11 A list of model classification codes for transactions (and positions) is presented in the Annex to Forms 3-3–3-5 for ITRS-Classifications. In the list, infrequently used codes are not shown. (In some economies, individual codes are added to the classification framework after compilers consult with particular companies engaged in specialized activities and with the central bank in respect of government

activities and of reserve assets transactions.) Excluding specialized codes on the general forms avoids the problem of overburdening respondents with instructions and classifications. The list includes codes for selected neutral transactions such as transfer of funds between accounts or transactions of FDR included in the banks report. These transactions should be reported to allow for reconciliation of flows and positions, although they are not included in balance of payments statement.

Reporting Threshold

4.12 In many ITRS, thresholds are established for reporting transactions. Large numbers of transactions are of small value and, in aggregate, also may account for insignificant values. The use of thresholds prevents undue reporting burdens and processing costs. The thresholds can be simplification or exemption. With an exemption threshold, the small value transactions that fall below the predetermined amount are not reported. The simplification threshold requires reporting of small value transactions in an aggregate amount or without being classified by the purpose of transaction. The collection of small value transactions allows for the reconciliation of flows and positions and also assures a full coverage of ITRS in aggregate transactions in balance of payments statistics. It is important that judgment be applied in adopting thresholds so that overall data quality remains acceptable.

4.13 When a simplification threshold is applied, the collected information on transactions falling below the threshold should be attributed to the balance of payments accounts. Different approaches could be applied. Particularly, the information on purpose of small value transactions may be collected from periodic sample surveys (which could be small, ad hoc surveys carried out via special arrangement with one or more commercial banks). The examination of survey results will help in determining appropriate classifications for transactions so that data on transactions occurring above the threshold may be supplemented with data on small transactions that are appropriately classified. Also, information on data below the threshold can be gathered from an analysis of small transactions before the threshold is raised. If one of these methods is utilized, relatively high thresholds can be used without jeopardizing quality.

4.14 In some cases, when the small value transactions are collected but without their classification by purpose, the compiler can attribute them to balance of payments accounts by analyzing the description of transaction purpose or the information on resident transactor, if such information is available. In some cases, the compiler could classify only transactions that prevail by purpose (e. g., transfers by individuals that could be attributed to remittances measures) and the remaining small value transactions could be attributed to accounts applying the same approach as described in the previous paragraph.

Classification of Transactions

4.15 To compile a balance of payments statement, it is necessary to ensure that the classification of transactions used in the ITRS conforms, as closely as possible, to the classification required for the balance of payments statement. The coding system should be intuitive and could be customized for different reporters. For example, the list of codes for banks and PDRs may include only cash transactions, while the list of codes for FDRs could include also codes for noncash transactions (examples of noncash transactions are provided in paragraphs 4.43–4.44). This would reduce the number of codes and lessen the reporting burden.

4.16 The list of codes should include codes for all balance of payments components; however, transactions that occur rarely (e.g., some types of services) could be classified as “other n.i.e.” Special codes (also called neutral codes) should be identified for transactions that are not included in balance of payments statement but are recorded in the ITRS to improve the efficiency of the system and for cross-checking purposes. For example, neutral codes should be included for FDR’s transactions reported by the bank or for cross border transactions carried out by one resident bank on behalf of another resident bank, if the former is also an ITRS reporter. A model list of codes of transaction purposes is presented in the Annex to Forms 3-3-3-5 for ITRS-Classifications in Appendix 8; it addresses main balance of payments items. The list of codes should be accompanied by a detailed description/explanation of transactions classified under each code.

4.17 An important and often difficult part of data collection is the classification of transactions. It can be executed by the transactor (bank’s client) while

ordering a payment, by the bank staff based on the information from the client, or by balance of payments compilers. The reporter should provide information that is sufficient to ensure correct coding and coding cross-checks. A system in which the reporter both describes and codes the transaction usually produces the best results, especially if the codes are checked by the compiler. It is important that the compiler review the codes for accuracy, because accurate balance of payments classifications require the input of specialists with knowledge both of commercial practices and balance of payments classifications.

Currency Conversion

4.18 The balance of payments methodology generally recommends that transactions expressed in one currency be converted into domestic currency or in other currency in which the balance of payments is compiled (unit of account) by using the daily average midpoint exchange rate for transactions aggregated for a day. If data are collected in currency of transaction but aggregated for a longer period (e.g., week, month) the average midpoint exchange rate for the given period is used for converting into the unit of account. Corresponding position data should be converted by use of a midpoint market rate applicable to the date on which the position is measured.

4.19 Systems that record the value of each transaction in the unit of account, rather than in the transaction currency, are consistent with recommendations of the balance of payments methodology, assuming that prevailing market exchange rates are used by reporters for the conversion. In these systems, the reconciliation of settlement transactions to changes in positions must be undertaken in the unit of account. In this circumstance, it may be difficult for the compiler to discern whether the nontransaction changes in positions, which are derived as residuals, are due to errors in the recording of transactions and positions, or to use of inexact exchange rates.

4.20 In systems in which the values of transactions are recorded in the currencies in which they are denominated, data are aggregated by currency, and reconciliations are performed in each individual currency. The advantage of this approach is that it avoids errors arising from use of inexact exchange rates. Exchange rates prevailing at the time of the transaction should be used for matching transactions involving

different currencies. However, for practical reasons, period average exchange rates are often used for this process. After reconciling and matching processes are completed, data are converted—typically by use of period average exchange rates—to the common unit of account and aggregated. The disadvantage of this method is lack of consistency with recommendations in the balance of payments methodology, which recommends the use of the exchange rate prevailing when a flow takes place or over a very short period of time, not an average rate over a prolonged period.

4.21 In practice, particularly when exchange rates are not volatile, the use of the second methodology may yield results similar to those of the recommended balance of payments methodology. One possible approach (although burdensome) is to collect (by using the midpoint rate applicable to the transactions) data on the value of each transaction in the unit of account and in the currency used in the transaction. If transactions were initially recorded in both the common unit of account and the foreign currency denomination, it would be possible to compile results by using both of the alternative methodologies described earlier. Results from use of the two methods could be compiled from a sample of transactions and compared. While this procedure adds an additional cost to the ITRS, collection of data in both relevant currencies provides a potential cross-check that transactions are correctly recorded; a set of conversion ratio checks could be developed to validate reported data. Any ratio falling outside predetermined limits could be investigated.

Time of Recording

4.22 It is important that banks and FDRs record transactions in an ITRS at the same time. Simultaneous recording should be achieved by individual bank reporters within a closed system because a uniform time of recording can be maintained by matching entries that pass through a bank's nostro and vostro accounts against collection forms completed by FDR. A record should be created for any nostro and vostro account entries for which no corresponding collection forms exist. Similarly, collection forms for which no nostro or vostro account entries can be identified should be investigated and cancelled if underlying transactions are cancelled or otherwise not completed.

4.23 Another example could be when a bank receives a draft to be sent for collection—the draft may

be recorded when it is purchased from the client, when it is sent for collection, or when it is recorded by the correspondent bank.

4.24 However, all banks in the system will not keep books in the same manner unless required to do so by law. Different banks may have different views regarding when to record foreign exchange assets. As mentioned earlier, ideally, banks should account for foreign currency, foreign exchange bank balances, bills and notes of other banks sent for collection or held for investment purposes, and other foreign securities and loans. Also, banks should account for any foreign liabilities. If these items are not included in an ITRS, data covering transactions in excluded assets and liabilities and corresponding positions should be collected separately and included in balance of payments and IIP compilations. Banks may choose to record transactions in some of these assets and liabilities when claims are created, when claims are sent for collection, or when amounts are recorded in nostro accounts.

4.25 Even if all banks included all the transactions covered by the assets and liabilities mentioned previously, and chose similar reporting procedures, there nonetheless may be timing discrepancies; for example, two domestic banks involved in a foreign exchange settlement may not record the settlement in the same accounting period. This circumstance could give rise to a discrepancy in the total settlements item; hence, the compiler should check each large settlement transaction between domestic banks and ensure that both sides of the transaction have been recorded in the same period. If both parties have not recorded the transaction in the same period, it is necessary to have the reporting banks correct their data, or, if different accounting practices make that inappropriate, the compiler should make an adjustment.

4.26 It is important for the compiler to investigate and obtain an understanding of the accounting practices used by banks and to determine the impact of these accounting procedures on both the scope and timing of ITRS statistics.

Valuation, Bundling, and Netting Practices

4.27 An ITRS may not achieve uniform valuations. For example, goods may be recorded, depending on the contract price in individual transactions, on an f.o.b., c.i.f., or some other basis. The balance

of payments methodology requires the compiler to record goods on a uniform—namely, the f.o.b.—basis. Therefore, the compiler may have to make certain valuation adjustments to ITRS statistics to compile a balance of payments statement.

4.28 Bundling of transactions occurs when several transactions relating to more than one classification category are covered by a single payment. For example, a payment on a loan may include the loan repayment, an interest payment, and some fees for financial services. It is necessary for transactors to report the separate components, or for estimates to be made if the amounts involved are significant.

4.29 Another example of bundling is the recording of transactions on a net, rather than a gross, basis. Some foreign exchange payments may cover a number of offsetting gross credit and debit transactions; this may often be the case with transactions undertaken by transportation, travel, communication, money transfer operators, financial companies, and companies in a direct investment relationship. Therefore, it may be necessary to collect additional information in respect of certain types of transactions or from certain types of companies, or it may be necessary to split certain transactions into component parts.

Scope of a Simple ITRS

4.30 A model of a simple closed ITRS is used to illustrate operation of this type of collection system. The model is based on the assumptions that: (1) residents can hold foreign exchange accounts with resident banks; these accounts can be used only for payments to nonresidents; (2) payments in foreign currency between two residents are not allowed; (3) residents cannot hold accounts with nonresident banks; and (4) ITRS is focused on collecting transactions going through banks' correspondent accounts (nostro / vostro). These assumptions, which would be valid in an economy with foreign exchange controls, are dispensed with later in the chapter. Under these assumptions, four types of foreign exchange transactions may be recorded by resident Bank A:

- (1) A bank client makes a payment for improved goods in foreign exchange to a nonresident, and receives payment for reselling the goods to another nonresident. Both payment and receipt will be made on the client's foreign exchange account with Bank A.

- (2) To travel abroad, a resident individual acquires foreign currency traveler's checks from Bank A. Bank A purchases traveler's checks issued by a nonresident bank from a nonresident individual.
- (3) Bank A undertakes a foreign exchange transaction with a correspondent nonresident bank abroad. These may be foreign exchange transactions or other transactions settled in foreign currency.
- (4) Bank A undertakes a foreign exchange transaction with resident Bank B. This transaction may be undertaken to settle balances in various currencies or to sell (or buy) foreign exchange to (from) the central bank.

4.31 Under a closed ITRS, the payments/receipts of foreign exchange by the client will be recorded by the bank on behalf of its client using model form 3-1 and the corresponding reduction/increase in the bank's foreign exchange position will be recorded in the bank's transactions through model forms 3-4 and 3-5. The payments and receipts are recorded according to the purpose(s) of the transactions.

4.32 For example, in case (1), if Bank A's client pays 100 units of foreign exchange (currency y) to purchase goods from abroad and receives 120 units of currency y from selling goods abroad, the following entries would be recorded in a closed ITRS:

<i>Current account</i>	Receipts (Credit)	Payments (Debit)
Goods	120	100
<i>Financial account</i>	Net acquisition of financial assets	Net incurrence of liabilities
Bank, deposits— currency y	-100 +120	

4.33 In case (2), a transaction arises as a result of a domestic bank selling traveler's checks to a resident traveler. Under the assumption that ITRS is collecting transactions through bank nostro accounts, the purchase of traveler's checks will be recorded at the time of settlement with the correspondent bank.⁴

⁴If ITRS captures transactions of foreign exchange purchase and sale, this transaction is recorded at the time of the purchase of the traveler's checks.

For example, Bank A conducts the following transactions in currency y: purchases 50 units of traveler's checks (issued by a nonresident bank) from the nonresident travelers and sells 60 units of traveler's checks issued by the bank to resident traveler. Further, Bank A claims 50 units settlement for the purchased traveler's checks and pays 60 units as settlement claimed by nonresident banks that purchased traveler's checks issued by the bank. The appropriate ITRS entries for the settlement transactions are as follows:

<i>Current account</i>	Receipts (Credit)	Payments (Debit)
Services—travel	50	60
<i>Financial account</i>	Net acquisition of financial assets	Net incurrence of liabilities
Bank, deposits— currency y	-60 +50	

4.34 An example for case (3) would be a foreign currency exchange transaction in which Bank A sells 20 units of currency y for 24 units of currency z to a nonresident bank (one unit of currency y equals 1.2 units of currency z). The appropriate ITRS entries would be:

<i>Financial account</i>	Net acquisition of financial assets	Net incurrence of liabilities
Bank, deposits— currency y	-20	
Bank, deposits— currency z (amount is presented in currency y)	+20	

4.35 Case (3) also covers transactions other than those of a foreign currency exchange nature. For example, Bank A may acquire (at a cost of 5 units of currency y) the services of a nonresident accountant; receive a commission of 6 units on the sale of traveler's checks issued on behalf of a nonresident bank; and make payments of principal and interest of 37 units and 8 units, respectively, on a loan. Payments for all of these items would be made through Bank A's foreign exchange account (nostro) with a nonres-

ident bank. The following entries should be recorded in ITRS:

Current account	Receipts (Credit)	Payments (Debit)
Services—other business services (accounting)		5
Services—financial	6	
Primary income— interest		8
Financial account	Net acquisition of financial assets	Net incurrence of liabilities
Bank—loans		–37
Bank, deposits— currency y	–5 –8 –37 +6	

4.36 Entries for case (4) are similar to entries for foreign currency exchange transactions recorded in case (3). For example, Bank A sells 25 units of currency y to another domestic Bank B and 33 units of currency y to the central bank. Settlement is under-

taken in domestic currency (one unit of currency y equals one unit of domestic currency). The following entries should be recorded in ITRS:

Financial account	Net acquisition of financial assets	Net incurrence of liabilities
Bank, deposits bank A—currency y	–25 –33	
bank B—currency y	+ 25	
central bank— currency y	+ 33	

4.37 In all cases described earlier, domestic banks will reduce or increase their holdings of foreign exchange in nostro accounts with nonresident banks.

Aggregation of Results

4.38 Using the examples from the foregoing paragraphs, Table 4.1 illustrates aggregation of the results of an ITRS collection. Initially, results should be compiled by bank and by currency. In aggregation of results, it is important that all significant transactions

Table 4.1 Summary of ITRS Transactions from Previous Examples (in currency y)

	Credit (receipts)	Debit (payments)
Summary, bank A, currency y		
Current account		
Goods	120	100
Services—		
Travel	50	60
Other	6	5
Primary income		8
Financial account	Net acquisition of financial assets	Net incurrence of liabilities
Bank—loans		–37
Bank foreign currency	–100–60–20–5–8–37–25–33 +120+50+6	
Summary, bank A, currency z	Net acquisition of financial assets	Net incurrence of liabilities
Financial account—		
Bank foreign currency	+20	
Summary, bank A domestic currency	Net acquisition of financial assets +25+33	Net incurrence of liabilities

Table 4.1 Summary of ITRS Transactions from Previous Examples (in currency y) (concluded)

	Credit (receipts)	Debit (payments)
Summary, bank B, currency y	Net acquisition of financial assets	Net incurrence of liabilities
Financial account—		
Bank foreign currency	+25	
Summary, bank B domestic currency	Net acquisition of financial assets	Net incurrence of liabilities
	-25	
Summary, central bank, currency y	Net acquisition of financial assets	Net incurrence of liabilities
Financial account—		
Reserve assets	+33	
Summary, central bank domestic currency	Net acquisition of financial assets	Net incurrence of liabilities
	-33	

Source: IMF staff.

Note: ITRS = international transactions reporting system. The conversion rate of y to z is 1 to 1.2, and of y to domestic currency is 1 to 1. Entries in domestic currency are between two residents and are not reported in ITRS; however they are shown for balancing purposes.

be recorded; results should be balanced by bank and by currency.

4.39 The next step in the aggregation process is to reconcile flows and positions. Reconciliation can be achieved by comparing opening and closing foreign currency positions (by bank and by currency) with total increase and decrease entries. The opening and closing positions are reported by banks for each monitored account (including nostro and vostro accounts) or aggregated by currency. Table 4.2 shows such reconciliation where the opening position plus increase entries less decrease entries should equal the banks' closing foreign currency positions (assuming no price or other changes). Any discrepancy discovered in this reconciliation process would be shown in the other changes column. In a closed ITRS, the balance of payments compiler should obtain a full reconciliation; any discrepancy indicates errors or omissions in data. Table 4.2 shows that the sum of increase entries less the sum of decrease entries accounts for the changes in foreign currency positions of the banks shown in Table 4.1; therefore, a full reconciliation has been achieved.

Modifying the Model of the Simple ITRS

4.40 The model of a simple ITRS presented in previous paragraphs is based on assumptions suitable for economies with foreign exchange restrictions. In economies with relaxed or abolished foreign exchange regulations, the system should be modified so that:

- Residents who have accounts with nonresident banks report details of account transactions and balances.
- Transactions performed through nonresident accounts with resident banks are monitored. Under a closed ITRS, transactions going through these accounts with both resident and nonresident counterparts will be recorded; however those with a resident counterpart will be classified as neutral.
- FDRs report details of their noncash transactions, such as the granting of trade credit or loans, with nonresidents and the corresponding positions.

4.41 One important data collection issue for an ITRS is the inclusion of offshore banking units established in

Table 4.2 Reconciliation of Opening and Closing Positions with Transactions
(in currency y)

	Opening foreign currency position	Increase	Decrease	Other changes	Closing foreign currency position
Bank A	1,120	+196	-288		1,028
Currency y	1,000	+176 [+120+50+6]	-288 [-100-60-20-5 -8-37-25-33]		888
Currency z	120	+20			140
Bank B					
Currency y	1,022	+25			1,047
Central bank					
Currency y	999	+33			1,032
Total	3,141	+254	-288		3,107

Source: IMF staff.

Note: Values for opening positions are given, not derived from calculations. The conversion ratio of y to z is 1 to 1.2.

an economy. Often the existing regulation in economies classifies offshore companies (banks and nonbanks) as nonresidents. Moreover, offshore banks are usually permitted to accept deposits from, and make loans to, nonresidents only. Offshore banking units should be treated—for purposes of the balance of payments and IIP statistics—as residents of the economies in which they are incorporated. The same treatment should prevail for the nonbank offshore companies incorporated into the economy (see *BPM6*, paragraphs 4.134 and 4.135, regarding the residence of corporations with little or no physical presence). Consequently, transactions and positions between these companies and nonresidents should be included in an ITRS, and offshore banks should report transactions and corresponding positions with nonresident clients following the same rules as for resident nonoffshore banks. If resident companies have accounts with offshore banks, the accounts may be used to settle transactions with nonresidents; these transactions should be measured in an ITRS. It is important for the compiler to ensure that reporting arrangements cover all balance of payments requirements and that omission or duplication of data is avoided.

Measurement of Noncash Transactions

4.42 A closed ITRS can provide a complete statement of transactions that take place between residents and nonresidents and involve cross border cash payments. This system collects also some noncash

transactions that occur between residents and nonresidents and do not involve cash payments. Such transactions are reported by FDRs using the model form 3-3 presented in Appendix 8.

4.43 Examples of noncash transactions that can be recorded by FDRs include exports and imports financed by loans that may not involve cash payments. For example, an exporter may arrange for a financial institution to provide financing to a nonresident importer, and the exporter may be paid in domestic currency by the lender. Consequently, there may be no entry in a bank *nostro* (or *vostro*) account until the loan is repaid, and then the transaction may be recorded (correctly) as a loan repayment rather than as an export. Similarly, an importer may borrow funds to purchase goods abroad. In most circumstances, the borrowed funds would pass directly from the financier to the nonresident exporter and, therefore, no cash payment would be involved.

4.44 Examples of other noncash transactions cover debt rescheduling, debt cancellation (with the concurrence of both parties), reinvested earnings, dividend to equity conversion, interest and debt to equity conversion, and so forth.

Preparation of a Balance of Payments Statement

4.45 This part presents general issues in compiling a balance of payments statement based on

data collected through ITRS. More details on using ITRS data in compiling balance of payments components are described in the subsequent chapters of the *Guide* dedicated to balance of payments components.

4.46 While most compilers prefer to use international merchandise trade statistics for compiling the goods item in the balance of payments, compilers in some economies use ITRS for the compilation of goods account that may have to be adjusted in a number of ways.

4.47 In respect of coverage, goods financed via loans, goods that form part of foreign aid programs, and goods traded between direct investment enterprises (DIENT) are examples of goods transactions that may not be captured in an ITRS and should be identified and included. Any adjustment made to the goods item in an ITRS represents one side of the transaction. Data sources should be checked for coverage of the counterpart entries, and a corresponding adjustment should be made to the other item in the account if appropriate.

4.48 The value of goods for which prepayment was made or the value of goods sold on short-term credit is recorded in many ITRS when payment is made. Therefore, the period in which payment is recorded may be different from that in which change of ownership of the goods occurs. It is possible to record goods and associated finance flows if supplementary data are collected to indicate the period in which the goods changed ownership or were shipped. Also, such reconciliation can be conducted by cross-checking ITRS data on payments for goods with customs declarations data on import and export of goods. Such a reconciliation can be conducted at least for important high-value transactions. For example, in a specific period, an ITRS may be used to identify export receipts of 240 units, 20 of which represent prepayments for goods to be delivered in a future period and 21 of which represent goods delivered in a previous period. Supplementary sources identify prepaid delivery of 23 units of goods and delivery of 27 units of goods for which payment will be made at a future date. The results would be as follows:

<i>Current account</i>	Receipts (credit)	Payments (debit)
Goods	240–20–21+23+27	
<i>Financial account</i>	Net acquisition of financial assets	Net incurrence of liabilities
Trade credit and advances	–21	+20
Bank, deposits, foreign currency	+27	–23
	+240	

4.49 When a change of ownership for goods and payment for these goods are recorded in different periods, a timing adjustment may be required. Such adjustments would be necessary for goods transactions involving prepayments or other trade credits. Corresponding adjustments would be required in the financial account to record transactions arising from the creation and extinguishment of these short-term assets and liabilities.

4.50 Certain goods and services that are provided under foreign aid programs (and for which payment is made by the donor to the supplier) would not be recorded as cash transactions in an ITRS. The compiler should identify these transactions and record them in the balance of payments. In the following example, an aid donor provides food aid to another economy and pays a food producer in the home economy. The resulting balance of payments entries are as follows:

<i>Current account</i>	Receipts (credit)	Payments (debit)
For the exporting economy		
Export of goods	73	
Secondary income—transfers (foreign aid)		73
For the importing economy		
Import of goods		73
Secondary income—transfers (foreign aid)	73	

4.51 In respect of valuation, it is important to identify the basis on which goods are imported or exported. For imports and exports recorded on an f.o.b. basis, no adjustment is necessary. For goods trade

recorded on some other basis, adjustments are necessary. For example, for goods traded on a c.i.f. basis, the insurance and freight elements should be identified to enable the valuations to be brought onto an f.o.b. basis.

4.52 In respect of transportation and travel, it is usually necessary to supplement ITRS data on transport and travel companies to ensure that sufficient data are collected and that data are correctly classified. The ITRS measurement of travel may have to be augmented to take account of transactions involving foreign currency notes and coins that do not pass through the domestic banking system.

4.53 Reasonably good-quality statistics on other services can be obtained from an ITRS. These statistics reflect the time at which payment for the services is made rather than when services are rendered. Most compilers who use an ITRS consider payments data to closely approximate data on the time when services were rendered. However, it may be useful for the compiler to obtain information on these relationships to ensure that this view is correct.

4.54 Income should be recorded when it is accrued rather than when it is actually received or paid. Most compilers who use ITRS view payments data as appropriate approximations, in many cases, for time when income is accrued. However, the compiler should adjust ITRS data for reinvested earnings on direct investment and for significant cases in which interest income is accrued and not paid (e.g., deep discounted and zero coupon bonds, discounted bills, and interest in arrears). In these cases, the compiler should keep a special tabulation, or collect supplementary information, to make the necessary adjustments. Further, it is important to ensure that income and financial account transactions are clearly separated in ITRS statistics. For example, in some systems, loan repayments and interest payments are reported as a single item by transactors. This type of reporting is likely to occur, for example, when financial leases are involved, and in these instances the compiler should distinguish between income and loan repayment elements.

4.55 Transfers recorded in ITRS statistics are usually reported at time of payment. Most compilers who use ITRS consider payments data to be reasonable approximations for times when change of ownership occurs in underlying resources. In addition, it is nec-

essary to record any transfers in kind (particularly those that form part of foreign development assistance and military aid) that are not encompassed in ITRS statistics.

4.56 Financial account transactions measured by ITRS statistics tend to coincide with the balance of payments requirement on time of recording of financial flows—namely, when investment takes place and when drawings and repayments on loans occur. However, the financial account should also include financial transactions that are not captured in an ITRS, such as increases in claims or liabilities due to dividends that are declared payable but not yet paid, or goods or services provided on credit. The compiler may have to supplement ITRS statistics with data on financial transactions that may not be measured by an ITRS (e.g., loans involving trade finance, debt rescheduling, debt cancellation, and debt to equity conversions). Also, adjustments that are made to other items in ITRS statistics and that involve financial items (e.g., goods involving trade credit and prepayments, interest accrued but not paid) would have offsets recorded in the financial account.

4.57 Reserve asset transactions would be included in ITRS statistics if the central bank (or other institution in charge of managing the reserve assets) is one of the ITRS reporters. The reporting by the central bank will be following the same reporting rules as for commercial banks; however, the list of codes for the central bank should include specific codes for transactions on reserve assets (e.g., SDRs holdings, and reserve position with the Fund). However, due to the unique characteristics of reserve assets and the importance of a correct attribution of assets to official reserves, the detailed information on transactions in reserve assets should be collected from the central bank unit in charge of managing the reserve assets.

4.58 To assure the coverage in balance of payments and IIP statistics of transactions that are not covered in ITRS, additional collections should be developed through supplementary forms and added to the basic ITRS. For example, supplementary forms must be developed to measure reinvested earnings on direct investment, transportation, travel, insurance, and so forth. The compiler should cross-check the data

collected through additional forms with ITRS data in order to avoid duplication.

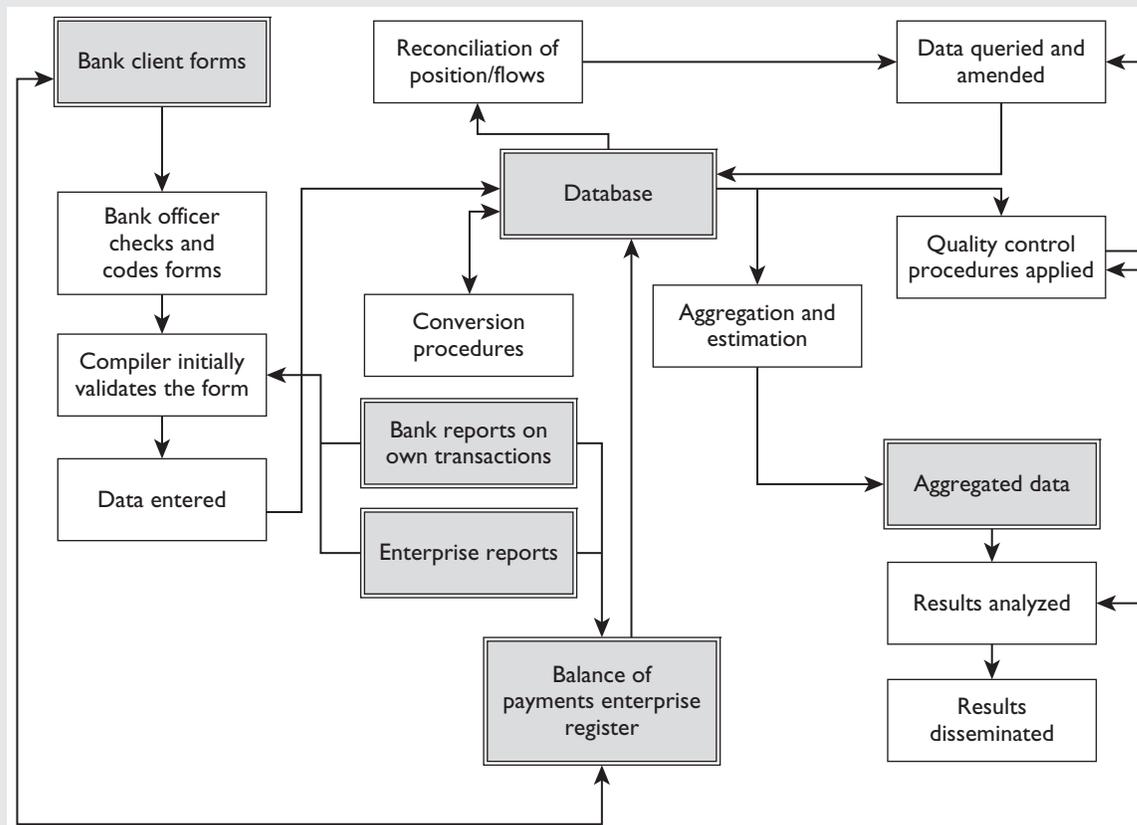
Collecting and Processing Data

4.59 This section contains a summary of collection features applicable to ITRS. More details are presented in Chapter 2. Figure 4.1 shows the primary processing activities in a typical ITRS. It depicts a representative system; actual systems may use somewhat different approaches. The figure shows three types of basic input: bank client forms (completed by bank clients or by bank officer based on information provided by client), bank reports (completed by banks), and companies reports (completed by FDRs and PDRs in respect of accounts with nonresident banks, noncash transactions, and positions of external assets and liabilities). Bank client forms are checked by banks that receive the forms and submitted to the balance of payments compiler or

introduced in the clients' report database. Ideally, the client forms for ordering payments should include fields related to balance of payments reporting; that information is stored in the bank's system. The banks have applications that retrieve those data and provide them to the balance of payments compiler under an agreed format.

4.60 Forms not coded by the client are coded at this stage by the bank officer. The clients' report database, as well as reports completed by banks, is submitted to the balance of payments compiler. It is very important that the submission be done by electronic means; this reduces the burden on processing data by the compiler. Data are then entered in the compiler's database and subjected to initial validation—an important step to identify any obvious errors, such as noncompleted fields or inaccurate coding. Also various other quality control procedures are conducted.

Figure 4.1 Processing System in a International Transactions Reporting System (ITRS)



4.61 Quality control procedures may include: (1) checking the conversion rate between the foreign currency value and the domestic currency value if both amounts are reported; (2) checking the comparability of patterns of transactions reported by companies from period to period; and (3) listing large transactions likely to affect overall results. Reporting banks or companies may be queried about large transactions; responses may result in amendments to the database. Another quality control procedure consists of reconciling reported positions and flows for individual reporting banks and for individual companies. This procedure involves collating data from all sources and examining residuals—activities that may, in turn, lead to data queries and amendments. Transaction values may then be converted to the domestic currency if the value in domestic currency was not collected.

4.62 Because of the complexity of an ITRS and the volume of transactions covered, a large computer processing system is usually required. To calculate resource requirements in this area, it is important to quantify: (1) the volume of records to be processed; (2) the average number of characters per record to be entered and stored; (3) the numbers of interrogations and tabulations to be submitted and the frequency of submission; and (4) the number of staff necessary to organize the system efficiently.

4.63 Many international transactions reporting systems require large numbers of processing staff to check, code, and enter data. Staff numbers can be reduced significantly if computer processes are used—in particular, electronic transmission of data from provider to compiler. The work of processing staff should be monitored to identify and correct any errors. In some systems, every coder's work is checked by another. This procedure may be expensive, and the mere checking of one's work by another may not identify all errors.

4.64 More effective are quality control procedures that tolerate a minor level of error while identifying significant errors and underlying reasons. Procedures for checking all large transactions and a sample of smaller transactions should be developed. The checkers should be highly skilled staff. If the error rate on a sample of checked records exceeds the acceptable level for an individual coder, an additional, larger sample of the coder's work should be checked. If the error rate

on that sample is also found to be beyond tolerance, remedial action should be taken—including, in the extreme case, the recoding of entire batches. This type of quality control procedure is more likely to detect individual weaknesses, improve coder skills, and enhance data quality than complete checking procedures.

4.65 Compiler's requirements for detailed, timely, and accurate statistics should be emphasized when an ITRS is being developed. The compiler should establish priorities in these areas and the collection strategy should be chosen in accordance with these priorities. For example, the requirement for timely statistics may be best satisfied through judicious use of estimation techniques, which will obviously have an impact on collection strategy.

4.66 An important component of a good ITRS is contact (e. g., through regular meetings) between the compiler and the data providers—particularly banks' officers and those companies engaging in international transactions of large value. The interaction with data providers can be conducted through small group meetings or through larger seminars for respondents. These seminars could review the report forms and the coding system, and could serve as venue for training respondents on main balance of payments concepts (such as the concept of residence or center of predominant economic interest, functional categories, or financial instruments). The seminars could also discuss the main errors and inconsistencies identified in reported data and adjustments that need to be introduced to the classification system and report forms for improving the reporting. Such interaction facilitates correct classification of transactions and monitoring of individual banks or companies so that data can be checked and verified and the compiler kept abreast of developments affecting the balance of payments.

4.67 The process of summarizing records and analyzing aggregates should include estimation for nonresponse and any ratio expansion used to take thresholds into account. The analysis may reactivate some quality control procedures, which may—in turn—generate new queries and amendments. New aggregates may have to be generated; this is an iterative process. Results are released after the compiler is satisfied with the quality of the data.

4.68 Figure 4.1 shows a link between the balance of payments company register and the unit record

database. Data from the register may be used to classify transactions by sector and industry. Company reports may provide additional information, such as name changes, for the balance of payments company register. Also shown in the diagram is the important link between bank client forms and the balance of payments register. This link demonstrates the matching of transactions data to companies and the identification of new companies for inclusion on the register.

ITRS as a Data Source

Advantages

4.69 The most significant advantage of the ITRS may be its capability to deliver information to the compiler in a very timely and frequent manner, since data are generally registered at the moment of settlement of the transactions. The use of electronic transmission of reports by the financial system also functions towards the timeliness and frequency of data availability.

4.70 For economies that have an ITRS derived from exchange controls, it is a cost-effective source of data as it uses the well-defined regulatory, institutional, and data reporting framework developed for the exchange control purpose. It is likely to remain cost-effective for the compiling agency even when this control is lifted, assuming that the processing procedures in place remain effective after the abolition of the exchange control.

4.71 Well-structured ITRS in an exchange control regime tend to be accurate, since they are generally based on highly comprehensive data reporting guidelines originally designed for surveillance and thus highly detailed. The compiler's access to data is usually facilitated by the fact that data providers (generally banks) are under the compiling authority's (central bank) supervision and therefore subject to legislation regarding data collection and reporting procedures. In case the compiling authority is other than the central bank, the regulatory acts should be in place that would allow the compiler access to primary data provided by banks.

4.72 ITRS that do not have reporting thresholds are, in general, very adequate for compilation of transactions

of small amounts, such as income, services, and personal transfers.

Disadvantages

4.73 Misclassification is a frequently identified problem in an ITRS because the biggest part of transactions is classified by intermediaries—banks—on behalf of their clients. However, in a system using direct reporting, the reporters have greater knowledge of their transactions and are able to convey more accurate information regarding foreign counterparts and level of detail.

4.74 The adoption of thresholds, common in most ITRS, represents a high risk of data omission. The higher the thresholds, the more likely it is to incur omissions. Exemption threshold may result in the omission of small value transactions, such as personal transfers. Also, for the compilation of personal transfers, an ITRS, which relies exclusively on remittances sent through formal channels, may present significant omissions as many of these flows go through informal channels.

4.75 ITRS might be a burden on data reporters and banks, especially when it is not a by-product of exchange transactions. Structuring an ITRS for the collection of individual transactions is highly costly. Notwithstanding, after the initial costs of the implementation of the system, its maintenance costs are usually low for both reporters and compilers.

4.76 An ITRS accounts for potential gaps in coverage when exchange controls are loosened and residents transact directly abroad or through companies other than domestic banks. Another example of coverage gap is related to transactions that do not involve payments, such as accumulation of trade credits when the payment is made after the delivery of goods and services.

4.77 In some cases, ITRS register only net amounts instead of gross flows required for the compilation of balance of payments. This arises, for instance, for some transport services, money transfers transactions, and postal network activity.

4.78 Another limitation is that all transactions captured in ITRS (except for data from FDRs) are on a cash basis while the balance of payments methodology recommends the accrual basis of recording.



5

International Merchandise Trade Statistics

Introduction

5.1 International merchandise trade statistics (IMTS) measure quantities and values of goods that, by moving into or out of an economy, add to or subtract from a nation's material stock of goods. IMTS are compiled from report forms or from electronic transmissions sent by importers and exporters (or their agents) to the customs and excise agency or to the IMTS compiler, which in many cases would be the statistical agency. Balance of payments compilers in most economies rely on IMTS to compile the goods item in the balance of payments, and in some economies it is used in compiling other items in balance of payments accounts as well.

5.2 The balance of payments compiler should read and use this chapter in conjunction with Chapter 11.

International Guidelines on IMTS

Relevance of the International Guidelines on IMTS to Balance of Payments Compilation

5.3 International guidelines on concepts and definitions used in the compilation of IMTS are outlined in *International Merchandise Trade Statistics: Concepts and Definitions 2010 (IMTS 2010)*.¹ The balance of payments compiler should be aware of these guidelines of the *IMTS 2010* and the extent to which they are, or are not, implemented by customs and national statistical authorities in the compiler's economy. The guidelines of the *IMTS 2010* do not fully conform to the principles of the *System of National Accounts 2008 (2008 SNA)* and the *BPM6*. Customs records essentially reflect the physical movement of goods across borders,

whereas the *BPM6* requires the balance of payments compiler to measure goods on a change of ownership basis. Subsequent sections of this chapter elaborate on differences between the *IMTS 2010* and the *BPM6*.

Coverage of IMTS

5.4 The *IMTS 2010* recommends that international merchandise trade statistics should record all goods that add to or subtract from the stock of material resources of an economy by entering (imports) or leaving (exports) its economic territory. The material resources of an economy are those located on its economic territory whether owned by residents or by nonresidents. The *IMTS 2010* follows the *BPM6* and *2008 SNA* in defining economic territory as the area under the effective economic control of a single government. It follows therefore that the coverage of imports and exports as defined in the *IMTS 2010* would differ from the coverage of merchandise credits and debits in the *BPM6*, as the former would include goods not owned by residents and exclude some goods owned by residents. The following table summarizes the main areas of divergence between the *IMTS 2010* and *BPM6* and the corresponding adjustments that should be made.

5.5 On the other hand, it is noted that the *IMTS 2010* and *BPM6* now have consistent treatment of the following items where conceptual differences previously existed. Mobile equipment that changes ownership while outside the economy of residence of its original owner is now recommended to be included in IMTS, parallel to the treatment in the *BPM6*. Fish catch, minerals from the seabed, and salvage sold from national vessels in foreign ports or from national vessels on the high seas to foreign vessels are also now included in IMTS, similar to the *BPM6*. Goods procured in port by carriers are also included both in IMTS and the *BPM6*.

¹*International Merchandise Trade Statistics: Concepts and Definitions 2010* (New York: United Nations, 2010).

Table 5.1 Reconciliation between the *IMTS 2010* and *BPM6*

Item	<i>IMTS 2010</i>	<i>BPM6</i>
Goods for processing	All goods for processing are recorded when they enter or leave the economic territory, irrespective of whether a change in ownership takes place. The <i>IMTS 2010</i> includes a new encouragement to identify goods for processing where there is no change of ownership to assist balance of payments compilers.	Goods for processing without change in ownership are excluded. If the goods are sold to a third economy after the processing, the value of the goods (including the value of processing) is recorded in the <i>BPM6</i> as an export of the economy of the owner and an import of the third economy. In order to determine subsequent exports, companies involved in inward and outward processing need to be identified, possibly through customs declarations, and surveyed for the required information. The value of processing is recorded as an export of services of the processing economy and an import of services of the economy of the owner (see also Chapter 12 on manufacturing services on physical inputs owned by others).
Migrants' personal effects	Physical movements of migrants' effects are recommended to be included in <i>IMTS</i> .	These are excluded from balance of payments because there is no change in ownership.
Returned goods	Exported/imported goods that are subsequently returned are included in imports/exports and identified as re-imports/ re-exports at the time when they are returned.	Revised entries should be made to exports and imports, and the transactions should be voided, preferably for the period when the goods were initially recorded.
Goods imported for projects by nonresident construction company	<i>IMTS</i> records all goods imported for construction projects by nonresident companies.	Where construction projects are not sufficiently substantial to constitute a branch of the enterprise, goods imported for construction projects by nonresident companies are excluded from trade in goods in the balance of payments. (They are a component of the value of construction services.)
Goods that cross borders as a result of shipments to a related party	These are included in <i>IMTS</i> , irrespective of whether a change of ownership occurs.	The <i>BPM6</i> records a trade in goods transactions only if it can be determined that there is a change of ownership between a resident and a nonresident.
Goods transferred from or to a buffer stock organization	These are included in <i>IMTS</i> .	The <i>BPM6</i> excludes goods temporarily exported or imported, such as goods for storage, if no change of ownership takes place.
Goods lost or destroyed in transit	Goods lost or destroyed after leaving the exporting economy but before entering the importing economy and after the ownership has been acquired by the importer are encouraged to be excluded from <i>IMTS</i> of the importing economy, but separate recording is encouraged. When goods are lost or destroyed after leaving the exporting economy but before entering the importing economy when ownership has not been acquired, an export would be recorded in <i>IMTS</i> .	When ownership has already been transferred, the goods transactions are to be included in the balance of payments. No goods transaction will be recorded if ownership of the goods did not change.

Table 5.1 Reconciliation between the *IMTS 2010* and *BPM6* (concluded)

Item	<i>IMTS 2010</i>	<i>BPM6</i>
Goods under merchanting	These are excluded from IMTS.	The <i>BPM6</i> records goods under merchanting separately as a negative export when acquired by a resident from a nonresident, and as a positive export when sold by a resident to a nonresident.
Goods entering/leaving the economic territory illegally	These are recommended to be excluded from IMTS but encouraged to be recorded separately.	These are included in general merchandise (as well as smuggled goods that are otherwise legal).
Nonmonetary gold	Transactions in nonmonetary gold between residents and nonresidents that enter or leave the economic territory are included in IMTS.	All transactions in nonmonetary gold between residents and nonresidents are recorded even when there is no physical delivery to the new owner—for example, when the nonmonetary gold is held at a gold exchange.
Media	Recorded and nonrecorded media are included in IMTS. The exceptions are media used for carrying customized software or software written for a specific client or originals of any nature. In practice, however, the exclusion of the latter may not be possible since they fall under the same classification heading.	The <i>BPM6</i> includes in general merchandise only noncustomized packaged software and video and audio recordings, on physical media such as disks and other devices, with a license for perpetual use.
High-value capital goods	Goods are recorded at the time when they enter or leave the economic territory of an economy.	Goods are recorded according to the time that the economic ownership is conveyed from the seller to the buyer. The time of ownership change could be a progressive change based on stage payments or in full on delivery.
Valuation of imports	The <i>IMTS</i> recommends a cost, insurance, freight (c.i.f.)-type valuation for imports.	The <i>BPM6</i> requires a free on board (f.o.b.)-type valuation for imports.

Source: IMF staff.

General Trade and Special Trade Systems

5.6 The *IMTS 2010* outlines the measurement of trade flows on the basis of (1) the general trade system and (2) the special trade system. Under the *general trade system* the statistical territory coincides with the economic territory.² Under this system the time of recording should be the time when goods enter or leave the economic territory of the compiling economy. For merchandise trade statistics collected through a customs-based data collection system, the time of recording is approximated by the date of lodgment of

the customs declaration (i.e., the date when customs accepts the declaration for processing). If such dates differ considerably from the date when goods actually cross the border of the economic territory (e.g., if goods are cleared well in advance or after their arrival) or noncustoms data sources are used (e.g., enterprise surveys) more appropriate dates should be identified and used (e.g., the date of arrival/departure of the goods carrier as indicated in the transportation documents). It is the responsibility of economies' statistical authorities to identify (or estimate) the best proxy date of the general guideline for the time of recording by taking into account the peculiarity of national rules on administrative procedures and the need for consistency in the application of the selected method.

²The *IMTS 2010* defines statistical territory of an economy as the territory with respect to which trade data are being compiled.

5.7 The *special trade system* is in use when the statistical territory does not coincide with the economic territory; thus, some goods that enter or leave the economic territory are not covered in imports or exports statistics, and, on the other hand, other goods that are traded within the economic territory are covered in imports or exports statistics. There are various definitions of special trade that economies may apply, but traditionally the *strict* and the *relaxed definitions* are differentiated.

5.8 The *strict definition of the special trade system* is in use when the statistical territory comprises only the area within which goods “may be disposed of without customs restriction.” Consequently, in such a case, imports include only goods entering the free circulation area³ of a compiling economy and exports include only goods leaving the free circulation area of a compiling economy. Under the strict definition, goods imported for inward processing and goods that enter or leave an industrial or commercial free zone⁴ or customs warehouses and have not been cleared through customs for the free circulation area would not be recorded in imports statistics. Also, under this definition goods that leave the free circulation area and enter one of the aforementioned zones will be included in exports of goods.

5.9 Under the *relaxed definition of the special trade system* goods that enter or leave a commercial free zone and goods that enter or leave the customs warehouses and have not been cleared through customs for the free circulation area would not be included in import/export statistics. Consequently, under this system the international merchandise trade statistics would include only (1) goods entering and leaving the free circulation area, (2) goods that enter an economy for or leave it after inward processing, and (3) goods that enter or leave an industrial free zone.

³The free circulation area is the part within which goods may be disposed of without customs restrictions.

⁴A “free zone” (or “customs free zone”) means a part of the territory of the state where any goods introduced are generally regarded, insofar as import duty and taxes are concerned, as being outside the customs territory. In a commercial free zone, the permitted operations are generally limited to those necessary for the preservation of the goods and the usual forms of handling to improve their packaging or marketable quality or to prepare them for shipment such as breaking bulk, grouping of packages, sorting and grading and repacking. In an industrial free zone, processing or manufacturing operations are allowed.

5.10 Figure 5.1 illustrates the import and export flows entering and leaving different zones of an economic territory.

5.11 Goods entering the port (imports) can be categorized into the following groups: goods that are cleared through the customs into the free circulation area (M1), goods that enter the industrial free zones (A1), goods that enter the premises for inward processing (B1),⁵ goods that enter the commercial free zones (C1), and goods that enter the customs warehouses (D1). The last group of flows (E1) relates to direct transit trade that is not included in goods statistics.

5.12 The red arrows in the figure indicate the possible flows of goods between different zones of economic territory, including (1) flows of goods from industrial and commercial free zones, as well as from premises for inward processing and customs warehouses (A3, B3, C3, and D3) that are cleared through customs for free circulation area, and (2) flows of goods from free circulation areas that are cleared through customs for industrial and commercial free zones, premises for inward processing, and customs warehouses (A4, B4, C4, and D4).

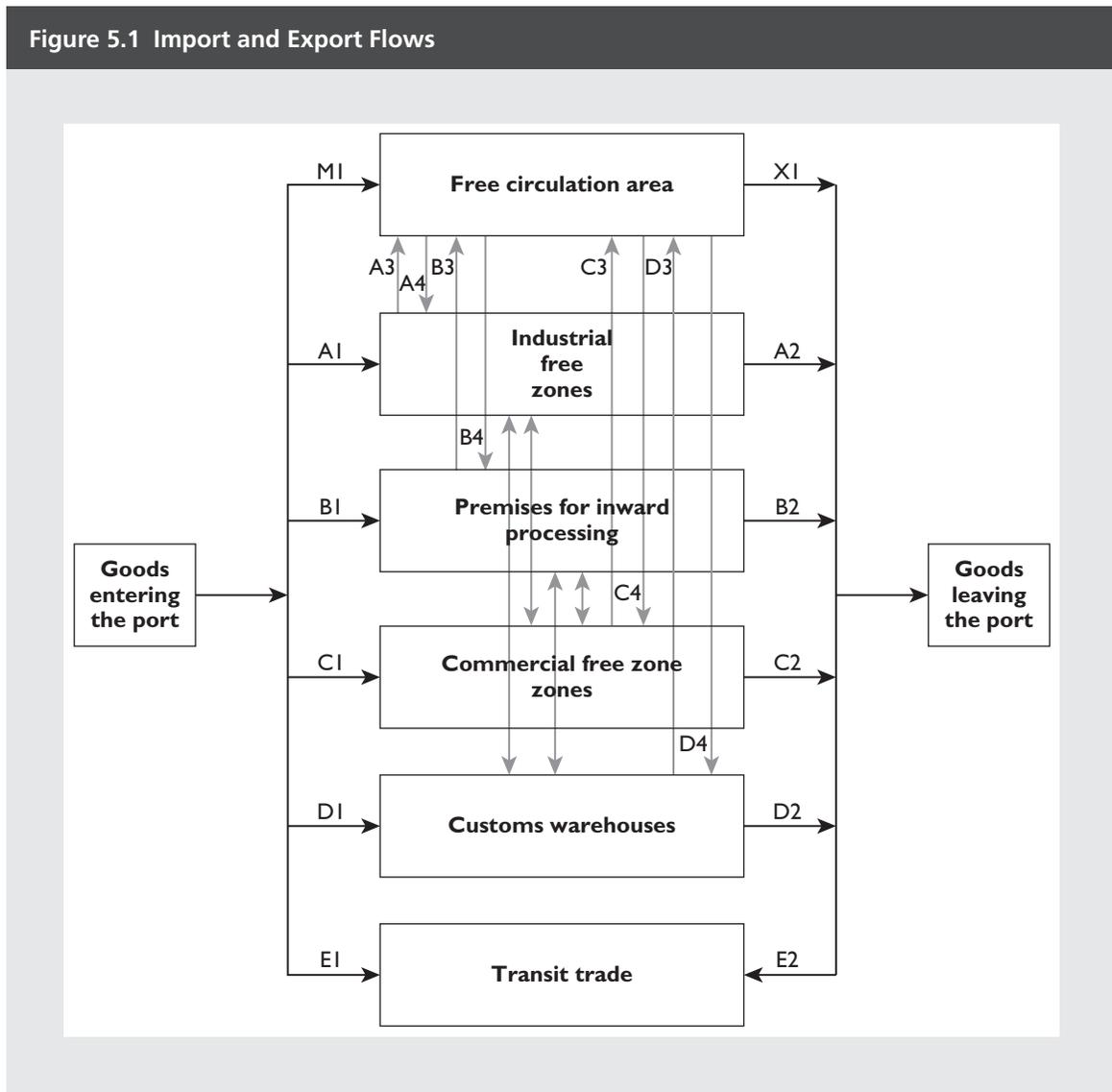
5.13 Under the general trade system, the imports will be equal to $M1 + A1 + B1 + C1 + D1$. Under the strict definition of special trade system, imports will be equal to $M1 + A3 + B3 + C3 + D3$, while under the relaxed definition of special trade, imports will be equal to $M1 + A1 + B1 + C3 + D3$.⁶

5.14 Goods leaving the port (exports) include the following groups: goods exported from the free circu-

⁵These can be any premises where goods can be conditionally relieved from payment of import duties and taxes (under the customs procedure known as inward processing). Such goods must be intended for reexportation within a specific period after having undergone manufacturing or processing. Depending on the customs regulation, premises for inward processing may be specially designated areas or any premises, provided that other conditions for inward processing are complied with *IMTS 2010* [as submitted for reproduction and translation in March 2011], paragraph 26.

⁶When goods from industrial or commercial free zones or from inward processing zones and customs warehouses are cleared through customs for free circulation area, the trader files the appropriate documentation at customs changing from one customs regime (e.g., inward processing) to another customs regime (e.g., direct importation).

Figure 5.1 Import and Export Flows



Source: IMF staff.

lation area (X1),⁷ goods exported from industrial free zones (A2), goods exported from premises for inward processing (B2), goods exported from commercial free zones (C2), and goods exported from customs warehouses (D2). Group E2 represents goods leaving the economic territory under the direct transit.

5.15 Under the general trade system, total exports will be equal to $X1 + A2 + B2 + C2 + D2$, while under

the strict definition of special trade system, exports will be equal to $X1 + A4 + B4 + C4 + D4$ and under the relaxed definition of special trade system exports will be equal to $X1 + A2 + B2 + C4 + D4$. As in imports, exports will not include goods in transit (E2) under both the general trade system and the special trade system.

5.16 The *IMTS 2010* recommends that the general trade system be used for compilation of both import and export statistics. The *BPM6* stresses that the basis for the balance of payments compilation should be the change of economic ownership rather than the general trade system (goods entering or leaving an economy)

⁷This export includes domestically produced goods with or without imported inputs and goods previously imported that are reexported.

or the special trade system (goods cleared by customs). The general trade system is the better proxy for measuring change of ownership because it provides broader coverage and the date of change of ownership may be closer to the date goods cross the national frontier (shipment date) than when the lodgment of the customs declaration takes place. Some economies that use the special trade system should make coverage adjustments in the balance of payments for goods that cross the border and are not included in IMTS or goods that do not cross the border but are included in IMTS. The balance of payments compiler should attempt to ascertain the impact on the balance of payments of the time of measurement used in IMTS. In some economies where it is known that the clearance or shipment date for certain significant goods does not coincide with change of ownership, the balance of payments compiler selectively substitutes data from other sources.

5.17 Under the strict definition of special trade system, two main limitations in imports statistics are observed compared to the *BPM6* requirements: (1) omission of goods that enter the four zones other than a free circulation area and are reexported without passing through the free circulation area; and (2) inconsistency in the timing of recording when goods enter the free circulation area from other zones. The timing difference occurs since the ownership has already changed when goods entered the zones, while their recording in goods statistics will be only when they enter the free circulation area. The same limitations apply under the relaxed definition, except that the omissions and inconsistencies in timing will involve only goods going to commercial free zones and customs warehouses.

5.18 In the case of exports, the main limitation of the special trade system is that it may cover goods that do not leave the economic territory. Particularly, under the strict definition, it may cover goods going out of the free circulation area into the other four zones, and under the relaxed definition, it may cover goods going out of the free circulation area into commercial free zones and customs warehouses.

Commodity Classification

5.19 The *IMTS 2010* outlines the various classifications that are used to classify international trade and goods. These include the Standard International Trade Classification (SITC) and the Harmonized

Commodity Description and Coding System (HS). The *IMTS 2010* also presents the relationships of these classifications to other classifications such as classification by Broad Economic Category (BEC).

5.20 The SITC is mainly used for trade analysis. Its commodity groupings reflect the materials used in production, the processing stage, market practices and uses of the products, the importance of the commodities in terms of world trade, and technological changes. The HS is an international nomenclature for the classification of products that allows classification of traded goods on a common basis for customs purposes. It is recommended that economies use HS for the collection, compilation, and dissemination of IMTS. The BEC is intended to categorize trade statistics into large economic classes of commodities and to supplement the summary data compiled on the basis of the sections of the SITC. An understanding of these classifications is important for balance of payments compilation, publication, analysis, and projection.

Valuation

5.21 IMTS guidelines provide an explanation of the difference between the transactions value, which is the price actually paid by the importer, and the value declared for customs purposes, which is typically the value recorded in IMTS. The guidelines also trace the development of customs valuations. Most economies have adopted, for purposes of valuing imports, the recommendations in the *Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994 (GATT) (World Trade Organization (WTO) Customs Valuation Agreement)*.⁸ This agreement essentially accepts the importer transactions values. However, customs officials can, under certain conditions, adjust such values if they think importer valuation is based on avoidance (e.g., by false invoicing or use of artificial transfer prices) of some part of the import duty. The recommendations in the agreement also define the valuation to be adopted for imports for which no accompanying movements of cash or credit take place. From examination of available evidence, it appears that, in practice, the

⁸*The Legal Texts: The Results of the Uruguay Round of Multilateral Trade Negotiations* (Geneva: World Trade Organization, 1995): Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994, Part I, Rules on Customs Valuation.

customs valuation for total recorded imports exceeds, under Article VII of GATT, the transactions valuation by a small margin. As such, the customs value may be considered a reasonable proxy for the transactions value when the WTO basis of valuation is used. However, the balance of payments statistics compiler may have to investigate the actual situation to determine whether a valuation adjustment should and can be made.

5.22 A specific valuation issue concerns the point of valuation—namely, whether goods are valued at the importer’s border—that is, at the cost, insurance, and freight (c.i.f.) value at the importer’s border—or at the free on board (f.o.b.)⁹ value at the exporter’s border. The *IMTS 2010* recommends the adoption of the c.i.f. valuation for imports, whereas for balance of payments compilation purposes, the f.o.b. valuation is required. In view of this requirement, the *IMTS 2010* recommends that supplementary data be collected for imports valued on an f.o.b. basis. Sampling import entries is suggested as a possible means by which this data could be gathered. The guidelines recommend that exports be recorded on an f.o.b. basis, a practice that is consistent with balance of payments requirements.

5.23 Neither the f.o.b. nor the c.i.f. basis may represent the contract price, which depends upon delivery arrangements made by the importer and the exporter. Therefore, many bases of valuation are possible in practice, and the f.o.b./c.i.f. bases may require some degree of estimation by the compiler. Some economies do not adhere strictly to the f.o.b. or the c.i.f. basis. In the *IMTS* procedures adopted by the European Union for the measurement of intra-union trade flows, information is collected on the basis of contract price, and adjustments are made to place the statistics on the valuation basis required by international standards.

5.24 An additional valuation issue concerns currency conversion. The *IMTS 2010* states, “(a) where the conversion of currency is necessary for the determination of the customs value, the rate of exchange to

be used shall be that duly published by the competent authorities of the economy of importation concerned and shall reflect as effectively as possible, in respect of the period covered by each such document of publication, the current value of such currency in commercial transactions in terms of the currency of the economy of importation; (b) the conversion rate to be used shall be that in effect at the time of exportation or the time of importation, as provided by each Member.”

5.25 An equivalent approach to conversion should apply for both imports and exports. In cases when both buying and selling (official/market) rates are available, the rate to be used is the midpoint between the two, so that any service charge (i.e., the spread between the midpoint and those rates) is excluded. If a rate is not available for the date of exportation or importation, it is recommended that the average rate for the shortest period applicable be used. An assessment of the exchange rates prescribed by customs law or regulation and their conformity to balance of payments recording principles should be made by the balance of payments compiler. This assessment should be accompanied by an investigation of actual practice. Adjustments should be made if inappropriate conversion of import and export values from foreign currencies to the unit of account causes significant errors in balance of payments accounts.

5.26 How do these valuation principles compare with balance of payments compilation requirements? For balance of payments purposes, the point of valuation required for both exports and imports is f.o.b. When a c.i.f. or other valuation is provided, the balance of payments compiler should estimate the freight and insurance components separately to arrive at an f.o.b. valuation. The balance of payments compiler essentially requires a market price for valuing trade. The transactions price is usually a good proxy for market price; in exceptional cases of transfer pricing for transactions between affiliated companies, other market-equivalent values could be substituted. An exchange of information with counterpart economies may be useful in this respect.

Quantity Measurement

5.27 The guidelines explain various quantity measures required for *IMTS*. While the balance of payments compiler essentially compiles data in current

⁹The f.o.b. applies only when goods are dispatched from the exporting economy by sea or inland waterway. When other means of transport are used for exports and f.o.b. is not applicable, “free carrier” (f.c.a.) at port of export can substitute for it. If neither f.o.b. nor f.c.a. are applicable (e.g., exports by railroad or pipeline), “delivered at frontier” (d.a.f.) of the exporting economy may be used.

values, quantity measures should be of interest and should be considered for inclusion in any analysis accompanying balance of payments statistics. Some quantity measures of goods will also be essential for the balance of payments compiler charged with making projections of balance of payments goods series.

Partner Economy Classification

5.28 Trade in goods classified by partner economy provides the basis for compilation of a regional balance of payments statement with respect to goods. The guidelines present various concepts that could be used to determine partner economy classification and provide a useful discussion of each. For a more extensive discussion of this issue, refer to Appendix 5 of this *Guide*.

Compilation of IMTS

5.29 Source documents for IMTS are, in most economies, customs declaration forms (or electronic transmissions sent by traders or their agents to customs officials in lieu of customs declaration forms). These forms are designed to reflect the various trade flows identified in Figure 5.1.

5.30 Individuals arriving in, and sometimes departing from, an economy are generally required to complete declaration forms. Data (on the value of goods declared) from such documents may be used to estimate expenditure on travel if the value does not exceed a given customs threshold. However, goods for resale are included in general merchandise. There is usually a form for goods sent by parcel post, and the declared value of such goods should, in principle, be recorded in IMTS.

5.31 Under the procedures developed for measuring IMTS in the European Union, companies report directly to the IMTS compiler, rather than customs, in respect of intra-union trade.

5.32 Customs procedures may have an impact on the recording, and hence on the quality of IMTS. A customs procedure is a treatment applied by the customs to goods which are subject to customs control, and serves as the basis for the identification of the flow of goods. Examples of customs procedure covering imports are: clearance for home use, customs warehousing procedure, free zones, inward processing, and processing of goods for home use.

5.33 Finalized customs documents are usually sent to the national statistical office where staff process the documents and compile the IMTS. In many economies, the timeliness of IMTS is very good; both broad aggregate and detailed statistics become available within a month after the reference period.

5.34 Some factors leading to IMTS of good quality are as follows:

- IMTS compilers should be well versed in international statistical guidelines and should follow them closely by encouraging customs officials to collect relevant data or by making supplementary inquiries of importers and exporters.
- IMTS compilers should maintain close contact with users, such as balance of payments and national accounts compilers, to resolve difficult conceptual and treatment issues and to harmonize whatever treatments are adopted.
- IMTS compilers should undertake independent coverage checks and introduce appropriate coverage procedures.
- IMTS compilers should undertake a number of validation checks, such as price to quantity (unit value) checks on data, and query cases that lie outside the norm.

Uses of IMTS in International Accounts

5.35 IMTS serve many purposes. In most economies, IMTS provide basic data for compilation of the goods item in the balance of payments. IMTS may be used, either directly or indirectly, in the compilation of transportation services; services associated with technology transfer, entertainment, and the renting of equipment; and goods provided under foreign aid programs. IMTS may also provide listings of companies that are engaged in goods transactions and/or important recipients of international finance, providers of trade credit, and acquirers or providers of other services. An IMTS system could therefore be used in creating a population listing for a balance of payments company register, a subject that is discussed in Chapter 2.

5.36 Widely ranging data are collected on IMTS forms. Of most interest to the balance of payments compiler are the value of goods, the commodity classification, the quantity, the shipment date (the date the goods arrive in port for imports or leave port

for exports), the mode of transport and residency of transport operator, the currency of the transaction, and the method of payment.

5.37 The balance of payments compiler should be familiar with the actual practices adopted in compiling IMTS in order to identify the strengths and weaknesses of IMTS. Of particular concern are: (1) lags between the dates of shipment or clearance and the processing of documents (such lags may cause timing problems when IMTS are used in balance of payments compilation.); (2) the valuation of certain exports for which final prices may not be known at the times of export (particular problems could be the valuation of agricultural and mining products); and (3) duty-free goods that are subject to less attention by customs officials (often, duty-free goods—especially exports and government and defense imports—may not have documents created for them).

5.38 The balance of payments compiler should also be aware of the undercoverage by IMTS of smuggled goods often imported/exported informally by individuals living near the border points.

5.39 International guidelines for IMTS are not fully implemented in all economies. Also, the guidelines do not provide definitive directions in all cases, and IMTS compilers must make some choices. As mentioned earlier, the guidelines in the *IMTS 2010* are not fully consistent with balance of payments accounting principles specified by the *BPM6*. Therefore,

working with the IMTS compiler, the balance of payments compiler should first review national IMTS to identify differences between IMTS and balance of payments requirements. Then, an attempt should be made to quantify such differences. If possible, the balance of payments and IMTS compiler should arrange for adoption of suitable procedures to correct significant differences. Corrective activities may include encouraging customs authorities to modify procedures, collection (by the IMTS or balance of payments compiler) of additional data directly from companies, or provision of additional disaggregations via the IMTS. Sometimes it may be more appropriate for special adjustments to be included in the balance of payments compilation process because, from a balance of payments viewpoint, some perceived inadequacies of IMTS may arise merely from the different conceptual basis of IMTS and balance of payments statistics.

5.40 IMTS also provide input to the rest of the world account of the national accounts. (Ideally, the link should be through the balance of payments compilation system.) IMTS can be used directly and indirectly to compile goods statistics in current and constant price terms that are seasonally adjusted or unadjusted and accompanied with relevant implicit price deflators. For many analyses, goods should be classified according to various broad commodity groups. At a more detailed level, IMTS are an important input into the compilation of input/output tables.



6

Data from Official and Administrative Sources

Overview

6.1 This chapter covers sources of data on transactions and positions in external financial assets and liabilities of the general government and the central bank sectors.¹ These transactions and positions can have a significant impact on the balance of payments; therefore, their measurement requires careful attention. The chapter also examines data (which may be relevant to the balance of payments) gathered by government sector institutions as a by-product of carrying out their various functions. Examples are data from applications to invest, to acquire foreign exchange, and to export, and data from taxation, education, and health authorities.

6.2 Data sources described in this chapter may be the sole sources for various balance of payments and international investment position (IIP) items. These sources also may be used to supplement sources such as an international transactions reporting system (ITRS) or enterprise survey, or the sources may be used to validate data collected elsewhere.

6.3 It is useful to consider alternative sources of data on the general government and central bank sectors. Data on international activities of the central bank may be obtained directly from the bank or from an ITRS—if the central bank is included as reporter. While many agencies of general government may be involved in international activities, payments or receipts associated with most of these activities would be recorded, in the government ledger, by the central accounting unit of the government. These transactions and positions are often settled through the central bank, when it acts as banker to the government.

6.4 Government debt management functions are likely to be organized separately in a debt control or management office, and the central bank is likely to be the banker. Therefore, to collect data on international transactions and positions of the general government sector, as well as of nonfinancial or financial corporations debt guaranteed by the government, the compiler may need to approach either the central accounting office or the debt office (through a specific collection) of the government or the central bank.

6.5 It may be necessary to approach other units of government to obtain complete information on some general government international activities. Tax authorities may be an appropriate source of data on withholding taxes and other taxes payable by non-residents. Port and transport authorities may be good sources of various transport fees payable to the government. Certain government entities that take delivery of goods and services from abroad may have the responsibility for making payments, and it may be necessary to approach these entities directly to acquire information required for balance of payments and IIP purposes. These entities may include the ministry of defense, the ministry of foreign affairs, the ministry of public works (particularly if the ministry is responsible for organizing projects funded from foreign aid), the foreign aid office, the ministry of education, and the ministry of health. It may also be necessary to approach government agencies providing technical staff or employing staff on secondment from abroad in respect of these activities.

6.6 Furthermore, in addition to the central government, there may be other levels of government, such as state, provincial, and local, that are involved in international transactions and positions. If so, the compiler may have to approach the appropriate institution(s) within each level of government in order to measure particular types of international transactions and positions.

¹Monetary authorities sector has to be identified when institutions other than the central bank carry out certain operations usually attributed to the central bank (see *BPM6*, paragraph 6.66).

6.7 While many government-owned companies may be involved in international activities, these corporations are considered companies and, as such, are not considered to be part of the general government sector. Government-controlled companies that (1) produce market output (i.e., charge prices that are economically significant), and (2) have complete sets of accounts are excluded from general government and are included as public companies in the appropriate nonfinancial or financial corporations sector (*BPM6*, paragraph 4.92).

Data on the General Government and the Central Bank

6.8 The compiler should develop a good understanding of expenditure, revenue, and finance patterns of general government and the central bank. It is especially important, as well, for the compiler to understand how data are recorded in government accounts at different (central, regional (state, province), and local) levels. Government institutions that have a significant impact on the balance of payments should be accorded high priority for the purpose of data collection.

6.9 For the central government, there is often a central accounting unit—typically within the ministry of finance—that is responsible for collecting information on most, if not all, receipts and expenditures. While there may be some delegation of authority to make payments, the central accounting unit should have reliable accounting data on the majority of international transactions and positions undertaken by the central government. Therefore, it should be possible to use these central accounts—often called “the general ledger”—to extract the balance of payments and IIP data required. In some economies, all government payments made abroad are identified and extracted each month from the central government ledger for the purpose of compiling balance of payments items relating to government transactions, and IIP items relating to government positions. As the government accounting system is generally computerized, required data may be available a day or two after the end of the month (though there is sometimes a longer lag than this).

6.10 However, as these centralized accounting units are usually concerned with receipts and expenditures,

they may not be a good source for all data items.² For example, to measure trade credit on imports, it is necessary to establish actual change of ownership (delivery) dates for goods and services, as well as dates when payments are made. For information on delivery dates, a government accounting unit at a lower level may be a more satisfactory source of information because central government accounting units often rely on lower levels of government to organize contractual arrangements, ensure that goods have been delivered, and so forth. Similarly, for data on foreign military and development assistance, government authorities directly concerned with these activities may be the most appropriate source as many of the transactions may not involve cash payments. It may even be desirable and necessary to collect such data on a project-by-project basis.

6.11 Once appropriate source(s) of data have been identified, the compiler should negotiate with relevant authorities to achieve any modifications required to extract required data and classifications from the government accounting system and to arrange a suitable and timely reporting mechanism. It is desirable for the balance of payments compiler to coordinate requirements with the compiler of government finance statistics (GFS). The linkages between balance of payments and GFS are presented in Appendix 6, “Linkages of the International Accounts with the Government Finance Statistics.”

Embassy and Defense Transactions

6.12 Direct expenditures made abroad for goods and services used by embassies, consulates, military installations, aid missions, information agencies, and other government institutions located abroad are included in government goods and services n.i.e. in the balance of payments. Wages and salaries payable to host economy residents who work for embassies and the like should also be measured and included in the balance of payments as compensation of employees. Wages and salaries paid to diplomats and other staff posted to these institutions do not represent balance of payments transactions. However, the compiler may

²Moreover, in some economies, there may be a more decentralized system of accounting. All units involved in general government transactions and positions with nonresidents need to be covered in any process for compiling data involving nonresidents.

assume that all or a certain percentage³ of salaries paid to such personnel will be spent in the host economy and, as such, included in government goods and services n.i.e. Expenditures associated with provision of joint military arrangements and peace-keeping forces should also be included in this item (*BPM6*, paragraphs 10.174–10.178).

6.13 Information on transactions related to embassies, defense, and other government establishments located abroad will typically be available from the government ledger or from agencies such as the ministries of foreign affairs and defense. For balance of payments purposes, the times at which these transactions are recorded (usually on a cash basis) in government records are normally considered to provide reasonable approximations of changes of ownership. However, if significant discrepancies arise between provision of a service and payment for it, an account payable (receivable) should be created in the balance of payments and in the IIP.

6.14 While classification of embassy, defense service, and similar transactions into income (compensation of employees) and service components are all that is required for balance of payments purposes, it may be advantageous if the compiler examines the various cost factors involved and classifies the data by partner economy. Subdividing payments into rent, services, entertainment, salaries, and other components and comparing these with the number of staff employed by economy may be useful for balance of payments extrapolation purposes and for estimating foreign government expenditure in the home economy.

Other Current Expenditures and Revenues of the Government

6.15 Other current expenditure of the government includes payments for government imports, travel abroad by government employees, in some instances tuition and scholarship, other services acquired by government, and pensions paid to former nonresi-

dent employees and to former residents who have emigrated. These data should be available from government accounts and be appropriately classified for balance of payments compilation purposes. On the revenue side, data should be available on various fees, taxes, and charges payable to government. These may include the following:

- Withholding and income taxes collected from nonresidents
- Airport departure tax collected from nonresidents
- Offshore fishing and other license fees for use of natural resources or other types of activity collected from nonresidents
- Transport fees and service payments, such as airport landing fees and stevedoring charges, collected by government authorities

Public Sector External Debt⁴

6.16 An economy's debt management office may be responsible for managing or monitoring government debt, and, sometimes, for monitoring government-guaranteed debt. This office could be approached for data on the external liabilities and assets (other than reserves) of the general government sector, and for data on external debt of sectors that issued government-guaranteed debt (such as other deposit-taking corporations, except the central bank and other sectors). Data on government-guaranteed debt should not be included in government sector debt unless actually acquired by the government, but it is very useful additional information for understanding potential government exposure. These data should be included in the sector that incurred the debt; however, the compiler should assure that the double counting is avoided if data on external assets and liabilities are collected also through enterprise surveys.

6.17 Basic information on each debt instrument should normally be available from the loan or credit agreement or related documentation, a copy of which should be deposited—preferably under legal statute—with the debt office for all govern-

³It is recommended that the basis for making such assumptions be based on a survey or some other source of information that may provide a means for estimating the amounts diplomatic, military, and similar personnel spend while abroad on official government business.

⁴The *public sector* includes the general government, the central bank, and those in the deposit-taking corporations, except the central bank, and other sectors that are public corporations (see *External Debt Statistics: Guide for Compilers and Users*, paragraph 5.5).

ment or government-guaranteed debt instruments. If the debt management office has data on other sectors—for example, government-owned companies or government-guaranteed debt of other companies—these data may also be collected but should be compiled separately. The compiler of these data should consult the *External Debt Statistics: Guide for Compilers and Users*.⁵

6.18 Some economies collect external debt data on a loan-by-loan basis, maintaining a comprehensive inventory of loans. However, not all debt components required for balance of payments may be available to the debt management office (e.g., trade credit and advances or other accounts receivable/payable).

6.19 In most of the economies, data on credit and loans with the IMF are readily available from the central bank or debt management office. Close consultation between the compiler and the central bank's accounting office or the debt management office should guarantee that the compiler gathers all the required data. It is recommended that the compiler of external debt statistics, if outside the debt office, utilize these data rather than develop alternative sources.

6.20 Table 6.1 sets out the standard components the compiler should collect from the government and central bank with respect to external financial assets and liabilities, excluding reserve assets.⁶ Details for central bank and general government sectors should be compiled separately (and monetary authorities where relevant).

6.21 The information shown in Table 6.1 may be classified by economy of creditor (liabilities) or debtor (assets). In the economy classification, a separate category should be shown for international organizations (as these are not considered to be residents of the economies in which they are physically located). It may also be desirable to classify data by sector of nonresident party. That is, each cell in Table 6.1 would be further subdivided by sector of the nonresident counterpart (e.g., multilateral organizations (broken down by central bank of currency union, other international financial organizations, and other multilat-

eral international organizations), general government (excluding multilateral organizations), central bank, deposit-taking corporations, except the central bank, and other sectors).

6.22 Data collected on the currency composition (currency of denomination) of external assets and liabilities are particularly important in order to monitor currency risks facing the economy. For balance of payments compilation, the currency composition is important when the financial flows are calculated as differences in positions at the end and at the beginning of the reporting period (e.g., based on monetary and financial statistics that are compiled in domestic currency). The currency composition would be used to split the position data by currency of denomination and to calculate transactions as differences in positions for each currency of denomination. This would allow for the exclusion of changes due to exchange rate changes in calculating estimates of transactions.

6.23 In the case of debt instruments, a split of the data according to original maturity (short-term or long-term) is shown in the standard components of the external accounts. The compiler is encouraged to also obtain data on remaining maturity and on the interest rate structure (variable- or fixed-rate) of external assets and liabilities; these breakdowns are requested as supplementary items in the IIP.

6.24 Securities issued in the domestic market and purchased by nonresidents can pose special collection problems, and these are discussed in Chapters 3 and 10. For securities issued abroad, the government or central bank should have the required data or may be able to obtain data from security brokers located abroad. Caution should be used before assuming that all the issue has been taken up by nonresidents. Discussions with the issuing agent(s) could be undertaken to provide an indication of the amounts that may have been purchased by residents.

Reserve Assets

6.25 Data on reserve assets should be available from the relevant department of the central bank. Ideally, the data set out in Table 10.2 will be available.

6.26 Table 10.2 emphasizes that transactions should be measured separately from other flows that affect

⁵ www.tffs.org/edsguide.htm.

⁶ Table 10.2 in Chapter 10 includes reserve assets components.

Table 6.1 Standard Components for the General Government and the Central Bank¹ on External Financial Assets and Liabilities, Excluding Reserve Assets

	Beginning of period	Financial account transactions (net)	Other changes in financial assets and liabilities account			End of period
			Changes in position due to:			
			Other changes in volume	Exchange rate changes	Other price changes	
Assets						
Direct investment						
Equity and investment fund shares ²						
Direct investor in direct investment enterprise						
Debt instruments						
Direct investor in direct investment enterprise						
Portfolio investment						
Equity and investment fund shares						
Debt securities						
Short-term						
Long-term						
Financial derivatives (other than reserves) and employee stock options						
Other investment						
Other equity						
Currency and deposits						
Short-term						
Long-term						
Loans						
Credit and loans with the IMF (other than reserves)						
Other short-term						
Other long-term						
Insurance, pension, and standardized guarantee schemes						
Trade credit and advances						
Short-term						
Long-term						
Other accounts receivable—other						
Short-term						
Long-term						
Liabilities						
Portfolio investment						
Debt securities						
Short-term						
Long-term						

¹The same breakdown is required for monetary authorities, where relevant.²Applies only to general government.

Table 6.1 Standard Components for the General Government and the Central Bank on External Financial Assets and Liabilities, Excluding Reserve Assets (concluded)

	Beginning of period	Financial account transactions (net)	Other changes in financial assets and liabilities account			End of period
			Changes in position due to:			
			Other changes in volume	Exchange rate changes	Other price changes	
Financial derivatives (other than reserves) and employee stock options						
Other investment						
Currency and deposits						
Short-term						
Long-term						
Loans						
Credit and loans with the IMF						
Other short-term						
Other long-term						
Insurance, pension, and standardized guarantee schemes						
Trade credit and advances						
Short-term						
Long-term						
Other accounts payable—other						
Short-term						
Long-term						
Special drawing rights (allocations)						

Source: IMF staff.

the positions to obtain reliable data on reserve asset transactions. The monetization and demonetization of gold bullion should be included in other changes in the volume (*BPM6*, paragraph 3.21). Allocations and holdings of special drawing rights should be reported as other investment liabilities and reserve assets, respectively. It is important to obtain, if possible, the complete instrument breakdown shown in the table. It is preferable if data are classified by economy of the nonresident party.

6.27 The compiler may have access only to data on the position of reserve assets. The method for converting such data to a transactions basis is outlined in Chapter 10, Box 10.2. To apply this methodology properly, the compiler must know the currency

composition of reserves (as well as any price changes that may have occurred during the period).

Measurement of Development Assistance in Donor Economies⁷

6.28 The development assistance agency in donor economies is a very valuable source for measuring development assistance because this agency is usually responsible for disbursement of the major part of development assistance grants and loans and for overseeing and monitoring the foreign development

⁷See also Development Assistance Data in Chapter 7.

assistance program. While development assistance is not a standard component item in the balance of payments, the compiler may wish to compile the item separately for analytic reasons. The components of development assistance will generally be reflected in several items in the balance of payments.

6.29 In developing statistics on development assistance for balance of payments purposes, the compiler should distinguish clearly between current grants (which are included in the secondary income account), capital grants (which are included in the capital account),⁸ and loans (which are recorded in the financial account and in the IIP). For grants, it is necessary that counter entries (such as exports of goods, provision of education services, other technical assistance, and provision of cash) be identified and included appropriately in the balance of payments. Chapters 14 and 15 provide further information on recording grants in the balance of payments.

Measurement of Development Assistance in Recipient Economies⁹

6.30 Data on international development assistance in recipient economies are often poorly measured; also in some economies a large portion of development assistance may be channeled through nongovernment organizations. As a result, the value of foreign assistance is understated. Because of this understatement, the impact of such assistance on other major economic variables is difficult to measure. Measurement problems in recipient economies have also led to balance of payments global asymmetries for data on transfers. The following paragraphs provide possible sources that the compiler could use to measure the receipt of development assistance.

6.31 Most compilers in recipient economies can easily identify cash grants or payments received in development assistance because the information is often readily available from government records on revenue.

6.32 Many economies have established various administrative units to administer program or project

aid. Complete accounts are often established to analyze costs, monitor progress, make reports to donors, and prepare invoices to claim cash payments from donors. These project accounts should include the value of materials and services supplied by donors. The compiler should encourage good record-keeping practices in this area. In addition, administrators of such aid projects should (if they are not already doing so) be encouraged to obtain, from donors with whom they maintain contact, data on the valuation of assistance received in kind.

6.33 It is necessary that offsetting entries to the aid be recorded in balance of payments accounts. To ensure proper recording, the compiler could, for example, undertake audit checks to verify that goods received under project aid are recorded in international merchandise trade statistics at correct valuations. If project accounts are the only source of data for certain noncash items in the balance of payments, the compiler would use information from such accounts to record corresponding items in the balance of payments. For example, if a foreign technical assistance expert stationed in the host economy for less than one year and funded under an official aid program is employed by a local project, income earned by the expert should be included in the balance of payments of the host economy as a compensation of employees debit in the primary income account and a transfer credit in the secondary income account. The balance of payments treatment of technical assistance and other forms of project aid is further discussed in Chapters 13, 14, and 15.

6.34 Many economies receiving food and other humanitarian aid have a centralized government agency responsible for distributing the food, and such agencies are generally a good source of information on this type of aid. When approaching distribution agencies for information, the compiler should ensure that both food imports and offsetting transfer entries are measured in accordance with balance of payments principles. Chapter 14 should be consulted for a discussion of the balance of payments treatment of food aid.

6.35 In economies where residents receive educational assistance from foreign governments, there may be a government agency responsible for administering the program on behalf of nonresident donors. This agency could be a useful source of data for the balance of payments. The value of educational

⁸For the distinctions between current and capital transfers see the *BPM6*, paragraph 12.12.

⁹Measurement of development assistance in donor economies is described in Chapter 7.

assistance should be measured at the cost to the donor. If such details are not readily available, balance of payments estimates could be based on the number of students studying abroad, classified by various types of educational institutions and length of stay. These data could then be used—in conjunction with per capita data (either actual or estimated) of the cost of tuition fees, accommodation, passenger fares, and other expenses paid by donor economies for each category of student—to estimate the transfer credit item. Having compiled these estimates, the compiler should ensure that relevant offsets are included in the current account. Typically, offsets (other than those for international passenger fares that are included in transport) will be shown in the travel item as debits.

Administrative By-Product Data

6.36 While conducting various functions, official institutions frequently obtain data useful for compiling the balance of payments. Often these functions require applicants, or persons who must pay fees or taxes, to complete forms that could be relevant to the balance of payments. The compiler might be able to influence the design of collection forms or administrative procedures to maximize, from a balance of payments viewpoint, the usefulness of the data. The international merchandise trade statistics (IMTS), migration statistics, and in some instances ITRS data are examples of information collected as a by-product of administrative functions and essential to balance of payments statistics. These particular collections are discussed in Chapters 3, 4, and 5. This chapter examines lesser-known by-product collections.

6.37 Administrative by-product data may be available at different levels of processing, including individual collection forms, semiprocessed data (which may consist of records of individual collection forms, special tables, or reports), or statistical aggregates. The appropriate level, from the compiler's viewpoint, will depend upon a number of factors. If sufficient details and cross-classifications are available, statistical aggregates may be sufficient for the compiler's purpose. Nevertheless, it is often desirable for the compiler to have access to completed collection forms or records of collection forms. Even data that cannot be used directly by the compiler may still be useful for balance of payments purposes. Subsequent paragraphs note some examples.

Foreign investment approvals

6.38 Many economies have foreign investment boards or similar institutions that promote, place conditions on, or monitor various forms of foreign investment. To make certain types of investments or to expand existing investments, investors may be required to submit application forms to the investment board, which may be required to give approval of the investment before it can proceed, which may also assist investors in establishing companies and may ensure that investments comply with government guidelines. These application forms may contain useful information, and in a number of economies detailed statistics are published on foreign investment approvals.

6.39 These statistics are generally not directly usable for balance of payments compilation purposes as they relate to intended investments rather than actual investments and reporters sometimes record the expected value of the investment, including total financing and not just the external investment. However, they may be useful for some balance of payments estimation purposes.

6.40 This source is best used to identify new direct investment projects, and the compiler would need other sources such as financial statements and enterprise surveys to measure these positions and to capture additional components requested for direct investment transactions and positions. It is also important to consider that significant time lags between approvals and actual investments may occur.

6.41 More importantly, individual application forms may serve as a very useful data source for compiling population lists of direct investment enterprises (DIENT), direct investors, or fellow enterprises. In some economies, application forms have proved particularly useful for identifying nonresidents who invest in real estate.

Applications to obtain foreign exchange or to borrow from abroad

6.42 It is a requirement in some economies for residents to obtain approval to purchase foreign exchange or to borrow from abroad. These approval applications should not be confused with actual foreign exchange transactions measured in an ITRS. Chapter 4 describes cases in which residents borrow or lend abroad, but no corresponding cash transaction

appears in the ITRS until a repayment or interest payment is made. To identify these drawings, foreign borrowing applications could be monitored and followed up with the borrower or the lender. Once the drawing is made, details of the operation should be recorded and included in the balance of payments and IIP. Data on foreign borrowing approvals could also be used to establish a list for conducting a survey of residents with external borrowings.

6.43 In some economies, DIENTs are required to obtain approval before remitting, in the form of foreign exchange, dividends or profits abroad. As part of the application process, companies submit details of their profit and loss statements. These details could be used by the compiler to measure reinvested earnings as well as dividends and profits paid/payable to investors.

Applications to export

6.44 Residents of some economies are required to complete applications before exporting goods. Sometimes, these applications are used as a data source to compile goods items in the balance of payments. Alternatively, applications may provide a starting point for obtaining a list of exporters to improve coverage of an IMTS, or these applications may serve as a coverage source for an exploratory survey designed to identify companies engaged in certain balance of payments activities, such as trade credit.

Tax data

6.45 Tax data can be used in a number of ways. Data, which are obtained from tax authorities, on dividend and interest withholding taxes payable by nonresidents may be used to compile part of government transfer credits (current taxes on income, wealth, etc.). Lists of companies paying withholding taxes on behalf of nonresident investors may be a useful source for identifying companies with external borrowings or nonresident shareholders.

6.46 Tax records of DIENTs could provide data on intercompany services and remitted and retained profits when other sources are not readily available. Lists obtained from tax files of companies with direct investment transactions could also be used as a source of coverage for enterprise surveys of direct

investment. Tax records often identify income from foreign sources separately from income earned from domestic operations. These records can be useful, for conducting surveys or for checking information obtained from other sources,¹⁰ because they identify companies and individuals with investments abroad.

6.47 Tax authorities may conduct surveillance of certain transactions, particularly those associated with tax havens, to ensure that certain taxes are not avoided. Forms filed with tax authorities in respect of certain classes of foreign exchange remittances could provide a coverage source for listing the population for enterprise surveys (for more details on coverage of taxes in government finance statistics see Appendix 6, “Linkages of the International Accounts with the Government Finance Statistics”).

Education and health data

6.48 Governments may maintain data on education (including scholarships) and health services provided to or by nonresidents.¹¹ For education, data may be available from the ministry of education or other body in charge of education on the number of students, costs of tuition, other services provided by educational institutions (e.g., accommodation for students living on campuses or boarding at school), and other expenses of nonresident students studying in the host economy or resident students studying abroad. It is also important to know what proportion of these costs is funded by development assistance grants. The compiler should also seek data that may be available on health care services and expenditures of patients who cross international frontiers to seek health care. In economies that have universal health care systems funded or administered by the government, nonresident patients can often be identified separately because such patients will typically be responsible for the full cost of their health care.

¹⁰As used by tax authorities, definition of the terms foreign and income may differ from those used in the balance of payments. The compiler should take care in using tax data directly in balance of payments compilation that any such differences are correctly handled.

¹¹Many of the education and health services provided to or by nonresidents are provided to persons traveling outside their home economies. Accordingly, these services should be recorded in the travel item of the balance of payments.

Data from trade, industry, and other professional associations

6.49 In some economies, different trade, industry, professional bodies (e.g., industry and trade associations) may maintain useful information on cross

border activity. The compiler may consider requesting the available information from such bodies, including the list of their members and their financial size, which could be used for improving the coverage of survey population.



7

Selected IMF and Other International Organizations' Data Collection Initiatives

Introduction

7.1 This chapter discusses data sources provided by the International Monetary Fund (IMF) and other international organizations that may be relevant for balance of payments and international investment position (IIP) compilation. The main feature of the data sources discussed in “IMF’s Bilateral Data Collections” and “Bilateral Data from Other International Organizations” is that they provide detailed geographical breakdown that may be used by the counterpart economy for balance of payments and IIP statistical purposes. “Other Datasets” describes other datasets that should be consistent with data reported in the international accounts.

7.2 Data compiled directly by partner economies can also be relevant; however, their relevance depends on specific circumstances—for example, the coverage of data in partner economy’s statistics, the methodology applied by the partner economy, the accessibility to the data, confidentiality constraints, and so forth. The compiler should assess these factors on a case-by-case basis.

7.3 Datasets described in this chapter are maintained by the IMF, the Bank for International Settlements (BIS), the Organisation for Economic Co-operation and Development (OECD), and the World Bank, and relate to portfolio investment, direct investment, loans, deposits, development assistance, and trade in goods.

7.4 Initiatives that collect data by individual counterpart economy (bilateral data) include the IMF’s Coordinated Portfolio Investment Survey (CPIS) and Coordinated Direct Investment Survey (CDIS), the BIS international banking statistics (IBS), and the OECD development assistance data.

7.5 Data on partner economies compiled by international organizations can be used in two ways:

- In a bilateral reconciliation exercise as a check of the compiler’s estimates; in recent years, there has been an increased use of cross-economy data comparisons to enhance the quality of individual economy statistics.
- Directly in the compiling economy statistics in the absence of national data or to complement existing data sources; in this case, the compiler should make the necessary adjustments described ahead.

7.6 A bilateral reconciliation exercise of balance of payments or IIP statistics involves comparison of data that are provided by the reporting economy’s partner economies to international organizations with the reporting economy’s own data and that purport to measure the same set of transactions or positions. For example, economy A’s estimate of the value of direct investment in economy B could be compared with economy B’s estimate of direct investment from economy A disseminated by the IMF in the CDIS. As discrepancies are identified and explained, the compiler can improve the quality of the balance of payments or IIP data.

7.7 Direct use of data compiled by international organizations in the compiling economy’s balance of payments and IIP statistics can be relevant when the compiling economy does not collect the data itself or when collected data are partial or incomplete. For example, if economy A does not collect portfolio liabilities, then the CPIS can be used to estimate a liability position. Before using bilateral data it is important to assess the coverage of the data sources used by the counterpart economy.

7.8 While this chapter provides an overview of the various sources and their comparability to balance of payments and IIP needs and methodology, it is recommended to consult the data sources directly for a more detailed description of coverage and methodology.

IMF's Bilateral Data Collections¹

Coordinated Portfolio Investment Survey (CPIS)²

7.9 The CPIS provides information on individual economy year-end holdings of portfolio investment securities (short- and long-term debt securities and equities), valued at market prices, cross classified by the economy of issuer of the securities, and it is therefore most suited to be used for IIP compilation. The CPIS focuses on the geographical breakdown of portfolio assets of the participating economies. Some economies also provide data on portfolio liability positions. Cross border securities trading and settlement often uses the International Securities Identification Number (ISIN code) to identify securities. Data are valued at market prices. The CPIS follows definitions and classifications set out in the *BPM6*.³

7.10 The Survey of Securities Held as Foreign Exchange Reserves (SEFER) is conducted in parallel

with the CPIS. Accordingly, participating economies also supply a geographical breakdown of the value of securities holdings that are included in reserve assets. Although the foreign securities component of reserve assets appear under a separate heading from portfolio investment in the *BPM6*, securities held as part of reserve assets are part of the portfolio investment liabilities of the issuers. From the perspective of the issuer, securities that are held as reserve assets are indistinguishable from those held in portfolio investment. Another survey is also conducted of large international organizations, the Survey of Securities Held by International Organizations, to obtain the value of their holdings of securities. In order to maintain confidentiality of individual returns, special procedures are used by the IMF to collect the data from these two surveys. Similarly, data from these two surveys are published only in aggregated form so that no economy's or organization's data are identifiable.

7.11 In the absence of a national data collection system, economies may use the CPIS derived liabilities data—for equity and investment fund shares, and short- and long-term debt securities—for identifying portfolio investment liability positions by partner economy and as an input for compiling the IIP. These data may understate an economy's actual portfolio investment liabilities, because some economies do not report in the CPIS and others report holdings for only selected domestic sectors. Thus, the derived liabilities data should be viewed as a lower threshold that can be used to cross-check a given economy's own estimates. The derived liabilities estimates should be evaluated for the extent of potential under coverage, and usually should be adjusted higher, before they are used in the IIP. However, the compiler should view the use of CPIS derived liabilities estimates as a temporary measure and work on developing a direct collection of data for compiling portfolio investment liabilities.

7.12 The CPIS derives portfolio investment liabilities positions for all economies, not just for participating economies from the reported data (see Tables 8 and 16 on the webpage indicated in footnote 2). The derived data can be used for checking a compiling economy's portfolio investment liability positions;

¹Users can access the detailed nonconfidential data as reported by each individual economy.

²Methodology, data sources, and results from the survey are available at <http://cpis.imf.org>.

³However, in consultation with the IMF's Committee on Balance of Payments Statistics and CPIS participating economies, the IMF is increasing the frequency of the survey from annual to semiannual (beginning with end-June 2013 data) and to accelerate by three months the timeliness of reported data. More frequent and timely reporting of CPIS data could provide improved benchmarks for estimating quarterly portfolio position data. The scope of the data is also being enhanced to include the identification of short positions and sector of debtor. Further, with the aim of aligning the outputs with user demands, an additional disaggregation of the data on the institutional sector of resident holders cross classified by the institutional sector of the nonresident issuers of securities is also included in the revised CPIS reporting forms. However, in order to reduce the potential reporting burden, this disaggregation limits the sectoral detail for nonresident issuers to the 25 economies with systemically important financial sectors, the economies for which the IMF Executive Board agreed should have mandatory assessments every five years under the Financial Sector Assessment Program.

however, as mentioned in the previous paragraph, the compiler should consider it as a lower threshold for checking. The compiler should assess the extent that CPIS reporting economies included those economies that were most likely to hold securities issued by the compiling economies.⁴

7.13 The IMF plans to increase the frequency of the CPIS and SEFER surveys from annual to semiannual and to accelerate by three months the timeliness of reported data. The semiannual data will be released starting in 2014.

Adjustments to CPIS data for compiling the balance of payments and IIP

7.14 Although CPIS data are consistent with portfolio investment in the IIP, direct use of these data for partner economies could need some adjustments considering the absence of data from some counterpart economies either because they are not reporting economies or because they do not provide data with some partners to preserve confidentiality. Also, the compiler should keep in mind that the CPIS data for partner economies attributes security holdings to portfolio investment (by institutional sector) while portfolio investment liabilities in the IIP data includes also securities held by partner economies as reserve assets and securities held by international organizations. Grossing up techniques or models based on the available reported data could be used to estimate data for nonreporting economies. More details on grossing up techniques are presented in Chapter 2.

7.15 As mentioned earlier, the CPIS does not provide breakdown by sector of issuer, and cross border securities trading and settlement often use the ISIN code to identify securities. If the ISIN code is also used in a securities database, then this database can allow identifying characteristics of particular securities, including their issuer. Where feasible, the compiler is encouraged to classify portfolio investment by institutional sector of the issuer.

⁴In 2013, with reference to data for 2012, 77 economies, including almost all the major economies and most large portfolio investment holders, reported their holdings of portfolio investment assets issued by nonresidents broken down by nonresident economies and instruments.

Coordinated Direct Investment Survey (CDIS)⁵

7.16 The CDIS collects data on direct investment positions for end-year by economy based on the location of the immediate counterpart to a direct investment position, with equity reported separately from debt investment. For inward direct investment, participating economies compile the value of outstanding end-year positions by immediate (first) counterpart economy (the economy from which the investment comes). For outward direct investment, participating economies provide information on the value of end-year outstanding positions by immediate (first) counterpart economy (the economy into which the investment is sent). Further breakdowns of information are encouraged showing gross debt instruments positions (total liabilities and assets separately identified), positions between fellow enterprises separately from those with direct investors/direct investment enterprises (DIENT), and positions of resident financial intermediaries separately from other direct investment positions. Also, as part of the overall reporting to the IMF, economies provide metadata that allow assessing whether data follow the standards. Direct investment relationships are described in paragraph 10.7.

7.17 Thus, CDIS contains data on direct investment positions, and is therefore suited to be used for IIP compilation. Partner economies can use the CDIS data to obtain information on their direct investment assets and, to some extent, their direct investment liabilities. Data collected through the CDIS are consistent in concepts, coverage, valuation, and classification with the *BPM6* and the fourth edition of the *OECD Benchmark Definition of Foreign Direct Investment*.⁶ Data are available on an annual basis from 2009.

7.18 The CDIS does not contain enough information to calculate precisely transactions based on the

⁵Methodology, data sources, and results from the survey are available at <http://www.imf.org/external/np/sta/cdis/index.htm>.

⁶Around 100 economies, including almost all the major economies, but also many smaller economies, report annually their outstanding inward direct investment positions broken down by immediate counterpart economy. Most of these economies also report annually their outstanding outward direct investment positions in the same detail.

difference between positions at the beginning and the end of the year. Therefore, it cannot be used without adjustment in the balance of payments accounts. (Box 10.2 of Chapter 10 provides an illustrative example of deriving transactions using data on positions and other price changes.)

7.19 The valuation method used for unlisted equity in CDIS is own funds at book value (OFBV), which is one of the methods of approximating market value of unlisted equity recommended in the *BPM6* (paragraph 7.16). More details on different valuation methods including OFBV are contained in the *Guide's* Appendix 4.

Adjustments to CDIS data for compiling the balance of payments and IIP accounts

7.20 The CDIS allows deriving from the reported data the outward and inward direct investment positions for all economies, not just for the participating economies (see Table 3 on the website indicated in footnote 5). These data can therefore be used either as a check of a compiling economy's direct investment positions or, if direct investment data are not collected by the compiling economy, for use in preparing an IIP. As with the discussion of CPIS data, the compiler should assess the extent that CDIS reporting economies included those economies that were most likely to invest / receive direct investment in/from the compiling economy.

7.21 Derived data could be an important source of information to improve direct investment statistics of the compiling economy but should be treated with caution. Derived data could need some adjustments considering: (1) the absence of data from some economies, either because they are not reporting economies, or because they do not provide data with some partners to preserve confidentiality; (2) the degree of coverage of the standard components; and (3) consistency with international standards (e.g., exclusion of debt between selected affiliated financial companies, valuation method used for unlisted equity (OFBV), and inclusion of reverse investment and data on fellow enterprises). Data coverage can be assessed consulting the CDIS metadata questionnaire reported by individual participating economies. Grossing up techniques or models based on the available reported data could be used to estimate data for nonreporting economies when reported data cover most of the total value of the direct investment positions. Chapter 2 provides more details on grossing up techniques.

7.22 CDIS data are presented according to the directional principle, based on the direction of the direct investment relationship while the direct investment data in IIP are presented using assets/liabilities presentation (so that, for example, the netting of reverse investment is not built in). The standard components for direct investment positions may be rearranged to support both presentations. Table 7.1 shows how the

Table 7.1 Assets/Liabilities Presentation Compared to Directional Principle Presentation

Asset/liability presentation in IIP	Directional principle presentation in CDIS
Direct investment assets	Total outward direct investment
<ul style="list-style-type: none"> ➤ Equity and investment fund shares <ul style="list-style-type: none"> • Direct investor in direct investment enterprises (a) • Direct investment enterprises in direct investor (reverse investment) (b) • Between fellow enterprises <ul style="list-style-type: none"> ◦ if ultimate controlling parent is resident (c) ◦ if ultimate controlling parent is nonresident (d) ◦ if ultimate controlling parent is unknown (e) ➤ Debt instruments <ul style="list-style-type: none"> • Direct investor in direct investment enterprises (k) • Direct investment enterprises in direct investor (reverse investment) (l) 	<ul style="list-style-type: none"> ➤ Equity (Net) = (a) + (c) + (e) – (g) – (h) ➤ Debt instruments (Net) = (1) – (2) or (3) + (4) Broken down by: (1) Debt instruments assets (gross) of DI in DIENT= (k) + (m) + (o)

Table 7.1 Assets/Liabilities Presentation Compared to Directional Principle Presentation (*concluded*)

Asset/liability presentation in IIP	Directional principle presentation in CDIS
Direct investment assets	Total outward direct investment
<ul style="list-style-type: none"> • Between fellow enterprises <ul style="list-style-type: none"> ◦ if ultimate controlling parent is resident (m) ◦ if ultimate controlling parent is nonresident (n) ◦ if ultimate controlling parent is unknown (o) 	(2) Debt instruments liabilities (gross) of DIENT in DI (reverse investment) = (q) + (r) And by: (3) Debt instruments (net) resident financial intermediaries (4) Debt instruments (net) all other resident companies ➤ Of which total outward, DI with fellow enterprises abroad (Net) = (5) – (6) (5) Total equity and debt instrument assets (gross) with fellow enterprises = (c) + (e) + (m) + (o) (6) Total equity and debt instrument liabilities (gross) with fellow enterprises = (h) + (r)
Direct investment liabilities	Total inward direct investment
➤ Equity and investment fund shares <ul style="list-style-type: none"> • Direct investor in direct investment enterprises (f) • Direct investment enterprises in direct investor (reverse investment) (g) • Between fellow enterprises <ul style="list-style-type: none"> ◦ if ultimate controlling parent is resident (h) ◦ if ultimate controlling parent is nonresident (i) ◦ if ultimate controlling parent is unknown (j) 	➤ Equity (Net) = (f) + (i) + (j) – (b) – (d)
➤ Debt instruments <ul style="list-style-type: none"> • Direct investor in direct investment enterprises (p) • Direct investment enterprises in direct investor (reverse investment) (q) • Between fellow enterprises <ul style="list-style-type: none"> ◦ if ultimate controlling parent is resident (r) ◦ if ultimate controlling parent is nonresident (s) ◦ if ultimate controlling parent is unknown (t) 	➤ Debt instruments (Net) = (1) – (2) or (3) + (4) Broken down by: (1) Debt instruments liabilities (gross) of DI in DIENT = (p) + (s) + (t) (2) Debt instruments assets (gross) of DIENT in DI (reverse investment) = (l) + (n) And by (3) Debt instruments (net) resident financial intermediaries (4) Debt instruments (net) resident all other resident companies ➤ Of which total inward, DI with fellow enterprises abroad (Net) = (5) – (6) (5) Total equity and debt instrument liabilities (gross) with fellow enterprises = (i) + (j) + (s) + (t) (6) Total equity and debt instrument assets (gross) with fellow enterprises = (d) + (n)

Source: IMF staff.

Note: Components (1) and (2) should have positive signs.

Components (5) and (6) have positive sign in most cases. Components (3) and (4) are not specified in IIP.

Component (3) includes debt of insurance and pension funds and debt of resident financial intermediaries with nonresident nonfinancial intermediaries (debt between selected financial intermediaries—deposit-taking corporations, including central bank, investment funds, and other financial intermediaries except insurance corporations and pension funds—is not classified as direct investment).

assets/liabilities presentation can be rearranged to CDIS (directional principle) presentation.

Bilateral Data from Other International Organizations

International Banking Statistics

7.23 The Bank for International Settlements' (BIS) international banking statistics (IBS) provides position data on cross border activities of banks in most major international banking centers. Data can be used to derive deposits assets and loans liabilities. The BIS statistics contain two datasets—locational and consolidated statistics. The locational data are based on the economy of location or residence of the creditor bank, and are consistent with the residence principle set out in the *BPM6*. These data can be used for balance of payments and IIP purposes. The consolidated data measure worldwide consolidated claims of banks headquartered in reporting economies, including claims of their own foreign affiliates but excluding interoffice positions.⁷ Since this classification principle differs from that used in the *BPM6*, the consolidated data are not a relevant data source for balance of payments and IIP compilation.

7.24 The locational statistics provide quarterly data on resident banks assets and liabilities, in the form of deposits and loans, with nonresident counterparts broken down by banks and nonbanks, and by economy.⁸ The data include both outstanding amounts and exchange-rate-adjusted changes, but no maturity breakdown of loans. Thus, the data can be used in compiling two components of IIP: (1) liabilities, other investment, loans, other sectors, by taking nonresident banks' outstanding amount of loans to the compiling economy, and (2) assets, other investment, deposits, other sectors, by taking the compiling economy's nonbanks' deposits in nonresident banks.

7.25 The BIS debt securities can provide some information on an economy's liabilities related to issuing international money market instruments, bonds, and notes. The methodology was revised in December

2012 for the full history of the statistics, to enhance the comparability of the statistics across economies. International issues were redefined as debt securities issued outside the market where the borrower resides—that is, offshore issues. These statistics cover only securities issued abroad by economies; they do not cover securities issued in the domestic market that are purchased by nonresidents. In addition, they make no allowance for international securities purchased by residents of the debtor economy. Caution should be used when using these data for IIP and balance of payments purposes.

Adjustments to BIS data for compiling the balance of payments and IIP

7.26 The nonbank sector in BIS statistics includes other sectors—other financial corporations, nonfinancial corporations, households, and NPISHs—as well as the general government sector.⁹ It is important not to double count if both data on nonbank sectors from the BIS and national sources for government sector data are used. The compiler should identify positions for general government included in the BIS dataset in order to exclude these positions from the nonbank sector data accordingly.

7.27 The information from the BIS statistics is partial but close to complete regarding the coverage of IIP components because international banking is concentrated mainly in the economies participating in the BIS IBS.¹⁰ Partial data can be adjusted using estimation techniques such as extrapolation or application of weights, deriving the weights of the reported data and grossing up to the universe. See Chapter 2 for more details on grossing up techniques.

7.28 This dataset does not provide a maturity breakdown for loans and deposits; thus the compiler will need to apply percentages based on alternative available data, to obtain these breakdowns.

⁷These statistics build on measures used by banks in their internal risk management systems.

⁸*BIS International Banking Statistics*, Table 7A (all sectors) and 7B (nonbank sector) at <http://www.bis.org/statistics/bankstats.htm>.

⁹The BIS Committee on the Global Financial System (CGFS) recommendations to enhance the BIS international banking statistics are being implemented. Stage two of the enhancements relevant to IIP and balance of payments purposes (collection of new data, including a finer sectoral breakdown in the locational banking statistics) will be reported from Q4 2013 data. See "Improving the BIS International Banking Statistics," CGFS Papers, no. 47, November 2012, available at <http://www.bis.org/publ/cgfs47.htm>.

¹⁰As of March 2013, 44 countries and financial centers report these data to the BIS.

Development Assistance Data^{11,12}

7.29 The Development Assistance Committee (DAC) of the OECD is responsible for collecting internationally comparable data on official development assistance (ODA). This collection is referred to hereafter as the DAC Reporting System. The DAC has worked closely with the IMF's Statistics Department, other international agencies, and member economies of the OECD to develop reporting directives and to align reported data to *BPM6* concepts. Therefore the data are generally consistent with *BPM6* guidelines for compiling data on development assistance flows (but see ahead). The compiler should be familiar with the reporting directives and work closely with the development assistance agency to ensure proper treatment of development assistance flows for the purpose of compiling the balance of payments and reporting to the DAC. It would be desirable to quantify any differences in treatment advocated by the reporting directives and the *BPM6*. Some donors, who are not DAC members, also report to the DAC.

7.30 The components of development assistance will be reflected in several items in the international accounts; the compiler should distinguish between current international cooperation (which is included in the secondary income account (see *BPM6*, paragraph 12.47)), investment grants (which are included in the capital account (see *BPM6*, paragraph 13.25)), and loans (which are recorded in the financial account and in IIP). For grants, it is necessary that offsets, such as exports of goods, provision of education services, other technical assistance, and provision of cash, be identified and included in goods, services, and currency and deposits accordingly.

7.31 Data in the DAC reporting system should, in practice, be compiled on a basis that closely parallels the concepts of timing and valuation advocated by the *BPM6*. The reporting directives comment specifically on the following:

- Excluding official subsidies to private firms, since they support activities with a primarily commercial objective (the *BPM6* includes these subsidies as primary income)

- Including imputed costs of educating nonresident students when fees do not cover the costs of education programs (the *BPM6* advocates the same treatment)
- Including the administrative costs of ODA programs, subsidies to resident nongovernmental organizations, and refugee costs (the *BPM6* does not include these costs because they involve resident-to-resident transactions)
- Including interest subsidies paid to residents to provide “soft” financing as part of development assistance (the *BPM6* does not advocate this treatment because the means of incorporating the impact within the economic accounts has not fully evolved); information on concessional debt could be provided through supplementary information (see *BPM6*, paragraph 12.51).
- Including in development assistance the costs associated with technical cooperation, administration, education, and research incurred in the donor economy (The *BPM6* does not advocate this treatment; however, paragraph 12.47(c) of the *BPM6* indicates that payments associated with the salaries of technical assistance staff *who are deemed to be resident in the economy in which they are working* are included in current international cooperation.)
- Excluding military equipment or services (In the *BPM6*, the supply of goods and services to military units or bases is included in government goods and services n.i.e. Transfers of military equipment are included in investment grants.)

Adjustments to DAC data for compiling the balance of payments and IIP

7.32 The coverage differences between ODA and the *BPM6* requirements mentioned earlier should be considered by the compiler when DAC data are used for balance of payments and IIP compilation. For instance, adjustments should be made to include transfers to/from individuals or private companies.

7.33 In reporting forms submitted to the DAC, the major aggregates such as official development assistance should be classified by economy; however, transactions with international institutions are not classified by economy. Certain transactions, such as administrative expenditures in the donor economy are not—according to the reporting directives—allocated by economy and are shown unallocated. However, for

¹¹ www.oecd.org/dac/stats.

¹² See also measurement of development assistance in donor economies in Chapter 6.

the purpose of compiling partner economy balance of payments statistics described in Appendix 5, costs incurred in the donor economy should be classified by economy. If it is not possible to allocate specific costs to specific economies, the compiler could prorate costs across recipient economies by using aid flows that can be allocated by partner economy.

7.34 Reporting forms submitted to the DAC provide information on both commitments and disbursements of development assistance. The latter basis is relevant in compiling the balance of payments.

7.35 DAC data are compiled with a certain time lag. However, until actual data are available, extrapolations could be used.

Other Datasets

External Debt Statistics

7.36 Two related databases on external debt statistics exist: Quarterly External Debt Statistics (QEDS) and Joint External Debt Hub (JEDH). An overview of these statistics is provided subsequently. A full description of the definitions, coverage, and methodology used in these statistics can be found on the home pages of the respective databases, although it is recommended to reference the original source data. Both the JEDH and QEDS are published on the World Bank's webpage.

Quarterly External Debt Database¹³

7.37 The QEDS database brings together detailed external debt data that are published individually by economies that subscribe to the IMF's Special Data Dissemination Standard (SDDS), as well as by some economies participating in the General Data Dissemination System (GDDS).¹⁴

7.38 Three main sets of data are available on a quarterly basis: (1) breakdowns of the total external debt position by sector, maturity, and instrument, (2) domestic-foreign currency breakdown of external

debt, and (3) forward debt service schedule. The first two sets are relevant to IIP statistics. In addition, the SDDS QEDS includes six other sets of data that are of analytical value.

7.39 The definitions and criteria used regarding time of recording, concept of residence, and exchange rate conversion, along with classification by institutional sectors and financial instruments, will be fully aligned to the principles set out in the *BPM6* in 2014. Accordingly, QEDS data should be consistent with IIP liabilities. However, it is important to be aware that the IIP components equity and investment fund shares, and financial derivatives and employee stock options, are excluded from the external debt statistics.

7.40 In some economies, QEDS data are compiled and reported by the balance of payments compiler that derived them from the IIP. In such cases, QEDS data are fully consistent with IIP. In other economies, QEDS statistics are compiled and reported by an institution other than the balance of payments compiling unit/institution. The QEDS compiling agency should assure that all IIP debt liability components are also covered in QEDS. This coverage consistency can be achieved by requesting from the balance of payments compiler data on IIP external debt instruments that usually are not monitored through the external debt monitoring system (e.g., currency and deposits, trade credit and advances, insurance technical reserves, and accounts payable). The IIP compiler also should assure that all data covered in external debt statistics are covered in IIP. A close cooperation and cross-checking of data between balance of payments and external debt compilation agencies should be undertaken each quarter. Generally, QEDS data are viewed as a source for cross-checking of IIP data and not as a data source for compiling IIP.

Joint External Debt Hub¹⁵

7.41 The JEDH jointly developed by the BIS, IMF, OECD, and World Bank—brings together external debt data and selected foreign assets from international creditor/market and national debtor sources. These sources include creditor data sources such as the African Development Bank, the Asian Development Bank, BIS, the Berne Union, the Inter-American Development Bank, the IMF, Paris Club

¹³The QEDS database, jointly developed by the World Bank and the IMF, brings together detailed external debt data of economies that subscribe to the SDDS and a selected number of economies that participate in the GDDS. As of June 2013, about 110 economies report to the QEDS (see <http://www.worldbank.org/qeds>).

¹⁴GDDS countries' participation in the QEDS does not require producing prescribed SDDS data.

¹⁵www.jedh.org/.

Secretariat, the International Development Association, the OECD, and the World Bank—as well as information by various markets sources. The JEDH contains information on loans, other credits, including official trade credit and advances and bilateral loans, debt securities, and selected foreign assets and liabilities. Since not all sources used in the JEDH follow *BPM6* requirements, it is important to consult the JEDH for detailed metadata description.

7.42 For comparison of the creditor/market data in the JEDH with the data reported by individual economies in the QEDS, the JEDH provides a comparison table for three broad instrument categories: loans *plus* deposits, debt securities, and trade credit and advances. In this way the compiler can compare national data with data from partner economies and market sources in an easy manner. The compiler should use JEDH data to check or review other data sources, but it is recommended to use the original data source to compile balance of payments and IIP data.

Data Template on International Reserves and Foreign Currency Liquidity¹⁶

7.43 The data template establishes standards for the provision of information on the amount and composition of official reserve assets, other foreign currency assets held by the monetary authorities and the general government, short-term foreign currency obligations, and related activities (such as financial derivatives positions and guarantees extended by the government for quasi-official and private sector borrowing) of the monetary authorities and the general government that can lead to drains on reserves and other foreign currency assets.

7.44 In principle, official reserve assets specified in Section I.A. of the *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (IRFCL)* should correspond to the data on international reserves that economies compile for balance of payments and IIP purposes under the *BPM6* guidelines. The definition of official reserves assets should be consistent across all macroeconomic statistics sets.¹⁷ If

balance of payments/IIP data and the *IRFCL* are compiled by different institutions/units, a cross-check of data on reserve assets should be conducted each quarter for their full consistency.

Direction of Trade Statistics (DOTS)¹⁸

7.45 The *Direction of Trade Statistics (DOTS)* contains, for about 187 countries, current figures on the value of merchandise exports and imports disaggregated according to their trading partners. Data are available from 1980 for years, quarters, and months. Reported data are supplemented by estimates whenever such data are not current or are not available in monthly frequency. DOTS follows concepts and definitions set out in *International Merchandise Trade Statistics: Compilers Manual (2004)*.

7.46 It is sometimes assumed that corresponding export and import data between partner economies should be consistent—that is, the exports from economy A to B should be equal to the imports of economy B from A, after taking into account the insurance and freight costs when economy B imports are valued on a c.i.f. basis. The DOTS estimation system uses this assumption in cases where one partner has not reported data.

7.47 However, different compilation practices may cause inconsistency between exports to a partner and the partner's recorded imports. The principal reasons are differences in (1) classification concepts and detail (lack of uniformity in determining origin, transshipment, and destination economies), (2) time of recording, (3) valuation, (4) coverage (shipments to and from free-trade zones, exclusion of military and other confidential items, value thresholds for customs registration of shipments, returned goods, and other good (5) processing errors.

7.48 As most economies report data on exports and imports by counterpart economy, this dataset, in contrast to those included in “IMF's Bilateral Data Collections” and “Bilateral Data from Other International Organizations,” is not used by the counterpart economy for balance of payments statistical purposes, but it could be used to check or verify the compiler's own data, considering possible differences already explained. As discrepancies are identified and explained, the compiler can improve the quality of his or her trade data.

¹⁶<http://www.imf.org/external/np/sta/ir/IRProcessWeb/index.aspx>.

¹⁷The concordance between classifications of reserve assets in the *BPM6* and the *IRFCL* is explained in Table 2.1 of the guidelines: <http://www.imf.org/external/np/sta/ir/IRProcessWeb/dataguide.htm>.

¹⁸<http://elibrary-data.imf.org/FindDataReports.aspx?d=33061&e=170921>.



8

Crosscutting Issues in Compiling Balance of Payments and International Investment Position Statistics

Introduction

8.1 The preceding seven chapters have focused on various data sources that may be used to compile a balance of payments statement. This chapter examines the compilation process itself: the institutional arrangements to support the compilation of the balance of payments and international investment position (IIP) are described; the broad issues with estimation are discussed; several issues facing the compiler that impact across the accounts are analyzed, including understanding the net errors and omissions term; and the balance of payments recording system is described.

8.2 Subsequent chapters of this *Guide* deal with compilation issues pertaining to particular components of the balance of payments. However, many transactions affect more than one component, and cross-references are made when appropriate.

Design of the Statistical Process Institutional Arrangements

8.3 As described in the earlier chapters, compiling the balance of payments and IIP statistics involves combining information from a range of data sources. Many of these data sources are the responsibility of official agencies other than the agency in charge of the compilation of balance of payments and IIP statistics. Cooperation between these agencies will be necessary to allow the compilation task to take place efficiently. It is good practice to formalize the cooperation with documented understandings of the data to be made available, the format in which it will be provided, the timing and frequency of provision, and any additional

security requirements (e.g., the protection of confidentiality of individually identifiable data).

8.4 The various official agencies that may be involved in capturing data used in the compilation process may include the following:

- Customs authorities for the collection of data used in international merchandise trade statistics, which in turn can be used as the basis for trade in goods and some services
- Statistical agencies for the collection of data through different surveys (e.g., household surveys, enterprise surveys, surveys of services, and other surveys)
- Port authorities for information that can be used as indicators in compiling transportations services
- Immigration authorities for the number of short-term and long-term migrants
- Tourism authorities who may collect information on expenditure of nonresident visitors in the compiling economy and residents traveling abroad
- Insurance regulators to identify insurance businesses for survey purposes or as a source of information on premiums, claims, and reserves
- Banking regulators, supervisory agencies, including those for insurance and nonfinancial companies, and compilers of monetary and financial statistics for data that may be used in the compilation process or to confront against data sourced elsewhere
- External affairs department for information on the operations of embassies

- Taxation authorities for information on withholding and other taxes, and to identify individuals and businesses that may be involved in international transactions or have external assets or liabilities
- The regulator of the international transactions reporting system (ITRS) (if any)
- The central bank for information on the banking sector and reserve assets.

8.5 Official sources external to the agency in charge of compiling the balance of payments and IIP statistics will generally not be sufficient for the compilation of the full range of items of these statements. As a consequence, it will be necessary for the agency to collect data itself. The institutional arrangements for the agency can assist the conduct of successful, high-quality statistical collections.

8.6 The legislation establishing the agency in charge of compiling the balance of payments and IIP statistics can provide for a number of enablers of high-quality statistics. The compiler may conduct a self-assessment of legal and institutional environments, and resources available for the statistical program using as guidance the May 2012 updated Data Quality Assessment Framework (DQAF) for Balance of Payments and International Investment Position Statistics.¹

8.7 Key to the statistical legislation is the ability of the agency to require selected businesses and individuals to respond to statistical requests. If the agency does not have the legal framework or institutional arrangements to make its surveys compulsory then it needs to rely on reporting on a voluntary basis. Voluntary surveys are exposed to biases, and the lower the response rate, the greater the likelihood of bias in the results. For voluntary surveys, response can be encouraged through good form design; by explaining the purpose and outcome of the collection (in terms of outcomes for business or individuals); by delivery and collection of the forms by enumerators; and by

providing incentives (e.g., using a monetary or gift incentive in a household survey). Research on the impact of providing incentives suggests mixed results, with it being unclear as to whether incentives increase response, and whether they have a positive or detrimental effect on the quality of the response.

8.8 Assuring the reporters of the confidentiality of their responses is one of the most important prerequisites for improving the response rate and the quality of the responses. The extent to which these assurances generate more and higher-quality responses depends on whether they are enshrined in legislation and the record of the authority in meeting these assurances (and legislative obligations where they exist). Legislative obligations to protect the confidentiality of information provide a better basis for negotiating sharing of information that has been collected by other official bodies. A proof of the confidentiality protection is the dissemination of reported data only as part of larger aggregates, excluding any direct or derived disclosure of individual data.

8.9 The compiling agency can also hold periodic meetings with reporters to discuss reporting issues. This allows reporters to ask questions on data reporting and to better understand how the data reported are used.

8.10 Integrity of the statistics produced by statistical collections can also improve the response rate and the quality of the response. Selected businesses and individuals are more likely to respond, and provide accurate data, if the reporters believe that they are contributing to a high-quality product free from political influence. The independence of the agency in charge of compiling the balance of payments and IIP statistics and the integrity of the release processes contribute to the perception of integrity by the reporter. The work of the agency should not be subject to political influence. The products of the statistical process should be released to all at the same time as access to partial data during the estimation process by a minister's office could create the perception of political interference in the results.

Compilation Process

8.11 As discussed in the previous section, the compilation of the balance of payments and IIP involves bringing together data from a variety of sources. It is possible that some of these sources may overlap, so that

¹The May 2012 version of the DQAF is an update of the July 2003 version of the DQAF to reflect experience and international statistical developments, particularly updated international methodological standards. It serves as an umbrella for six dataset-specific frameworks, including the framework for the balance of payments and international investment position statistics (see <http://dsbb.imf.org/Pages/DQRS/DQAF.aspx>).

information for one item in the balance of payments and/or IIP may be available from multiple sources. Compiling the item in question then requires a decision about the relative quality of the different sources, or how the sources may be used in combination.

8.12 One option is to determine the source of higher quality and to use that source as the primary source of data for the items of interest. The compiler may know from discussions with data suppliers, or from errors discovered through data checks, that certain errors are likely to exist. The size of the errors may not be of sufficient concern, or available resources may not permit investigation and correction. Alternatively, analysis of the net errors and omissions item under the use of the chosen source, in conjunction with confrontation with the alternative information, can inform adjustments that should be considered to the data from the primary source. “Possible Issues Faced by the Compiler” provides further discussion of the analysis of the net errors and omissions item. Alternatively, the multiple sources can be brought together within a data model, as described in “Estimation.”

8.13 There may be insufficient evidence to determine which source is more accurate. In these cases, the compiler can monitor the differences and, if significant, develop a plan for further investigation. A discrepancy between the two sources may provide an indication of the size of a possible error.

8.14 Balance of payments and IIP data estimates may be compared with data from other sources. For example, data reported by banks in money and banking statistics on the position of external financial assets could be compared with data obtained in an ITRS or an enterprise survey. Existing data sources may be used to derive alternative estimates. From such a comparison, some judgments may be formed as to the accuracy of existing sources.

8.15 One external source that can be used for comparisons is bilateral data from partner economies. Comparison of balance of payments estimates with those for partner economies often reveals differences. The differences may be due to many factors. However, these comparisons may provide some valuable insights on accuracy.

8.16 Single sources of information can also be deficient in attempting to compile items in the balance

of payments. This chapter’s “Estimation” discusses estimation strategies, particularly where data are available only from subsets of the population of interest or with insufficient timeliness or frequency. Alternatively, single sources can form the basis of the information set used to populate a data model for items in the balance of payments.

Estimation

8.17 With data coming from a variety of sources over which the compiler does not have direct control, it is recognized that the data available for some components may not be adequate. In other cases, data may be available, but not sufficiently timely, requiring existing data series to be extrapolated until the actual data for the reference period become available. This section describes a number of techniques to support using imperfect data in the compilation process, ranging in complexity from simple estimation through to the use of data models and extrapolation techniques.

8.18 When data become available after an initial extrapolation or lower-quality but more timely data has been used, revisions may be required to the initial estimates for the period. The revision process recognizes the challenge for the compiler in trying to deliver timely balance of payments information and ensuring the accuracy of the accounts. This section also discusses revision practices and policies.

8.19 The compilation of balance of payments accounts is subject to a range of data sources, processes, and estimates at different levels of compilation. However, estimates should not be seen as a substitute for collecting reliable data.

Simple Estimation

8.20 Simple estimation involves relatively simple formulas or procedures that may be used to adjust or estimate source series. For example, certain source series may suffer from undercoverage and the compiler may, for balance of payments compilation purposes, apply a ratio or add some amount to the source series. Also, a balance of payments series may be estimated by using an assumed ratio between that series and other balance of payments or economic statistical series.

8.21 For example, a fixed amount (from irregular surveys) may be added to trade in goods for post

parcel; a ratio can be applied to f.o.b. or c.i.f. values to estimate freight insurance; or realization ratios can be applied to foreign investment approvals to estimate direct investment transactions.

Sample Expansion

8.22 Sample expansion is the process of expanding results from a selection of respondents to measure the population as a whole. The use of sampling techniques in balance of payments collections is discussed in Chapter 2. Weighting techniques (the process of applying expansion factors to each sample response) can vary depending on the design of the survey. Results from the sampling units are representative of larger aggregates, for example, sampling from cities that are representative of regions. Ideally, the weight of a sampling unit should reflect the relative size of the aggregate, the region, rather than the sample, the city. Therefore, the sum of the weights over the sample should reflect the population size. If the sampling of cities is with probability proportionate to region size, then the simplest sampling weights are the inverse of the likelihood of being sampled.

8.23 Mathematical statisticians should be consulted if more complex regimes are being considered. These can include poststratified estimation, where the results are expanded by the ratio of the number of units in the sample with particular characteristics to the number of units in the population with the same characteristics. Poststratified estimation is used when the population distribution of characteristics is known, but for individual statistical units, the characteristics are unknown until measured in the survey. Poststratified estimates are more accurate than simple number-raised estimates but can be subject to biases when the subpopulations with certain characteristics are quite small.

8.24 Expansion factors can also be used to adjust for nonresponse in sample surveys. Poststratified estimates automatically include an adjustment for nonresponse. Number-raised estimates can be adjusted by setting the weights to be the inverse of the ratio of the number of responses to the population size, rather than the number of selections to the population size (which is the chance of selection in simple sampling processes). This adjustment effectively imputes a mean response for all nonrespondents, which is a reasonable approach to imputing for nonresponse

when no auxiliary information (e.g., past responses) is available.

Data Models

8.25 A third type of estimation involves bringing data from different sources together in a data model. The output of the data model is a particular balance of payments item. For example, estimates of nonresident visitor or other short-term individual traveling abroad expenditure in an economy could be derived by obtaining, from migration statistics, the number of visitors and other short-term individuals traveling abroad, and multiplying this number by estimates of expenditure per capita that were derived from a survey of individuals traveling abroad and other sources. This model could be extended with information on length of stay from official records, and using expenditure per capita per diem. Selection and inclusion of some data model elements depend on the compiler's judgment.²

8.26 The development and use of data models can also involve confronting related components of the balance of payments and making adjustments to ensure coherence between these items. For example, there is a relationship between passenger transport credits and travel credits, particularly for relatively isolated economies—the visitors and other short-term individuals traveling abroad making the travel expenditure need to arrive in the economy by some means. To the extent that these transportation services are provided by residents, then this will be recorded as a transportation credit. Similar relationships exist between the volume of trade in goods and freight (with the same caveat that some of the transport services can be provided by nonresidents for exports, or by residents for imports). Rates of return on investment imply a relationship between the various components of investment income and the positions in the same instruments recorded in the IIP, a relationship that can be used to confront and improve the quality of the respective components.

8.27 More complex relationships can exist within the other changes in financial assets and liabilities account in the reconciliation of the IIP. Some of these are discussed in Chapter 3 in the validation of the reconciliation statement in surveys of external assets and

²More on estimating different transactions related to visitors and other short-term individuals traveling abroad is presented in *International Transactions in Remittances: Guide for Compilers and Users*, 2009.

liabilities (see “Collections on External Assets and Liabilities” in Chapter 3). Other relationships that may hold are particularly concerned with financial derivatives, especially where these instruments are predominantly forward-type contracts (futures and swaps) used for hedging purposes (e.g., hedging interest rate and foreign exchange risk). The hedging of interest rate risk by an issuer of securities implies that the price change on derivatives should be in the opposite direction to the price change on debt securities, while the hedging of exchange rate risk implies that the exchange rate impacts on financial derivatives should be in the opposite direction to the exchange rate impact across the other functional categories. These relationships should hold separately for assets and for liabilities in the IIP.

8.28 Relationships can extend beyond the balance of payments and IIP to incorporate information in other macroeconomic accounts. Examples include the relationship between capital equipment recorded in trade in goods (noting that the *BPM6* does not require this level of classification in trade in goods) and capital expenditure in the national accounts. Similarly there is a relationship between equity investment income debits in the balance of payments and company profits recorded in the national accounts (depending on the openness of the economy to equity investment, and whether foreign investment is clustered in specific industries that may have different profit characteristics to the broader business population).

Extrapolation and Interpolation

8.29 Data from some sources may not be available on a sufficiently timely basis for compilation of the balance of payments statement. Therefore, the compiler may extrapolate certain balance of payments series from earlier periods. Extrapolation also covers adjustments made to preliminary results from a collection source providing less than complete data. If the data source or data model used by the compiler provides data on a less frequent basis than the periodicity of balance of payments compilation, it will be necessary to interpolate data between measurement periods to obtain sufficiently frequent estimates for the balance of payments.

8.30 Extrapolation techniques can range from the very simple to more complex procedures. The simplest techniques include using the same value as the previous period, or using the same change as occurred be-

tween the previous two periods and applying it to the previous period (either as a gross amount or as a percentage change). More complex techniques include drawing information from relevant data models and taking account of seasonality in subannual series. The choice of extrapolation method should be informed by the characteristics of the past series and the range of information available at the time of compilation.

8.31 Similar techniques are used for interpolation, with the added information of having access to data for a period after the period of interpolation. Choices for interpolation include using a constant value change for periods between the start and end point or a constant percentage change. If other, more frequent indicators provide evidence of seasonality in the series to be interpolated, then data models and interpolation techniques should take this into account.

Revisions

8.32 The use of extrapolation techniques implies that there will subsequently be a more reliable value for the item being extrapolated. This is one case where initial estimates are preliminary and subject to revision. Besides replacing extrapolations with data from an insufficiently timely source, there are a number of reasons why initial data may be considered preliminary and subject to revision. For example, more comprehensive and more accurate data may become available from less timely sources than those used for initial estimates, further checking after release may identify errors in the initial data (whether these are errors in the data that was supplied, or errors introduced during in-house processing), respondents revise their previously submitted data, new sources are identified, conceptual improvements are introduced, and so on. Revisions are a normal consequence of the fact that the compiler faces a trade-off between the provision of timely information and ensuring that the highest-quality information is available.

8.33 It is desirable for the compiler to publish information on the impact of revisions to the accounts. In the publication, the compiler could compare initial estimates with later generations of estimates for the same reference periods. The average absolute and actual size of revisions could also be published.

8.34 The compiler should also have a published policy on revisions so that the process of revising data

can be understood and anticipated by users. The revision policy could follow the dimensions and elements, as well as the key points identifying quality features set in DQAF.³ The policy should cover when revisions will be introduced to publications, for what periods and for what data series, and the type of information that will be published on the causes of the revisions. Revision policies generally apply criteria to the size of revisions and the length of time over which revisions will be made.

8.35 Frequent and large revisions are disturbing to and create work for users. Methodologies should be developed to reduce the frequency of revisions. In other words, more attention should be given to getting the most accurate estimate on the first or second attempt. To achieve this, the compiler should examine causes of revision and whether they could be overcome by, for example, increasing the frequency of collections, collecting the most important classifications more frequently, placing less reliance on infrequent benchmark surveys, speeding up quality control procedures, and improving estimation procedures for nonresponse and partial coverage. To introduce such improvements, greater resources may be required. A cost-benefit analysis may be in order, and user support could be obtained for improvements that would reduce revisions.

8.36 However, the fact that revisions are disturbing to users is no excuse for failing to revise estimates. When revisions are adequately explained, most users understand that they are unavoidable. The balance of payments compiler's objective is to publish the most accurate data possible. Revised data, when more accurate, should be published. A balance of payments compiler who does not revise estimates when he or she learns that published estimates are significantly inaccurate may contribute to development of economic policies that are inappropriate because they are based on incorrect data.

8.37 A useful operational tool for information users about the revision policy is the publication of an advance release calendar regarding the coming publications and their revision schedule. Also, when the revised data are disseminated, a description of main changes due to revisions should also be disseminated.

A revisions policy and a release schedule together are important factors in encouraging the trust and confidence of users in the balance of payments statistics. It is also important that the policy and schedule are followed meticulously.

Metadata

8.38 Metadata provides information about data. The *Guide* stresses that the International Monetary Fund (IMF) recommends that economies describe source data used in preparing their estimates and the methodological standards that they follow. In addition, the IMF recommends that all economies use the latest international methodological standards—for example, the *BPM6*. Doing so supports comparability of data across economies, as well as the range of economic accounts, and reassures users as to the methodological soundness of the data.

8.39 Economies sometimes deviate from the international statistical standards, usually for practical reasons (such as because they do not have requisite source data to compile data according to the *BPM6*), but also sometimes because they have chosen not to adopt a particular *BPM6* recommendation. In cases where the deviation from the *BPM6* is material, the IMF recommends that economies provide metadata that describes the deviation so users can assess the data against the international benchmark. Obviously, to compare data across economies or across time, it is important that all economies consistently follow the latest internationally agreed statistical standards.

Possible Issues Faced by the Compiler Unit of Accounts and Multiple Exchange Rates

8.40 Balance of payments accounts could be prepared both in the national unit of account and in terms of an international unit of account, such as the U.S. dollar or euro, where different. The national unit of account is required to compile the external sector of the national accounts and to meet the requirements of many domestic analysts, while the standard unit of account is required for purposes of international comparison—for example, in balance of payments statistics published by the IMF. In many economies, the balance of payments compiler prepares the accounts only in domestic currency. However, for economies

³See elements 3.5 and 4.3 in the DQAF for Balance of Payments and International Investment Position Statistics.

where the exchange rate of the domestic currency is relatively unstable, or uses a foreign currency(ies) for many of its transactions, it is recommended that the balance of payments also be compiled in terms of a more widely used unit of account, such as the U.S. dollar.

8.41 In economies maintaining multiple exchange rate systems, it is essential that balance of payments statistics be compiled, for the purpose of external analysis, in terms of an international currency. It is also necessary for statistics to be compiled in the domestic currency. The existence of multiple exchange rates raises the issue of the rate that should be used for converting transactions denominated in a foreign currency (which will be most balance of payments transactions) into the domestic currency or into the foreign currency that is used as the unit of account.

8.42 It is recommended to use the actual exchange rate for each transaction for currency conversion. The daily exchange rate for daily transactions would provide a good approximation. If daily rates cannot be applied, average rates for the shortest period (e.g., week, ten days) should be used (*BPM6*, paragraph 3.105).

8.43 Table 8.1 presents results from applying four different conversion rate methods to a hypothetical

set of transactions—official rates, actual rates used in transactions, the predominant transaction rate, and the weighted average conversion rate. Each rate, apart from the actual rate, represents a unitary conversion rate.

8.44 Table 8.1 shows the application of the actual exchange rate (column “Actual rate”) and of unitary exchange rates (columns “Official rate” and “Predominant rate”). It is assumed that an economy has four exchange rates: an official rate (at par with the U.S. dollar), a commercial rate that is offered to commercial transactors (2 units of domestic currency are equal to 1 U.S. dollar), a tourist rate (2.5 units of domestic currency are equal to 1 U.S. dollar), and a parallel (black) market rate (3 units of domestic currency are equal to 1 U.S. dollar). The first three rates are offered by the economy’s single bank. It is also assumed that, in the accounting period, the government imports goods valued at US\$20 (converted at the official rate); companies export goods valued at US\$100 and import goods valued at US\$80 (converted at the commercial rate); nonresident travelers exchange US\$5 with the bank at the tourist rate and US\$3 with parallel market operators at the parallel market rate; and the parallel market operators in turn use the proceeds to buy goods from abroad.

Table 8.1 Impact of Using Alternative Conversion Methods (in domestic currency)

	Official rate		Actual rate		Predominant rate		Weighted average rate	
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
Exports	100		200		200		195	
Imports by:								
Government		20		20		40		39
Companies		80		160		160		156
Other (parallel market operators)		3		9		6		6
Travel at:								
Tourist rate	5		13		10		10	
Parallel rate	3		9		6		6	
Bank assets		5		33		10		10
Total	108	108	222	222	216	216	211	211

Source: IMF staff.

Note: The official rate is calculated at par; results are equivalent to U.S. dollar values. Actual rates are those quoted in paragraph 8.42; bank assets are calculated at corresponding transaction values or as a residual. (By definition, those are equivalent.) The predominant rate is the commercial rate. The weighted average rate is derived by summing the transactions (excluding bank assets, which are derived residually) at actual rates and dividing by the equivalent sum valued in U.S. dollars.

8.45 From the table, one may see that use of a unitary rate, regardless of the rate chosen, preserves relationships between each of the items. It may be necessary to calculate two unitary rates: one for transactions conducted using official rates, and another for parallel (unofficial) or black market rates. The official unitary rate should be calculated as a weighted average of all official rates used for external transactions (*BPM6*, paragraph 3.107). For example, in the table, travel credits are 8 percent of exports in each case for which a unitary rate is used. However, when actual rates are used, the relationships between items change. For example, when actual rates are used, exports of goods exceed imports of goods—a result that is contrary to the result obtained by either using a unitary rate or recording transactions in U.S. dollars.

8.46 The *BPM6* advocates also that if the parallel market rates exist they should not be ignored in the context of a multiple rate regime. The official and parallel market rates should be handled separately, and transactions in parallel markets should be converted using the exchange rate applicable in that market (*BPM6*, paragraph 3.108).

8.47 Positions in external assets and liabilities in a multiple rate system should be converted at the exchange rate applicable to the specific assets or liabilities at the beginning or end of the accounting period. The different rates used for transactions and positions will create entries in the exchange rate changes in the other changes in assets and liabilities accounts.

8.48 It is important that balance of payments compilers in economies with multiple exchange rate schemes be aware of the impact of using different methods of conversion.⁴

Domestic Use of a Foreign Currency

8.49 Domestic and foreign currencies are defined in Chapter 3 of the *BPM6* (paragraphs 3.95–3.96): “[A] domestic currency is that which is legal tender in the economy and issued by the monetary authority for that economy: that is, either that of an individual economy or, in a currency union, that of the common currency area to which the economy belongs. All

other currencies are foreign economies. Under this definition, an economy that uses as its legal tender a currency issued by a monetary authority of another economy—such as U.S. dollars—or of a common currency area to which it does not belong should classify the currency as a foreign currency, even if domestic transactions are settled in this currency . . .”

8.50 The implication of this definition for economies that do not have a domestic currency is that all cash holdings by residents represent an external financial claim on the central bank of the economy issuing the currency in use (and a liability of the issuing economy).

8.51 Information on the claim may be available from the compiler of money and banking statistics (using estimates of narrow money excluding demand deposits).

8.52 The central bank, commercial banks, and exchange bureaus may also have information on their purchase and sale of the currency. These sources would need to be supplemented by surveys of businesses and households for amounts of cash in hand, although experience suggests that surveys of households for “in-pocket” cash can be unreliable.

8.53 The economy issuing the currency may use bilateral data from the economies using their domestic currency to adjust estimates of currency liabilities from other sources.

Residency and Multiple Residency

8.54 The *BPM6* defines the residence of an institutional unit as “the economic territory with which [the unit] has the strongest connection, expressed as its centre of predominant economic interest.” In addition, “an institutional unit is resident in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging . . . in economic activities and transactions on a significant scale” (see *BPM6*, paragraphs 4.113–4.114).

8.55 In practice, there are a number of situations where the application of this definition may be unclear, particularly where institutional units are highly mobile, have connection to multiple economies, or have a short period of significant activity. This section discusses these situations and their treatment by the compiler.

⁴It may also be important that the balance of payments compiler agree with the national accounts compiler on how the two sets of statistics will be reconciled.

Operation of mobile equipment

8.56 Treatment of the operation of mobile equipment, particularly equipment operating in an economy other than the economy of incorporation of the operator, often poses significant conceptual and practical problems for the balance of payments compiler. The key to correct treatment of this equipment lies in determining the residency of the operator of the equipment. Once residency has been determined, the recording of transactions becomes more straightforward and the compiler can focus on the best methods of collecting necessary balance of payments information.

8.57 Included in mobile equipment in this section are various equipment used in the provision of transport services (aircraft, ships, rolling stock, road transport, and spacecraft) and other equipment used in mining production (drilling rigs and floating production, storage, and offload units). Other transport vehicles (pipelines, electricity transmission infrastructure) are generally located in an economy for sufficient time for a branch to be recognized (although period of time is only one of the criteria for determining whether a branch exists).

8.58 Table 8.2 shows various types of mobile equipment and factors that should be considered in establishing, for each type of equipment, the economy of residence of the operator. The table shows that, in most cases, the operator's economy of incorporation

is used. Exceptions occur with equipment operating for extended time periods in economies other than the economy of the operator. If circumstances described in Table 8.2 exist for such equipment, the compiler should consider the equipment to be operated by a branch of the operator that is a resident of the host economy. To ensure (if possible) consistency of treatment for significant operations, the balance of payments compiler should discuss residency assumptions with counterparts in partner economies.

8.59 To illustrate recording of the operation of mobile equipment in the balance of payments, Table 8.3 sets out accounts relating to mobile equipment operated by a resident of economy A. This operator is a branch of a company with a head office in economy B. All transactions, other than the initial provision of equipment, are assumed to involve a bank account in economy A. Table 8.4 shows how these transactions would be recorded in the balance of payments of economies A and B.

8.60 Tables 8.5 and 8.6 show, more comprehensively, information that the balance of payments compiler should collect on mobile equipment and how this information should be recorded in the balance of payments. Table 8.5 shows the treatment of transactions involving mobile equipment operated by a resident of economy A; the resident is assumed to be a branch of a parent company that is located in economy B and has no other operations in economy A.

Table 8.2 Determining the Residency of Mobile Equipment Operators

Type of mobile equipment	Economy of residence of operator
Equipment operating in international waters or airspace	Economy of incorporation of operator; for equipment under financial lease, the lessee is considered the operator.
Equipment moving frequently between two or more economies	For a ship flying a flag of convenience, the economy of the operator is the economy of the company directing the ships operations, which may not necessarily be the economy of registration. If the operator establishes, for tax or other considerations, a branch or subsidiary in another economy to manage the operation, the operation is attributable to the economy of the branch.
Equipment operating for more than one year in the economy in which the legal operator is resident	Host economy; if equipment is accounted for separately by the operator and recognized as a separate company by the host economy's tax and licensing authorities, the host economy is the operator's economy of residence. Otherwise, the economy of incorporation of the operator is, if previously outlined qualifications are met, the economy of residence.
Equipment operating for more than one year within an economy other than the economy in which the operator is incorporated	Host economy; if equipment is accounted for separately by the operator and recognized as a separate company by the host economy's tax and licensing authorities, the host economy is the operator's economy of residence. Otherwise, the economy of incorporation of the operator is, if previously outlined qualifications are met, the economy of residence.

Source: IMF staff.

Table 8.3 Sample Accounting Statement for Transactions Relating to Mobile Equipment

Transaction	Amount
Provision of equipment by parent company	1000
Funds provided by parent and deposited in bank account in economy A	100
Revenue	
Transportation of economy A's exports to economy B	75
Transportation of economy A's imports from economy B	60
Passenger fares—residents of economy B traveling within A	15
Passenger fares—residents of economy A traveling within A	105
Passenger fares—residents of A traveling between A and B	25
Total revenue	280
Expenses	
Fuel purchased in economy A	50
Provisions purchased in economy B	10
Port services in economy A	6
Port services in economy B	4
Depreciation	90
Total expenses	160
Amounts remitted to parent in economy B	170

Source: IMF staff.

Table 8.4 Balance of Payments Treatment of Sample Transactions Shown in Table 8.3

	Economy A		Economy B	
	Credit	Debit	Credit	Debit
Goods				
General merchandise		1010 ¹	1010 ¹	
Transport services				
Freight	75			75
Passenger				
Other		4	4	
Travel	15			15
Investment income				
Direct investment equity		120 ²	120 ²	
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Direct investment				
Equity capital		1050 ³	1050 ³	
Other investment				
Currency and deposits	6		-6	
	[=190 ⁵ – 184 ⁴]		[=184 ⁴ – 190 ⁵]	

Source: IMF staff.

¹Consists of the original provision of equipment and the provisions purchased in economy B.²Operating profit (which is less than the amount remitted to parent).³Consists of the initial provision of equipment, the funds provided by the parent, net of amounts remitted in excess of profits.⁴Consists of payments/receipts for provisions purchased, port services, and amounts remitted to parent.⁵Consists of funds provided by parent, freight receipts, and passenger fare receipts for internal travel.

Table 8.5 Treatment of Transactions Involving Mobile Equipment—Resident Operator Is a Branch of Parent Enterprise in Economy B (balance of payments of economy A)

Type of transaction	Transaction does not involve operator's bank account in economy A.			Transaction involves operator's bank account in economy A.				
	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities
Outright acquisition of equipment from resident of economy A			Appropriate item in financial accounts [increase]	Direct investment—equity capital (B) [increase]		Not applicable		
Outright acquisition of equipment from resident of economy X		Goods—general merchandise (X)		Direct investment—equity capital (B) [increase]	Goods—general merchandise (X)	Appropriate item in financial accounts [decrease]		
Disposal of equipment to resident of economy A			Appropriate item in financial accounts [decrease]	Direct investment—equity capital (B) [decrease]		Not applicable		
Disposal of equipment to resident of economy X	Goods—general merchandise (X)			Direct investment—equity capital (B) [decrease]	Goods—general merchandise (X)	Appropriate item in financial accounts [increase]		
Acquisition of equipment under financial lease; lessor resident of economy A			Not applicable			Not applicable		
Acquisition of equipment under financial lease; lessor resident of economy X		Goods—general merchandise (X)		Other investment—loans (X) [increase]	Goods—general merchandise (X)	Appropriate item in financial accounts [increase]		
Financial lease payments to residents of economy A			Appropriate item in financial accounts [increase]	Direct investment—equity capital (B) [increase]		Not applicable		
Financial lease payments to residents of economy X		Investment income—other investment (X)		Other investment—loans (X) [decrease] Direct investment—equity capital (B) [increase]	Investment income—other investment (X)	Appropriate item in financial accounts [decrease]		Other investment—loans (X) [decrease]

Table 8.5 Treatment of Transactions Involving Mobile Equipment—Resident Operator Is a Branch of Parent Enterprise in Economy B (balance of payments of economy A) (continued)

Type of transaction	Transaction does not involve operator's bank account in economy A.				Transaction involves operator's bank account in economy A.			
	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities
Operational lease payments to residents of economy A			Appropriate item in financial accounts [increase]	Direct investment—equity capital (B) [increase]		Not applicable		
Operational lease payments to residents of economy X		Other business services—operational leasing (X)		Direct investment—equity capital (B) [increase]		Other business services—operational leasing (X)	Appropriate item in financial accounts [decrease]	
Receipts from carriage of economy As exports to economy X	Transport services—freight (X)			Direct investment—equity capital (B) [decrease] ¹	Transport services—freight (X)		Appropriate item in financial accounts [increase]	
Receipts from carriage of economy As imports and other goods belonging to economy A			Appropriate item in financial accounts [decrease]	Direct investment—equity capital (B) [decrease] ¹	Not applicable			
Receipts from carriage of economy Xs exports (other than economy As imports)	Transport services—freight (X)			Direct investment—equity capital (B) [decrease] ¹			Appropriate item in financial accounts [increase]	
Receipts from carriage of economy Xs imports (other than economy As exports) and other goods belonging to economy X	Transport services—freight (X)			Direct investment—equity capital (B) [decrease] ¹	Transport services—freight (X)		Appropriate item in financial accounts [increase]	
Receipts from carriage of residents of economy A			Appropriate item in financial accounts [decrease]	Direct investment—equity capital (B) [decrease] ¹	Not applicable			
Receipts from carriage of persons from economy X within economy A	Travel (X)			Direct investment—equity capital (B) [decrease] ¹	Travel (X)		Appropriate item in financial accounts [increase]	

Table 8.5 Treatment of Transactions Involving Mobile Equipment—Resident Operator Is a Branch of Parent Enterprise in Economy B (balance of payments of economy A) (concluded)								
Type of transaction	Transaction does not involve operator's bank account in economy A.			Transaction involves operator's bank account in economy A.				
	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities
Receipts from carriage of persons from economy X on international routes	Transport services—passenger (X)			Direct investment—equity capital (B) [decrease] ¹	Transport services—passenger (X)		Appropriate item in financial accounts [increase]	
Expenses (other than depreciation) in economy A			Appropriate item in financial accounts [increase]	Direct investment—equity capital (B) [increase]			Not applicable	
Expenses (other than depreciation) in economy X		Appropriate item in goods or services (X)		Direct investment—equity capital (B) [increase]		Appropriate item in goods or services (X)	Appropriate item in financial accounts [decrease]	
Amounts deposited by parent enterprise in bank account in economy A			Not applicable				Appropriate item in financial accounts [increase]	Direct investment—equity capital (B) [increase]
Amounts remitted to parent enterprise from bank account in economy A			Not applicable				Appropriate item in financial accounts [decrease]	Direct investment—equity capital (B) [decrease]
Depreciation			Information on depreciation is required to calculate investment income debits					

¹May be recorded as investment income—direct investment—equity debits if funds remitted to the parent relate to the operating profit of the current or a previous period.
Source: IMF staff.

Table 8.6 Treatment of Transactions Involving Mobile Equipment—Operator Is Resident of Economy B (balance of payments of economy A)

Type of transaction	Transaction does not involve operator's bank account in economy A.				Transaction involves operator's bank account in economy A.			
	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities
Outright acquisition of equipment from resident of economy A	Goods—general merchandise (B)		Appropriate item in financial accounts [increase]		Goods—general merchandise (B)			Other investment—currency and deposits (B) [decrease]
Outright acquisition of equipment from resident of economy X			Not applicable				Appropriate item in financial accounts [decrease]	Other investment—currency and deposits (B) [decrease]
Disposal of equipment to resident of economy A		Goods—general merchandise (B)	Appropriate item in financial accounts [decrease]			Goods—general merchandise (B)		Other investment—currency and deposits (B) [increase]
Disposal of equipment to resident of economy X			Not applicable				Appropriate item in financial accounts [increase]	Other investment—currency and deposits (B) [increase]
Acquisition of equipment under financial lease; lessor resident of economy A	Goods—general merchandise (B)		Other investment—loans (B) [increase]		Goods—general merchandise (B)		Other investment—loans (B) [increase]	
Acquisition of equipment under financial lease; lessor resident of economy X			Not applicable				Not applicable	
Financial lease payments to residents of economy A	Investment income—other investment (B)		Other investment—loans (B) [decrease] Appropriate item in financial accounts [increase]		Investment income—other investment (B)		Other investment—loans (B) [decrease]	Other investment—currency and deposits (B) [decrease]

Table 8.6 Treatment of Transactions Involving Mobile Equipment—Operator Is Resident of Economy B (balance of payments of economy A) (continued)

Type of transaction	Transaction does not involve operator's bank account in economy A.			Transaction involves operator's bank account in economy A.		
	Credit	Debit	Net incurrence of liabilities	Credit	Debit	Net incurrence of liabilities
Financial lease payments to residents of economy X			Not applicable			Other investment—currency and deposits (B) [decrease]
Operational lease payments to residents of economy A	Other business services—operational leasing (B)		Appropriate item in financial accounts [increase]	Other business services—operational leasing (B)		Other investment—currency and deposits (B) [decrease]
Operational lease payments to residents of economy X			Not applicable			Other investment—currency and deposits (B) [decrease]
Receipts from carriage of economy As exports			Not applicable			Other investment—currency and deposits (B) [increase]
Receipts from carriage of economy As imports and other goods belonging to economy A		Transport services—freight (B)	Appropriate item in financial accounts [decrease]	Transport services—freight (B)		Other investment—currency and deposits (B) [increase]
Receipts from carriage of economy Xs exports (other than economy As imports)			Not applicable			Other investment—currency and deposits (B) [increase]
Receipts from carriage of economy Xs imports (other than economy As exports) and other goods belonging to economy X			Not applicable			Other investment—currency and deposits (B) [increase]

Table 8.6 Treatment of Transactions Involving Mobile Equipment—Operator Is Resident of Economy B (balance of payments of economy A) (concluded)

Type of transaction	Transaction does not involve operator's bank account in economy A.				Transaction involves operator's bank account in economy A.			
	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities
Receipts from carriage of residents of economy A		Transport services—passenger (B)	Appropriate item in financial accounts [decrease]		Transport services—passenger (B)			Other investment—currency and deposits (B) [increase]
Receipts from carriage of persons from economy X within economy A			Not applicable				Appropriate item in financial accounts [increase]	Other investment—currency and deposits (B) [increase]
Receipts from carriage of persons from economy X on international routes			Not applicable				Appropriate item in financial accounts [increase]	Other investment—currency and deposits (B) [increase]
Expenses (other than depreciation) in economy A	Appropriate item in goods or services (B)		Appropriate item in financial accounts [increase]		Appropriate item in goods or services (B)			Other investment—currency and deposits (B) [decrease]
Expenses (other than depreciation) in economy X			Not applicable				Appropriate item in financial accounts [decrease]	Other investment—currency and deposits (B) [decrease]
Amounts deposited by parent company in bank account in economy A			Not applicable				Appropriate item in financial accounts [increase]	Other investment—currency and deposits (B) [increase]
Amounts remitted to parent company from bank account in economy A			Not applicable				Appropriate item in financial accounts [decrease]	Other investment—currency and deposits (B) [decrease]
Depreciation								

Not applicable

Source: IMF staff.

Table 8.6 shows the treatment of similar transactions with regard to mobile equipment operated by a resident of economy B. Both tables show the recording of transactions from economy A's point of view. Where appropriate, the partner economy to a transaction is shown in parentheses. Some transactions shown involve economy X, which is any economy other than A, and can include economy B.

8.61 In both Tables 8.5 and 8.6, transaction treatments are split between those that involve the operator's bank account in economy A and those that do not. In the case of the operator being a resident of economy A, those transactions not involving the operator's bank account in economy A are assumed to involve parent company bank accounts in other economies. These transactions are classified as direct investment, equity capital, unless a debt liability of the operator to the parent company is created. It can be seen that the distinction concerning the involvement of the operator's bank account in economy A affects only financial account entries. The financial aspect of transactions does not affect entries related to the current account.

8.62 Table 8.5 shows that some entries reflecting remitted amounts pertain either to investment income (direct investment—equity) or to the financial account (decreases in direct investment liabilities—equity capital). The reason is that remitted investment income can relate only to operating profits earned in the current or previous periods. Remitted amounts that exceed these profits lead to negative reinvested earnings. In case the remitted investment income is in an excess value that allows it to be considered superdividends, it should be recorded as withdrawals of capital. The calculation of operating profits is discussed in detail in Chapter 13.

8.63 The compiler must determine the collection method that will produce the most acceptable results. It may not be necessary to collect information on all types of transactions shown in Tables 8.5 and 8.6. Some types of transactions can be assumed to be nil or negligible. Much of the information required could come from collections other than a survey of mobile equipment operators. For example, information on imports and exports of goods could come from merchandise trade statistics, and estimates of some services and financial transactions from an ITRS. However, when mobile equipment is considered to be

operated by resident companies that are branches of nonresident companies, it will usually be necessary to approach operators to obtain some of the information.

8.64 Occasionally, the compiler may encounter a situation in which it is difficult to determine the residence of a company that operates mobile equipment. For example, the operating company may be registered in two or more economies as a result of special legislation. In such cases, the economy where the head office of the company is located should be considered the operator's economy of residence, and the affiliates in other economies could be considered subsidiaries. Similar problems in determining the residency of the mobile equipment operator could arise when equipment is operated jointly by partners that are residents of two or more economies. In this case, the preferred treatment is to treat the operation of the equipment as a quasi-corporation resident where the equipment is located, with investment from the two partners. See also the discussion ahead on companies that operate seamlessly across multiple economic territories.

Construction activity

8.65 It is quite common for a company resident in one economy to undertake construction activity in another. The first step in determining correct balance of payments treatment for such construction activity (and the information that should be collected) is to establish the residency of the company engaged in the construction work. Paragraph 4.27 of the *BPM6* lists the criteria for the identification of a branch. If these conditions are met, the construction activity should be attributed to a company that is resident in the host economy and involved in a direct investment relationship with a parent company in another economy. If these conditions are not met, the activity should be attributed to a nonresident company (from the point of view of the host economy), and the acquisition by the host economy should be regarded as an import of a service.

8.66 Table 8.7 shows the balance of payments treatment of transactions that are typical of a company engaged in construction activity in an economy other than the one where the company normally operates. Two treatments are shown; the first is in respect of the activity being attributed to a company that is a resident of the host economy (economy A), and the second is in respect of the activity being attributed to a

Table 8.7 Treatment of Construction Activity in Economy A (balance of payments of economy A)

Type of transaction	Construction activity attributed to economy A				Construction activity attributed to economy B			
	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities
Provision of equipment by parent company in economy B		Goods—general merchandise (B)		Direct investment—equity capital (B) [increase]		Not applicable		
Return of equipment to parent company in economy B (valued at depreciated value)	Goods—general merchandise (B)			Direct investment—equity capital (B) [decrease]		Not applicable		
Acquisition by construction company of goods and services from economy A			Not applicable		Construction in the compiling economy (B)			Other investment—currency and deposits (B) [decrease]
Acquisition by construction company of goods and services from economy X		Appropriate item in goods and services (X)	Appropriate item in financial accounts (X) [decrease]			Appropriate item in financial accounts (B) [decrease]		Other investment—currency and deposits (B) [decrease]
Wages and salaries payable to residents of economy A			Not applicable		Compensation of employees (B)			Other investment—currency and deposits (B) [decrease]
Wages and salaries payable to residents of economy X		Compensation of employees (X)	Appropriate item in financial accounts (X) [decrease]			Appropriate item in financial accounts (B) [decrease]		Other investment—currency and deposits (B) [decrease]
Income taxes payable to government of economy A			Not applicable		Secondary income—general government (B)			Other investment—currency and deposits (B) [decrease]

Table 8.7 Treatment of Construction Activity in Economy A (balance of payments of economy A) (concluded)

Type of transaction	Construction activity attributed to economy A			Construction activity attributed to economy B				
	Credit	Debit	Net incurrence of financial assets	Net incurrence of liabilities	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities
Amounts deposited by parent company in bank account in economy A		Appropriate item in financial accounts (X) [increase]	Direct Investment—equity capital (B) [increase]			Appropriate item in financial accounts (B) [increase]	Other investment—currency and deposits (B) [increase]	
Interest earned on bank account in economy A		Not applicable			Investment income—other investment (B)		Other investment—currency and deposits (B) [increase]	
Progress payments received by construction company		Not applicable				Other investment—trade credit and advances (B) [increase]	Other investment—currency and deposits (B) [increase]	
Amounts remitted to parent company from bank account in economy A		Appropriate item in financial accounts (X) [decrease]	Direct Investment—equity capital (B) [decrease] ¹			Appropriate item in financial accounts [decrease]	Other investment—currency and deposits (B) [decrease]	
Gross value of output produced during period			Information is required to calculate operating profit, which is used in calculation of investment income debits.		Construction services (B)	Other investment—trade credit and advances (B) [decrease]		
Depreciation during period			Information is required to calculate operating profit, which is used in calculation of investment income debits, and the written-down value of any equipment returned to the parent company.					

Source: IMF staff.

¹May be recorded as investment income—direct investment—equity debits if funds remitted to the parent relate to the operating profit of the current or a previous period.

nonresident company in economy B. It is assumed in both cases that transactions involve a bank account established by the construction company in economy A. The treatment of transactions is presented from the point of view of economy A. When appropriate, the partner economy to a transaction is shown in parentheses. Some transactions shown involve economy X, which is any economy other than A and can include B.

8.67 The treatment and measurement of construction activity in the balance of payments is discussed further in Chapter 12 and Appendix 4.

Companies that operate seamlessly across multiple economies

8.68 Some companies operate seamlessly over more than one economic territory. Such companies, even though they have substantial activity in more than one economic territory, cannot be separated into a parent and branch(es) because they run as a seamless operation and cannot supply separate accounts for each territory. Multiterritory companies are typically involved in cross border activities and include shipping lines, airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels, and undersea cables. Similar issues can arise for a *societas europaea*—that is, a company created under European Union law that is able to operate in any member state. Some nonprofit institutions serving households may also operate in this way.

8.69 It is preferable that a parent and branch(es) be identified separately in the case of a multiterritory company. If possible, companies should be identified in each territory according to the principles for identification of branches. If that is not feasible because the operation is so seamless that separate accounts could not be developed, it is necessary to prorate the total operations of the company into the individual economic territories. The factor used for prorating should be based on available information that reflects the contributions to actual operations (e.g., equity shares, equity splits, splits based on operational factors such as tonnages or wages). The prorating of the company implies that every transaction needs to be split into each component economic territory, a process that may be difficult to implement by the compiler. For example, for the economy of residence, each (apparently) domestic transaction would be split into resident and

nonresident components. Equally, companies of those economies outside the territories of the multiterritory company that have transactions and positions with such companies need to make the same split, so as to capture the counterparty claims in a consistent manner. Bilateral agreements between compilers will help to minimize possible asymmetries. This treatment has implications for other macroeconomic statistics, and its implementation should always be coordinated with other statistical interests for consistency. Compilers in each of the territories involved are encouraged to cooperate in order to develop consistent data, avoid gaps, and minimize respondent and compilation burden.

8.70 Analogous treatments can be applied to companies operating in zones of joint jurisdiction—the company will need to be split into companies that are resident in each economy having jurisdiction over the zone, with flows into and out of the company prorated between these companies. Positions and flows between the companies may also need to be developed.

Individuals with multiple residences

8.71 Some individuals have close connections with two or more territories—for example, they have dwellings in more than one territory in which they spend significant amounts of time. For individuals who do not have continuous actual or intended presence in any one territory for one year, the territory of the principal dwelling they maintain is the key consideration. In cases of no principal dwelling, or two or more principal dwellings in different economies, the territory of residence is determined on the basis of the territory in which the predominant amount of time is spent in the year.

8.72 In practice, residence principles are generally not applied to specific individuals, but to broad groups of people. Situations where the principles need to be applied to individuals are generally limited to highly mobile, high-wealth individuals. In these cases, the compiler needs to cooperate to ensure that the residence of these individuals is applied consistently in all of the relevant economies.

Household Sector Transactions and Positions

8.73 Table 8.8 sets out a number of cases for persons who may be involved in balance of payments

Table 8.8 Types of Household Sector Transactions Recorded in the Balance of Payments

<p>Migrating persons, including workers who are residents but not nationals of the economies in which they work</p>	<p>These are persons who, for balance of payments purposes, change their economies of residence when they arrive in the economies where they intend to live for 12 months or more and (if applicable) when they return to their economies of origin. At these times, the transfer of positions in financial assets and liabilities that arises from the change in residence of the individual is recorded as a volume change in the IIP.</p> <p>During the periods that migrating persons stay in the host economy, the compilers in both home and host economies should ensure that any remittances in cash or in-kind they remit to their home economies are recorded appropriately (e.g., as personal transfers, capital transfers, direct investment, or deposits). The compilers should also measure transactions, positions, and income relating to migrating persons' external financial assets and liabilities—including financial claims on, and liabilities to, residents of migrating persons' economies of origin.</p> <p>Migrating persons may make trips abroad during their stay in the host economy, and their passenger fares and travel abroad should be measured on the same basis as passenger fares and travel expenditure of any other resident of the host economy.</p> <p>The treatment of initial and return passenger fares depends upon whether these are paid by migrating persons or their employers. When fares are paid by an employer, the employer's residence determines the economy of residence of the company acquiring the passenger services. When fares are paid by the migrating person, the economy that the migrating person leaves is, by definition, his or her economy of residence and is therefore the economy acquiring the passenger fare service.</p>	<p>For personal transfers, see Chapter 14.</p> <p>For transactions in, and positions of, external financial assets and liabilities, see Chapters 9 and 10.</p> <p>For investment income on external financial assets and liabilities, see Chapter 13.</p> <p>For passenger fares and travel, see Chapter 12.</p> <p>For ITRS methods, see Chapter 4.</p> <p>For surveys of households, see Chapter 3.</p>
<p>Persons who are not residents of the economies where they work</p>	<p>The compilers in both home and host economies should measure: (1) as part of compensation of employees, gross wages and salaries in cash and in kind, including any employers' contributions to insurance, social security, etc. of these workers; (2) as part of travel, any expenditure of the workers on goods and services in the economies of employment; and (3) as part of secondary income, income taxes and social contributions payable to the host economy's government, including social contributions paid by employers.</p>	<p>For compensation of employees, see Chapter 13.</p> <p>For travel, see Chapter 12.</p> <p>For secondary income, see Chapter 14.</p> <p>For ITRS methods, see Chapter 4.</p> <p>For surveys of businesses and households, see Chapter 3.</p>
<p>Persons (e.g., local staff of foreign embassies) who work for entities that are not residents of the economies where the entities are located</p>	<p>The compilers in both home and host economies should measure, as part of compensation of employees, gross wages and salaries, including any employers contributions to insurance, social security, taxes, etc. of these workers.</p>	<p>For compensation of employees, see Chapter 13.</p> <p>For secondary income, see Chapter 14.</p> <p>For surveys of businesses and households, see Chapter 3.</p>

Table 8.8 Types of Household Sector Transactions Recorded in the Balance of Payments (*concluded*)

Students studying in foreign economies	The compilers in both home and host economies should measure: (1) as part of travel, student acquisitions (regardless of whether actually paid for or received in kind) of goods and services, including education services, in the host economy; (2) as part of compensation of employees, any gross wages and salaries, including any employers contributions to insurance, social security, taxes, etc., and any goods and services in kind received by students while working in the host economy; and (3) as part of secondary income, taxes payable to the host economy's government, including social contributions paid by employers.	For travel, see Chapter 12. For compensation of employees, see Chapter 13. For secondary income, see Chapter 14. For surveys of businesses and households, see Chapter 3.
Medical patients receiving treatment in foreign economies Persons, excluding transport crews, traveling for business or personal reasons	The compiler should measure, as part of travel, patient expenditures, including those for medical services, on goods, and on services in the host economy. All acquisitions of goods and services for personal use, regardless of whether paid for by the visitor or other short-term individual traveling abroad or provided in kind by residents of the host economy, in the host economy should be recorded as part of travel. Separate data should be compiled for business and other travel. Paid holidays by an employer should be treated as personal rather than business travel. Visitors' and other short-term individuals' traveling abroad international passenger fares should be measured as part of passenger transport services. Travel services may also be acquired by students, health care patients, and persons working in economies other than the ones in which they are residents. The balance of payments treatment of these persons was discussed previously.	For travel, see Chapter 12. For travel, see Chapter 12.
Persons such as transport crews staying in an economy for a short period of time	The compiler should record, as part of travel, the expenditure of these persons on goods and services in the economy visited. The expenditures of crews should be recorded as a part of business travel.	For travel, see Chapter 12.
Persons having external financial assets and liabilities	The compiler should measure transactions, positions, and income relating to external financial assets and liabilities of individuals and households.	For transactions in and positions of external financial assets and liabilities, see Chapters 9 and 10. For investment income, see Chapter 13. For household surveys, see Chapter 3.

Source: IMF staff.

transactions. The table describes the treatment of these transactions in the balance of payments and indicates chapters where information on sources and methods can be obtained. The list of categories in Table 8.8

should not be regarded as an exhaustive statement of household transactions; rather, it is illustrative of the more common household transactions and related balance of payments treatments.

Regional Arrangements

8.74 Currency unions and economic unions play an increasingly important role in the world's economy. Similarly, customs arrangements between economies can present challenges for the balance of payments compiler. This section summarizes the specific features of the compilation balance of payments statistics where regional arrangements exist. Appendix 3 of the *BPM6* provides a detailed discussion of regional arrangements. Appendix 5 of this *Guide* provides information on the related issue of compiling statistics by partner economy.

Currency and economic unions

8.75 For statistical purposes, a currency union is defined as a union to which two or more economies belong and that has a regional central decision-making body, commonly a currency union central bank, endowed with the legal authority to conduct a single monetary policy and issue the single currency of the union. A currency union is established by means of a formal intergovernmental legal agreement (e.g., a treaty). The economic territory of a currency union consists of the economic territory of the Currency Union economies that make up the currency union, plus the currency union central bank. Any other regional organizations that comprise the same or a subset of the same economies are included in the currency union.

8.76 For statistical purposes, an economic union is a union to which two or more economies belong. Economic unions are established by means of an intergovernmental legal agreement among sovereign economies with the intention of fostering greater economic integration. In an economic union, some of the legal and economic characteristics associated with a national economic territory are shared among different economies. These elements include: (1) the free movement of goods and services within the economic union and a common tax regime for imports from economies outside the economic union; (2) the free movement of capital within the economic union; and (3) the free movement of (individual and legal) persons within the economic union. Also in an economic union, specific regional organizations are created to support the functioning of the economic union. Some form of cooperation/coordination in fiscal and monetary policy usually exists within an economic union.

8.77 Like in the case of economic territory of a currency union, an economic union territory consists of the economic territory of the member economies and the regional institutions that comprise the same or a subset of the same economies.

8.78 Net transactions and positions for the currency union or economic union should not be compiled as the aggregation of the national data of the members of the union, plus those of the institutions of the union. This approach would be inadequate because transactions between economies belonging to the union would be included on both sides of the accounts. Furthermore, the compilation would be subject to distortions in case of asymmetric recording of transactions or positions within the union. In this context, compilers within the union should separately identify intra- and extra-union transactions and positions within the accounts.

8.79 There is also a need for increased cooperation and coordination between compilers in different economies within a currency union or economic union. The *BPM6* allows for discretion by the compiler in choice of methods to approximate the concepts defined in the manual (e.g., there are a number of acceptable alternatives for the valuation of equity in direct investment enterprises (DIENT)). Compilers within a currency union or economic union should consider coordinating their treatments so that common methods are applied.

8.80 The coordination extends to the recording of large and complex transactions involving multiple economies (e.g., where a large import to one economy is financed from a bank account in a third economy). To the extent that compilers in the member economies treat the transactions differently, imbalances could be created in the accounts for the currency union or economic union as a whole.

8.81 This coordination is not straightforward as national statistical confidentiality rules usually do not allow national compilers to share confidential information with statistical bodies outside their national borders. To facilitate the maintenance and improvement of data quality through data checking, the establishment of an appropriate statistical data confidentiality regime is desirable at least. Such a regime would ideally address the sharing and protection of confidential data both among national compilers and between national compilers and compilers for the

currency union or economic union in order to enable the compilation of consistent and reliable aggregated statistics for the union.

8.82 Other economies outside the union may find it analytically useful to identify certain currency and/or economic unions among their partners. Corresponding data should be equal to the sum of transactions or positions with the economies belonging to the union together with the institutions of the union where appropriate.

8.83 In case the composition of the currency union or economic union changes over time, the compiler may decide either to show time series according to the latest composition of the currency union or economic union, or to show the currency union or economic union according to its composition at each point in time, and to take changes in composition into account in positions as another change in volume.

Customs arrangements

8.84 Regional integration can take the form of customs arrangements between several economies. In general, these customs arrangements, based on a common customs tariff vis-à-vis nonmember economies, do not raise specific balance of payments issues. However, when customs unions generate cross border flows, such as through a revenue-sharing formula, the recording of transactions and positions in the international accounts is affected by the institutional and administrative arrangements of the customs union.

8.85 In order to assess the correct treatment to apply to the cross border flows, the compiler needs to understand whether levying duties is the responsibility of a designated agency or the member economies; and whether the agency has, all members have, or one member has the responsibility of collecting the duties.

8.86 As with economic and currency unions, cooperation between compilers in the various member economies within the customs arrangement should coordinate so that the treatment of the customs arrangement is consistent between the various members.

Analysis of Net Errors and Omissions

8.87 The structure of the balance of payments naturally yields a number of balancing items, including the balance on trade, the balance on the current account, net lending, and so forth. Chapter 14 of the *BPM6* describes the analysis of the balance of pay-

ments and IIP and the balancing items incorporated within the presentation of the accounts.

8.88 The compilation of the balance of payments involves bringing together information from a range of sources. Although the balance of payments is, in principle, in balance, imbalances will occur due to imperfections in the source data and compilation. These imbalances make up the net errors and omissions item.

8.89 While net errors and omissions is a residual item, the value of net errors and omissions should be analyzed by the compiler. The size and trends may help identify data problems, such as coverage or misreporting. Patterns in net errors and omissions may provide useful information on data problems. For example, a consistent sign indicates a bias in one or more components. Although net errors and omissions can help point to some problems, it is an incomplete measure because errors and omissions in opposite directions offset each other.

8.90 A large or volatile value of net errors and omissions hampers analysis of the balance of payments. While it is not possible to give guidelines on an acceptable size for net errors and omissions, it can be assessed by the compiler in relation to other items, such as GDP, current account balance, positions data, and gross flows. Statistical discrepancies may also arise in the IIP statement. In principle, the reconciliation statement provides a fully reconciled measurement of the changes between an opening position and a closing position; however, if these components are independently measured, discrepancies may arise because of data imperfections.

Revisions

8.91 Revisions were discussed earlier in this chapter. Revisions that increase the magnitude of net errors and omissions do not necessarily indicate that the overall quality of the accounts is decreasing. It is reasonable to presume that revisions are being made to improve the accuracy of the revised components. A consequence of increasing the accuracy of the components is an improved accuracy of the net errors and omissions remaining in the revised components and that are present in the other components. If the net errors and omissions term has increased, then errors or omissions that previously existed in the items that were revised were masking errors and omissions in other components.

8.92 If revisions over time result in consistently adjusting the net errors and omissions in the same direction (i.e., either usually increasing or usually decreasing), then this provides an indication of persistent biases in the initial data. Efforts should be made by the compiler to identify the source of the biases and remove them. If the bias is inherent in the source data used for preliminary estimates, then analysis of the changes in net errors and omissions over time can inform the introduction of an adjustment that should be made to the initial data. In practice the compiler may often make appropriate adjustments to the results from less reliable data sources to allow for known biases.

Analysis over Time

8.93 As indicated earlier, net errors and omissions of consistent sign over a period of time are indicative of persistent biases in one or more components. To the extent possible, the components should be identified (usually the compiler will have an understanding of deficiencies in source data and where biases might be occurring), and improvements made to the quality of the source, alternative sources identified, or adjustments made to offset the impacts of the biases. If the source cannot be identified, metadata should be provided as to relative quality of credits / net increases in liabilities against debits / net increases in assets to enable users to make their own assessments of where weaknesses may lie.

8.94 Where the net errors and omissions term fluctuates from period to period, this may be evidence of timing differences on volatile items—such as financial accounts items or large, “lumpy” current account transactions.

8.95 Large net errors and omissions that arise in periods of exchange rate fluctuation may suggest problems with methods of currency conversion used to compile the accounts.

8.96 Net errors and omissions that appear to change when the behavior of some items changes may be evidence of relationships that indicate inadequate coverage of certain types of transactions. For example, a positive net errors and omissions item coinciding with an increase in imports may suggest undercoverage of trade credit liabilities.

Recording Transactions in Balance of Payments

8.97 The balance of payments requires that transactions are recorded on a double-entry basis—that

is, each transaction is recorded as consisting of two entries and the sum of the credit entries and the sum of the debit entries is the same. The sum of the balances on the current and capital accounts represents the net lending (surplus) or net borrowing (deficit) by the economy with the rest of the world. This is conceptually equal to the net balance of the financial account.

8.98 Transactions can be recorded on a gross and on a net basis. Aggregations or combinations in which all elementary items are shown for their full values are called gross recordings (e.g., all interest credits are aggregated separately from all interest debits). Aggregations or combinations for which the values of some elementary items are offset against the same items that have an opposite sign are called net recordings (e.g., acquisitions of foreign currency are netted against the sales of the foreign currency). The different accounts within the balance of payments can be distinguished according to the nature of the economic resources provided and received as well as their recording of transactions.

8.99 For the current and capital accounts, transactions are required to be reported on a gross basis. The current account shows transactions in goods, services, primary income, and secondary income between residents and nonresidents; the capital account shows credit and debit entries for nonproduced non-financial assets, as well as capital transfers.

8.100 In contrast to the current and capital accounts, the financial account registers transactions on a net basis, which are shown separately for financial assets and liabilities (i.e., net transactions in financial assets show acquisition of assets less reduction in assets, not assets net of liabilities). The net recording principle should be applied at the lowest level of classification of financial instruments, taking into account the functional category, institutional sector, maturity, and currency classifications, where applicable. Part F of the *BPM6*'s Chapter 3 provides more information concerning aggregation and netting.

8.101 As data on a gross basis for financial assets and liabilities are useful for analyzing market turnover and market behavior, and for measuring service fees generated (e.g., a small net value may be the outcome of large gross flows), data on drawings and repayments on loans or acquisitions or disposals of other instruments could be made available—where

Table 8.9 Calculation of Financial Account Balance

Financial account (by functional category)	Net acquisition of financial assets	Net incurrence of liabilities	Balance
Direct investment	-5	1	-6
Portfolio investment	-2	-8	6
Financial derivatives	21	13	8
Other investment	15	-4	19
Reserve assets	4		4
Total changes in assets/liabilities	33	2	
<i>Net lending (+)/net borrowing (-) (from financial account)</i>			31

Source: IMF staff.

practical—to users on a supplementary basis. The data could be provided comprehensively or only for particular components.

8.102 The balance in the financial account is calculated by subtracting transactions in liabilities from transactions in assets. An example of the calculation of balance on the financial account (net lending/net borrowing) is presented in Table 8.9. Net errors and omissions in *BPM6* are calculated as the balance on the financial account minus the sum of the balances on the current and capital accounts.⁵ For example, if the current account balance is *plus* 13, the capital account balance is *minus* 8, and the financial account balance is *minus* 12, then net errors and omissions is *minus* 17 (see *BPM6*, paragraph 2.24). Mathematically, a negative figure of net errors and omissions indicates an overall tendency that:

- the value of credits in the current and capital accounts is too high; and/or

⁵The sign for net errors and omissions does not change from the *BPM5* to the *BPM6* presentation.

- the value of debits in the current and capital accounts is too low; and/or
- the value of net increases in assets in the financial account is too low; and/or
- the value of net increases in liabilities in the financial account is too high.

8.103 Table 8.10 displays the changes in sign convention from the fifth edition of the *Balance of Payments Manual (BPM5)* to the *BPM6*. In the *BPM6*, gross credit and gross debit entries in the current and capital accounts are recorded with positive signs in the respective column, while in the *BPM5*, all debits were recorded with negative signs. Furthermore, in the *BPM6*, the headings of the financial account have been changed from “credits and debits” to “net acquisition of financial assets” and “net incurrence of liabilities”—that is, all changes due to credit and debit entries are recorded on a net basis separately for financial assets and liabilities.

8.104 Table 8.10 presents a numerical example on the use of signs in balance of payments under the *BPM6* versus *BPM5* convention. In the example, the

Table 8.10 Changes in Sign Convention from the *BPM5* to the *BPM6*

	<i>BPM6</i>	<i>BPM5</i>
Current and capital accounts	Both credits and debits are registered with positive sign .	Credits with positive sign and debits with negative sign
Financial account	Increases in assets and liabilities with positive signs , and decreases in assets and liabilities with negative signs	Increases in assets and decreases in liabilities are debits with negative signs , and decreases in assets and increases in liabilities are credits with positive signs .
Financial account balance (so-called “net lending (+)/net borrowing(-)” in the <i>BPM6</i>)	Calculated as change in assets minus change in liabilities	Calculated as change in assets plus change in liabilities (credits plus debits)

Source: IMF staff.

following assumptions are made for the reported period of economy A:

- (1) Exports and imports of goods 150 and 200 units, respectively
- (2) Exports and imports of services 50 and 180 units, respectively
- (3) Investment income received 30 units and paid 110 units
- (4) Grants for current needs received 70 units
- (5) Investment grants received 85 units
- (6) Direct investment in equity capital received by resident companies 115 units
- (7) Purchase of debt securities issued by nonresidents 30 units
- (8) Disbursement of loans from nonresidents 75 units and repayment of principal for loans to nonresidents 40 units
- (9) Disbursement by the central bank of 65 units of loan from the IMF used to increase the reserve assets.

Table 8.11 Example of Sign Convention in the BPM6 versus the BPM5

	BPM6		BPM5	
	Credit	Debit	Credit	Debit
<i>Current account</i>	+300	+490	<i>Current account</i>	+300 –490
Goods	+150	+200	Goods	+150 –200
Services	+50	+180	Services	+50 –180
Primary income	+30	+110	Income	+30 –110
Secondary income	+70		Current transfers	+70
<i>Current account balance (credit minus debit)</i>		–190	<i>Current account balance (credit plus debit)</i>	
<i>Capital accounts</i>	+85		<i>Capital accounts</i>	+85
Capital transfers	+85		Capital transfers	+85
<i>Capital account balance (credit minus debit)</i>	+85		<i>Capital account balance (credit plus debit)</i>	+85
	Net acquisition of financial assets	Net incurrence of liabilities		Credit Debit
<i>Financial account</i>	+110	+215	<i>Financial account</i>	+815 –710
Direct investment, equity and investment fund shares		+115	Direct investment in reporting economy, equity	+115
Portfolio investment, debt securities	+30		Portfolio investment, assets, debt securities	
Other investment, currency and deposits	+150 –200 +50 –180 +30 –110 +70 +85 +115 –30 +75 –40		Other investment, assets, currency and deposits	+200 +180 +110 –70 –85 –115 +30 –75
				+40

Table 8.11 Example of Sign Convention in the *BPM6* versus the *BPM5* (concluded)

	<i>BPM6</i>		<i>BPM5</i>		
	Net acquisition of financial assets	Net incurrence of liabilities		Credit	Debit
Other investment, loans		+75 -40 +65	Other investment, liabilities, loans	+75 +65	 -40
Reserve assets	+65		Reserve assets		-65
<i>Net lending (+)/ net borrowing(-)</i> <i>(net acquisition of financial assets minus net incurrence of liabilities)</i>	-105		<i>Financial account balance</i> <i>(credit plus debit)</i>	+105	

Source: IMF staff



9

The International Investment Position

Introduction

9.1 This chapter provides practical advice on how an economy might improve the availability of external position data in a relatively short time. The goal is to use available data. This would be the first phase in developing international investment position (IIP) statistics. A subsequent phase would involve developing survey/reporting systems for compiling comprehensive IIP statements; Chapters 2 through 7 of the *Guide* elaborate on these issues. This chapter draws on the advice provided in the *Quarterly International Investment Position Statistics: Data Sources and Compilation Techniques (IIP Guide)*, which should also be consulted.

9.2 “Data Sources” discusses the existing data sources in the following broad areas—domestic sources, foreign sources—and presents a summary table of the possible data sources, while “Deriving Quarterly Positions from Quarterly Transactions” includes an example of deriving quarterly positions from quarterly transactions data. “Other Changes in Financial Assets and Liabilities Account” discusses possible data sources for the other changes in financial assets and liabilities account of the IIP.

9.3 This chapter also draws on the international guidelines for macroeconomic statistics set out in the *BPM6*, the *External Debt Statistics: Guide for Compilers and Users (EDSG)*, the draft *Monetary and Financial Statistics Manual and Compilation Guide of 2013 (MFSM-CG)*, the *Government Finance Statistics Manual, 2014 (GFSM 2014)*, and the *System of National Accounts 2008 (2008 SNA)*.

Data Sources

9.4 This section discusses the following data sources—the domestic sources, which are often already available for other statistical systems, foreign sources from international organizations, and other

data sources. In setting out the range of data sources that economies can possibly use, this section notes that information that can be obtained from these data sources is partly overlapping—that is, more than one source described may provide information on any given claim or liability.

9.5 Further, some of the data sources may not be available in particular economies. The compiler will, therefore, need to choose those sources that provide the most adequate data in the economy’s specific circumstances. These choices will most probably change over time as an economy develops more comprehensive sources. The range of data sources available is likely to change with progressive liberalization of foreign exchange regulations from administrative and banking records towards survey collection methods. The *EDSG*¹ outlines the impact of the regulatory environment on the collection techniques for external debt statistics (EDS), which is also relevant for IIP statistics.

Domestic Data Sources

9.6 The first step in identifying data sources for compiling IIP consists of a stocktaking exercise of macroeconomic datasets and other data collected by an economy for other than purely statistical purposes. These existing datasets may be relevant for compiling an IIP statement.

9.7 Domestic data sources can be divided into (1) those collected for macroeconomic statistical purposes that follow accounting and classification principles similar to the IIP, and (2) those that serve other purposes, including administrative data.

¹See *External Debt Statistics: Guide for Compilers and Users (2013)*, Chapter 10.

9.8 This section reviews four macroeconomic statistical datasets:

- External assets and liabilities of deposit-taking corporations,² except the central bank (DTC)
- External assets and liabilities of the central bank (CB)
- External assets and liabilities of general government (GFS)
- Balance of payments financial account

9.9 It also reviews three nonstatistical sources:

- Financial statements of companies (FS)
- Approvals of foreign investment (AP)
- The financial press (FP)

9.10 The major gap in the sources covered in this section is in the area of external financial assets and liabilities of the private nonbank sector. Administrative data on the private nonbank sector may exist only if restrictive capital controls are in place, and in such cases, the importance of the private nonbank sector's external positions might be rather small.

Macroeconomic statistical datasets

9.11 The first two domestic data sources to be examined—those of deposit-taking corporations and the central bank—are existing sources for monetary and financial statistics. The third dataset is drawn from government finance statistics, while the fourth refers to statistics of the external sector statistics.

9.12 The *MFSM-CG* presents an internationally accepted framework that can be used for three sectoral components of the IIP. The *Sectoral Balance Sheet for the Central Bank* can be used to compile statistics for the central bank sector in the IIP, and the *Sectoral Balance Sheet for Other Depository Corporations*³ can be used for the deposit-taking corporations, except the central bank sector of the IIP. If economies complete the *Sectoral Balance Sheet for Other Financial Corporations*,⁴ it may be used to compile IIP data for other

sectors—other financial corporations. However, the compiler should be aware of differences in coverage of deposit-taking corporations, except the central bank and other financial corporations (OFC) in the *BPM6* and other depository corporations (ODC) and OFC, respectively in *MFSM-CG*. Thus, in the *MFSM-CG*, ODC are defined to include only those resident financial corporations (except the central bank) and quasi-corporations that are mainly engaged in financial intermediation and that issue deposits and close substitutes that are included in the national definition of broad money, which may exclude (include) institutional units that are included (excluded) within the *BPM6* (and *2008 SNA*) definition of deposit-taking corporations, except the central bank. Rather than as deposit-taking corporations, these excluded institutional units would be classified as other financial corporations (or vice versa). An example of such institutional units is money market funds.

Deposit-taking corporations, except the central bank

9.13 Banks⁵ are closely regulated in almost all economies; therefore, usually extensive data on their financial transactions and positions are collected for monetary policy and banking supervision purposes. Such data generally are available on a very frequent (mostly monthly) and timely basis. In principle, they could thus constitute an important source of information for IIP purposes, including for quarterly IIP.

9.14 The *Sectoral Balance Sheet for Other Depository Corporations*,⁶ which can be used by the compiler to identify and select the external assets and liabilities of DTC, except the central bank, is reported to the IMF through the standardized report forms (SRFs) for reporting monetary and financial data. Summary lines from the *Standardized Report Form 2SR for Other Depository Corporations* are presented in Table 9.1. However, as mentioned earlier, the compiler should carefully review the sectoral coverage as the ODC reports on

² Acronyms are used in Table 9.5 to identify data sources.

³ Other depository corporations include deposit-taking corporations, except the central bank, and money market funds.

⁴ Other financial corporations comprise the following *2008 SNA* subsectors: non-MMF investment funds, other financial intermediaries except insurance corporations and pension funds, financial auxiliaries, captive financial institutions and money lenders, insurance corporations, and pension funds.

⁵ For practical convenience, deposit-taking corporations except the central bank are also referred to as banks throughout this chapter.

⁶ "Linkages of the International Accounts with Monetary and Financial Statistics" of Appendix 6 discusses the use of data collected from ODC for the purpose of money and banking statistics in the balance of payments and IIP.

Table 9.1 Summary Lines from Standardized Report Form (SRF) for Other Depository Corporations

	Assets	Liabilities	Comments
1.	Foreign currency		
2.	Deposits— <i>nonresidents</i>	Deposits— <i>nonresidents</i>	
3.	Debt securities— <i>nonresidents</i>	Debt securities— <i>nonresidents</i>	
4.	Loans— <i>nonresidents</i>	Loans— <i>nonresidents</i>	
5.	Equity and investment fund shares— <i>nonresidents</i>	Equity and investment fund shares— <i>nonresidents</i>	Direct investment or portfolio investment—for both assets and liabilities (memorandum item for liabilities)
6.	Insurance, pension, and standardized guarantee schemes— <i>nonresidents</i>	Insurance, pension, and standardized guarantee schemes— <i>nonresidents</i>	
7.	Financial derivatives and employee stock options— <i>nonresidents</i>	Financial derivatives and employee stock options— <i>nonresidents</i>	
8.	Other accounts receivable— <i>nonresidents</i>	Other accounts payable— <i>nonresidents</i>	

Source: IMF staff.

the SRF could include money market funds, which are outside of the deposit-taking corporation sector in the balance of payments and IIP.

9.15 Details on the reconciliation of positions of ODC vis-à-vis nonresidents with the relevant corresponding IIP components for ODC are presented in Appendix 6, Table A6.3. It shows that, although the sectoral balance sheet data can largely correspond with IIP components, the differences in the classification do not allow a full reconciliation of the two frameworks. For several items, additional information from the banks' balance sheets would be needed for the compiler to identify unequivocally the appropriate IIP components.

9.16 The main criterion for classifying asset and liability components in the IIP is the function of investment—that is, direct investment, portfolio investment, financial derivatives (other than reserves) and employee stock options, other investment, and reserve assets. The next levels of classification provide instrument, sector, and maturity breakdowns.

9.17 Sometimes the mapping of other depository corporations' items to the various components of the IIP is not straightforward. For example, external *assets* in the form of equity could be part of the

bank's direct investment⁷ in foreign corporations, or part of their portfolio investment in equity and investment fund shares of nonresident corporations. Also, the standard components of the balance sheet for other depository corporations do not identify equity liabilities at market value. These data are to be reported in memorandum items, but few economies report these items. To fill in the standard components of the IIP, additional data that show a further detailed breakdown by type of investment would be necessary.

9.18 Careful consideration should be given to the possibility of expanding banks' reporting requirements to accommodate the requirements for IIP statistics. Clearly, compiling agencies would want to avoid requesting similar information for different purposes from the same group of reporting companies. The agencies could therefore investigate whether it is possible to incorporate the requests for the IIP

⁷The *BPM6* recommends that direct investment should be broken down to show the direct investment relationship as follows: (1) direct investor in direct investment enterprises; (2) direct investment enterprises in direct investor (reverse investment); and (3) between fellows. This breakdown is not available in monetary and financial statistics.

statistics in existing reporting forms for the deposit-taking corporations sector. For example, they could introduce some additional memorandum items or breakdowns of the data. A compiler could do this without impeding the objectives of the banking statistics (e.g., regarding the timeliness of the provision of the data). Since the compiler usually requests data for the IIP at a lower frequency than for monetary statistics, he or she could include such additional reporting requirements only at quarterly intervals.

9.19 Alternatively, the compiler could investigate whether approximations could possibly be used to attribute the positions reported in the banking statistics for specific instruments to the IIP components of the deposit-taking corporations sector. This approach could be considered appropriate if the compiler envisages a separate survey later for IIP statistics and considers the use of data from the banking statistics temporary. In that case, it might not be worthwhile to introduce additional reporting requirements into existing surveys. Compiling agencies could investigate whether they could use other information, such as that collected for supervisory purposes, to determine the appropriate functional category of the IIP for shares and other equity assets and liabilities. (Banking supervision information usually encompasses information on capital ownership relationships.)

9.20 Apart from allocating equity positions to direct investment or portfolio investment, the additional detail required for IIP purposes concerns breakdowns for most debt instruments by long- and short-term original maturity. Such information should be available in banks' records, and the compiler could probably incorporate it in the reporting requirements for banks. If not directly available, the IIP data for the deposit-taking corporations sector could still be compiled without maturity detail.

9.21 If economies compile monetary and financial statistics using the IMF Statistics Department's *Standardized Report Form 4SR for Other Financial Corporations*, the compiler could also use this data source for the other financial corporations sector in the IIP; however, care should be taken because of the differences in coverage described in paragraph 9.12.

9.22 "Linkages of the International Accounts with Monetary and Financial Statistics" in Appendix 6 also discusses other issues in using monetary statistics for

the compilation of an IIP, including valuation, coverage, and sector classification.

Central bank

9.23 External assets of the central bank should include reserve assets and other external assets that do not meet the reserve asset criteria. The *BPM6* replaced the monetary authorities institutional sector by central bank; it includes monetary authorities as a supplementary item. However, the *BPM6* keeps the monetary authorities sector in connection to reserve assets. Paragraph 6.66 of the *BPM6* provides the following guidance:

"The functional concept of monetary authorities is essential for defining reserve assets. Monetary authorities encompass the central bank (which subsumes other institutional units included in the central bank subsector, such as the currency board) and certain operations usually attributed to the central bank but sometimes carried out by other government institutions or commercial banks, such as government-owned commercial banks. Such operations include the issuance of currency; maintenance and management of reserve assets, including those resulting from transactions with the IMF; and operation of exchange stabilization funds. In economies in which extensive reserve assets are held outside of the central bank, supplementary information should be provided on the institutional sector of holdings of those reserve assets."

9.24 The reserve assets component of the IIP should be straightforward to compile, since data on the central bank's accounts should be readily available directly from the central bank. It should be borne in mind, however, that in instances where the monetary authorities include several institutional units or where certain transactions of other units need to be taken into account, then compiling the reserve assets component might be more complex.

9.25 The data should be easily accessible to the compiling institution, but it will entail greater coordination to gather the data from various sources and aggregate the figures consistently.⁸

⁸In order to cover the concept of monetary authorities, Table 9.4 includes both the central bank and government finance statistics as possible data sources for reserve assets.

9.26 The central bank should also be able to provide without difficulty, besides the official reserve assets, the information on its other external assets and its external liabilities (except liabilities in the form of notes and coins). Such assets may include claims on nonresidents in domestic currency and any other external assets that do not qualify as reserve assets (e.g., because they are not readily available for balance of payments purposes). The compiler should allocate these foreign assets to the appropriate IIP components under portfolio investment, financial derivatives, or other investment.

9.27 External liabilities of monetary authorities may be in the form of debt securities, financial derivatives, loans, deposits, or other liabilities and should be recorded in the appropriate components of the IIP.

9.28 In practice, the foregoing list of financial instruments may be shorter if, for example, reserve management policy or other provisions prohibit the central bank from investing in certain types of assets or incurring certain types of liabilities. The data for the central bank should be available on a timely basis, including for quarterly IIP compilation.

9.29 Although it is preferable that the central bank directly provide the required data to the IIP compiler, the compiler can also use the *Sectoral Balance Sheet for the Central Bank*, as presented in the *MFSM-CG*, as a reference. Summary lines from the *Standardized Report Form ISR for the Central Banks* are shown in Table 9.2.

9.30 Table A6.4 in Appendix 6 presents the reconciliation of positions of the central bank vis-à-vis nonresidents with the relevant corresponding IIP components.

General government

9.31 GFS covers the general government sector, the public nonfinancial corporations' sector, and the public financial corporations' sector. Details on the GFS framework as well as on linkages to external sector statistics are presented in Appendix 6, "Linkages of the International Accounts with the Government Finance Statistics." The appendix also describes the relationship between the balance of payments and IIP statistics and GFS.

Table 9.2 Summary Lines from Standardized Report Form (SRF) for Central Bank

	Assets (other than reserves)	Liabilities ¹	Comments
1.	Foreign currency	Currency in circulation	Usually nonresidents holdings of domestic currency are not separately identified in the central banks balance sheet.
2.	Deposits— <i>nonresidents</i>	Deposits— <i>nonresidents</i>	
3.	Debt securities— <i>nonresidents</i>	Debt securities— <i>nonresidents</i>	
4.	Loans— <i>nonresidents</i>	Loans— <i>nonresidents</i>	
5.	Equity and investment fund shares— <i>nonresidents</i>		
6.	Insurance, pension, and standardized guarantee schemes— <i>nonresidents</i>		
7.	Financial derivatives and employee stock options— <i>nonresidents</i>	Financial derivatives and employee stock options— <i>nonresidents</i>	
8.	Other accounts receivable— <i>nonresidents</i>	Other accounts payable— <i>nonresidents</i>	
9.		SDR allocations	

Source: IMF staff.

¹The 1SR provides a maturity breakdown for foreign currency liabilities.

Table 9.3 Summary Lines from Government Finance Statistics (GFS) for General Government¹

	Assets	Liabilities	Comments
	Foreign	Foreign	
1.	Currency and deposits	Currency and deposits	
2.	Securities other than shares	Securities other than shares	
3.	Loans	Loans	
4.	Shares and other equities		Liabilities for public corporations not included in <i>general government</i> in IIP
5.	Insurance technical reserves	Insurance technical reserves	
6.	Financial derivatives	Financial derivatives	
7.	Other accounts receivable	Other accounts payable	

Source: IMF staff.

¹*GFSM 2014*, Appendix 4, Table C, Classification of Flows and Stocks in Assets and Liabilities. In some economies GFS data in this table would include assets in monetary gold and SDRs. These components should be included in the IIP under the concept of *monetary authorities* in reserve assets. SDR allocations are recorded in liabilities without a sector classification.

9.32 Summary lines for government external assets and liabilities from the *GFSM 2014* are shown in Table 9.3.

9.33 Although many economies have started to report selected financial assets for government financial statistics, few economies have full balance sheets. Since external assets of the general government can be substantial for some economies, the compiler may need to collect this information directly from the government. Methodological notes on the balance of payments and IIP for such an economy should note if there is a substantial lack of coverage for these assets.

9.34 Data on the external liabilities of the general government can have a significant impact on surveillance issues. With regard to debt liabilities (in particular, for debt securities and loans), many economies have a debt monitoring system in place to measure public external debt. This comprehensive data source can be used to collect information for these components of the IIP. The collection of data from the external debt compiling agency is presented in Chapter 6 under “Public Sector External Debt.” Chapter 6 also includes data sources for other debt liabilities, such as trade credit and advances on imports.

9.35 The external debt statement relates closely to the IIP. It is a subset of the liability component of the IIP and, as such, can largely be derived from the IIP. Liability components of the IIP that are *not* considered part of external debt include equity and

investment fund shares and financial derivatives and employee stock options. Chapter 7 includes a discussion of external debt statistics, including the Quarterly External Debt Statistics (QEDS) database and the Joint External Debt Hub (JEDH).

Balance of payments—Financial transactions

9.36 The IIP and the balance of payments are closely interrelated; the integrated IIP statement presented in Table 7.1 of the *BPM6* shows how changes in the IIP result from financial account transactions and other changes in financial assets and liabilities. The balance of payments records both financial and nonfinancial transactions with nonresidents during the period in which they occur. The reconciliation statement illustrates the relationship, explaining the change in IIP positions. It shows how changes that have occurred during the period are due to financial transactions, exchange rate changes, other price changes, and other changes in volume. The financial transactions that contributed to the change in positions are those transactions that are recorded in the financial account of the balance of payments.

9.37 The compiler may find it possible to use the information provided in the three preceding statistical datasets on existing domestic sources to estimate positions, including on a quarterly basis, for deposit-taking corporations, the central bank, and general government sector. However, in other cases, including

for the nonfinancial private sector, information on positions at the beginning and end of the period may not be available, particularly on a quarterly basis. To examine how the compiler can use the financial transactions in the balance of payments to estimate a quarterly IIP, an example is presented in “Deriving Quarterly Positions from Quarterly Transactions.”

9.38 If the volatility of exchange rates, other price changes, and changes in volume during a given period is high and if the volume of transactions is high,⁹ it is important to estimate positions based on more detailed information to assure adequate quality estimates. There is thus clearly a need to undertake position surveys from time to time (preferably annually), both to help ensure the quality of position data and to help check on the reported transactions data.

Nonstatistical sources

9.39 The nonstatistical domestic sources to be discussed are financial statements of companies, approvals of foreign investment, and the financial press. In each case the compiler should check that the definitions used in these sources are consistent with the *BPM6*.

Financial statements of companies

9.40 Financial statement of companies can provide useful information in estimating such IIP items as direct investment, portfolio investment, and other investment (loans, trade credit and advances, currency and deposits, and other accounts receivable/payable). The following paragraphs cover the use of financial statement data in compiling positions on direct investment positions (assets and liabilities). This data source is particularly useful if the compiler does not yet carry out enterprise surveys.

9.41 The key to determining the usefulness of this data source is the level of consolidation of the financial statements—whether they are consolidated or unconsolidated. The source of the financial statements—publicly available or accessible to the compiler through official channels—largely determines the level of consolidation available.

⁹The effects on the accuracy of position estimates derived from flow data (and of flow estimates derived from position data) are analyzed and discussed in more detail in *Effects of Volatile Asset Prices on Balance of Payments and International Investment Position Data*, Marco Committeri, IMF Working Paper No. 00/191.

9.42 The most useful financial statements for deriving direct investment are the books of the direct investment enterprise (DIENT). When the DIENT is in the reporting economy, the process of estimating direct investment from financial statements is straightforward. When the DIENT is not in the reporting economy, using financial statements to estimate direct investment is more complex. In this case, if the only set of financial statements available is the consolidated statement of the resident direct investor, the balance sheet may not provide enough information to calculate direct investment asset positions. However, the notes to the financial statements may yield some useful information on equity ownership in nonresident DIENTs.

9.43 The financial statement can be a potential source of information for the DIENT located abroad when the resident direct investor has just acquired an existing company abroad. If the financial statements of the acquired company are publicly available, or if the acquisition price is known, the compiler may be able to estimate the initial value of direct investment assets.

9.44 The compiler may have access to the data sources through official channels, and these sources may provide the unconsolidated financial statements of the resident direct investor. If this is the case, the asset side of the balance sheet may provide information on the *investment in foreign affiliates* (equity) and *loans to foreign affiliates* (debt instruments). The liability side may provide information on *loans from a foreign affiliate*¹⁰ (debt instruments). The source can also provide information on resident DIENTs such as *investment of direct/portfolio investors in equity*, *loans from the direct investors* (on liability side), and *loans to direct investors* (assets side).

Publicly available financial statements

9.45 Generally, publicly available sources exist for publicly traded companies in an annual report, available in print format or on the Internet. Annual reports contain balance sheet items that can be used to estimate direct investment in a company. Financial statements that are publicly available are usually consolidated.¹¹

¹⁰Reverse investment.

¹¹This means that intercompany transactions have been eliminated. A note describing this limitation needs to be included in the methodology documentation.

Table 9.4 Unconsolidated Balance Sheet

Assets	Liabilities
Loans to affiliated companies, which include:	Loans from affiliated companies, which include:
<i>Loans to direct investor (reverse investment)</i>	<i>Loans from direct investor</i>
<i>Loans to direct investment enterprises</i>	<i>Loans from direct investment enterprises (reverse investment)</i>
<i>Loans to fellows</i>	<i>Loans from fellows</i>

Source: IMF staff.

9.46 The following example shows how the compiler can estimate direct investment equity liabilities from this source. If the nonresident direct investor owns 100 percent of the resident enterprise,¹² the compiler may be able to estimate direct investment from the Shareholders' Equity portion of the balance sheet, which may include: (1) paid-up capital (excluding any shares on issue that the company holds in itself and including share premium accounts); (2) all types of reserves identified as equity in the company's balance sheet (including investment grants when accounting guidelines consider them company reserves); (3) cumulated reinvested earnings; and (4) holding gains or losses included in own funds in the accounts, whether as revaluation reserves or profits or losses. The more frequent the revaluation of assets and liabilities, the closer the approximation to market values.¹³ Shareholders' equity is generally included at the bottom of the liabilities section of balance sheets.

Financial statements available through official channels

9.47 Internal sources available within official agencies may also contain financial statement information. Some compiling agencies collect—for their national financial statistics—the financial statement information for foreign-owned companies. Depending on the rules for data sharing that govern the compiling agency, it may be possible for the compiler to access information on the shareholders' equity of the foreign-owned company from this source.

¹²If the nonresident direct investor owns less than 100 percent—for example, x percent of the resident enterprise, then only x percent of the value would be included in the direct investment estimate.

¹³When market value is not available, own funds at book value is an acceptable proxy for market value (*BPM6*, paragraph 7.16 (e)).

9.48 Data may also be available from other official agencies outside the compiling agency. Once again, access to this information would depend on data sharing agreements between the institutions.

9.49 If unconsolidated financial statements are available, the compiler could possibly estimate debt instruments in the form of intercompany debt. For direct investment liabilities, *loans from parent*¹⁴ are found in the liability section of the balance sheet, and for direct investment assets, *loans to parent* are found in the asset section.

9.50 Loans to/from fellow enterprises may be recorded separately in the financial statements, but most likely they will be included indistinguishably under loans to/from affiliated companies (if the resident company has any equity participation in the nonresident fellow and vice versa) or in loans to/from unaffiliated companies (if the fellows do not have any equity participation in each other). For unconsolidated balance sheets, the intercompany debt may be shown as in Table 9.4.

9.51 When using financial statements to estimate direct investment, the compiler should note that most balance sheets reflect book value or historical cost. In principle, the *BPM6* requires that all external assets and liabilities be measured at current market prices. When actual market values are not available—for example, for untraded equity—an estimate is required. Alternative methods of approximating market value of shareholders' equity in a DIENT are described in paragraph 7.16 of the *BPM6*. The described methods are not ranked according to preference; the compiler would need

¹⁴The parent referred to in the financial statement would be the direct investor.

to assess each of them according to the circumstances and the plausibility of results. However, the Coordinated Direct Investment Survey (CDIS) requests data on unlisted equities to be valued using the “own funds at book value” (OFBV). OFBV values unlisted equity using financial accounting rules in which are included: (1) a company’s cumulative reinvested earnings and (2) accumulated depreciation on plant and equipment; most financial instruments held by the company are valued at market or fair values. Appendix 4 discusses the valuation of direct investment in more detail.

9.52 Although financial statements may provide an early source for estimating direct investment and other IIP items, clearly the compiler needs to develop a more complete source, such as enterprise surveys. Once a survey system is in place, the compiler is encouraged to request copies of the financial statements of the DIENT from the reporters. These statements can be used to verify figures reported on the survey or to ascertain other information, such as realized or unrealized capital gains and losses and write-offs.

9.53 As mentioned earlier, in addition to shareholders’ equity and intercompany debt, financial statements may also provide information on investments in securities (portfolio investment) or indebtedness not in the form of securities to third parties (other investment); however, the additional information required to distinguish which of these assets/liabilities are with nonresidents may not be available in standard financial statements. The compiler may wish to consult the “Notes to the Financial Statements,” which could contain supplementary information that could be used as a data source or to verify IIP data—for example, a list of major acquisitions.

9.54 The IIP components that could use the financial statements as a data source are identified in Table 9.5 by the acronym FS.

Approvals/licensing of foreign investment

9.55 As was mentioned in paragraph 9.5, the data sources available in a specific economy will depend partly on the regulatory framework for international transactions. In some circumstances, international capital movements are restricted. That is, external borrowing or investment is not allowed for specific institutional units, or approval is required by an official body

for external transactions. In this case, a good source of information for IIP (and balance of payments) compilation is the administrative records of the agency in charge of such foreign exchange controls.

9.56 However, this kind of data often has significant shortcomings because approval procedures are usually not set up with macroeconomic statistical requirements in mind. For example, it may be an *intended* investment (the approved investment may not actually take place), or significant time lags between approvals and actual investments may occur. The implementation of the approved investment may take place over several years. It would be necessary to determine the duration of the project and the amount expected to be spent each year.

9.57 Thus, the information on approvals can be rather limited regarding the range of information that is needed for IIP purposes. For example, the approvals of direct investment in an economy might capture information on new direct investment relationships—the acquisition of equity capital—but might not capture particular items such as intercompany debt positions, collected for the “debt instruments” component of direct investment. This source is best used to identify the potential new investment, and the compiler would need other sources such as financial statements and enterprise surveys to confirm that the foreign investment occurred and to estimate its value.

9.58 In some economies the agency that licenses foreign direct investment may require the foreign investors of the DIENTs to provide them with all required financial information, including for statistical purposes, on an ongoing basis. This could be a valuable source of data.

9.59 The IIP components that could use approvals/licensing data as a data source are identified in Table 9.5 by the acronym AP.

Financial press

9.60 The financial and economic press provides an excellent timely source of information for identifying large transactions that could have international implications, particularly for new investments or mergers and acquisitions for direct investment. The financial press may provide information on the names of the resident and nonresident companies, the economy

with which the transaction occurred, and the size of the transaction. If the resident company involved is already surveyed by a questionnaire, the information could be validated against that questionnaire, and if necessary the company could be contacted to discuss the transaction. Companies that are not surveyed need to be contacted for details of the transaction, including closing date, amounts involved, and methods of financing. The company would then be added to the list of companies surveyed. For some economies, this timely data source can account for a significant amount of the preliminary estimates of direct investment. However, caution should be exercised, because information in the press on the timing and size of investment is often inaccurate.

9.61 The IIP components that could use the financial press as a data source are identified in Table 9.5 by the acronym FP.

External Data Sources

9.62 The previous section described domestic data sources that are commonly available for compilation purposes. This section describes the use of data sources available from international organizations and partner economies to close some gaps in the data collection for the IIP. The data sources are international banking statistics (IBS), the Coordinated Portfolio Investment Survey (CPIS), CDIS, and partner economy data. These datasets are described in Chapter 7 of the *Guide*.

International banking statistics

9.63 The IBS that are collected and disseminated by the Bank for International Settlements (BIS) are published in the *BIS Quarterly Review* and made available on the BIS website.

9.64 Some of these datasets—for example, locational data—can be relevant to the IIP compilation. The locational banking statistics provide quarterly debtor/creditor information on loans and deposits on banks and nonbanks by economy using balance of payments concepts. In some economies, the compiler uses the data on loans and deposits in relation to nonbanks vis-à-vis individual countries (*BIS Quarterly Review*, International Banking Statistics, Table 7B, External Loans and Deposits of Reporting Banks vis-à-vis the Nonbank Sector) to supplement other balance of payments and IIP data sources. The data provide information

on nonbanks¹⁵ claims and liabilities with nonresident banks and serve to compile part of the other sectors components of other investment assets and liabilities. Specifically, the table shows amounts outstanding and estimated exchange-rate-adjusted changes of external loans and deposits of reporting banks concerning the nonbank sector and individual economies. Also, the compiler can use Table 8A from the *BIS Quarterly Review*, which shows simultaneously a bank's location, its nationality, the location of its counterparty, and type of claim, specified for banks and nonbanks.¹⁶

9.65 The most common BIS locational IIP data used by the compiler are the outstanding amounts of deposits of nonbanks because reliable national data sources are often nonexistent.¹⁷ The BIS data can be used to compile the position on assets of other sectors in the form of deposits and the outstanding amounts of loans for their economy to compile the other sectors liabilities in loans.¹⁸ Similarly, the compiler can use the relevant estimated exchange-rate-adjusted changes of deposits and loans (transactions) in the balance of payments. However, the BIS data do not provide a breakdown by short- and long-term maturity of the loans.

9.66 It needs to be emphasized that the information from the BIS statistics is *partial* regarding the coverage of these IIP components, since it includes only the positions of economies participating in the BIS international banking statistics.¹⁹

9.67 Although the international banking statistics also provide counterpart economy information on loans and deposits vis-à-vis banks, the compiler usually does not use these data, since national statistics generally provide more comprehensive information on such positions. The data may be used to cross-check national sources.

¹⁵Nonbanks include other sectors—other financial corporations, nonfinancial corporations, households, and NPISHs—as well as the general government sector. If another data source is used to compile data for the government sector, the compiler needs to take this into account to avoid double counting.

¹⁶Starting with data for Q2 2012, a vis-à-vis economy dimension was added in the nationality statistics (Table 8A) so as to see a more granular geography of banks' assets and liabilities.

¹⁷Enterprise surveys or household surveys may attempt to collect information on deposits abroad of nonbanks.

¹⁸If economies maintain an external debt register, the external loans of nonbanks could be included in the register. In this case, the BIS data could be used to verify the national data source.

¹⁹As of March 2013, 44 countries, including major banking centers, report these data to the BIS.

9.68 Tables 14A and 14B (*BIS Quarterly Review*, Debt Security Statistics²⁰) can provide some information on an economy's liabilities related to issuing international securities by maturity and residence of issuer. It should be mentioned that since this source reports only issued securities (international securities issued abroad and domestic market issues (the latter for economies that report domestic issues to the BIS)), data on holdings are not available. Therefore, the compiler should be cautious when using these data for IIP (and balance of payments) purposes.

9.69 For quarterly IIP compilation, the statistical release of the provisional quarterly BIS data would not provide the compiler with quarterly IIP data in time to meet standard quarterly timeliness requirements. However, the BIS data could be used to revise estimated data for the previous quarter.

9.70 The IIP components that could use BIS data as a data source are identified in Table 9.5 by the acronym BIS.

Other Statistics

9.71 Other data sources for the IIP are discussed in Chapter 7—the CPIS, the CDIS, and partner economy data. Data reported to the World Bank for the QEDS database should be fully consistent with IIP data on debt liabilities and usually are derived from the IIP. However, if external debt statistics are compiled and reported to the World Bank not by the institution in charge of balance of payments/IIP compilation, the QEDS data can be used for cross-checking purposes.

Other Data Sources

Security-by-security data collection system on tradable securities

9.72 For economies that use a security-by-security data collection system to compile portfolio investment in the IIP, these data should be available with a high frequency and could be used for IIP compilation, including for quarterly IIP. Typically, the information is obtained from resident custodians and from resident end-investors. The resident custodians report positions in securities with nonresidents for their own account and on behalf of other residents.

9.73 The IIP components that could use a security-by-security data collection system as a data source are identified

in Table 9.4 by the acronym SBS. More details on security-by-security databases are presented in Chapter 10.

Registers of external loans

9.74 Some compilers use registers of external loans to obtain data on loans received or extended by the nonbank sector. These data, often collected for exchange control purposes, allow monitoring of both loans to/from nonresidents and, in some cases, nonmarketable securities issued to nonresidents. If the exchange control is abolished, the administrative documents and arrangements created for that purpose might be adaptable for statistical purposes. The figures obtained from this source usually cover loans both between related companies (parent companies and affiliates) and between unrelated companies.

9.75 The IIP components that could use registers of external loans as a data source are identified in Table 9.5 by the acronym RL.

Surveys

9.76 It is evident that the data sources outlined so far will not comprehensively cover the data required for compiling IIP statistics. Most commonly, data gaps will occur for external positions of the private nonbank sectors (other financial corporations, nonfinancial corporations, households, and NPISHs²¹).

9.77 To close gaps in the collection of company data, usually economies will develop surveys on companies' external financial assets and liabilities. When designing a survey system—for enterprise surveys or portfolio investment surveys—the compiler has to consider the various other data sources that he/she intends to use, to avoid duplication or omission in the overall compilation system. Chapter 3 discusses enterprises surveys.

9.78 The compiler may find it difficult to collect data on households' external assets and liabilities through household surveys, since underreporting and nonresponse in such surveys are likely to be substantial (especially on the assets side). In most economies, the compiler will need to collect these data by surveying financial intermediaries and custodians (e.g., for portfolio investment) or by using international data sources as outlined earlier.

9.79 The IIP components that could use enterprise surveys as a data source are identified in Table 9.5 by the acronym SUR.

²⁰International debt securities by economy of residence—Table 14A, Money Market Instruments. Also, Table 14B, Bonds and Notes.

²¹Nonprofit institutions serving households.

Summary Table of Possible Data Sources

9.80 The compiler can determine whether the data sources already presented are consistent with the IIP requirements for his/her economy. Even after an economy has developed a more comprehensive data collection system for compiling the IIP, the data sources described here can still prove useful for cross-

checking purposes. Table 9.5 summarizes the possible data sources by the main IIP components.

Deriving Quarterly Positions from Quarterly Transactions

9.81 This section examines how to derive quarterly positions data from quarterly transactions data as pre-

Table 9.5 Possible Data Sources for Compiling an IIP Statement

	Possible data sources	
	Assets	Liabilities
Direct investment		
Equity and investment funds shares	SUR/FS/AP/FP/CDIS	SUR/FS/AP/FP/CDIS
Debt instruments	SUR/FS/FP/RL/CDIS	SUR/FS/FP/EDS/RL/CDIS
Portfolio investment		
<i>Equity and investment funds shares</i>		
Central Bank	CPIS	CPIS
Deposit-taking corporations, except the central bank	CB	n.a.
General government	DTC/SBS	DTC/SBS
Other sectors	GFS/SBS	n.a.
Other financial corporations		
Nonfinancial corporations, households, and NPISHs	SBS/SUR/OFC	SBS/SUR/OFC
<i>Debt securities</i>	SBS/SUR	SBS/SUR
Central Bank	CPIS	CPIS
Deposit-taking corporations, except the central bank	CB	CB/EDS
General government	DTC/SBS	DTC/SBS/EDS
Other sectors	GFS/SBS	GFS/SBS/EDS
Other financial corporations		
Nonfinancial corporations, households, and NPISHs	SBS/SUR/OFC	SBS/SUR/EDS/OFC
Financial derivatives (other than reserves) and employee stock options	SBS/SUR	SBS/SUR/EDS
	SUR/DTC/CB/OFC	SUR/DTC/CB/OFC
Other investment		
<i>Other equity</i>	SUR/DTC/CB/OFC	SUR/DTC/CB/OFC
<i>Currency and deposits</i>		
Central Bank	CB	CB/EDS
Deposit-taking corporations, except the central bank	DTC	DTC/EDS
General government	GFS	GFS/EDS
Other sectors		
Other financial corporations	SUR/BIS/OFC	SUR/EDS/OFC
Nonfinancial corporations, households, and NPISHs	SUR/BIS	n.a.
Loans		
Central Bank	CB	CB/EDS
Deposit-taking corporations, except the central bank	DTC	DTC/EDS
General government	GFS	GFS/EDS
Other sectors		
Other financial corporations	SUR/RL/OFC	SUR/EDS/RL/BIS/OFC
Nonfinancial corporations, households, and NPISHs	SUR/RL	SUR/EDS/RL/BIS

Table 9.5 Possible Data Sources for Compiling an IIP Statement (*concluded*)

	Possible data sources	
	Assets	Liabilities
Insurance, pension, and standardized guarantee schemes		
Central Bank	CB	CB/EDS
Deposit-taking corporations, except the central bank	DTC	DTC/EDS
General government	GFS	GFS/EDS
Other sectors		
Other financial corporations	SUR/OFC	SUR/EDS/OFC
Nonfinancial corporations, households, and NPISHs	SUR	SUR/EDS
Trade credit and advances		
Central Bank	CB	CB/EDS
Deposit-taking corporations, except the central bank	DTC	DTC/EDS
General government	GFS	GFS/EDS
Other sectors		
Other financial corporations	SUR/RL/OFC	SUR/EDS/RL/OFC
Nonfinancial corporations, households, and NPISHs	SUR/RL	SUR/EDS/RL
Other accounts receivable/payable-other		
Central Bank	CB	CB/EDS
Deposit-taking corporations, except the central bank	DTC	DTC/EDS
General government	GFS	GFS/EDS
Other sectors		
Other financial corporations	SUR/OFC	SUR/EDS/OFC
Nonfinancial corporations, households, and NPISHs	SUR	SUR/EDS
Special drawing rights (allocations)		
	n.a.	CB/EDS
Reserve assets		
	CB/GFS	n.a.
Total assets/liabilities		
n.a. = Not applicable.		
NPISHs = Nonprofit institutions serving households		
Source: <i>BPM6</i> , Appendix 9, IIP, pages 309-312		
DTC Deposit-taking corporations, except the central bank	CPIS Coordinated Portfolio Investment Survey	
CB Central Bank	CDIS Coordinated Direct Investment Survey	
OFC Other financial corporations	SUR Enterprise surveys	
GFS Government Finance Statistics	AP Approvals/licensing of foreign Investment	
BIS Bank for International Settlements	FP Financial press	
EDS External debt statistics	FS Financial statements	
SBS Security-by-security database	RL Register of external loans	

Source: IMF staff.

sented in the *IIP Guide*.²² For economies that compile annual IIP data, the same strategy could be used with annual position data and annual balance of payments data.

9.82 For those cases where there are no quarterly position data sources and where quarterly position surveys are not feasible, the compiler may consider deriving quarterly IIP position data from transactions

data in the financial account of the balance of payments, assuming quarterly balance of payments transactions are available in appropriate detail.²³ A detailed discussion can be found in the *EDSG*, Chapter 12.

²² Available in six languages at <http://www.imf.org/external/np/sta/iip/2011/030111.htm>.

²³ SDDS subscribers are required to disseminate quarterly balance of payments data and quarterly IIP. For some components, balance of payments transactions may not be available on a quarterly basis or there may be a lag that does not meet the timeliness needs of quarterly IIP compilation. In this case, the guidance provided in the part on carry forward would apply.

9.83 However, the use of accumulated transactions to estimate positions is a weak basis for estimating IIP, because errors can be easily introduced and, consequently, they tend to be retained in the estimates only until a survey of positions data can be undertaken.²⁴

9.84 In principle, the value of a position at the end of a period is equal to the value of the position at the beginning of the period plus the following:

- Transactions
- Other changes in volume
- Exchange rate changes
- Other price changes

9.85 The following Example 9.1 illustrates how transactions data can be used to derive quarterly position data. The example assumes that position data are available on an annual basis; therefore position data for the beginning of the period would be avail-

²⁴For specific items, like financial derivatives, quarterly positions should not be derived from quarterly balance of payments transactions. See the *IIP Guide*, Frequently Asked Questions #5 (page 28) for further discussion.

able. If information on currency composition is available, other assumptions become easier to make—for example, if information on the currency composition is known, the impact of changes in exchange rates can be calculated and other price changes can also be calculated. Changes in stock or bond price indexes (which will include the impact of changes in economic outlook and market interest rates) can be used to calculate other price changes. In the example, amounts in bold reflect source data available to the IIP compiler.

9.86 The results are an approximation of the actual position partly because the calculations for converting transactions into end positions use the *average* exchange rate during the period instead of the actual exchange rate in effect at the time of each transaction. When using average rates, the shorter the reference period the better.

9.87 In the absence of data on the currency composition, the compiler could do the following:

- Match the *trade-weighted exchange rate* to a *financial instrument-weighted exchange rate* by conducting a simple enquiry with some of the more important economic agents, in order to calculate a correlation between the two exchange

Example 9.1 Estimation of quarterly position data¹

Estimation of quarterly position data using transactions, exchange rate changes, and price changes

Direct investment asset—equity (traded)

Assumptions:

The currency composition of position and transaction data is available denominated in foreign currency (U.S. dollars) and reported in domestic currency.

The stock market price at end of period and average stock market price are available.

No other changes in volume.

Position at December 31, 2012, in domestic currency: 1,500

Transactions during 2013 in domestic currency: Q1 = 150, Q2 = 50, Q3 = -100, and Q4 = 200.

	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
Source data: Denominated in foreign currency (U.S. dollars) and reported in domestic currency					
(a) Opening position in domestic currency		1,500	2,272	1,912	1,755
(b) Transactions in domestic currency		150.0	50.0	-100.0	200.0
(c) Average stock market prices during the quarter		1.066	1.070	1.055	1.040
(d) Stock market price at end of quarter	1.100	1.045	1.068	1.025	1.033
(e) Average exchange rate (units of domestic currency to U.S. dollars)		12.0	12.5	14.5	15.5
(f) Exchange rate at end of quarter	10.0	14.0	11.5	11.0	14.0

Example 9.1 Estimation of quarterly position data¹ (concluded)

	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
Step 1: Revaluation of transactions and positions to U.S. dollars					
(g) Transactions in U.S. dollars = (b)/(e)		12.5	4.0	-6.9	12.9
(h) Opening positions in U.S. dollars = (a)/(f [for t-1])		150.0	162.3	166.3	159.5
Step 2: Revaluation of transactions and positions for effect of changes in prices					
(i) Estimated value of transactions (that occurred during the quarter) in terms of their prices at end of quarter position in U.S. dollars = (g)*[(d)/(c)]		12.3	4.0	-6.7	12.8
(j) Estimated value of opening position in terms of price changes at end of quarter position in U.S. dollars = (h)*(d [for t])/(d [for t-1])		142.5	165.8	159.6	160.8
Step 3: Calculation of closing positions in U.S. dollars					
(k) Closing positions in U.S. dollars = (h) + (i)		162.3	166.2	159.4	172.4
Step 4: Revaluation of closing positions to domestic currency					
(l) Closing positions in domestic currency = (k)*(f [for t])		2,271.6	1,911.8	1,755.0	2,413.1
Step 5: Calculation of price changes					
(m) Price changes reflecting revaluation of transactions in U.S. dollars = (i) - (g)		-0.2	-0.01	0.2	-0.1
(n) Price changes reflecting revaluation of transactions in domestic currency = (m)*(e)		-3.0	-0.1	2.8	-1.3
(o) Price changes reflecting revaluation of position in U.S. dollars = (j) - (h)		-7.5	3.6	-6.7	1.2
(p) Price changes reflecting revaluation of position in domestic currency = (o)*(e)		-90.0	44.6	-97.1	19.3
(q) Total price changes reflecting revaluation of transactions and position in domestic currency = (n) + (p)		-93.0	44.5	-94.2	18.0
Step 6: Calculation of exchange rates changes					
(r) Exchange rate changes in domestic currency = (l) - (a) - (b) - (q)		715	-454	37	440
Step 7: Compilation of IIP (in domestic currency)					
	Opening position	Transactions	Price changes	Exchange rate changes	Closing position
2013 Q1					
Direct investment, assets, equity	1,500	150	-93	715	2,272
2013 Q2					
Direct investment, assets, equity	2,272	50	45	-454	1,912
2013 Q3					
Direct investment, assets, equity	1,912	-100	-94	37	1,755
2013 Q4					
Direct investment, assets, equity	1,755	200	18	440	2,413

Note: Totals may not equal sum of components due to rounding.

¹More examples are available in the *IIP Guide*.

rates; the *calibrated* trade-weighted exchange rate would then be applied to the respective financial instrument. This enquiry could be reviewed every year or so, if no currency composition is available to the compiler. If it is not possible to calculate a calibrated trade-weighted exchange rate, the compiler could assume that all instruments denominated in foreign currency are in the same currency. This “currency” could be the known dominant currency in the economy’s financial transactions, such as the U.S. dollar, the euro, the Japanese yen, or the pound sterling. However, this could lead to a biased estimate of exchange-rate effects and consequently of positions.

- In the absence of data on the currency composition for every domestic sector or functional category, the compiler might be able to use the currency composition of one sector, such as banks, as a proxy for other sectors. This could be done only if there is evidence that there is some similarity between the currency composition of banks and the other sectors, or if external positions of nonbanks are believed to be small. In order to determine this, a comparison could be made for a period when the currency composition for all sectors is available. This methodology should be used only until new information is available as it could introduce errors.

9.88 When actual market values are not available—for example, for untraded equity—information on book value can be collected from companies, and then adjusted as necessary. As noted earlier, OFBV is an accepted proxy for market value. If information on OFBV is not available to the compiler, then ratios based on suitable price indicators, such as the ratio of market capitalization²⁵ to book value for listed companies in the same economy with similar industrial activity could be used as a proxy until other source data are available.

9.89 In terms of data quality, these equations can serve to cross-check or verify transactions or positions data. For example, if the beginning and end position data are available as well as the currency composition and the relevant price index, then the transactions data reported in the balance of payments can be cross-checked. Potential errors and omissions in the balance of payments may be identified through this exercise.

²⁵See the *BPM6*, paragraph 7.16 (d).

Carry Forward

9.90 In the absence of quarterly transactions data or any reliable quarterly position data estimate for any individual item, the most recent position figure could be carried forward (i.e., use the same position figure) until other source data are available. For example, for trade credit liabilities denominated in domestic currency, if transaction data are available only on an annual basis, the position data at the beginning of the period could be carried forward each quarter until the annual transactions data are available. This method could be utilized for quarterly position estimates that are relatively small. Quarterly statistics would have to be revised when the annual data are introduced. For any significant positions, the compiler should use some methods (such as outreach to the largest companies or custodians) to determine the direction and the relative size of the change in positions, and to adjust its carry forward estimate accordingly.

Other Changes in Financial Assets and Liabilities Account

9.91 In the international accounts, the other changes in financial assets and liabilities account shows changes in financial positions that arise for reasons other than transactions between residents and nonresidents. These changes are also called other flows. There are two broad categories in this account—other changes in volume and revaluations (consisting of *exchange rate changes* and *other price changes*).

Revaluations

9.92 Revaluations occur because of a change in the monetary value of a financial asset or liability due to changes in the level and structure of its price. Revaluations may also be called holding gains or losses. Revaluation takes into account all price changes during the period, regardless of whether realized. Holding gains and losses are *realized* when the asset is sold or liability extinguished. Holding gains and losses on unsold assets and unpaid liabilities are *unrealized*, but are recorded as revaluations. Also, changes in technical reserves resulting from holding gains or losses are not transactions and therefore are recorded in the revaluation account. The example presented in “Deriving Quarterly Positions from Quarterly Transactions” includes techniques for calculating exchange rate changes and other price changes. More examples can be found in the *IIP Guide*.

Debt reorganization

9.93 A debtor and creditor may change the terms of a debt agreement. The terms may be changed such that the value of the new claim differs from the value of the old claim. In commercial situations, differences in values between old and new claims are generally treated as a valuation change. Information about the agreement may be available from the books of the debtor or creditor. If the terms of the agreement are publicly available, this could also be useful for understanding the nature of the agreement.

Financial derivatives and employee stock options

9.94 The exchanges of claims and obligations at the inception of a derivative contract are financial transactions creating asset and liability positions that normally have, at inception, zero value if the instrument is a forward-type contract and value equal to the total premium payable if the instrument is an option. Changes in the value of derivatives due to change in the underlying item are recorded as revaluation. The compiler generally collects position data on financial derivatives through a survey of companies involved in the financial derivatives trading. Data sources for financial derivatives transactions and positions are described in Chapter 10; for recording of forward contracts in balance of payments and IIP, see Box 10.5 in the same chapter.

Implications of different treatments of retained earnings

9.95 For direct investors' equity in their DIENTs and for investment fund shares, retained earnings are imputed as being payable to the owners and re-invested as an increase in their equity. In cases of equity under reverse investment (equity investment of DIENT in direct investor that constitutes less than 10 percent of total equity capital), portfolio investment, or other investment, no imputation of income being payable to the owners and of consequent financial account transactions as result of reinvestment of earnings is recorded. However, the increase in the value of reverse investment, portfolio investment, and other investment equity caused by the accumulation of retained earnings is reflected as revaluation. Data sources for retained earnings for reverse investment and portfolio investment could be the same as for

direct investment (described in Chapter 10) if they provide also for the collection of data on portfolio investment. Data sources for other investment equity are limited (e.g., administrative records), and the values involved may not be significant.

Implications of trading of instruments that are recorded at nominal values in positions

9.96 Nominal valuation is used for positions in nonnegotiable instruments—namely, loans, deposits, and other accounts receivable/payable. However, when transactions in these instruments do occur, they are valued at market prices, with transaction prices often being less than the nominal values, because the market price takes account of the possibility of default. To account for the inconsistency between the market valuation of transactions and nominal valuation of positions, the seller records other price changes during the period in which the sale occurs, equal to the difference between the nominal and the transaction value. The buyer records an opposite amount as other price changes. Information on such transactions may be available from a debt database or register maintained by authorities or from the books of the creditor/debtor.

Implications of treatment of interest

9.97 Any indexation amounts not included in interest are classified as revaluation. Information may be available from the books of the debtor/creditor.

Other Changes in the Volume of Financial Assets and Liabilities

9.98 Other changes in the volume of financial assets and liabilities are any changes in the value of these assets that are due neither to transactions nor to revaluation. Most of these changes are not common or reoccurring; therefore establishing data sources may be challenging. However, if the value is significant, efforts should be made to establish a data source. The four most common examples of other changes in volume of financial assets and liabilities are listed in Table 9.6.

Cancellation and write-offs

9.99 This occurs when there is a reduction or cancellation of liabilities by other than normal repayment. For example, a creditor may recognize that a

Table 9.6 Examples of Other Changes in the Volume of Financial Assets and Liabilities

1.	Cancellation and write-offs
2.	Reclassifications
	a) Tradable loans
	b) Change in contractual terms
	c) Transactions in existing assets
	d) Changes in functional category
	e) Monetization and demonetization of gold bullion
	f) Reclassification of unallocated gold accounts
3.	Financial assets and liabilities of persons and other companies changing residence
4.	Changes in insurance reserves, pension entitlements, and provisions for standardized guarantee schemes

Source: IMF staff.

financial claim can no longer be collected because of bankruptcy or other factors and the creditor may remove the claim from its balance sheet. This recognition (by the creditor) should be accounted for as other changes in volume of assets. The corresponding liability should also be removed from the balance sheet of the debtor.²⁶ With respect to direct investment, if exploration of natural resources proves unsuccessful (e.g., dry oil wells) and results in the shutdown of the notional DIET, a negative adjustment for the remaining value of the company should be recorded as a write-off by the two economies involved.

9.100 Regarding the data sources, if a write-off is large, it may appear in the financial statements of the creditor (for example, a bank or a direct investor) or the debtor. If an economy has a register of external loans received or extended and a loan is written off, this information could be available to the compiler. Information may also be available through direct reporting of the companies involved.

Reclassifications

9.101 A reclassification entry is necessary when a financial asset or liability changes its characteristics or status without there having been a cross border transaction.

²⁶See the *BPM6*, paragraphs 9.8–9.12, for further details.

Tradable loans

9.102 Loans that have become negotiable from one holder to another are to be reclassified from loans to debt securities under certain circumstances.²⁷ Through reclassification, the nominal value of the old loan is deducted and the market value of the new security is added. Therefore, the values of two reclassified instruments may differ. If the amount is significant, the compiler may learn about this reclassification from the direct reporting by companies or a security-by-security data collection system.

Change in contractual terms

9.103 The original terms of a contract may provide that the maturity and interest rate terms change as a result of an event such as a default or decline in credit rating. This would result in a reclassification.²⁸ If the instrument involved is a security, the change in maturity and interest rate may be recorded in a security-by-security database. If the instrument is a loan, the information may be available in a register of external loans. Alternatively, the information may be available through an enterprise survey that collects information on a loan-by-loan basis.

Transactions in existing assets

9.104 Transactions in existing assets can result in changes in the composition of assets and liabilities in the IIP. When a financial instrument (such as a security) issued by a nonresident is sold by a resident in one institutional sector (e.g., a depository corporation) to a resident in another institutional sector (e.g., a nonfinancial corporation), the composition of assets by sector in the IIP changes by a reclassification. In terms of data source, however, the information available on transactions in claims constituting external assets may not permit identification of the two parties to the transaction. That is, the compiler may not be able to ascertain whether a resident, who acquired or relinquished a claim on a nonresident, conducted

²⁷For such reclassification, there needs to be evidence of secondary market trading, including the existence of market makers, and frequent quotations of the instrument, such as provided by bid-offer spreads (*BPM6*, paragraph 5.45).

²⁸In contrast, a change in the terms as a result of renegotiation by the parties is a transaction, and thus is shown as a repayment of the old instrument and issue of a new one in the financial account (*BPM6*, paragraph 9.15).

the transaction with another resident or with a non-resident, or whether a nonresident dealt with another nonresident or with a resident. A security-by-security database that provides information on the holder may provide the compiler with necessary information.

Changes in functional category

9.105 As a result of a change in the relationship between the parties or change in the liquidity of assets, the functional category may be changed. For example, if the relationship between the parties changes from portfolio to direct investment (or vice versa) because the investor acquired (sold) equity holdings and as a result qualifies as a direct (portfolio) investor, the previous holdings would be reclassified from portfolio (direct) investment to direct (portfolio) investment. The compiler should be able to use the information by investor reported on enterprise surveys as a data source for this reclassification. In addition, the notes to financial statements of companies may be a source to identify changes in equity participation in nonresident companies.

Monetization and demonetization of gold bullion

9.106 Gold bullion can be a financial asset (monetary gold) or a good (nonmonetary gold), depending on the holder and the motivation for holding. Monetization is the change in the classification of gold bullion from nonmonetary to monetary. Demonetization is change in the classification of gold bullion from monetary to nonmonetary. For example, when a monetary authority purchases gold bullion from a nonresident that is not a monetary authority or international financial organization, the transaction is recorded in nonmonetary gold in the goods and services account. Monetization of the gold bullion occurs immediately after the transaction and is shown in the other changes in assets and liabilities account of the monetary authority.²⁹ The compiler should be able to collect this information directly from the monetary authorities.

Reclassification of unallocated gold accounts

9.107 Unallocated gold accounts are classified as currency and deposits unless they are held by the

monetary authorities as part of reserve assets. If a monetary authority acquires an unallocated gold account to be classified as reserve assets, it is recorded first as a transaction in other investment currency and deposits. Then it is reclassified from other investment currency and deposits to monetary gold (unallocated gold accounts) as a change of classification in the other changes in the volume of assets and liabilities account. The compiler should be able to collect this information directly from the monetary authorities and other depository corporations.

Financial assets and liabilities of persons and other entities changing residence

9.108 When persons and other entities change their economy of residence, their existing financial assets and liabilities are added to or removed from the IIP through a reclassification and not by imputing transactions in the balance of payments. The treatment of change in residence applies to all the financial assets and liabilities, not just those that are shifted to the new economy of residence. For example, if a resident of economy A moves and becomes resident of economy B and maintains his bank account in economy A, this would be recorded in the IIP of economy A as an increase of liabilities to nonresidents (currency and deposits—other depository corporations) through a reclassification, not a transaction. In addition, the person changing residence may keep his real estate in economy A. This would be recorded as an increase in direct investment liability in economy A also through reclassification.

9.109 If depository corporations in economy A maintain information in their databases that show economy of residence of the depositor, this could be used as a data source to compile this information. Also, if economy A maintains a register of real estate owned by nonresidents and monitors the register for changes in residence, the compiler may be able to access this as a data source. Information for such type of reclassification may also be available through a household survey.

9.110 In the exceptional case when corporate change of residence occurs (see *BPM6*, paragraph 4.167), the change in the residence of the owner of financial assets and liabilities is treated as a reclassification, in the same way as a change of residence

²⁹Other examples on monetization and demonetization of gold can be found in the *BPM6*, paragraph 9.18.

of individuals. This information may be available through an enterprise survey.

Insurance reserves, pension entitlements, and provisions for standardized guarantee schemes

9.111 Changes in model assumptions can give rise to other changes in the volume of insurance reserves, pension entitlements, and provisions for standardized guarantee schemes. For an annuity, the relationship between premiums and benefits is usually determined when the contract is entered into, taking account of mortality data available at that time. Any subsequent changes will affect the liability of the annuity provider towards the beneficiary. The consequent changes in provisions would be recorded as other changes in volumes. Insurance companies could be a data source for this item, if significant.

Other Changes in Financial Assets and Liabilities and Reconciliation Statement

9.112 Entries in the reconciliation statement for other changes are usually associated with changes in the volume (as opposed to the revaluation) of external assets and liabilities. These entries should be subjected to further scrutiny, as they can reflect debt write-off or activation of guarantees (or incorrectly, debt forgiveness, which should be recorded as a transaction).

9.113 External information can be used to validate the quality of the reconciliation items in the reconciliation statement:

- If the domestic currency is generally appreciating (depreciating) against other currencies, then the exchange rate changes will generally decrease (increase) the value of foreign currency assets and liabilities.
- If domestic stock indexes are increasing (decreasing), reflecting broad-based increase in the value of stocks, then price changes will increase (decrease) the value of external equity liabilities, and similarly for global stock indexes and the value of external equity assets.
- If domestic interest rates are increasing (decreasing), then the market price of tradable debt security liabilities (to the extent that these are dominated by domestic issues in the domestic currency) will decrease (increase) the value of external liabilities.
- To the extent that domestic equities are issued in the domestic currency, then the exchange rate impact on these liabilities will be zero.
- By definition, the price changes on other investment debt instruments will be zero except in the unusual circumstances where these instruments are traded at a value different from nominal value.



10

The Financial Account

Introduction

10.1 The financial account records transactions that involve financial assets and liabilities and that take place between residents and nonresidents. This chapter identifies the data sources that could be used for compiling estimates of financial account transactions,¹ and discusses compilation issues, as well as the various techniques that could be employed when source data are unavailable or deficient.²

10.2 The financial account is subdivided according to functional and instrument categories. This chapter is structured according to the five functional categories of investment in the international accounts: direct investment, portfolio investment, financial derivatives (other than reserves) and employee stock options, other investment, and reserve assets. These functional categories are built on financial instruments classifications, but with an additional dimension that takes into account some aspects of the relationship between the parties and the motivation for investment.³

Direct Investment⁴

Concept and Coverage

10.3 Direct investment (DI) is a category of cross border investment associated with a resident in one economy having control or a significant degree of influence on the management of a company that is resident in another economy. In addition to funds, direct investors may supply additional contributions such as expertise, innovation, technology, management, and marketing. As well as the equity that gives rise to control or influence, DI also includes investment

associated with that relationship, including investment in indirectly influenced or controlled companies, investment in fellow enterprises, debt, and reverse investment. Appendix 4 of this *Guide* provides guidance on the compilation of DI statistics and discusses the treatment of fellow enterprises, identification of ultimate controlling parents (UCP), and issues on statistical units. A model form for collecting data from companies is provided in Appendix 8. Guidance on production sharing arrangements (PSA) that have become an important channel for investment flows, particularly in extractive industries, is provided in Box 10.1.

10.4 In some cases companies operate as a seamless operation over more than one economic territory, typically for cross border activities such as airlines, shipping lines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels, and undersea cables. If possible, separate branches should be identified for each economy (see *BPM6*, paragraphs 4.26–4.33). If that is not possible because the operation is so seamless that separate accounts cannot be developed, it is necessary to prorate the total operations of the company into the individual economic territories. The factor used for prorating should be based on available information that reflects the actual operations. Further guidance is given in paragraphs 8.68–8.70.

10.5 The same concept of DI is used in the OECD *Benchmark Definition of Foreign Direct Investment (BD4)*.

Motivation for Direct Investment

10.6 The benefits that direct investors expect to derive from having a voice in management are different from those derived by portfolio investors who cannot exercise significant influence over the companies in which they invest. From the viewpoint of direct investors, direct investment enterprises (DIENT) often represent units in multinational operations. The overall profitability of these depends on advantages gained by deploying resources available to each unit in the group in ways that best enhance group synergy.

¹See also Chapter 9 of the *Guide*.

²This chapter discusses the derivation of transactions from positions. The *Quarterly International Investment Position Statistics: Data Sources and Compilation Techniques (IIP Guide)* identifies techniques for deriving quarterly positions from quarterly transactions.

³See the *BPM6*, Chapter 6, Table 6.1, for links between financial assets classification and functional categories.

⁴See Appendix 4.

Box 10.1 Production Sharing Arrangements and Direct Investment

Production sharing arrangements (PSA) are arrangements between a government (acting on behalf of the state as the owner of the mineral resources) and investors that govern exploration and production rights. These contracts are intended to provide a predictable legal and tax regime and are internationally recognized in law. While PSA models vary across economies, they usually include the following elements: (1) the investor or operator pays royalties to the government; (2) the investors receive production revenues to cover expenses; (3) "profit production" is split between the government, the operator, and investors on the basis of a negotiated formula that takes into account the characteristics of the project (usually a sliding scale is included to deal with the impact of changes in the world price of the commodity); and (4) the operator and/or investors pay taxes on their portion of profits on production.¹

In some economies, PSAs are not incorporated as legal companies in the host economy and use special accounting principles, and the principal parties to the contract have limited statistical reporting obligations. Implementation of the arrangements may be overseen by a government agency that manages the government's interests in the PSAs; but it, for statistical purposes, may not be the operating company. Further, in some economies, PSA information is confidential. Provided ahead are broad guidelines on adapting the *BPM6*-based guidelines for determining the nature of cross border transactions and positions, in the context of PSAs.

As a starting point, the compiler should first identify the operating company, and then establish the existence of a direct investment relationship between the operating company and its foreign owner(s), assuming the requirements for direct investment are met (production is expected to be undertaken on a significant scale, and so forth). As noted earlier, the government agency that manages the state's interests in the PSAs (which may involve different consortiums across different locations) may not be the operating company. The compiler would then need to create an artificial production unit for each PSA; this unit may be identified as a branch when a nonresident unit has substantial operations over a significant period in the host territory, but no separate legal company is established for those operations. Each branch is a direct investment enterprise (DIENT).

In the case where the contracting parties to a PSA comprise a single foreign investor and the government, the former is the direct investor. However, when there are a number of foreign investors (as part of a consortium), determining the nature of the investment relationships is likely to be a challenge in the absence of full disclosure on the terms and conditions of PSAs. PSAs may identify the rights of contacting parties with regard to participating interests that are usually linked to shares in profit production (or profits). These participating interests, from a statistical viewpoint, do not provide the criteria for determining a direct investment relationship. The investor that has clearly assigned responsibilities for operating the production unit (the branch) should be considered as the direct investor for statistical purposes.

PSA contracts may also define arrangements with regard to the lease of resources, with the nonresident investors making payment to the government for the acquisition of mineral rights (for exploration and extraction) over a finite period. For statistical purposes, the foreign contractors (consortium) should be regarded as having acquired a lease that amounts to a permission to use natural resources that are not recorded as outright ownership of these resources. Except for the direct investor's share, this acquisition is recorded as a debit entry in the capital account under *acquisitions/disposals of nonproduced, nonfinancial assets*. The direct investor's share is recorded in the financial account, under direct investment, equity and investment fund shares. The foreign parties in the consortium (nonresident) in turn make these mineral rights available to the operating company, and are paid a rent to be recorded as a credit entry in the recipient's primary income account (*other primary income, rent*).

However, cases may also arise where a government sells the resource, evidenced by the government ceding all rights over it to another unit (such as an outright sale, or under a very long-term lease during which period the government has ceded all rights to the resource and the resource is expected to be fully extracted from land). With limited exceptions (see *BPM6*, paragraph 4.5(e)), mineral resources can be owned only by resident units; and accordingly notional resident units would need to be established, with the foreign parties becoming direct investors in a DIENT that is distinct from the operating company. In this case, the payments made for the acquisition of the resources are recorded in the financial account, under direct investment, equity, and investment fund shares. Subsequent transactions between these DIENTs and/or between any of the DIENTs and the government are resident-resident transactions, and are not included in the balance of payments.

Regarding the flows between the direct investor and the DIENT, identifying how the production sharing agreement is organized is a starting point for identifying potential transactions. Resident parties to the contract are the government, or agency acting on its behalf. They would obtain their share of the mineral revenue (or share of production), representing both their cost recovery and income on their investments. Royalties may also be paid to the government. These

Box 10.1 Production Sharing Arrangements and Direct Investment (concluded)

are resident-resident transactions. The direct investor would receive payments that represent a recovery of its capital investment (this would reduce direct investment liabilities in the reporting economy), and direct investment income, sometimes termed “cost oil” and “profit oil” respectively in PSAs.

Additionally, the foreign consortium may also make financial resources available to the operating company, and would also be paid income corresponding to the requisite financial instrument (e.g., loans, trade credit and advances, other accounts payable). The consortium may also provide services and operational leases to the operating company. These should be considered as balance of payments transactions, and classified in line with the *BPM6* guidelines for these components.

Given the challenges of data collection, the compiler could develop alternative solutions to estimating the balance of payments transactions, including the construction of an income statement for the DIENT using available information such as export revenue, royalties and taxes paid to the government, and industry benchmarks for intermediate consumption and profit margins.² Deriving external transactions and positions remain a challenge, not least because comprehensive income statements and balance sheets for the operating companies generally do not exist. Further, there is generally a short repayment cycle for trade credits and advances made to the operating company; these are typically settled through transactions executed outside the domestic banking system, usually by the consortiums (which tend to perform the role of marketing agents) recouping outstanding debt obligations from the export proceeds.

Source: IMF staff.

¹This box aims to provide guidance on identifying direct investment transactions and positions in the context of typical PSAs, and is not intended to cover broader types of cross border public-private partnerships. For a discussion of public-private partnerships, see *Public Sector Debt Statistics: Guide for Compilers and Users* (2011), paragraphs 4.119 through 4.126, and the *Government Finance Statistics Manual GFSM 2014*, Appendix 4, Section C. Leases, licenses, permits, and other contracts are discussed in *GFSM 2014*, Appendix 4, Section B.

²An example of the statistical modeling of the PSA financial mechanism is the work of the Central Bank of Russia. See *Production Sharing Agreements: Paper by the Central Bank of Russia Presented to the Twenty-Fourth Meeting of the IMF Committee on Balance of Payments Statistics*, Moscow, Russia (October 24–26, 2011) available at www.imf.org/external/pubs/ft/bop/2011/11-17.pdf.

For example, direct investors may be able to obtain access to resources or markets that would otherwise be unavailable to them. Direct investors may also be able to increase company profitability and value through management skills and other expertise. Therefore, direct investors are in a position to derive benefits in addition to the income that would, without their participation, accrue on invested capital. In contrast, portfolio investors are primarily concerned about return on capital and the likelihood of appreciation. Portfolio investors generally evaluate separately the prospects of each independent unit in which they might invest and often shift their capital with changes in these prospects.

Defining Direct Investment Relationships

10.7 A direct investor is a company resident in one economy that has acquired, either directly or indirectly, at least 10 percent of the voting power of a company resident in another economy. The direct

investor may be an individual; an incorporated or unincorporated private or public company; an associated group of individuals or companies; a government or government agency; or another organization that owns a DIENT in an economy other than the one in which the direct investor resides. A DIENT is a company resident in one economy subject to control or a significant degree of influence by a direct investor. The *BPM6* identifies control and significant influence in two dimensions: (1) immediate direct investment relationships and (2) indirect direct investment through chains of control and significant influence. Immediate direct investment relationships arise when a direct investor directly owns equity that entitles it to 10 percent or more of the voting power in the DIENT (for an incorporated company); or the equivalent (for an unincorporated company). DIENTs comprise unincorporated and incorporated companies that are more than 50 percent owned, and therefore controlled, by the direct investor (subsidiaries of the direct investor),

and companies that are between 10 and 50 percent owned, and therefore significantly influenced, by the direct investor (associates).

10.8 The direct investment relationship extends indirectly through chains of ownership to the DIENT's subsidiaries, subsidiaries and associates of subsidiaries, associates and subsidiaries of associates. Associates directly or indirectly owned by another associate are excluded. It also includes DIENTs in different economies that have a common direct investor but are not in an immediate DI relationship with each other. These are called fellow enterprises.

10.9 The Framework for Direct Investment Relationships (FDIR) is a generalized methodology for identifying and determining the extent and type of DI relationships. In other words, the FDIR allows the compiler to determine the population of direct investors and DIENTs to be included in DI statistics for any company. For a compiling economy, the FDIR identifies all companies related to a particular company whether they are immediate or indirect direct investors, DIENTs, or both. For example, within a multinational group, it is possible that a DIENT itself owns 10 percent or more of the voting power of another nonresident company, in which case the DIENT is itself a direct investor in a further DIENT. The question is therefore whether there is a DI relationship between the further company and the original company.

10.10 There is extensive discussion of the FDIR in the *BD4*, Chapter 3 and Annex 4. There is also discussion in Chapter 6 of the *BPM6*.

Fellow Enterprises

10.11 Fellow enterprises are companies resident in different economies, in a DI relationship with each other (i.e., they have a common immediate or indirect direct investor), but neither company is a direct investor in the other.

10.12 It is not unusual for there to be financial positions and transactions between fellow enterprises, particularly where one of the fellows provides financial services to the broader DI group. Positions between fellows are DI positions (usually debt but noting the usual exclusion from DI for debt positions between selected affiliated financial intermediaries; see *BPM6*, paragraph 6.28). If an equity position between com-

panies provides voting power of 10 percent or more, then one of the companies is a direct investor in the other and they should not be considered fellows.

Selected Affiliated Financial Intermediaries

10.13 The positions of intercompany assets and liabilities between two selected types of affiliated financial intermediaries, including special purpose entities (SPE), principally engaged in financial intermediation, that are recorded under DI are limited to equity and investment fund shares, including reinvestment of earnings.⁵ For this purpose, financial intermediaries engaged in providing financial intermediation services comprise those corporations and quasi-corporations that are grouped in the following subsectors: (1) deposit-taking corporations (both central bank and deposit-taking corporations other than the central bank); (2) investment funds; and (3) other financial intermediaries, except insurance corporations and pension funds. Debt between these financial intermediaries is not classified as DI because it is not considered to be so strongly connected to the direct investment relationship.

10.14 International and regional financial institutions (such as the European Bank for Reconstruction and Development) invest in companies in different sectors of an economy. In cases where these institutions invest in financial intermediaries, the debt flows between the two units are excluded from DI. DI debt between international and regional financial institutions and companies not involved in financial intermediation is included in DI, assuming the criteria for defining direct investment relationships is met.

Investment Funds

10.15 Collective (or pooled) investment funds have grown in importance in global stock markets, and are promoted with a wide range of investment aims targeting either specific geographic regions (e.g., emerging markets) or specified industry sectors (e.g., technology). These funds issue shares that are termed investment fund shares if a corporate structure is used, or units if a trust structure is used. The key features of these investment funds are discussed in the *BPM6*, under money market funds (*BPM6*,

⁵Both affiliated parties must be one of the selected types of financial corporations, but they need not be the same type.

paragraph 4.73) and nonmoney market investment funds (*BPM6*, paragraph 4.74). If these shares or units are held by direct investors, the associated transactions and positions are recorded under DI equity.⁶

10.16 These funds may also operate through institutional units described as SPEs or special purpose vehicles.⁷ SPEs are often resident in a territory other than the territory of their owner, may have few, if any, employees, and may have little or no physical presence. The *BPM6* notes that these entities are always treated as separate institutional units if they are resident in a different territory to that of their owners (*BPM6*, paragraph 4.51).

Valuation of Direct Investment Positions and Transactions⁸

10.17 The *BPM6* recommends that market values be used to value DI financial flows, income transactions, and positions. This recommendation is consistent with valuation principles recommended for recording other entries in the balance of payments and the international investment position (IIP). The recommendation on valuation of DI is made for two primary reasons. First, if inconsistent valuation bases were used, it would be very difficult to make comparisons between DI and other financial investment as shown in the balance of payments and the IIP. Second, market valuation provides the most meaningful measure of the economic value of resources available to, or transferred between, economies.

10.18 When using position data to derive DI transactions, the compiler should pay particular attention to the fact that changes in position would reflect not only transactions but also revaluations (exchange rate and other price changes) and other changes in volume. An example of deriving transactions using data on positions and other price changes is presented in Box 10.2.

10.19 More details on the treatment of statistical units (e.g., company and local enterprise group) and other units, such as notional units, companies established abroad for fiscal purposes, and SPEs, are presented in Appendix 4 of this *Guide*. The appendix also describes possible approaches for valuing direct investment positions.

⁶The use of pooled assets for reserve assets management is discussed in the *BPM6*, Chapter 6.

⁷See the *BPM6*, paragraphs 4.50–4.51, for the characteristics of SPEs.

⁸See the *BPM6*, Chapter 3, Section E.

Data Sources

10.20 The use of surveys of businesses for collecting data on foreign assets and liabilities is discussed in Chapter 3. Direct investment-specific surveys provide the best opportunity for collecting data from respondents, in line with the international statistical standards, as they allow for the concept of DI and the treatment of particular transactions to be explained to respondents. These surveys also allow for the collection of other DI-related information that can be used for analytical purposes and for quality control (see model form 18 in Appendix 8). However, specialized DI surveys incur costs, and may require close inter-agency coordination and cooperation across a number of agencies, including the agency compiling the international accounts, the national statistics office, and investment promotion or regulatory agencies. The main principles for organizing and conducting a survey are presented in Chapter 2.

Box 10.2 Deriving Transactions Using Data on Positions and Other Price Changes

The following illustrative example is based on securities issued in U.S. dollars, with opening and closing positions as follows: opening position = US\$1,200, and closing position = US\$1,700.

The market value of the security (per unit) is as follows:

Opening position:	US\$0.75
Closing position:	US\$0.50
Average price	US\$0.60

Step 1

Revalue the opening period position using the end period market valuation:

$$(1,200/0.75) * 0.5 = 800$$

Step 2

Calculate the difference between end period position and revalued opening period position:

$$1,700 - 800 = 900$$

Step 3

Revalue transactions at average transactions value:

$$(900/0.5) * 0.6 = 1080$$

Other price changes are calculated as the difference between the change in positions and the revalued transactions, as follows: $(1,700 - 1,200) - 1080 = -580$

10.21 For economies with a liberalized financial account, a key challenge in the collection of DI data is the coverage of outward DI in business surveys. There are difficulties in identifying direct investors and in developing an adequate population frame of resident units investing abroad. Exploratory surveys are usually a starting point for developing a survey frame for outward DI, although in some cases, the inward DI survey targeting resident DIENTs is used as a starting point. However, resident units other than DIENTs may have substantial DI abroad; these may include both private and public companies, and government agencies, including those that manage or administer sovereign wealth funds. The compiler would need to gather the information from a broad range of sources (including media reports, industry journals, commercial databases, partner economy databases, and disclosures by listed companies), as a basis for developing an adequate population frame for conducting surveys on outward DI. For economies that undertake exploratory balance of payments surveys, this may be a less significant issue.

10.22 Some economies use the international transactions reporting system (ITRS) as a source for information on DI flows.⁹ The advantages are that a large amount of information on transactions is readily available from banking records, and its use avoids the expense of developing alternative collections. However, the ITRS measures only cash transactions. DI also involves noncash transactions, such as reinvested earnings,¹⁰ equity provided in the form of machinery and so forth, and intercompany debt and equity transactions that bypass resident banks. Generalized foreign exchange/banking report forms are also typically unsuitable for explaining the concept of DI, resulting in problems in classification and limited scope of the collected data. The ITRS may not take account of DI transactions in domestic currency. When not used as a primary source, the ITRS can provide sample frame information, allowing for the collection of data through other sources, such as business surveys. For example,

⁹In some central banks, the ITRS evolved as data reporting system that was previously built on an exchange control system; as economies dismantled exchange control, the ITRS has become a less comprehensive source for balance of payments statistics.

¹⁰Chapter 11 of the *BPM6* provides a numerical example of calculation of reinvested earnings of a direct investment enterprise (Box 11.5). See also Appendix 4.

an ITRS can provide indications of new or extinct DIENTs, as well as the volume of foreign transactions. Such information is useful for creating/updating business registers and determining sampling frames.

10.23 National agencies that provide approvals for and/or regulate inward DI activities provide an information source that is readily available. However, the serviceability of such data for compiling the international accounts is usually limited. Approved investments may not materialize, so the compiler would need to find a tracking method as a basis for determining actual investment inflows (including monitoring financial press and industry journals). Approvals data may also not cover nonequity transactions, such as lending, and information on income and withdrawals of investment may not be available. The compiler should also be aware of the industry coverage of the data collected from any single investment promotion agency, as in some economies the responsibility for approving investments in key sectors (e.g., petroleum, telecommunications, and finance) may lie not with the general investment promotion agency but with industry-specific approval/regulatory agencies. For example, central banks are usually a source of data on DI in the banking sector. In this case, the compiler should ensure that data from all relevant agencies are collected. The approval process may also relate to investments above thresholds, and would require an estimation of DI transactions that fall below the thresholds. One approach is to conduct periodic surveys of DIENTs not captured in administrative-based data sources.

10.24 As noted in the *IIP Guide*, data on debt instruments related to DI could be sourced from a register of external loans, used in some economies to track private sector external debt. These registers are usually maintained by the debt management office or the central bank.

10.25 DI companies' income and balance sheet statements may also provide useful data for deriving/estimating DI transactions. Income statements provide transactions data on revenue and expenses, but may not provide a residency-based split (foreign/domestic) to allow balance of payments transactions to be readily identified. The information may be augmented with data from more detailed company annual reports, as well as the compiler's knowledge of

the company's operations. However, for multinational companies, data may be presented on a consolidated basis, covering a group of companies located in different economies; this limits the utility of the data for compiling the international accounts. The use of indirect estimation methods may be required to apportion the data. For example, data on revenue or employment by economy, if available, may be used in apportioning consolidated data.

10.26 A growing number of economies are compiling and disseminating international investment statistics by counterpart economy. In 2010, the IMF initiated the Coordinated Direct Investment Survey (CDIS), a worldwide statistical data collection effort designed to improve the availability and quality of data on foreign direct investment, both overall and by immediate counterpart economy. The first CDIS was conducted as of end-year 2009, and it is being conducted annually thereafter. The concepts, coverage, valuation, and classification of data collected in the CDIS are consistent with the *BPM6* and *BD4*.¹¹

10.27 The OECD database on International Direct Investment Statistics presents statistics on DI to and from OECD economies. Data are broken down by geographical zone and industrial sector for DI flows and positions.

10.28 In some cases, indirect estimation techniques are also employed when collection systems are nonexistent or deficient. The estimation techniques draw on a variety of source data, including imports statistics, tax data, and building permits. The compiler may use trade data on the imports of DIENTs to estimate the level of DI inflows, or may use the information to supplement information obtained from other sources, such as the ITRS.

10.29 In some economies, tax data on profits are used in tandem with related information and industry-specific assumptions, to create an income and balance sheet profile of DIENTs, as a basis for estimating DI transactions and positions. To address coverage issues related to threshold based-data collections, tax

data may also be used to estimate the transactions of small DIENTs, by assuming industry-specific ratios on profitability.

10.30 DI flows related to construction activity may also be estimated on the basis of building permits, but the compiler needs to be cautious of the limitations of approvals data.

10.31 Financial information disclosed by direct investors, including information disclosed to fulfill the regulatory requirements of securities exchange commissions, are also useful for identifying flows, particularly for new investment projects.

Portfolio Investment Concept and Coverage

10.32 Portfolio investment is defined as cross border transactions and positions involving debt or equity securities, other than those included in DI or reserve assets (*BPM6*, paragraph 6.54). Equity securities are instruments that acknowledge a claim on the residual value of a company. Debt securities are negotiable instruments serving as evidence of debt. They include bills, bonds, negotiable certificates of deposits, commercial paper, debentures, asset-backed securities, and similar instruments normally traded in the financial markets.

10.33 "Collections on International Activity Associated with Securities" in Chapter 3 provides detailed information on collection of data on international activity with securities. It covers issues on identifying security issuers and owners, and the transactor. The chapter also describes in detail possible data sources for collecting data on securities and how to overcome possible problems.

Valuation of Portfolio Investment Positions and Transactions¹²

10.34 Financial transactions in securities generally fall into four categories: (1) issues, (2) redemptions, (3) purchases, and (4) sales. These transactions are generally recordable and can be collected using a form for international securities (see Appendix 8, model form 19, International Securities). For securities issued by

¹¹ See Chapter 7 for a discussion on adjustments to the CDIS data needed for compiling the balance of payments and IIP accounts. Table 7.1 in Appendix 7 explains how DI data collected on the directional principle basis are mapped to the assets/liabilities presentation.

¹² The valuation of positions of financial assets and liabilities is discussed the *BPM6*, Chapter 3.

Box 10.3 General Methods for Estimating Fair Value of Portfolio Investment Debt

When market-price data are unavailable for portfolio investment debt instruments, there are two general methods for estimating fair value (which is an approximation of the market value of such instruments):

- Discounting future cash flows to the present value using a market rate of interest
- Using market prices of financial assets and liabilities that are similar

The first general method is to value financial assets and liabilities by basing market value on the present, or time-discounted, value of future cash flows. This is a well-established approach to valuation in both theory and practice. It calculates the market value of a financial asset or liability as the sum of the present values of all future cash flows. Market value is given by the following equation:

$$\text{Discounted present value} = \sum_{t=1}^n \frac{(\text{Cash flow})_t}{(1+i)^t},$$

where $(\text{Cash flow})_t$ denotes the cash flow in a future period (t), n denotes the number of future periods for which cash flows are expected, and i denotes the interest rate that is applied to discount the future cash flow in period t .

The method is relatively easy to apply in valuing any financial asset or liability if the future cash flows are known with certainty or can be estimated, and if a market interest rate (or series of market interest rates) is observable.

Directly basing market value on the market price of a similar financial instrument is a well-used technique when a market price is not directly observable. For example, the market price of a bond with five-year remaining maturity might be given by the market price of a publicly traded five-year bond having comparable default risk. In other cases, it may be appropriate to use the market price of a similar financial instrument, but with some adjustment in the market value to account for differences in liquidity and/or risk level between the instruments.

In some cases, the financial asset or liability may possess some characteristics of each of several other financial instruments, even though its characteristics are not generally similar to any one of these instruments. In such cases, information on the market prices and other characteristics (e.g., type of instrument, issuing sector, maturity, credit rating, etc.) of the traded instruments can be used in estimating the market value of the instrument.

residents and owned by nonresidents, the corresponding transactions impact the net incurrence of liabilities side of the financial account; for securities issued by nonresidents and owned by residents, the corresponding transactions impact the net acquisitions of assets side of the financial account. The following conventions apply to both Part A (Securities Issued in Newland) and Part B (Securities Issued Abroad) of form 19.

10.35 Positions in financial assets and liabilities should, in general, be valued as if they were acquired in market transactions on the balance sheet date. Many financial assets are traded in markets on a regular basis and therefore can be valued by directly using the price quotations from these markets.¹³ For assets and liabilities that are not traded in financial markets or that are traded only infrequently, it is necessary to estimate fair values that, in effect,

approximate market prices. Two general methods for estimating fair values of portfolio investment debt are used: (1) discounting future cash flows to the present value using a market rate of interest; and (2) using market prices of financial assets and liabilities that are similar. These methods are discussed in Box 10.3. Portfolio investment equity that is untraded may be valued using the same methods that are used for valuing unlisted direct investment shares—see the *BPM6*, paragraphs 7.16–7.17 and 7.29.

10.36 When debt securities, such as bonds (including deep-discount and zero-coupon bonds), bills, and similar short-term securities are issued at a discount (or at a premium), the difference between the issue price and its face or redemption value at maturity is treated, on an accrual basis, as interest (negative interest) over the life of the instrument. When issued at a discount, the interest costs that accrue each period are recorded as being reinvested in the debt security, increasing the principal amount outstanding. This approach can be described as the capitalization of interest; it is not a holding gain for the security owner. When issued at

¹³If the financial markets are closed on the balance sheet date, the market prices that should be used in the valuation are those that prevailed on the closest preceding date when the markets were open.

a premium, the amount accruing each period reduces the value of the debt security. Chapter 11 of the *BPM6* presents numerical examples of calculation of interest accrual on zero-coupon bonds (Box 11.2) and on index-linked bonds (Boxes 11.3 and 11.4). The corresponding entry to the interest accrued is an increase in debt securities in the financial account.

10.37 When persons and other entities change their economy of residence, their existing financial assets are added to or removed from the IIP through a reclassification, not by imputing transactions in the balance of payments. The change in residence does not involve a transaction between two entities, but a change in the status of a single company or person. The treatment of change in residency applies to all the financial assets and liabilities, not just those that are shifted to the new economy of residence. The reclassification in the IIP is done through the *Other Changes in Financial Assets and Liabilities Account, other changes in volume*, under the applicable functional and instrument category (see “Other Changes in Financial Assets and Liabilities Account” in Chapter 9).

10.38 For equity shares that are listed in organized markets or are readily tradable, the value of outstanding positions should be based on observable market prices. As noted, the value of total shareholder equity not quoted on stock exchanges or not traded regularly may be estimated using any of the methods listed and described in the *BPM6*, paragraphs 7.16–7.19.

Data Sources

10.39 Data on portfolio investment draw mainly from official sources and surveys, usually depending on the degree of regulation and the scope of cross border activities. The main sources are as follows.

10.40 Monetary and financial statistics (MFS) provide position data on the financial assets and liabilities of depository corporations (central banks and other depository corporations (ODC)). However, as discussed in Appendix 6, “Linkages of the International Accounts with Monetary and Financial Statistics,” there are limitations in using monetary statistics to compile IIP.¹⁴ Particularly, limitations are in the following:

- Valuation—For example, in MFS liabilities in the form of shares and other equity are measured at book value while in the *BPM6* shares assets and liabilities should be valued at market value.
- Coverage—For example, money market funds in MFS are classified under other depository corporations while in the *BPM6* they are included under other financial corporations.
- Functional categories—For example, MFS do not use functional categories to classify financial assets and liabilities, which makes it challenging to compile direct investment position in IIP for other financial corporations based on the MFS.
- Maturity breakdown—For example, MFS contain a maturity breakdown only for central bank liabilities with nonresidents, but not for financial assets of the central bank, or for assets and liabilities of other deposit-taking corporations and other financial corporations.

10.41 When using MFS position data to derive transactions, the compiler must be aware of the recording basis of the source data, and should seek to exclude changes in position explained by other changes in volume, and by revaluation (exchange rate changes and other price changes) in order to compile a reliable estimate of transactions based on changes in position (see Box 10.2).

10.42 Transactions may also be sourced from the ITRS, but coverage should include the transactions on ODCs’ own account as well as those conducted on behalf of their clients.

10.43 Security-by security (SBS) databases have also become increasingly widespread, and are used in a number of economies as the basis for recording/estimating balance of payments and IIP entries. A SBS database is a microdatabase that stores statistics at an individual equity and/or debt security level; it is also known as a *securities reference database*. This information is classified according to a range of attributes or characteristics that may vary depending on the purpose of the database. The main variables stored in the SBS databases are: (1) the International Securities Identification Number (ISIN), or any other unique and unequivocal identification number or key); (2) issuer-related attributes, like name of the issuer, residence of the issuer, institutional sector and subsector; (3) instrument related attributes, like issue date, type of

¹⁴“Linkages of the International Accounts with Monetary and Financial Statistics” in Appendix 6 also discusses how to overcome the limitations.

security, redemption date, currency of denomination, issue price, redemption price, outstanding amount or market capitalization; (4) income-related attributes, like coupon payments and dates; and (5) price-related attributes, like price value and price date (see Diagram A3.1 of the *Handbook on Securities Statistics*, Part 1).

10.44 The SBS reference database generally covers various categories of financial instruments, such as debt securities, equity securities, investment fund shares or units, and financial derivatives. It can be linked to information on securities holdings to create a securities holdings database. For that purpose, holdings information provided by respondents on a security-by-security level is linked (e.g., through the ISIN code) at the level of individual securities to the data stored in the SBS reference database.¹⁵

10.45 On the holders' side, in addition to information to establish the link with the reference SBS database, the database would have information on the holder's residency and institutional sector/subsector and on amount of securities held. In most cases, data on holders are collected from custodians, as well as centralized securities depositories, on an SBS basis.

10.46 In some economies, data on portfolio investment are collected through surveys. The surveys target the holders of the securities (end-investor approach) and/or the custodians (custodian approach). In choosing one approach, or a combination of the two, the compiler should seek to determine the best coverage while minimizing overlap. In this regard, the compiler may wish to bear in mind the sector dimensions, not only for analytical purposes but also to avoid double counting.¹⁶

10.47 Information on transactions conducted through an economy's stock exchange may also be collected. However, in some cases the data may be based on the nationality of the transactors, and adjustments may be necessary to ensure the *BPM6*-based residency criterion is observed. Securities issued in the domestic market and purchased by nonresidents on the secondary market may also present similar chal-

lenges, and adjustments to data collected from the stock exchange may be necessary to ensure the *BPM6*-based residency criterion is observed. For securities issued by the government—usually through its depository institution (central bank)—information on the residency of the purchaser may be available from the central bank, or through custodians/agents acting on behalf of the issuer.

10.48 For partner economy data, the IMF's Coordinated Portfolio Investment Survey (CPIS) is a main source (see Chapter 7). The CPIS Table 8 series on "Derived Portfolio Investment Liabilities by Economy of Nonresident Holder" can be used as a data source for this information. These derived data are based on data reported by economies participating in the CPIS. Therefore, in most cases, the derived data would be a lower limit of the total portfolio liabilities of the compiling economy. If, for example, neighboring economies that do not participate in the CPIS are known to hold a significant amount of the compiling economy's portfolio investment liabilities, then the CPIS-derived data would understate the total.

10.49 In general, it is usually not possible to connect a specific buyer to a specific seller of shares traded on stock exchanges. Paragraph 4.154 of the *BPM6* states: "For balance of payments transactions, the partner attribution could be made on the basis of the parties to the transaction (namely, the buyer and the seller, the so-called transactor approach), or for assets owned, the residence of the issuer (the so-called debtor-creditor approach). In these cases, it is acceptable to adopt a convention for partner attribution of assets owned based on the residence of either the counterparty to the transaction or the issuer. On practical grounds, the information available does not always permit identification of the two parties to the transaction."

10.50 Thus, when a specific buyer cannot be connected to a specific seller, the so-called debtor-creditor approach is a practical approach for recording balance of payments transactions in securities. Under this approach, when a resident purchases (or sells) a security that was issued by a resident, it is regarded as a domestic transaction regardless of the residence of the actual seller (or buyer) of the security, because the latter is unknown, and when a resident purchases (or sells) a security that was issued by a nonresident, it

¹⁵In technical terms this does not necessarily mean two physically distinct databases, but rather components of a single database.

¹⁶See *Coordinated Portfolio Investment Survey Guide*, 2nd edition (2002), Chapter 4, for a discussion of the methods for collecting position data.

is regarded as an international transaction regardless of the residence of the actual seller (or buyer) of the security, again because the latter is unknown.

10.51 Further are presented some cases of recording of transactions in securities in balance of payments under debtor-creditor approach:

- *Resident investor sales shares to nonresidents that were listed on the stock exchange in the resident economy:* the resident involved in the transaction does not know whether another resident or a nonresident is buying the shares; however, by convention, under the debtor-creditor approach a balance of payments transaction is reported by the resident seller.
- *Nonresident investors purchase shares issued by residents and listed on the stock exchange in the compiling economy:* Transactions in securities should be recorded in the balance of payments accounts because a nonresident purchased shares issued by a resident. The brokerage company that conducted the transaction on behalf of its nonresident customer would know that a nonresident customer was involved in the transaction.
- *Uplifting of shares from an international exchange:* When shares issued by a nonresident are subsequently traded on the stock exchange in the compiling economy, an international transaction is recorded only when a resident purchases the shares.

Box 10.4 The Use of the Centralized Securities Database in the European System of Central Banks in Compiling Balance of Payments and IIP Statistics

Background

In the past decade, the European System of Central Banks (ESCB) has set up the Centralized Securities Database (CSDB) to provide complete, consistent, validated, and up-to-date information on all securities relevant to the ESCB's statistical objectives. The CSDB contains information on over nine million debt securities, equities, and also mutual fund shares/units issued or held by residents of the European Union (EU) member states or denominated in euro. This comprehensive reference database is fed with data from several commercial data providers, ESCB national central banks (NCB), and other sources. The most reliable value for each attribute is selected, and gaps are filled with estimates (in particular for prices and income), using a set of automated rules and algorithms and making use of expertise within the ESCB to enhance data quality.

From a statistical angle, the CSDB serves two purposes: to supply information for the direct compilation of aggregates for the euro area (such as securities statistics), and to supply reference information on individual securities and issuers, in particular to support the collection of holdings from reporting agents on a security-by-security (SBS) basis. Since 2008, the use of a SBS collection system for the compilation of portfolio investment in balance of payments and IIP statistics is mandatory for euro area economies. In the past years, SBS reporting has been also increasingly used (and has in some cases become legally required) for statistics on investment funds, financial vehicle corporations, and monetary financial institutions. A link of the CSDB with granular information on holders of securities is providing aggregates by economy of residence, economic sector, and possibly specific banking and/or insurance groups.

A mandatory data quality management framework has been developed by the ESCB Statistics Committee,¹ which lays down the responsibilities of the euro area NCBs and the European Central Bank (ECB). NCBs of the noneuro area EU member states voluntarily participate in the operation of the CSDB and its data quality management.

Benefits of Using the CSDB

One of the main advantages of the CSDB in the compilation of balance of payments and IIP statistics, when compared to aggregate reporting, is that compilers, rather than respondents, are responsible for the statistical classification of securities in a standardized and harmonized way. This promotes accuracy and consistency of the data, and adherence to international statistical standards. It avoids potential miscalculations, misclassifications, or the use of nongeneralized aggregation procedures by the different reporting entities, with clear advantages in terms of quality and homogeneity.

The CSDB, in combination with information on holdings of securities, allows for the compilation of aggregated statistics at market-to-market value and potentially offers all the ingredients for the compilation of comprehensive breakdowns in the portfolio investment category in balance of payments and IIP statistics, like type of instrument, issuer sector, issuer economy, currency of issue, original and remaining maturities, and so forth. The CSDB is also useful for the purposes of estimating revaluations and other changes in the volume of assets and liabilities by type of financial instru-

Box 10.4 The Use of the Centralized Securities Database in the European System of Central Banks in Compiling Balance of Payments and IIP Statistics (*concluded*)

ment, as well as to derive transactions from high-frequency position data (when not collected directly). It also allows for the derivation of investment income data on an accruals basis.

The CSDB provides a greater flexibility to cater for new or additional output requirements (e.g., changes in geographical areas, in the instrument or maturity breakdown or a new split by currency) and to easily obtain consistent time series. This is often possible without additional requests to the reporting entities, by means of amendments to the aggregation procedures managed by the compiler itself.

The SBS approach increases the quality of the data as it allows for better checking and greater accuracy in the calculation of position and/or flow data. Numerous quality checks are performed at the level of the individual security, instead of at aggregate level. For example, it allows for comparisons of total outstanding issuances and holdings at individual security level, reconciliation of flows and positions for individual securities, and improved bilateral geographical data comparisons.

The availability of information at the level of individual securities eases the identification of direct investment relationships between holders and issuers of specific (mainly equity) securities. This mitigates the risk of misclassification across balance of payments functional categories (i.e., between direct and portfolio investment) and/or double counting.

From the euro area perspective, the availability of CSDB data permits one to perform detailed checks in case of inconsistencies in contributions from euro area economies to the euro area balance of payments and IIP aggregates.

Costs and Challenges Associated with Using the CSDB

The setting-up costs of the CSDB were substantial, as are the maintenance costs. It implied relatively high costs in the implementation phase, largely attributable to purchasing/developing the necessary hardware and software. Information technology costs for database storage and processing of large volumes of data were also significant as the CSDB data are largely sourced from commercial database providers; the acquisition of this information is rather expensive on a continuous basis.

A high degree of automation is necessary for the exchange of data and for the comprehensive checking and aggregation routines. As a consequence, the responsible staff has to be well skilled and trained on the system.

The SBS reporting, in comparison with aggregated reporting, implies a shift of the costs from reporting agents to compilers, while the overall costs are expected to be lower. If reporters would have to aggregate the data according to statistical classifications themselves, each one of them would have to keep track internally of SBS information and run aggregation procedures, which would imply higher costs.

Moreover, the marginal costs of introducing new statistics have been reduced (reporting forms do not need to be changed) and the consistency among various types of statistics has been improved.

Source: European Central Bank.

¹The ESCB Statistics Committee is chaired by the ECB Statistics Directorate and composed of the ECB Statistics Directorate and heads of Statistics Departments of the ESCB NCBs.

Financial Derivatives (Other than Reserves) and Employee Stock Options

Concept and Coverage

10.52 A financial derivative contract is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (such as interest rate risk, foreign exchange risk, equity and commodity price risk, credit risks, and so on) can be traded in their own right in financial markets. Transactions and positions in financial derivatives are treated separately from the value of any underlying item to which they

are linked. The steps for recording transactions in financial derivative entries in the international accounts are outlined in the *BPM6*, paragraphs 8.34–8.40

10.53 Employee stock options (ESO) are options to buy the equity of a company, offered to employees of the company as a form of remuneration. ESOs carry the right, but not the obligation, to buy a certain amount of shares in the company at a predetermined price. An ESO is slightly different from a regular exchange-traded option because it is not generally transferable (if a stock option granted to employees can be traded on financial markets without restriction, it is classified as a financial derivative) and there

is no put option.¹⁷ Furthermore, employees typically must wait a specified vesting period before being allowed to exercise the option.

10.54 Transactions in ESOs are included in the international accounts only if they are cross border in nature; for example, in a few cases, the company that issues the option is a resident of a different economy from the employee. It is possible that multinational corporations may offer employees in one economy options on shares of their parent company in another economy. In the *BPM6*, stock options provided to suppliers of goods and services to the company are also included, in the scope of ESO transactions, on the basis that although these are not employees of the company, their nature and motivation are similar.

10.55 ESO cross border transactions may not be significant in a number of economies. In cases where underlying data collections do not capture the transactions data, the compiler should undertake exploratory work to determine the magnitude of such transactions as a basis for making decisions on the implementation of surveys or other collection methods.

Valuation of Financial Derivative Positions and Transactions

10.56 The valuation of financial derivative positions and transactions depends on the type of the instrument. The recording of these transactions and positions at inception and at settlement is outlined in the *BPM6*, paragraphs 8.34–8.40. The market value of a forward financial derivatives contract is derived from the difference between the agreed-upon contract price of an underlying item and the prevailing market price (or market price expected to prevail) of that item, times the notional amount, appropriately discounted. The notional amount is the amount underlying a financial derivatives contract that is necessary for calculating payments or receipts on the contract. This amount may or may not be exchanged. In the specific case of a swap contract, the market value is derived from the difference between the expected gross receipts and gross payments, appropriately discounted—that is, its net present value.

10.57 The market value for a forward contract can therefore be calculated using available information—market and contract prices for the underlying item, time to maturity of the contract, the notional value, and market interest rates. From the viewpoint of the counterparties, the value of a forward contract may become negative (liability) or positive (asset) and may change both in magnitude and direction over time, depending on the movement in the market price for the underlying item. An illustrative numerical example is provided in Box 10.5. Forward contracts settled on a daily basis, such as those traded on organized exchanges—and known as futures—have a market value, but because of daily settlement it is likely to be zero value at each end-period.

10.58 The price of an option depends on the potential price volatility of the price of the underlying item, the time to maturity, interest rates, and the difference between the contract price and the market price of the underlying item. For traded options, regardless of whether they are traded on an exchange, the valuation should be based on the observable price. At inception the market value of a nontraded option is the amount of the premium paid or received (in contrast to a forward-type contract, which does not generally require the recording of a transaction in a financial derivative because risk exposures of equal value are usually being exchanged). Subsequently nontraded options can be valued with the use of mathematical models, such as the Black-Scholes formula, that take account of the aforementioned factors that determine option prices. In the absence of a pricing model, the price reported for accounting or regulatory purposes might be used. Unlike forwards, options cannot switch from negative to positive value, or vice versa, but they remain an asset for the owner and a liability for the writer of the option.

Valuation and Recording of ESO Positions and Transactions

10.59 An ESO is an agreement made at a given date (the “grant” date) under which an employee may purchase a given number of shares of the employer’s stock at a stated price (the “strike” price) either at a stated time (the “vested” date) or within a period of time (the “exercise” period) immediately following the vesting date. The exercise date is the time at which the option can be exercised.

¹⁷A put option gives the buyer the right to sell the underlying asset at the strike price, on or before the expiration date.

10.60 As noted in the *2008 SNA*, accounting recommendations of the International Accounting Standards Board (IASB) are that the company derives a fair value for the options at the grant date by taking the strike price of the shares at that time multiplied by the number of options to be exercisable at vesting date divided by the number of service years expected to be provided until the vesting date. This fair value is applied to the number of service years provided in each year to derive the cost to the firm in the year. In the *2008 SNA*, if there is neither an observable market price nor an estimate made by the corporation in line with the preceding IASB recommendations, the valuation of the options may be estimated using a position options pricing model (*2008 SNA*, paragraphs 17.386–17.387).

10.61 In recording ESOs in the international accounts, an estimate of the value should be made at the grant date. In the financial account of the economy of the employer, a transaction (incurrence of a liability) is recorded as a contra-entry to compensation of employees (debit) in the current account. In the financial account of the economy in which the employee is resident, a transaction (acquisition of assets) is recorded as a contra-entry to compensation of employees (credit) in the current account. At this point, a financial asset/liability is also recorded in the IIP of the economy of the employee (household)/employer. In principle, any change in the value of the ESOs between the grant date and the vesting date should be treated as compensation of employees, while any change in the value between vesting date and exercise date is treated as a holding gain or loss.

10.62 When an ESO is exercised, positions under financial derivatives and employee stock options disappear to be replaced by the value of shares acquired. This change in classification takes place via transactions in the financial account as follows. In the financial account of the economy of the employer, a transaction under portfolio investment, equity and investment fund shares (increase in incurrence of a liability), is recorded as a contra-entry to a decrease in financial derivatives and ESOs liabilities. In the financial account of the economy in which the employee is resident, a transaction under portfolio investment, equity and investment fund shares (increase in acquisition of assets), is recorded as a con-

tra-entry to a decrease in financial derivatives and ESOs assets.¹⁸

10.63 If an ESO is extinguished between the grant and vesting dates without an agreed settlement between the parties, another change in volume is recorded (a loss of an asset by the employee and a reduction of liabilities by the employer) in the other changes in financial assets and liabilities account (see *BPM6*, paragraph 9.12).

Data Sources

10.64 Financial derivative statistics compiled by a central bank may originate from three primary sources: (1) the central bank may for supervision and/or regulatory purposes, require banks to complete statements on derivative transactions and positions when trading with local and overseas counterparties; (2) a central bank's department of foreign exchange may collect information on banks engaging in foreign exchange operations; and (3) a central bank may collect flow and/or position data primarily for compiling the international accounts. A common issue is that a central bank's derivative statistics that are sourced from prudential-based data collections may not fully capture nonbank private sector's activities, and the compiler would need to develop enterprise surveys to enhance the collection of derivative statistics.

10.65 Regarding its own transactions in financial derivatives, a central bank should distinguish financial derivatives that are included in reserve assets so that the correct functional category classification can be achieved.

10.66 In some economies, several institutions may collaborate in the collection and compilation of data on derivative statistics; for example, the Treasury International Capital (TIC) Reporting System of the United States Department of Treasury is used to compile selected data on the United States financial account, including on transactions in financial account derivatives. The Federal Reserve Bank of New York, acting as the agent of the Treasury, collects and edits the data on the TIC's Form D, which collects quarterly data on holdings of and transactions in derivatives contracts with foreign residents by economy.

¹⁸Changes in the value of an ESO may occur after the vesting date as a result of changes in the market price of the underlying instrument (equity). Such changes are revaluations, and in practice it may be feasible to recognize the revaluation only at the exercise date.

Box 10.5 Recording a Forward Contract in the International Accounts

In period t_0 , economy A signs an export contract to export goods for 1,200 two years later (t_2). To avoid the exchange rate risk, economy A engages in a forward contract with a nonresident in which it agrees to buy US\$1,000 at t_2 for €1,200—that is, at an exchange rate of €1.2 = US\$1 (spot market rate at t_0). At t_1 , the exchange rate is €1.1 = US\$1, and at t_2 , €1 = US\$1. The contract will be settled on a net basis. The relevant interest rates are 6 percent for both currencies in each period.

In t_0 : No transactions are recorded in the balance of payments and the IIP. The value of the contract at inception is zero. In the IIP, the position in financial derivatives is zero.

In t_1 : There are no transactions in the balance of payments. The IIP entries are as follows:

International investment position (in U.S. dollars)					
	Opening position	Transactions	Valuation change	Other changes	Closing position
Financial account					
Financial derivatives, liabilities	0	0	85.7		85.7

Explanation to entries in t_1 : At the end of t_2 , economy A will buy US\$1,000 for €1,200. At the current exchange rate economy A would need to pay only €1,100 for US\$1,000. The contract therefore has a negative value of €100 if settled at $t = 2$. The current value is $100/1.06 = €94.3$. In dollars, the current value of the contract is $94.3/1.1 = US\$85.7$. The negative current value is recorded in the IIP as an increase in liabilities due to a valuation change.

In t_2 : The balance of payments and IIP, entries are as follows:

Balance of payments (in U.S. dollars)					
	Credit	Debit	Net acquisition of financial assets	Net incurrence of liabilities	Net
Current account					
Goods	1,200				1,200
Financial account					
Currency and deposits, assets			1,000 [1,200–200]		1,000
Financial derivatives, liabilities				–200	–200
International investment position (in U.S. dollars)					
	Opening position	Transactions	Valuation change	Other changes	Closing position
Financial account					
Currency and deposits, assets ¹	0	1,000			1,000
Financial derivatives, liabilities	85.7	–200	114.3		0

¹Assuming an opening position of zero.

Explanation to entries in t_2 : At $t = 2$, economy A exports goods for €1,200. At the prevailing exchange rate this receipt is equivalent to US\$1,200, which is shown as an increase in currency and deposits, assets. Under the forward contract, economy A has agreed to exchange €1,200 for US\$1,000. At the current exchange rate, the value of the €1,200 equals US\$1,200. The net value is therefore -US\$200 (receive US\$1,000; pay US\$1,200). The net value of the contract does not need to be discounted as the contract will be settled at the same instance. The settlement of the contract is recorded in the balance of payments as a decrease of currency and deposits, assets (US\$200), and an equivalent decrease of financial derivatives, liabilities. In the IIP, the opening position of financial derivatives, liabilities of US\$85.7 and the transaction (settlement of the contract at US\$200) are offset by a valuation change of US\$114.3 to bring the closing position to zero.

Transactions are based on net settlements (all transactions including the proceeds from the purchase and sale of derivatives and all contractual flows).

10.67 As is the case for data on portfolio investment, the major data suppliers are local financial intermediaries or agents such as deposit-taking cor-

porations except the central bank, securities houses, share registrars, nominees, custodians, trusts, and fund managers that often engage in external financial investment activities. The data on financial derivatives may be collected through the framework of the central bank's MFS, and/or through surveys (see Appendix 7 for a model form for collecting data on financial derivatives). However, it is not possible to derive reliable estimates of transactions from data on changes in derivatives positions at market value due largely to volatility in prices.

10.68 As in the case of ESOs, transactions in financial derivatives may not be significant in a number of economies. In cases where underlying data collections do not capture the transactions data, the compiler should undertake exploratory work to determine the magnitude of such transactions as a basis for making decisions on the implementation of surveys or other collection methods.

Other Investment Concept and Coverage

10.69 Other investment covers other equity; currency and deposits; loans; insurance, pension and standardized guarantee schemes;¹⁹ trade credit and advances; other accounts receivable/payable-other; and special drawing rights (SDRs). With the exception of loans and currency and deposits, these financial instruments have either been introduced or updated in the *BPM6*. An overview of other investment components is presented ahead.

Data Sources and Compilation Issues

Other equity

10.70 Other equity is included in other investment, when it is not direct investment or reserve assets. Other equity (as defined in *BPM6*, paragraph 5.26) is not in the form of securities, so it is not included in portfolio investment. It can include equity in quasi-corporations, such as branches, trusts, limited liability and other partnerships, unincorporated funds, and notional units for ownership of real estate and other natural resources. In most cases, equity in quasi-corporations and notional

units for ownership of land is included in DI; however, it is included in other investment (under other equity) if the share of voting power is less than 10 percent. As noted in the *BPM6*, paragraph 5.26, participation in some international organizations is not in the form of securities and so it is classified as other equity. Ownership of currency union central banks is included in other equity.

10.71 Regarding the government sector, other equity cannot be a liability of general government units, but they can be held by these units as assets. Information on participation in international organizations is generally available from government and central bank records. In the case of other sectors, the data may be available from business surveys. However, in cases of notional units for ownership of land, positions may not be directly observable, and so the compiler could use estimation methods similar to those used for DI (*BPM6*, paragraph 2.16).

Currency and deposits

10.72 Position data on the assets and liabilities of the central bank, deposit-taking corporations (except the central bank), and other financial corporations are generally collected within the framework of a economy's MFS (see Appendix 6, "Linkages of the International Accounts with Monetary and Financial Statistics"), while those of the general government are collected within the framework of government finance statistics (GFS). For resident nonfinancial corporations, households, and NPISHs, data on currency and deposits (assets) may be collected through surveys. The BIS' international banking statistics also provides a source for data on the external deposits of resident other financial corporations and nonfinancial corporations (see Chapter 7). A comprehensive ITRS captures transactions in deposits (assets and liabilities).

10.73 Positions in deposits are recorded at nominal value.²⁰ In cases where only position data are available, transactions in deposits denominated in domestic currency can be readily derived (except in the case of deposits sold at discount) from changes in

¹⁹See Appendix 2 for a discussion of employment-related pension schemes and social security.

²⁰Unallocated gold account assets not held as reserve assets, and all unallocated gold account liabilities, are classified as deposits. For classification of gold accounts, see the *BPM6*, Chapter 5, paragraphs 5.76–5.77.

positions; these transactions would cover both funds deposited and withdrawn, as well as any accrued interest that would have counterpart entries in the current account.

10.74 Transactions denominated in a foreign currency are converted to their value in the domestic currency at the rate prevailing when the transactions take place, and positions are converted at the rate prevailing on the balance sheet date. The midpoint between the buying and selling rates should be used (at the time of transaction (for transactions) or at the close of business on the reference date (for positions)).

10.75 MFS data are typically recorded in domestic currency. For the purposes of compiling the international accounts, the compiler should seek to obtain the position data in original currency so as to eliminate the impact of exchange rate movements in deriving transactions. After the transactions are derived in the original currency of denomination, they should then be converted to the currency used for compiling the balance of payments, using the midpoint between the buying and selling rates of the relevant currencies. While the use of the daily average exchange rate for daily transactions usually provides a good approximation, this may not be practicable for transactions derived from MFS; in this case, the compiler should use the average rate for the shortest period for which the position data are compiled.

Loans

10.76 For the international accounts, information on loans is generally available through the compilation system employed for external debt statistics (EDS). However, in some economies, the scope of the EDS may be limited to the general government (or public sector), and data compilers may need to undertake additional steps to include the debt of other sectors. The range of data sources available is likely to change with progressive liberalization of foreign exchange regulations from administrative and banking records towards survey collection methods.²¹ The administrative and financial records of government borrowing and repayments are usually the primary

source of transactions data on public sector loans. Further, central banks in most economies undertake administrative functions related to central government external debt management, and their payments systems may be designed to cover external loan transactions made on behalf of the Ministry of Finance.

10.77 Compiling comprehensive data for the private sector presents a greater degree of difficulty than for the public sector. Problems can arise from the limitations inherent in the available information sources. In all instances, the importance and relevance of the data need to be weighed against the likely costs of collection, and, where appropriate, alternative sources and methods used to produce data of an acceptable degree of accuracy and reliability.

10.78 In circumstances where controls on foreign borrowing are still in place, it is possible for the central bank to compile information on private sector borrowing from information provided by borrowers for regulatory purposes, such as when they seek approval for foreign borrowing. Also, commercial banks might well be required to report on foreign transactions of their private sector clients. However, as liberalization of financial transactions proceeds, and such information becomes less readily available, there is a need to develop methods of collecting data on private sector debt through other means. The main sources are as follows:

- *Deposit-taking corporations* are closely regulated in nearly all economies—and so are usually identifiable to the statistical agency—and have to report balance sheet data to central banks or regulatory agencies for both supervisory and monetary policy purposes. These reports can be a major source of information on the outstanding external debt of banks, and from which transactions can be derived.
- Similarly, *other financial corporations* data might be compiled in some economies within the framework of monetary and financial statistics. If this is the case, the compiler could use this data source. Also, in some economies certain financial intermediaries, such as investment funds, insurance corporations, and pension funds, report their balance sheets to supervisory authorities. Those reports could be accessible to statistical authorities as a data source, including for deriving transactions.

²¹The *External Debt Statistics: Guide for Compilers and Users* (2013) outlines the impact of the regulatory environment on the collection techniques for external debt statistics. Chapter 11 and Appendix 8 also discuss the compilation of public sector and private sector debt, respectively.

- When no comprehensive exchange controls exist, data on loans and other external debt of *other sectors* are best obtained through periodic surveys of those companies (including *other financial corporations*) that are involved in external transactions. In some instances, the so-called registers of external loans are used to obtain data on loans received or granted by the nonbank sector.
- Loans made by some creditors might be available from external sources, such as debt owed to international financial organizations (e.g., international financial corporations), or position data on nonbank liabilities to foreign banks that could be cross-checked with the international banking statistics from the BIS. Some compilers may use the BIS data from nonresident banks on loans in relation to resident nonbanks (nonbanks include other sectors as well as the general government sector—that is, nonbanks include public and private sector units) to supplement other sources.

10.79 Similar to the accrual of interest on debt securities, interest costs that have accrued and are not yet payable on loans are included as part of the value of the loan. That is, the accrual of interest costs not yet payable continuously increases the principal amount outstanding of the loans (and should be included in loans transactions in the financial account). Arrears occur when principal and/or interest payments are not made when due, such as on a loan. When arrears occur, they should continue to be shown in the same debt instrument until the liability is extinguished. The nonpayment of principal and/or interest when due leaves the debt liability position unchanged. Arrears should continue to be reported from their creation—that is, when payments are not made—until they are extinguished, such as when they are repaid, rescheduled, or forgiven by the creditor. A compiler would also need additional information on arrears for recording exceptional financing transactions; these are identified in Chapter 16, Table 16.3.

10.80 As discussed in the *BPM6*, paragraph 12.51, loans with concessional interest rates could be seen as providing a current transfer equal to the difference between the actual interest rate and the market interest rate. Further, if such a transfer is recognized, it could be reported as current international cooperation because the concessional lending is provided by official

creditors (e.g., foreign governments or international organizations). The interest would then be adjusted by the same amount. However, the compiler should be aware that the treatment of concessional lending is yet to be fully evolved, and so it is recommended that the information on concessional debt be provided as supplementary. Paragraph 12.51 of the *BPM6* describes which information should be shown as supplementary.

10.81 The *BPM6* also clarifies the treatment of securities repurchase agreements and gold swaps. As indicated in the *BPM6*, paragraph 5.53, the supply and receipt of funds under a securities repurchase agreement may be treated as a loan or deposit. It is generally a loan, but is classified as a deposit if it involves liabilities of a deposit-taking corporation and is included in national measures of broad money (see Table 10.3). If a securities repurchase agreement does not involve a supply of cash (i.e., there is an exchange of one security for another, or one party supplies a security without collateral), there is no loan or deposit. Margin calls in cash under a repo are classified as loans.

10.82 In international accounts, entries under loans are registered also in connection to financial leases (*BPM6*, paragraphs 5.56–5.60). The economic nature of the arrangement is that the lessor is providing a loan to allow the lessee to acquire the risk and rewards of ownership (economic ownership), but the lessor retains the legal title. Thereafter the leased asset is shown on the balance sheet of the lessee and not of the lessor. Under statistical convention, the lessor is shown as making a loan to the lessee with whom the lessee acquires an asset; the loan is shown as an asset of the lessor and a liability of the lessee. At the inception of the lease, the value of the loan is equal to the full value of the good. At the maturity of the lease, the loan liability arising from the residual value of the goods leased is extinguished either when the goods are returned or when a payment is made and legal ownership changes hands. A numerical example of a financial lease is presented in the *BPM6*, Appendix 6b, Box A6b.I.

10.83 Accounts receivable/payable, which are treated as a separate category of financial assets/liabilities, and loans that have become debt securities are excluded from loans.

10.84 Loan positions are recorded at nominal value; deriving transactions from positions data is

therefore relatively straightforward for loans denominated in domestic currency, with the issue of addressing price changes not applicable. However, for loans (as well as for deposits and other accounts receivable/payable) sold at discount, the transaction values recorded in the financial account may differ from the nominal value recorded in the IIP. Such differences are recorded as valuation changes in the other changes in financial assets and liabilities account.

Insurance, pension, and standardized guarantees schemes

10.85 The key features of insurance, pension, and standardized guarantee schemes are presented as a topical summary in the *BPM6*, Appendix 6c. Compilation guidance on the treatment of these instruments in the international accounts is presented in Appendix 2 of the *Guide*. In analyzing the economic nature of these operations, it is important to rearrange these processes to derive the service, investment income, transfer, and investment elements.

Trade credit and advances

10.86 Trade credit and advances consist of claims or liabilities arising from the direct extension of credit by suppliers for transactions in goods and services, and advance payments by buyers for goods and services and for work in progress (or to be undertaken). Long- and short-term trade credit and advances are shown separately. Trade-related loans provided by a third party, such as a bank, to an exporter or importer are not included in this category but under loans, earlier. Note that letters of credit are not included in loans because they are contingent liabilities. Progressive payments (or stage payments) on high-value capital goods—such as ships, heavy machinery, and other structures that may take years to complete—do not give rise to trade credit and advances unless there is a difference in timing between the change in ownership of these high-value goods and the payments. In some economies, the value of trade credit and advances in balance of payments can be significant on both assets and liabilities sides. Therefore their estimation requires careful consideration.

10.87 Data on trade credits and advances may be sourced from companies' balance sheet data, business surveys, and/or external debt statistics. In some cases, compilers use a proxy method by comparing

customs-based information on goods with payments made through the banking system (i.e., ITRS data). For example, where information on both the date of shipment and the date of payment are reported by the importers, trade credit and advances are imputed taking into account the difference between these dates, as illustrated in Chapter 4. In practice, the adoption of such an approach should be done at a microlevel, as a simple estimation based on the difference between customs-based data on imports and ITRS-based data on imports would not provide an accurate estimate of trade credit and advances. Further, when adopting this approach, the compiler should monitor trends in the time series to ensure reasonableness; for example, if the net acquisition of these assets/net incurrence of liabilities is consistently increasing, this may call attention to gaps in estimating the repayment of trade credit and advances. For banks, data on trade credit and advances can be obtained from the MFS.

Other accounts receivable/payable-other

10.88 The other category of other accounts receivable/payable includes accounts receivable/payable other than those included in trade credit and advances or other instruments (e.g., liabilities for dividends, taxes, wages and salaries, social contributions, financial derivatives contracts that were not paid when due, etc.) (see *BPM6*, paragraph 5.73). Interest accrued should be recorded with the financial asset or liability on which it accrues, not as other accounts receivable/payable, with the exception of securities lending and gold loan fees, which are treated as interest by convention. The treatment of securities lending and gold loan fees is presented in Table 10.3.

10.89 Data on other accounts receivable/payable other may be sourced from the MFS (for the financial corporations sector), GFS (for general government), companies' balance sheet data, business surveys, and external debt statistics. Position data captured by these sources are recorded at nominal value. As in the case of currency and deposits, if only position data are available, the transaction value for other accounts receivable/payable can be readily derived as a change in positions for positions denominated in domestic currency (except when sold at discount).

10.90 In using companies' balance sheet data, the compiler should be aware of the composition of

Table 10.1 Recording Increases in SDR Holdings and Allocations, and Associated Interest Accruals¹

Balance of payments	Transactions during the period	
Current account	Accrued interest on total SDR holdings (credit)	Accrued interest on total SDR allocations (debit)
Other investment income		
Financial account	Value of the new general and special allocations <i>plus</i>	
Other investment (liabilities)	accrued but unsettled interest on total outstanding allocations (recorded under <i>net incurrence of liabilities</i>)	
SDR allocations		
Reserve assets		Value of the new general and special allocations <i>plus</i> accrued but unsettled interest on total outstanding holdings (recorded under <i>net acquisition of financial assets</i>)
Special drawing rights (holdings)		
IIP	End of period positions	
Other investment (liabilities)	Value of (total) allocations including unsettled interest payable	
SDR allocations		
Reserve assets	Value of (total) holdings including unsettled interest receivable	
Special drawing rights (holdings)		

Source: IMF staff.

¹ Guidance on how SDR allocations should be recorded in the balance of payments and IIP is also available at <http://www.imf.org/external/np/exr/faq/pdf/sdrfaqsta.pdf>.

accounts receivable/payable, as, for example, trade credit and advances may be included and would need to be removed and reallocated to its own financial instrument.

10.91 As noted earlier, MFS data are typically recorded in national currency. For the purposes of compiling the international accounts, the compiler should seek to obtain the position data in original currency so as to eliminate the impact of exchange rate movements in deriving transactions. These guidelines also apply to the use of companies' balance sheet data.

Special drawing rights (SDRs)

10.92 Under the *BPM6*, the allocation of SDRs to participants in the IMF SDR Department is shown as the incurrence of a liability of the recipient under SDRs in other investment, with a corresponding entry under SDRs in reserve assets. A main change in the treatment of SDRs under the *BPM6* is the recognition of the SDR allocation as a long-term debt liability.

When there are new allocations of SDRs, transactions in both assets and liabilities should be recorded.²² The recording of SDR holdings and allocations, and associated interest accruals, is summarized in Table 10.1.

Reserve Assets

Description and classification

10.93 Reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign exchange borrowing). The presentation of the standard components in the *BPM6* contains a subclassification of reserve assets by instrument—monetary gold (gold bullion and unallocated gold accounts), special drawing rights, reserve position in the Fund, and other

²²The *BPM5* recommended the allocation of SDRs to be registered as a valuation adjustment to the IIP.

reserve assets (i.e., currency and deposits, securities, financial derivatives, and other claims).

10.94 To qualify for classification as a reserve asset, the asset must be:

- A claim on a nonresident or in gold bullion of significant purity (*BPM6*, paragraphs 6.65 and 6.78)
- Owned or under direct and effective control of the monetary authorities (*BPM6*, paragraph 6.67)
- Readily available in the most unconditional form (i.e., be liquid) (*BPM6*, paragraph 6.69)
- Denominated and settled in convertible foreign currencies that are freely usable for settlements of international transactions (*BPM6*, paragraph 6.72)²³
- Of high quality (in general) (*BPM6*, paragraph 6.70).

10.95 In accordance with the residence concept, reserve assets, other than gold bullion, must be claims on nonresidents (*BPM6*, paragraph 6.65).²⁴ The authorities' foreign currency claims on residents, including claims on resident banks, are not reserve assets.

10.96 However, there may be cases where institutional units other than the monetary authorities (such as domestic banks) hold legal title to external foreign currency assets that are unencumbered, and such external assets can be considered reserve assets under the following conditions:

- The resident company can transact only in those claims with nonresidents on the terms specified by the monetary authorities or only with their express approval.
- The authorities have access on demand to these claims on nonresidents to meet balance of payments financing needs and other related purposes.
- A prior law or an otherwise legally binding contractual arrangement confirms this agency role of the resident company that is actual and definite in intent.

²³For a discussion on the terms usable currencies, freely usable currencies, and convertible currencies, and their applicability in the context of reserve assets, see *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template*, Appendix 7, Frequently Asked Questions on the Characteristics of Reserve Assets.

²⁴Gold bullion is an asset but it is not a claim, because no other entity has a corresponding liability.

10.97 In the foregoing circumstances, it is not the authorities' claim on the resident bank that is included in reserve assets, but instead it is the resident bank's claim on a nonresident that is regarded as a reserve asset, because the latter claim is under the direct and effective control of the monetary authorities.

10.98 The treatment of monetization and demonetization of gold bullion is discussed in the *BPM6*, paragraph 9.18, and the reclassification of unallocated gold accounts is discussed in paragraph 9.19. In the case of a gold swap, gold is exchanged for cash and a firm commitment is made to repurchase the gold at a future date. Although accounting practices for gold swaps vary among economies, it is recommended that a gold swap be treated, for statistical purposes, the same way as a collateralized loan or repo. Thus, the cash lender within the gold transaction should not include the gold in its IIP or in its reserve assets (see Table 10.3).

10.99 When held as reserve assets, unallocated gold accounts of monetary authorities represent claims on nonresidents and are included in gold and not under currency and deposits (assuming the gold is available upon demand to the monetary authority and is of high quality). Allocated gold accounts of monetary authorities are included in gold bullion. With gold deposits and gold swaps, the original owner of the gold retains the risks and rewards of changes in the price of the asset. Accordingly, for gold deposits and gold swaps, there is considered to be no change of economic ownership of the gold, so no transaction in gold is recorded.

10.100 The compiler should seek to obtain the complete instrument breakdown as shown in Table 10.2. Data for each instrument, at least for transactions and positions, should be classified by currency to allow for reliable estimates of exchange rate changes. Regarding its own transactions in financial derivatives, a central bank should distinguish financial derivatives that are included in reserve assets so that the correct functional category classification can be identified.

10.101 Reserve position in the IMF is a component of *reserve assets* and is the sum of (1) the "reserve tranche"—that is, the foreign currency (including SDRs) amounts that a member economy may draw from the IMF at short notice; and (2) any indebtedness

Table 10.2 Data Required on Reserve Assets

	Opening position	Transactions		Other changes in reserve assets due to:			Closing position
		Increase	Decrease	Other changes in volume	Exchange rate changes	Other price changes	
Monetary gold							
Gold bullion							
Unallocated gold accounts							
Special drawing rights							
Reserve position in the IMF							
Other reserve assets							
Currency and deposits							
Claims on monetary authorities							
Claims on other entities							
Securities							
Debt securities							
Short-term							
Long-term							
Equity and investment fund shares							
Financial derivatives							
Other claims							
<i>Memorandum:</i>							

Source: IMF staff.

of the IMF (under a loan agreement) in the General Resources Account that is readily available to the member economy, including the reporting economy's lending to the IMF under the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB).²⁵

10.102 For a more detailed discussion of the common compilation issues related to reserve assets, see the *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (IRFCL)*. Issues, including the lending arrangements with the IMF, are addressed in Appendix 7, Frequently Asked Questions of the *IRFCL*. Appendix 3 of the *IRFCL* summarizes the treatment of specific transactions in reserves assets, including repurchase agreements (repos), reverse repos, securities lending, and gold swaps.

²⁵See the *BPM6*, paragraphs 6.85 and 7.77–7.78, for more information.

Data sources and methods

10.103 The records of monetary authorities provide the most direct source of data on transactions, other flows, and positions on reserve assets. These data are usually sourced from the relevant department(s) of the central bank (accounting and/or reserve management), and the compiler should collect the transactions and position data separately (as shown in Table 10.2), to obtain a reliable measure of transactions in reserve assets.

10.104 Central banks are sometimes reluctant to release details of reserve asset transactions and positions. Concerns of the central bank and requirements of users of balance of payments data must be carefully weighed by the compiler. In deference to the former, it may—with skillful combining of data—be possible to meet requirements of the conceptual framework without publishing a detailed breakdown of reserve asset transactions and positions.

Table 10.3 Treatment of Securities Lending, Gold Loans, and Gold Swaps where the Resident Owns the Securities or Gold

Type of transaction/position	Instrument	Balance of payments	IIP	Recording of lending fees
Securities lending without cash collateral (securities are held as reserve assets)	Equity securities, debt securities	—	Reserve assets, equities/debt securities (A) ¹	Other investment income, interest ³
Securities lending without cash collateral (securities are held as direct or portfolio investment)	Equity securities, debt securities	—	Direct / portfolio investment, equity/debt securities (A) ¹	Other investment income, interest ³
Securities lending with cash collateral (securities are held as reserve assets)	Equity securities, debt securities	(a) Other investment, loans (L); and	For equity/ debt securities: Reserve assets, equity/debt securities (A) ¹	³
		(b) Other investment, currency and deposits (A) or reserve assets, currency and deposits (A) ²	For cash received: (a) Other investment, loans (may be a reserve-related liability) (L); and (b) Other investment, currency and deposits (A) or reserve assets, currency and deposits (A) ²	⁴
Securities lending with cash collateral (securities are held as direct or portfolio investment)	Equity securities, debt securities	(a) Other investment, loans (L); and	For equity/ debt securities: Direct / portfolio investment, equity/debt securities (A) ¹	³
		(b) Other investment, currency and deposits (A) or reserve assets, currency and deposits (A) ²	For cash received: (a) Other investment, loans (L); and (b) Other investment, currency and deposits (A) or reserve assets, currency and deposits (A) ²	⁴
Gold loans without cash collateral (gold is held as reserve assets)	Allocated gold accounts, unallocated gold accounts, gold bullion	—	Reserve assets, monetary gold, gold bullion/unallocated gold accounts (A) ¹	Other investment income, interest
		—	—	Other investment income, interest
Gold loans with cash collateral (gold is held as reserve assets)	Allocated gold accounts, unallocated gold accounts, gold bullion	(a) Other investment, loans (L); and	For allocated/unallocated gold accounts: Reserve assets, monetary gold, gold bullion/unallocated gold accounts (A) ¹	⁴
		and		

Table 10.3 Treatment of Securities Lending, Gold Loans, and Gold Swaps where the Resident Owns the Securities or Gold (continued)

Type of transaction/position	Instrument	Balance of payments	IIP	Recording of lending fees
		(b) Other investment, currency and deposits (A) or reserve assets currency, and deposits (A) ²	For cash received: (a) Other investment, loans (may be a reserve-related liability) (L); and (b) Other investment, currency and deposits (A) or reserve assets, currency and deposits (A) ²	
Gold loans with cash collateral (gold is not held as monetary gold)	Allocated gold accounts, unallocated gold accounts, gold bullion not held as monetary gold	— (a) Other investment, loans (L), and (b) Other investment, currency and deposits (A) or reserve assets currency, and deposits (A) ²	For allocated gold accounts: — For unallocated gold accounts: Other investment, currency and deposits (A) ¹ For cash received: (a) Other investment, loans (may be a reserve-related liability) (L); and (b) Other investment, currency and deposits (A) or reserve assets, currency and deposits (A) ²	4
Gold swaps (gold is held as reserve assets)	Allocated gold accounts, unallocated gold accounts, gold bullion	(a) Other investment, loans (L); and (b) Other investment, currency and deposits (A) or reserve assets, currency and deposits (A) ²	For allocated/unallocated gold accounts: Reserve assets, monetary gold, gold bullion/unallocated gold accounts (A) ¹ For cash received: (a) Other investment, loans (may be a reserve-related liability) (L); and (b) Other investment, currency and deposits (A) or reserve assets, currency and deposits (A) ²	Other investment income, interest
Gold swaps (gold is not held as monetary gold)	Allocated gold accounts, unallocated gold accounts, gold bullion not held as monetary gold	(a) Other investment, loans (L); and	For allocated gold accounts: — For unallocated gold accounts: Other investment, currency and deposits (A) ¹	Other investment income, interest

Table 10.3 Treatment of Securities Lending, Gold Loans, and Gold Swaps where the Resident Owns the Securities or Gold (<i>concluded</i>)				
Type of transaction/position	Instrument	Balance of payments	IIP	Recording of lending fees
		(b) Other investment, currency and deposits (A) or reserve assets, currency and deposits (A) ²	For cash received: (a) Other investment, loans (L); and (b) Other investment, currency and deposits (A) or reserve assets, currency and deposits (A) ²	

Note: "A" means assets and "L" means liabilities;

¹ Means that there is no change in economic ownership, and thus assets remain unaffected.

² If the cash meets the criteria for classification in reserve assets.

³ If coupons or dividends are paid to the securities borrower, who then pays the securities lender (economic owners), a rerouting from the securities borrower to the securities lender of these payments is recorded (see *BPM6*, paragraph 11.69). The re-routed payments should be recorded in the same functional category(ies) as the underlying instruments, usually portfolio investment or reserve assets.

⁴ When securities and gold are lent with cash collateral, the arrangements are regarded as giving rise to a loan or deposit for the amount of cash provided as collateral (see *BPM6*, paragraph 7.59). The interest accrued on such loan or deposit should be treated applying the standard classification which is *other investment income, interest*. However, if the accrual of interest meets the criteria for recording in reserve assets and these data are available for publication, then the interest accrued should be classified as *reserve assets income, interest*.

Source: IMF staff.

Lending to the Fund

10.105 The IMF maintains two standing multilateral borrowing arrangements—the expanded NAB and the GAB. If the IMF considers that its forward commitment capacity might fall short of its member economies' needs—for example, in the event of a major financial crisis—it can activate these arrangements.

10.106 The GAB is a long-standing credit arrangement under which 11 advanced economies stand ready to loan domestic currency to the IMF for the purpose of forestalling or addressing situations that could impair the international monetary system. The NAB is a set of credit arrangements with selected member economies that stand ready to lend to the IMF. A contingent claim results from participation in the NAB or GAB, equal to the undrawn amount of credit. As noted, the IMF may require a member who participates in the NAB or in the GAB to lend to the IMF at short notice. When funds are actually lent, the member obtains a claim on the IMF that qualifies as a reserve asset, and should be included in the reserve position in the IMF (RPF).²⁶

10.107 In response to the financial crisis and following a call by the International Monetary and Financial Committee in April 2009, the IMF took a number of actions aimed at substantially increasing its lending resources. Additional arrangements under the umbrella of the General Resources Account include Bilateral Loan Agreements (BLA)—an agreement under which an IMF member commits to lending funds, usually in its domestic currency, up to an agreed limit, to the IMF, upon demand by the

IMF—and Note Purchase Agreements (NPA)—an agreement under which an IMF member commits to purchasing a promissory note from the IMF on demand, up to an agreed limit.

10.108 In order for a loan that is created under a BLA with the IMF to meet the definition of a reserve asset, the claim must be readily available to meet a balance of payments financing need. This condition would be met if the IMF will repay the loan, or someone stands ready to purchase the original lender's claim on the IMF, within a very short period, through the existence of a liquid market, such as market makers, who stand ready to buy and sell at all times. In addition, all of the preceding transactions must involve (or be capable of involving) a freely usable currency (other than the member's own currency). In this circumstance, the loan that is created under a BLA should be recorded under RPF. However, if the loan can be repaid over a protracted period (some loan agreements might allow repayment up to one year), or does not allow repayment in a reserve asset currency, the loan does not qualify as a reserve asset.

10.109 Two classes of notes were designed under the NPAs, Series A and Series B Notes. Series A notes meet the liquidity criterion for classification as a reserve asset. Series B Notes are encashable as soon as practicable within 12 months of recognition of a balance of payments need. Holders of these notes therefore are not assured that the notes will be encashed promptly at the time of a balance of payments financing need, and so these notes do not meet the statistical definition of official reserve assets.

²⁶For more information on NAB and GAB see <http://www.imf.org/external/np/exr/facts/gabnab.htm>.



11

Goods

Introduction

11.1 The goods component of the balance of payments current account covers (with a few exceptions) moveable goods for which changes of ownership (between residents and nonresidents) occur. These goods should be measured at market value on an f.o.b.¹ basis.

11.2 Ahead are presented the primary entries for the compilation of goods in the balance of payments, including various adjustments to source data that are required to satisfy requirements of the *BPM6*. The adjustments are covered in more detail in subsequent tables. Also shown are the standard components required by the *BPM6*. Compilation of goods in balance of payments is done by adjusting the data recorded through the main data source with data from additional data sources to assure adequate coverage and classification.

Recorded trade (international merchandise trade statistics (IMTS), international transactions reporting system (ITRS), enterprise surveys, other)

Adjustments:

For coverage

For classification

For valuation

For timing

Total goods (on a balance of payments basis)

of which:

General merchandise

Net exports of goods under merchanting

Nonmonetary gold

¹F.o.b. value (free on board) covers the transaction value of the goods and the value of services performed to deliver goods to the border of the exporting economy. It does not cover the insurance and freight cost between the exporting and the importing economies, or within the importing economy.

11.3 The next three sections in this chapter describe how goods items may be compiled by using information from the IMTS, an ITRS, and enterprise surveys. A discussion of commodity classifications and the preparation of estimates in the absence of data follows.

IMTS as a Primary Source for Compilation of Goods

11.4 The IMTS is the subject of Chapter 5, which discusses the nature, conceptual framework, classifications, and measurement of these statistics. Most compilers use IMTS as the main source of data to compile the goods account. However, IMTS cover goods entering (imports) or leaving (exports) the economic territory of an economy, which differs in some respects from the balance of payments concept of change of ownership between residents and nonresidents. Consequently, the compiler should be aware of the extent to which IMTS meet international statistical standards and the extent to which IMTS comply with the requirements of the *BPM6*, and thus make adjustments, as needed. The balance of payments compiler should note any deficiencies and encourage IMTS compilers to make any appropriate amendments to procedures. Alternatively, the balance of payments compiler may make any necessary coverage, classification, timing, and valuation adjustments to IMTS to align them more closely with balance of payments requirements.

11.5 Tables 11.1 through 11.4 present adjustments to IMTS that may be required. These adjustments should not be regarded as an exhaustive list, and the compiler should add any other items that may be considered important. Adjustments that have a material impact on the calculation of exports and imports should be made. If the compiler is unsure of the potential significance of some adjustments, investigating

and quantifying the possible magnitude is appropriate, particularly when a large adjustment may be in order. If adjustments are not made as a result of these investigations, publication of the findings may provide a suitable alternative.

11.6 The identification of potential adjustments should be undertaken in close consultation with IMTS compilers, who may have much of the data necessary to make the balance of payments adjustments. If such data are unavailable in IMTS, these statistics may nonetheless provide a starting point for identification of companies to be approached. Many of the adjustments may be made by approaching companies—typically on a selective basis—through enterprise surveys or through supplementary ITRS inquiries. In some circumstances, it may be more appropriate to approach official sources or partner economies. In making adjustments to IMTS, the balance of payments compiler should ensure that any relevant offsetting entries are identified and correctly treated in the balance of payments.

11.7 IMTS includes within its scope electronic commerce (e-commerce), covering those imports and exports of goods whose transactions were made using electronic means (e.g., goods ordered and paid for via the Internet). It is recognized that data collection for such goods may be challenging (e.g., when goods are shipped through parcel or courier service; see also “Travel” in Chapter 12); however, the compiler is encouraged to develop over time the necessary data collection and/or estimation procedures.

Coverage Adjustments

11.8 The balance of payments compiler may make coverage adjustments to IMTS by excluding from the balance of payments goods that have not changed ownership but have been recorded in IMTS. The compiler may also make adjustments to include in the balance of payments goods that have changed ownership but have not been recorded in IMTS. Adjustments may be necessary to do the following:

- Exclude goods that should, according to the guidelines for these statistics, be excluded from the balance of payments but are included in IMTS (e.g., government goods consigned to armed forces and diplomatic representatives abroad; transit trade; migrants’ personal effects, etc.)

- Exclude goods sent abroad (or imported) for processing without a change of ownership and goods returned after processing
- Include goods that should, according to the guidelines for these statistics, be included in the balance of payments but that might not be included in the IMTS (e.g., electricity, water, and gas; goods procured in ports by carriers away from the territory of residence of the operator; etc.)
- Include goods under financial lease that may be included in IMTS but recorded separately
- Include (or exclude) goods that are excluded (included) from (in) IMTS due to the use of special trade system but for which adjustments should be made in the balance of payments (e.g., goods entering the industrial and commercial free zones, inward processing zones, and customs warehouses)
- Adjust for goods (other than goods lost or destroyed) that may have crossed only one national boundary (e.g., fish caught by resident ships in international waters and sold abroad directly; goods used as inputs in the processing abroad that are procured by the owner from other economies and delivered directly to the processing economy, as well as the processed goods sold directly to other economies from the processing economy)
- Adjust for goods that were lost or destroyed after they crossed the national boundary of the exporter’s economy but before they crossed the frontier of the importer’s economy
- Record the change in stocks of goods associated with merchanting transactions
- Overcome general undercoverage problems such as smuggled goods and informal, cross border trade.

Each of these categories is explained in Table 11.1.

Classification Adjustments

11.9 Classification adjustments are required when certain transactions not appropriate for goods items in the balance of payments are classified as goods in IMTS. Generally, the most basic classification adjustment is the correction for services—insurance and freight transport services—that are included in the import price of the goods. This adjustment and other classification adjustments that may be appropriate to IMTS are explained in Table 11.2.

Valuation Adjustments

11.10 Different valuation issues may have an impact on the compilation of goods. These issues include the following:

- Replacement, when actual values become available, of estimated values for certain exports
- Replacement of transfer prices with market prices
- Use of transaction values instead of customs values
- Correction for any biases in conversion rates

These adjustments are outlined in Table 11.3.

Timing Adjustments

11.11 As Chapter 5 states, the timing basis of IMTS may be the general trade system or the special trade system. The general trade system is preferable for international accounts statistics because it captures

transactions involving goods for the whole economy and is more consistent with the coverage of the corresponding financing entries; however, neither the general nor the special trade system will necessarily coincide with the principle of change of ownership used in the balance of payments. As a result, various timing adjustments of the type set out in Table 11.4 are to be made to IMTS by the balance of payments compiler. For certain goods, such as large items of transport equipment and bulk goods sold on consignment, the cost of obtaining data necessary for timing adjustments is relatively inexpensive,² and these adjustments can have a significant impact on the quality of the balance of payments.

²Customs data providing the time these items cross the border could be easily compared with the payments data obtained either for business surveys or from the ITRS.

Table 11.1 Use of International Merchandise Trade Statistics (IMTS) for Compilation of Goods: Adjustment for Coverage

Description	Source and method of compilation
<p>Possible deductions from IMTS</p> <p>Government goods consigned to armed forces and diplomatic representatives abroad</p> <p>Goods for temporary admission</p> <p>Transit trade</p> <p>Migrants' personal effects</p>	<p>If included in IMTS, these items should be removed by the balance of payments compiler. These items should be readily identifiable, except for migrants personal transfers that may not be identified from effects imported/exported by individuals undertaking short-term trips. The balance of payments compiler should request their additional specification in IMTS or should make adjustments using other data sources such as survey of travelers.</p>
<p>Goods for processing (without a change of ownership)</p>	<p>Goods for processing without a change of ownership should be excluded by the balance of payments compiler. It is, nevertheless, recommended that the values of goods sent abroad/received from abroad for processing (raw materials) and goods returned to the economy of origin after the completion of processing (finished products) be identified as supplementary items in services account in economies where they are significant. As recommended by the <i>IMTS 2010</i>, paragraph 1.21, economies are encouraged to explicitly identify in their trade statistics these categories of goods, preferably by special coding. However, it is recognized that such identification may not be all-inclusive or the information may not be internationally comparable due to differences in national definitions or procedures followed.</p>
<p>Possible additions to IMTS</p> <p>Nonmonetary gold</p> <p>Trade on government account Military goods</p> <p>Electricity and water</p> <p>Postal items</p> <p>Illegal and smuggled goods (that are otherwise legal)</p> <p>Informal, cross border trade</p>	<p>These goods should be included in the balance of payments, goods account general merchandise, except for the nonmonetary gold, which should be included under the nonmonetary gold component. If excluded from the IMTS, these goods should be added by the balance of payments compiler. Data on some of these items may have to be collected in enterprise surveys or through a supplement to an ITRS.</p> <p>These goods are usually not captured by IMTS; however, if captured, they are excluded from IMTS but recorded separately (<i>IMTS2010</i>, paragraph 1.59). The <i>BPM6</i> includes these goods under general merchandise.</p> <p>These goods are carried across the border legally but are unregistered by the customs office.</p>

Table 11.1 Use of International Merchandise Trade Statistics (IMTS) for Compilation of Goods: Adjustment for Coverage (*concluded*)

Description	Source and method of compilation
Goods for repair	The values of goods for repair are excluded from the balance of payments. These goods will probably be excluded from IMTS but may be recorded separately. IMTS may therefore provide a source of information for balance of payments adjustments insofar as these goods are subsequently sent abroad, however there is no change of ownership and thus need to be excluded from goods in balance of payments. However, the balance of payments compiler may have to use enterprise surveys or an ITRS to obtain information on the values of repairs that are included in maintenance and repair services.
Goods under financial lease	These items should be included as goods in the balance of payments. IMTS may therefore provide a source of information for balance of payments adjustments. However, the balance of payments compiler may have to use enterprise surveys or a supplementary inquiry to an ITRS to obtain the full range of information required, particularly with regard to the treatment of lease payments.
Goods not crossing both borders Mobile equipment used in international waters or airspace; goods delivered to offshore installations; fuel, provisions, stores, ballast, and dunnage	Theoretically, these goods should be included in IMTS. However, in practice, many of these goods will be excluded from IMTS, and the balance of payments compiler will have to use other sources, such as enterprise surveys (possibly as part of enterprise surveys of transport companies) or a supplementary ITRS collection to obtain the necessary information for balance of payments adjustments.
Goods lost or destroyed after having crossed one national boundary	Goods that change ownership before being lost or destroyed should be recorded as imports by the acquiring economy. Goods that do not change ownership before being lost or destroyed should be deducted from the producing economy's exports. The information for balance of payments adjustments could, at least in significant cases, be obtained by approaching exporters, importers, or insurance companies through enterprise surveys.
Changes in stocks of goods that never cross the border of the owners economy	These changes in stocks (which arise from merchanting) should be included in goods (negative exports when acquired by the merchant, and positive exports when resold). These acquisitions and sales will probably not be included in the IMTS. In balance of payments, net export of goods under merchanting is reported; however, it is recommended to report also the gross value of goods acquired and sold under merchanting as supplementary information. Possible sources of data are enterprise surveys or an ITRS supplement.
Goods related to processing abroad without a change of ownership	Goods used as inputs in the processing abroad that are procured by the owner from other economies and delivered directly to the processing economy should be included in the imports of general merchandise of the owner economy. Similarly, the processed goods sold directly to other economies from the processing economy should be included in the exports of general merchandise of the owner economy. The most effective way of collecting the information for these adjustments is the enterprise survey.
Other coverage adjustments, such as general coverage deficiency or deficiencies from the use of the special trade system	Other coverage adjustments might be necessary if IMTS suffers from some general coverage deficiency. Such deficiencies are sometimes identified from partner economy analysis, and partner economy data could be used as the basis for appropriate balance of payments adjustments. The Canada/United States reconciliation is an example of this type of adjustment. In the case of the use of the special trade system, ¹ the imports and exports of goods in IMTS should be adjusted for: (1) the flows of goods that are not covered by the special trade system (i.e., goods entering/leaving the commercial and industrial free zones, premises of inward processing, and customs warehouses insofar as ownership of these goods has changed) and (2) the flows of goods that are covered by the special trade system but should not be included in balance of payments (i.e., goods entering/leaving the free circulation zone from/to zones mentioned in (1), insofar as these are transactions between residents). Possible sources of data for adjustments are enterprise surveys.

Source: IMF staff.

¹See description of general and special trade systems in Chapter 5.

Table 11.2 Use of International Merchandise Trade Statistics (IMTS) for Compilation of Goods: Adjustment for Classification

Description	Source and method of compilation
Financial items: monetary gold, securities, bank notes, coin in circulation	These items should be excluded from IMTS by the IMTS compiler. If not, these items should be excluded from goods by the balance of payments compiler and included in the financial account. If included in IMTS, these items should be readily identifiable.
Conversion of imports from c.i.f. to f.o.b. valuation	Several methods may be used to make this adjustment, which reclassifies elements of IMTS goods data to services and secondary income. The service transactions should be included in the balance of payments' transportation (freight) and insurance services (only the estimated value of services should be recorded under insurance services) components, and the transfer element should be included in secondary income (net nonlife insurance premiums), to the extent that transport and insurance services have been provided by nonresidents.
IMTS goods forming part of balance of payments services transactions: customized and noncustomized media	The values of customized and noncustomized media provided with a periodic license fee (computer software provided on disks, audiovisual media, and so forth) should be excluded from goods in the balance of payments. The full values of these products, including their material content, should be included in appropriate services items. Only noncustomized media provided on physical media with right to perpetual use is included in goods.
Goods imported for projects by nonresident construction company	These goods are recorded as imports by the IMTS. However, the goods imported for construction projects by nonresident companies (where construction projects are not sufficiently substantial to constitute a branch of the company) are excluded from trade in goods in the balance of payments and included as part of the value of construction services. If included in IMTS, these goods might not be readily identifiable. The balance of payments compiler should make adjustments in both goods and construction services. The possible source of data for adjustments is the survey of construction companies conducting the construction or the survey of company financing the construction.

Source: IMF staff.

Table 11.3 Use of International Merchandise Trade Statistics (IMTS) for Compilation of Goods: Adjustment for Valuation

Description	Source and method of compilation
Replacement of estimates with actual values	The values of certain exports may not be known at the time of export (e.g., aid goods); therefore, the values may have to be estimated. The IMTS compiler should make the necessary adjustments when actual data become available. If not, the balance of payments compiler should make the necessary adjustments by approaching exporters through enterprise surveys or by using an ITRS. In the absence of a market price for the aid goods, the donors estimate of the value of the goods will often be quite different from that of the recipient. The suggested rule of thumb is to use the value assigned by the donor as a basis for valuation.
Replacement of transfer prices with market prices	Mainly for practical reasons, the <i>BPM6</i> recommends that the balance of payments compiler make this type of adjustment only in unusual circumstances and that corresponding changes be made to the distributed income or financial transactions of the direct investors/direct investment enterprises affected. The replacement of transfer prices might be made by the IMTS compiler in IMTS; if not, a special approach in enterprise surveys or an ITRS may be necessary. If the IMTS compiler does make adjustments, the balance of payments compiler should be made aware of these so that the necessary adjustments to other balance of payments items can be made. The issue of transfer pricing is discussed further at the end of this chapter.

Table 11.3 Use of International Merchandise Trade Statistics (IMTS) for Compilation of Goods: Adjustment for Valuation (concluded)

Description	Source and method of compilation
Replacement of customs values used in IMTS with transactions values	In some circumstances, the value for duty recorded by customs officials may differ from the actual transaction price. It is in particular the case of contracts establishing a quotation period often months after the goods have changed hands. In these cases, an adjustment should be made in the balance of payments to reflect the transaction price. In line with the market valuation principle, the transaction price is considered the best proxy to use, regardless of whether this price is known at the time of change of ownership (see BPM6, paragraph 3.73). The required information could come from customs records, if both valuations are recorded, from a sample investigation of import entries, or from an ITRS, if it allows the identification of the payments under such contracts.
Corrections for inappropriate exchange rates used in IMTS	The impact of inappropriate exchange rates could be assessed by sampling import and export entries. The results of such investigations could be used to adjust balance of payments statistics.

Source: IMF staff.

Table 11.4 Use of International Merchandise Trade Statistics (IMTS) for Compilation of Goods: Adjustment for Timing

Description	Source and method of compilation
Replacing IMTS with data from the books of companies	Adjustments may be made when it is known that the period in which a change in economic ownership occurs does not coincide with the period in which the transaction is recorded in IMTS. Such adjustments are typically made only when significant amounts, such as for large items of transport equipment or other high-value capital goods or the supply of certain types of goods (electricity, oil, etc.), are involved. Enterprise surveys or a supplementary approach through an ITRS can be used to obtain the information necessary for these adjustments. In the case of the high-value capital goods, the enterprise surveys should be used to determine the time of ownership change, which could be a progressive change based on stage payments or in full on delivery.
Consignment trade adjustments and adjustments for goods sold from stocks	Goods shipped abroad on consignment should be deducted from exports recorded in IMTS and replaced with the actual sales of goods from stocks held abroad by residents. Similarly, goods shipped to the compiling economy on consignment should be deducted from imports recorded in IMTS and replaced with actual sales from stocks held in the compiling economy by nonresidents. Such adjustments are typically made only when the amounts involved are significant. Enterprise surveys or an ITRS can be used to obtain the information necessary for these adjustments.
Adjustments to correct IMTS recorded on the basis of processing dates	In economies where IMTS are based on the date on which customs entries are processed rather than on a general or special trade basis, adjustments may be made (or, at least, supplementary data published) to show the impact of not using the preferred methodological basis. Such adjustments may be made by analyzing changes in customs processing rates, including the stockpile of entries that remains unprocessed. When a special trade system is used, adjustments should be made to the balance of payments to include the goods at the moment when they enter/leave the industrial and commercial free zones, premises for inward processing, or customs warehouses. ¹

Source: IMF staff.

¹For more details on special trade systems see Chapter 5 of this Guide.

ITRS as a Primary Source for Compilation of Goods

11.12 Some economies use an ITRS as the primary source for compilation of goods in the balance of payments. In most cases, goods are recorded in an ITRS when payments for the goods are made. As described in Chapter 4, there are a number of adjustments that a compiler should make to record transactions involving

goods that may also be made under the headings of coverage, classification, timing, and valuation adjustments. These adjustments are set out in Table 11.5.

Enterprise Surveys as Primary Sources for Compilation of Goods

11.13 “Collections on Goods and Services Statistics” in Chapter 3 discusses the use of an enterprise

Table 11.5 Use of International Transactions Reporting System (ITRS) for Compilation of Goods

Adjustments	Source and method of adjustments
<p>Coverage adjustments</p> <p>Exports and imports financed by loans; goods covered by foreign aid programs; goods transferred between companies in a direct investment relationship for noncash consideration; durable goods and valuables by travelers; and other goods not recorded in ITRS</p>	<p>The balance of payments compiler needs to identify such goods and make the necessary adjustments (see Collections on Goods and Services Statistics in Chapter 3). The data for adjustments could come from official sources (e.g., for foreign aid), partner economies, enterprise surveys, or as a supplement to the ITRS itself. Durable goods (such as cars and electrical goods) and valuables (such as jewelry) purchased by travelers are included in general merchandise. The compiler should avoid double counting as they could be included in ITRS in travel.</p>
<p>Classification adjustments</p> <p>Exports converted to f.o.b. valuation (exports may be valued in an ITRS on a variety of bases)</p>	<p>The data for this adjustment could be extracted from the ITRS if reporters are asked to provide a dissection of the value of exports. Alternatively, data on freight and insurance premiums could be obtained from resident transport operators and insurance companies in respect of payments made by exporters to these institutions. These data, as well as data on payments by exporters to nonresident transport operators, which should be identifiable from the ITRS, should then be deducted from the value of exports recorded in the ITRS to estimate the value of exports f.o.b. However, in some cases ITRS data do not include transport and insurance costs to the exporting border. The compiler should assess the ITRS data on payments for export of goods by consulting the exporters regarding the common practice of payments for such transactions.</p> <p>The first part of this adjustment can be added to the freight and insurance services credits items in the balance of payments.</p> <p>The treatment of freight transport is described in paragraphs 12.35–12.37.</p>
<p>Imports converted to f.o.b. valuation (imports may be valued in an ITRS on a variety of bases)</p>	<p>The data for this adjustment could be extracted from the ITRS if reporters are asked to provide a dissection of the cost of imports. Alternatively, estimates of total international freight and insurance on imports could be independently estimated (see Table 12.2). Freight on imports earned by resident transport operators and insurance premiums paid to resident insurance companies—which could be derived from enterprise surveys—and freight and insurance payments made directly by importers to nonresidents—which could be obtained from the ITRS—should be deducted from the total value of international freight and insurance to derive an estimate of the value of freight and insurance included in amounts paid by the importer to the nonresident exporter. This estimate should then be deducted from the value of imports recorded by the ITRS to arrive at an estimate of imports f.o.b.</p> <p>The earnings of nonresident carriers and insurance companies can be included in the freight and insurance debits items in the balance of payments.</p>

Table 11.5 Use of International Transactions Reporting System (ITRS) for Compilation of Goods (concluded)

Adjustments	Source and method of adjustments
Valuation adjustments Replacement of transfer prices with market prices	The <i>BPM6</i> recommends that the compiler should make this type of adjustment in certain circumstances, with corresponding changes to the distributed income or financial transactions of the direct investors/enterprises affected. The replacement of transfer prices could be made by a special approach in enterprise surveys or the ITRS. The issue of transfer pricing is discussed further in “Treatment of Transfer Pricing” in this chapter.
Timing adjustments Trade credit	The ITRS may collect as supplementary information data on date of change of ownership of goods (or some similar basis such as date of shipment), which could be used as a basis for these adjustments. The value of goods that change ownership in a different period to the period in which payment is made should be deducted from reported trade for the period in which payment is made and added to reported trade for the period in which change of ownership occurred. Offsetting adjustments should be made to the trade credit items in the financial account. The disadvantage with this approach is that the adjustments can be made retrospectively only in cases of trade credit and advances other than prepayments. An alternative approach would be to conduct an enterprise survey of significant exporters and importers to measure trade credit and advances, and use this information to adjust reported trade from an ITRS.

Source: IMF staff.

survey to measure merchandise trade in the absence of IMTS or an ITRS. The material describes a model form that a compiler may use to collect across-the-board data on goods exported and imported.

11.14 The *Guide* does not recommend one collection system over others. However, the compiler who use enterprise surveys (in lieu of IMTS or an ITRS) as the data source for goods items in the balance of payments must be particularly careful that adequate coverage is maintained—particularly in economies that are growing significantly, undergoing liberalization of trading relations, or are transitioning to a market-based economy.

Subclassification of Commodities

11.15 As listed in the *BPM6*, standard components of the balance of payments contain a limited subclassification of goods. Nevertheless, the balance of payments compiler could disseminate these data at a more detailed breakdown. Some goods are more durable than others. Some goods may be sold quickly; others may be stored to await stronger demand. Exports and imports of foods follow patterns of production and

demand that differ greatly from those of investment goods. It is also important that the balance of payments compiler disseminate the data using a subclassification that is nationally appropriate.

Estimation in the Absence of Data Across-the-Board Estimation

11.16 While prepared to estimate many balance of payments items, some compilers prefer having customs data available before estimating goods trade. Therefore, the timing of balance of payments publications is often predicated on the availability of data from IMTS, an ITRS, or enterprise surveys (whichever is the main source) on goods transactions. However, the compiler may have to estimate goods when basic data do not exist, are untimely, or reflect poor coverage.

11.17 One approach to estimation consists of gathering available data, using known relationships between national accounts aggregates, and estimating the balance of payments goods item as a residual. For example, in an economy with a simple economic structure, it may be possible for the compiler to collect

data on exports from a few major exporters and data on services from a few large companies and the official sector. These data may then be used with other national accounts aggregates³ to derive imports of goods and services as a residual.

11.18 Another approach uses—especially for major agricultural and mineral products—supply and use framework of commodity flows.⁴ Because, for a specific period, the closing position of a commodity equals the opening position plus production and imports less consumption and exports, any component can be derived as a residual from the others. For example, if a compiler knows the volumes of production, consumption, and changes in position and if there are no imports, export volumes may be derived as residuals. Price data may then be applied to these estimates to derive current values of exports.

11.19 Although IMTS may provide preliminary broad aggregate data for more recent periods, some data required to complete balance of payments accounts may be missing. The balance of payments compiler may, with relative ease, be able to estimate missing components by taking into account the relationship between those components and various aggregates for past periods. For example, there may be a reliable relationship between exports of a particular agricultural commodity and the size of the harvest. If the latter is known, this relationship could be used, in the absence of data, to estimate exports. Another method of estimation would consist of assuming that trade in missing components has increased (or decreased) at the same rate as measured trade; the rate of increase (or decrease) would then be applied to the estimate for the previous period to obtain an estimate of the missing component for the current period.

11.20 Preliminary data may be subject to known biases, and the balance of payments compiler may adjust for these biases to reduce the size of subsequent revisions to data. In evaluating preliminary results

from IMTS, the compiler may find some anomalies. Less than complete data validation procedures may have been applied to preliminary IMTS, and the balance of payments compiler may have data from other sources that cast some doubt on the validity of certain components of IMTS.⁵ In these circumstances, the balance of payments compiler may have to obtain more reliable data from exporters and importers or even to estimate certain components.

Other Estimations Required

11.21 The compiler may have to adjust imports valued on a c.i.f. basis to an f.o.b. basis. Methods for doing so are discussed in “Transport” in Chapter 12. The compiler may make other adjustments to overcome coverage, timing, and valuation errors resulting from periodic examinations of trade data. For example, the compiler could, by using the supply and use framework for selected commodities or periodic estimates obtained from customs officials, make adjustments for smuggling (undercoverage).

11.22 In making the c.i.f./f.o.b. adjustment, the compiler should keep the following considerations in mind:

- (1) The economy of origin of the imports—If the customs points of two territories are the contiguous, the c.i.f. and f.o.b. valuations are the same, so no adjustment is necessary.
- (2) The distance that the good has to travel—The longer the distance, generally the greater the freight cost and usually the greater the insurance charge. Not all imports would have the same c.i.f./f.o.b. adjustment.
- (3) The changing composition of goods over time—As the composition of imported goods changes, the weights attached to each commodity will need to be adjusted as the freight and insurance charges will differ depending on the commodity.

³Based on the formula for compiling the gross domestic product by expenditure: $GDP = \text{Final consumption} + \text{Capital formation} + \text{External trade balance (exports-imports)}$.

⁴Within the context of compiling the goods and services account in the national accounts, an unknown component could be derived residually from the equation: $\text{Domestic production} + \text{Imports (goods and services)} + \text{Taxes} = \text{Intermediate consumption} + \text{Final consumption} + \text{Capital formation} + \text{Exports (goods and services)}$.

⁵To prepare preliminary IMTS, some validation procedures (such as comparing day-to-day consistency of reporting, querying returns that look unusually large, checking on nonresponse, etc.) should be undertaken. However, more detailed checking of value/quantity relationships, which usually reveals errors in the reporting of physical quantities rather than values, is sometimes skipped at the preliminary estimation stage.

11.23 The compiler could make additional estimations to improve the coverage of trade data. For this, customs officials may be involved in estimating undercoverage by examining the customs procedures. For example, if the baggage of 1 in 20 persons (selected at random) arriving in an economy is examined, and y value of goods is discovered undeclared by these persons, an estimate of undercoverage could be derived as 20 times the value of y . It would be more difficult (but still possible) to estimate undercoverage if selection procedures were based upon nonrandom factors.

Treatment of Transfer Pricing

11.24 Between companies in a direct investment relationship, transactions may occur wherein values shown in the books of transactors are significantly distorted from market values. A company may sell goods to a related company for prices unrelated to the cost of production or the acquisition cost of the goods. Such a sale might be made, for example, to transfer profits from one economy to another for tax reasons or because the economy of the direct investment enterprise (DIENT) imposes restrictions on the repatriation of income. In other instances, transfer prices may be used as a means by which a direct investor makes a financial investment in a DIENT.

11.25 The *BPM6* recommends that the compiler make an adjustment to transaction prices in the balance of payments when actual transaction prices of transfers of real resources between companies in a direct investment relationship differ from values that could have been expected if the companies had been independent. However, the *BPM6* cautions that such adjustments should be made only in the unusual circumstance when significant distortions are encountered and information to make a reliable adjustment is available (see *BPM6*, paragraph 3.77).

11.26 When adjustments are made to one side of a balance of payments transaction, offsetting adjustments must be made to preserve equality between credit and debit entries. For adjustments arising from the use of nonmarket transfer prices, adjustments should be made to goods or services trade, direct investment income, and financial account transactions.

11.27 The following example illustrates these adjustments. In a certain economy, a DIENT produces

copper. If this copper is sold to unrelated companies, the DIENT could expect, on the basis of the production cost of the copper, to earn 50 units per ton. However, as the government of the economy has imposed restrictions on repatriation of income to nonresidents, the DIENT sells to its direct investor 1,000 tons of copper at only 10 units per ton. In this case, non-market transfer pricing is used to repatriate income.

11.28 Table 11.6 shows examples of transfer pricing adjustments in the balance of payments.

Merchanting

11.29 Merchanting transactions—that is, the purchase of goods by a resident (of the compiling economy) from a nonresident combined with the subsequent resale of the same goods to another nonresident without the goods being present in the compiling economy—should be recorded in the balance of payments as transactions in goods. This is a change from the *BPM5*, where merchanting was to be recorded as a service. The change in treatment is in line with the change of ownership rule that underpins the balance of payments conceptual framework. If there is a change in the physical form of the goods during the period they are owned by the merchant, as a result of manufacturing services, then the transaction should be classified as general merchandise, and not as merchanting.

11.30 For the economy of the merchant, goods acquired under merchanting should be recorded as a negative credit in the balance of payments in the period the merchant acquires the goods, and when they are sold they should be recorded in that period as goods sold under merchanting as a positive credit. In most instances, the difference between the acquisition and sale (shown as “net exports of goods under merchanting”) covers merchants’ margins, holding gains and losses, and changes in inventories of goods under merchanting. As a result of losses or increases in inventories, net exports of goods under merchanting may be negative in some cases. Where the merchant is an organizer of a global manufacturing process, the selling price may cover elements such as providing planning, management, patents and other know-how, marketing, and financing. Particularly for high-technology goods, these nonphysical contributions may be large in relation to the value of the materials and assembly.

Table 11.6 Adjustments to Balance of Payments in Cases of Transfer Pricing

Direction of flow of goods	The transaction price is less than market value		The transaction price is greater than market value	
	Economy of direct investor	Economy of direct investment enterprise	Economy of direct investor	Economy of direct investment enterprise
Direct investment enterprise to direct investor	Increase goods imports by difference in prices; add difference in prices to direct investment income—dividends—credits	Increase goods exports by difference in prices; add difference in prices to direct investment income—dividends—debits	Decrease goods imports by difference in prices; add difference in prices to financial account—direct investment—net acquisition of financial assets—equity	Decrease goods exports by difference in prices; add difference in prices to financial account—direct investment—net incurrence of liabilities—equity
Direct investor to direct investment enterprise	Increase goods exports by difference in prices; add difference in prices to financial account—direct investment—net acquisition of financial assets—equity	Increase goods imports by difference in prices; add difference in prices to financial account—direct investment—net incurrence of liabilities—equity	Decrease goods exports by difference in prices; add difference in prices to direct investment income—dividends—credits	Decrease goods imports by difference in prices; add difference in prices to direct investment income—dividends—debits

Source: IMF staff.

11.31 The economy that sold the goods to the economy of the merchant and the economy that purchased the goods from the economy of the merchant record their merchandise trade in the usual way—that is, as exports and imports of general merchandise, respectively, and not as merchanting transactions.

11.32 By the very nature of merchanting, the goods involved do not cross the customs boundary of the economy of residence of the merchant. Therefore, the data need to be collected directly from the companies involved in merchanting. It may be possible to identify such companies through a business register that may be maintained by the collecting body or the central statistical office (if different). Model form 5 in Appendix 8 includes data required for recording merchanting transactions in the balance of payments. Data should be collected on a gross basis, by commodity, and by partner economy, wherever possible.

Nonmonetary Gold

11.33 Nonmonetary gold covers all gold other than monetary gold (gold bullion to which the monetary authorities have title and is held as reserve assets).

Excluded are jewelry, watches, and so forth that contain gold, which are included under general merchandise. Merchanting of nonmonetary gold is also included under the nonmonetary gold item (*BPM6*, paragraph 10.49).

11.34 IMTS is a source of data for nonmonetary gold. It adopts the same definition of monetary and nonmonetary gold provided in the *BPM6*. It is recognized, however, that in practice it might be difficult for the IMTS compiler to differentiate between monetary and nonmonetary gold. IMTS and balance of payments compilers should consult each other and the monetary authorities to ensure appropriate and consistent treatment. Moreover, it must be noted that IMTS records movements of gold and not necessarily change of ownership.

11.35 The data from IMTS must be complemented by data on transactions in nonmonetary gold between residents and nonresidents that involve no physical movement of gold. This could be obtained, for example, from a special survey of gold traders or gold holders. ITRS may also be used to validate the information.



12

Services

Introduction

12.1 Rapid technological advances in the past few decades in transport, telecommunication, computer, and information services, including the development of the Internet and electronic commerce, and innovations in creation and packaging of financial instruments, combined with an increased trend towards globalization, have resulted in significant cross border exchanges at more distant locations and access of business companies to wider markets. Better communication and transport have also facilitated the movement of people for the purposes of tourism, migration, employment, and trade. These phenomena have resulted in an explosive development of service industries and an unprecedented growth in the volume of international trade in services, including in the context of international investment. Currently, services constitute about one-fifth of worldwide trade in balance of payments terms.

12.2 The chapter covers general aspects of data collection and compilation for all services categories, including separate discussions on services with more complex transactions and multiple data sources that require a specific treatment. It also captures the emergence of new data sources (e.g., electronic commerce) and adaptations in the application of statistical methodologies to changing circumstances.

12.3 The structure of the chapter follows the order of the main standard services components but takes into consideration the relative importance of various services in the international trade. The next three sections cover manufacturing services on physical inputs owned by others, transport, and travel, respectively; all other types of services are grouped under other services and are described in “Other Services.” The last section is dedicated to e-commerce.

12.4 “Other Services” presents (1) a general description of data sources and methods that could be used to compile the items included in this category and

(2) separate descriptions on some of the more complex transactions recorded in these items—namely, construction, treatment of intellectual property, foreign exchange services (part of financial services), operating leasing (part of other business services), and government goods and services n.i.e. Detailed descriptions of compilation of cross border insurance and pension services and financial intermediation services indirectly measured (FISIM) are provided in the separate, dedicated Appendices 2 and 3, respectively.

Manufacturing Services on Physical Inputs Owned by Others

12.5 The *BPM6* stipulates that the manufacturing fee received by companies for the manufacturing activity undertaken on goods owned by other companies be classified as a service. The manufacturing services represent the value of the contract between the owner of the goods and the manufacturer. However, gross values of goods associated with manufacturing services should be identified as supplementary items in economies where they are significant. Recording of gross values of such goods is described in Chapter 10 of the *BPM6*.

12.6 The services provided by the manufacturer may also be referred to as contract manufacturing, toll manufacturing, or toll services. These terms reflect an arrangement where some of the manufacturing activity is undertaken by one company on behalf of another. Thus, the goods being manufactured are not owned by the manufacturing company; rather, the manufacturing company is engaged in the provision of a service for a manufacturing (contract) fee.

12.7 In contrast, the *International Merchandise Trade Statistics: Concepts and Definitions 2010 (IMTS 2010)* recommends as follows:

... that in all cases goods for processing, as well as goods resulting from the processing (compensating products in customs terminology) are to be

included in the merchandise exports and imports of the countries at their full (gross) value.¹

12.8 Recognizing the needs of balance of payments statistics, where manufacturing services on physical inputs owned by others should be recorded, the *IMTS 2010* encourages economies to undertake the following:

. . . explicitly identify (preferably by special coding) in their trade statistics goods for processing as well as goods resulting from such processing where no change of ownership takes place. However, it is recognized that such identification may not be all-inclusive and the obtained information may not be internationally comparable as (a) merchandise trade statistics compilers may not have adequate sources of data (especially in cases when the appropriate customs procedures are not used) and (b) national definitions of such procedures may differ significantly.

12.9 However, customs declarations currently used by most economies do not facilitate the recording of the manufacturing services, and there may be differences between the actual value of manufacturing services and value obtained from customs declarations as difference between the value of the goods before processing and the value of the goods after processing. Therefore, even if economies were to follow the encouraged guidelines of international merchandise trade statistics (IMTS) on recording goods for processing, the resulting data may not be adequate for estimating manufacturing services. It should be noted that manufacturing services on physical inputs owned by others records only the manufacturing services and not the difference in the value of the goods before and after processing. In this regard, using data from IMTS may not be a viable option.

12.10 Based on these recommendations, it would be very difficult to estimate the manufacturing services using only customs-based merchandise trade statistics. The information provided by customs declarations could be, nevertheless, useful in combination with other methods, or alternatively as input in a data model (by major type of manufacturing) used in combination with regular benchmark surveys to validate the model outcomes.

12.11 The *BPM6* recommends that the movement of goods under the processing arrangements to be identified as supplementary items for both the owner and the provider of manufacturing services—that is, they should be recorded as follows:

Goods for processing in the reporting economy
Goods returned (CR), Goods received (DR)

Goods for processing abroad
Goods sent (CR), Goods returned (DR)

12.12 In this manner, they can be compared with the results of the enterprise survey and maintain a link with the IMTS data. In addition, continuing to record these data in the IMTS is necessary so that they can be excluded from the total of transaction in goods to exclude double counting.

12.13 It is possible that some goods will be manufactured in one economy, then be sent to another economy for further manufacturing, and then either be returned to the owning economy, returned to the economy where the initial manufacturing was undertaken (either for further manufacturing or for final sale), or sent to a third economy (for further manufacturing or for final sale). Indeed, it is possible that the goods never enter the economy of the residence of the owner as all the manufacturing is entirely done abroad. Until final sale, the goods should be recorded as being owned by the original party throughout and the various fees recorded under *manufacturing services on physical inputs owned by others* between the manufacturing economy and the economy where the owner is resident.

12.14 The difference between the value of the goods before processing and the value of the goods after processing may differ from the value of manufacturing services for various reasons, including the following:

- Sale of goods after processing in the economy of the manufacturer or to a third economy; in such cases, the value of the processed goods that are returned to the owner is diminished by the value of goods sold to the economy of the manufacturer or to a third economy, the latter being separately recorded as exports by the owner of the goods
- Incorrect assessment of the values of goods sent and returned; since there is no sale or purchase of

¹*IMTS 2010*, paragraph 1.20.

the goods, the values recorded by customs at the time of import and reexport are notional values, whose balance probably does not differ by the amount of the processing fee received (resulting in balance of payments errors and omissions). Also, these values may be assessed differently by the customs authorities of the economy of the sender and the customs of the economy of the receiver

- Recording of the goods before and after processing across different periods
- Inclusion of holding gains or losses; holding gains or losses accrue to the owner of the goods. However, it is likely that the changes in the value of the goods while in the possession of the manufacturing company could be included in the value of the goods and hence be mistaken for part of the manufacturing services. For example, if the price of oil changes substantially after the manufacturer takes possession of the consignment, then the value of oil after manufacturing would include the price increase, the manufacturing services, and the value of other inputs
- Scrapping of the goods while in the possession of the manufacturer; these goods may be included in the value of goods sent but excluded in the value of goods returned
- Inclusion of manufacturer's overheads in the value of the goods after processing;² the manufacturing services should include overhead costs only to the extent they relate to the processing of the goods
- Value of brand names in goods after processing; for example, a shoe manufacturer's logo adds value to the goods after processing. However, this value should not be included in the manufacturing services
- Inclusion of the value of materials sourced from the economy of the manufacturer; materials procured by the processor as inputs in the production process and that may be sourced from the economy of the manufacturer (or sourced from third economies and then transported directly to

²Overhead costs include expenses related to the operation of a business. Most commonly, overhead costs include accounting fees, advertising, depreciation, insurance, interest, legal fees, rent, repairs, supplies, taxes, telephone bills, travel, and utilities costs.

the economy of the manufacturer) are included in the overall cost of production. It may be that only a portion of their value is reflected in the manufacturing services, the rest being inputs in other processing activities including on its own.

12.15 In collecting data on manufacturing services, the compiler also needs to be careful to differentiate manufacturing undertaken on own account from manufacturing undertaken on goods owned by others. In the former case, the processor may purchase supplies of goods and raw materials from one or more foreign suppliers (recorded in general merchandise) and undertake assembly and processing of the goods, and the final product is sold on the account of the manufacturer. In this case, the manufacturer would have taken ownership of the goods and therefore is not engaged in contractual work.

12.16 In many cases, the companies engaging in manufacturing services may be identifiable by the special taxation arrangements that may be in place for their benefits. These arrangements normally entail the provision of special tax and duty concessions on their production and purchases, or outright duty exemptions. Thus, raw materials and other inputs may be imported duty-free and the company may operate under a lower corporate tax structure than other similar companies in the economy. Because of the preferential tax rates offered to these companies, the importation and production process may be closely monitored by the customs and tax authorities so that they cannot freely engage in commerce (by selling some of their inputs or outputs) with other companies that do not qualify for concessions. Thus, these companies may operate only in special locations that may be referred as export processing zones or free zones. The factory undertaking the manufacturing may sometimes be referred to as a bonded factory, implying that the goods are held in bond by the customs authorities. For example, in Mexico, these factories are referred to as maquiladora, named after the system under which these companies were established in the 1960s. However, the compiler should note that many companies may be engaged in manufacturing services without necessarily being in such special locations.

12.17 The compiler should note that there may be cases where the companies operating in special locations and receiving such concessions may actually

own the goods being manufactured. They may purchase inputs domestically and from the rest of the world, manufacture goods, and sell these manufactures to one client overseas. This output would not qualify as manufacturing services.

12.18 There may be cases of technology transfer³ between a direct investor in economy A and an affiliate in economy B without which the affiliate would not be able to undertake production. The production process may involve the use of raw materials and other inputs obtained from the direct investor or from other sources acquired by the affiliate. The direct investor may then be responsible for marketing the goods after production. The mere existence of a direct investment relationship and the affiliate's reliance on the technology of the direct investor do not imply the provision of manufacturing services. The affiliate may be able to acquire goods on own account and may be contracted to sell/transfer the final output only to the direct investor. In that case, the manufacturing activity would be recorded on the books of the affiliate as manufacturing on own account.

12.19 The compiler should also make the distinction between the goods associated with manufacturing activities and those under merchanting. For merchanting, the gross values of the goods acquired and sold are included in goods (as negative and positive exports, respectively). In the case of goods associated with manufacturing services, there is no change of ownership, unless the parties later agree otherwise, in which case the sales of the finished products would be recorded under general merchandise (the manufacturing fee would be paid as agreed in the initial contract). Furthermore, there may be cases where the goods under a merchant's ownership may be subjected to certain manufacturing services that changed the condition of these goods, in which case the purchases and sales should be recorded under general merchandise instead of merchanting.

Collecting Data on Manufacturing Services

12.20 Data on manufacturing services on physical inputs owned by others can be collected through an

³Technology transfer includes patenting, licenses, know-how, technical assistance and the provision of research and development services. See OECD, *Measuring Globalization: OECD Handbook on Economic Globalization Indicators*, 2005.

enterprise survey, IMTS, and an international transactions reporting system (ITRS). Administrative sources also can provide useful information (see model form 7).

12.21 Enterprise surveys generally represent the most efficient method to collect information on manufacturing services. The compiling agency may conduct dedicated surveys to collect data on the value of the manufacturing services as well as the value of the goods sent and received for processing. The latter would be useful to adjust the goods account to measure merchandise trade on a change of ownership basis. As noted previously, companies engaged in manufacturing services may operate under special customs and tax regulations; therefore, when collecting the information, the compiler should exert care to identify the concessions given to companies operating in special locations and properly record external transactions.

12.22 Customs declarations currently used by most economies for IMTS do not facilitate the recording of the manufacturing services. A possible solution is for economies to amend their customs declaration forms to require that traders report the value of the manufacturing services on the goods being traded. However, this is a possible long-term solution as there are various factors that will have to be considered before this option is pursued. Customs declaration forms may be designed according to legal specifications that underpin trading arrangements, and it may be difficult to adjust these forms solely for statistical purposes.

12.23 An ITRS may provide some information on the value of the manufacturing services. However, the compiler should ensure that this amount does not include payments for other goods and services. Thus, the ITRS may need to be adjusted to collect specific information on the manufacturing services and to exclude all other transactions payments between the manufacturing company and the company owning the goods.

12.24 The manufacturer may be required to provide statements to the tax authorities on its income and expenses as part of the close monitoring that may be in place due to its receipt of tax concessions. Such statements may be available from the customs authorities or the tax authorities. These agencies may also be able to identify the value of the manufacturing

services from the relevant tax on provision of such services.

12.25 The gross value of goods for processing, both of the goods sent for processing (raw materials) and goods returned to the economy of origin after the completion of processing (finished products), should be identified as supplementary items in economies where they are significant. These values could be identified in IMTS, in enterprise surveys, or in a supplementary inquiry in an ITRS.

Transport

12.26 Transport includes passenger, freight, and other transport services provided by residents of one economy to residents of another economy. The *BPM6* recommends that transport be classified by mode of transport (namely, sea, air, and other, which includes rail, road, inland waterway, pipeline, space transport, and electricity transmission). It also recommends that these categories be classified further by what is carried (namely, passenger or freight), and by other auxiliary services related to the transportation of the mentioned categories. Transport also includes postal and courier services.

Ownership and Operation of Transport Equipment

12.27 To properly record transport services in the balance of payments, it is necessary to distinguish between the owner of mobile equipment⁴ and the operator of the equipment. The owner is generally the company that has legal title to the equipment. The company that controls the operation and movement of the equipment is regarded as the operator. The operator is usually responsible for supplying a crew, maintaining equipment in proper working order, and deciding when, and to which location, the equipment will be moved.

12.28 The owner and the operator may be the same or different companies. As separate companies, they may be residents of different economies. In some cases, a chain of leasing arrangements may separate the owner from the operator of the equipment. As in a

⁴In this case, and provided the equipment is rented without the crew, the compiler should record operating lease payments, which are made by the operator to the owner, under other business services—operating leasing services.

financial lease, the lessee of mobile equipment is considered the economic owner for balance of payments purposes, because a change of ownership is presumed. If a parent company transfers mobile equipment to a branch located abroad, the branch is—for balance of payments purposes—considered the owner if the equipment is recorded in the books of the branch. Ships registered under flags of convenience should be attributed to the legal owners; however, the flags of convenience used by companies do not determine the residence of the owner or operator. The residence of the company that operates the ships is determined according to general criteria as defined in the *BPM6*, paragraphs 4.131–4.135, and it may not necessarily be the same as the company that owns the ships, such as where the ship operator has an operating lease from the ship owner, who is resident in another economy.⁵

Transport Arrangements

12.29 Owners and operators may enter into a number of leasing or chartering arrangements. Various terms are used to describe these arrangements, but a broad description should suffice for purposes of the *Guide*. For balance of payments purposes, only leases with crew are included under transport; operational leases (without crew) and financial leases are classified elsewhere (see also section ahead on operating leasing).

12.30 There are bare boat or *bare bottom charter arrangements* whereby an owner leases a vessel to an operator, who is responsible for equipping the vessel and supplying the crew.

12.31 These leases usually cover long periods but may also cover short periods. For all lease types, the compiler should make sure the leases are leases with crew and not operating (without crew) or financial leases, before including them under transport. If, for example, a vessel is legally owned by a bank or other type of financial institution, the compiler should, for balance of payments purposes, usually regard the vessel as being economically owned by the lessee (financial lease).

12.32 There are *time charter arrangements* whereby a vessel is leased to an operator who provides a crew.

⁵Most commonly encountered are ships, aircraft, drilling platforms, and railway rolling stock.

The bare boat or bare bottom charter is a form of time charter. A time charterer may also lease a vessel from a bare boat charterer. For balance of payments purposes, the time charterer should be regarded as the operator, although if there are several time charters involved, the charterer supplying a crew is regarded as the operator.

12.33 In addition, there are *voyage charters*. For example, an exporter or an importer may hire, for a single voyage, a vessel to ship a bulk commodity such as wheat or minerals. The voyage charterer has no responsibility for operation of the vessel and is not, therefore, considered the operator. A variation of voyage charter, space charter, or slot charter consists of an arrangement in which space on the vessel, rather than the whole vessel, is hired. Payments for voyage, space, and slot charters should be recorded as freight under transport.

12.34 In the case of the aircraft industry, there are two main leasing types:

- *Wet leasing* (covers provision of an aircraft, complete crew, maintenance, and insurance for which payment is by hours operated), which is normally used for short-term leasing (for balance of payments purposes recorded under transport)
- *Dry leasing* (covers provision of an aircraft without insurance, crew, ground staff, supporting equipment, maintenance, etc.), which is more usual for the longer-term leases and is recorded, for balance of payments purposes, under operating leasing services—other business services. The aircraft industry also uses combinations of wet and dry when, for example, the aircraft is wet-leased to establish new services and then, as the airlines flight or cabin crews become trained, they are switched to a dry lease.

Freight Services

12.35 Freight relates to the movement of goods, and the compiler should distinguish among freight on imports, freight on exports, and other freight. Other freight relates to the carriage of goods where there is no change of ownership. The freight costs incurred by the exporter and importer are defined in the *BPM6*, paragraph 10.78. To meet the *BPM6* specifications and conventions, the compiler needs to make the following estimates:

- For credits—(1) total earnings on exports by resident carriers for transportation of goods outside the economy border and (2) total earnings on imports by resident carriers for transportation of goods within the exporting economy border
- For debits—(1) total earnings on exports by nonresident carriers for transportation of goods within the economy border and (2) total earnings on imports by nonresident carriers for transportation of goods outside the exporting economy border

12.36 The definitions of these estimates are the result of the valuation of imports and exports at f.o.b. The delivery terms of the contract between the exporter and the importer may not be on the f.o.b. basis, but ultimately the importer pays for the goods and all transportation (and insurance) costs whatever the delivery terms, either directly to a resident or nonresident carrier or to the exporter, who then makes the arrangements (again either with a resident or nonresident carrier). Some imputations are implied—for example, if an exporter arranges for a nonresident carrier to transport imported goods to the final destination in the compiling economy, a transportation debit is imputed. Examples of the treatment of freight services are presented in Box 10.3 of the *BPM6*. The *Guide* provides guidance on the estimation of freight services for exports and imports in Tables 12.1 and 12.2 in terms of resident carriers earnings on exports (credits) and nonresident carriers earnings on imports (debits). Broad adjustments to the estimates to take account of transportation costs within the exporting economy border can be made by consultations with a small number of large resident freight carriers. Conceptually, a corresponding counterpart adjustment to currency and deposits should be made in the financial account.

12.37 The service charge for freight may be recorded separately or included in the c.i.f. value of goods, depending on the delivery terms specified in the contract. If recorded separately, this represents the actual market transaction, and it is very useful for users and analysts when comparing against the freight data derived from the c.i.f. to f.o.b. adjustment (for more details on the valuation of freight transport services on a transactional basis, see *Manual on Statistics of International Trade in Services 2010 (MSITS 2010)*, paragraphs 3.107–3.110).

Passenger Transport Services

12.38 With regard to transport of persons, the compiler must distinguish between international services (included in passenger services) and domestic services (included in travel).⁶ The service is deemed to be provided by the company that is actually running the flight or the boat ride (the operating carrier) and not by the company that initially sells the ticket and cashes the income (the plating carrier in interlining⁷) or those that sell the ticket (the marketing carriers in the case of code sharing agreements⁸). Nevertheless, the income generated for the marketing carriers as well as the corresponding expenses for the operating carrier or the plating carrier may also be balance of payments transactions (included in transport services—other; in Extended Balance of Payments Services (EBOPS) classification they are classified under other supporting and auxiliary transport services).

Pipeline, Electricity, and Space Transport

12.39 Pipeline transport and electricity cables have many features in common. Fixed infrastructure is used for providing transport services rather than mobile equipment. The cables and pipeline may run through international waters as well as within economies. The usual criteria are applied to identifying the residence of the service provider where cables and pipeline run within an economy. The operator may have no physical presence in the host economy, creating difficulties in using a survey to collect data on the activity, in which case revenue authorities may be able to provide data on the value of the services provided.

⁶Passenger services provided within an economy are treated as travel services when provided by operators who are residents of that economy for nonresidents and as passenger services (part of transport services) when provided by nonresident operators for residents.

⁷Interlining (also known as “interline ticketing”) is a voluntary commercial agreement between individual airlines to handle passengers traveling on itineraries that require multiple airlines. Carriers that participate in airline alliances almost always have interline agreements with each other. However, direct competitors can also benefit from interline agreements. When a ticket is issued for an interline itinerary, one of the carriers marketing flights in that itinerary will be selected by the ticketing agent as the “plating carrier.”

⁸Code sharing agreements usually refer to numbering a flight with the airline’s code even though the flight is operated by another airline. They must have interline agreements with all other carriers in the itinerary to allow a single ticket to be issued. Contrary to interlining, the code share relationships can affect whether an interline ticket (or e-ticket) can be issued.

12.40 Space transport is essentially concerned with delivery of satellites into orbit. Change of ownership of a satellite can be regarded as having taken place when it is delivered to the buyer. The f.o.b. value of the satellite is its value at the border of the exporting economy. If the satellite is launched from the economy of manufacture, the cost of transporting the satellite to the launching site should be included in the f.o.b. valuation. The cost of launching the rocket should be treated as freight services. If the satellite is launched in a third economy, the freight charges would include costs (including the cost of the launch rocket) incurred between the f.o.b. valuation and the satellite reaching orbit in space. If the satellite is launched from the owner’s economy, there would be no international freight component for delivering the satellite into orbit because the service provided would be a resident-to-resident transaction. If the rocket is sold to the resident by a nonresident, the cost of the rocket should be shown as an import of goods. Details of costs involved should be readily available from the principals, who should be easy to identify.

Other Transport Services

12.41 Other transport services include supporting and auxiliary transport services that are not directly provided for the movement of goods or people, some of which are also provided by transport operators (see also *MSITS 2010*, paragraphs 3.104–3.105). The operators of mobile equipment visiting ports will, for example, incur various port charges and acquire goods and services, such as fuel (bunkers), provisions and catering services (all included in goods), and loading and unloading services⁹ (included in transport services—other). In addition, if an agent looks after an operator’s affairs while the vessel is in port, the operator will be charged for the agent’s services (included in transport services—other). Other port expenses may also be incurred by operators and by owners; these should be identified and recorded in the balance of payments as appropriate. While in port, the crew may purchase goods and services for their own use; these expenditures should be identified and included in travel under business travel.

⁹Loading and unloading expenses should include any demurrage expenses.

12.42 In addition to expenses incurred in port, other expenses, such as commissions paid to selling agents for sales of passenger fares and freight services (other transport), may be incurred by nonresident operators.

12.43 Table 12.1 sets out items in transport services and outlines data sources and methods that could be used to compile them. Data on mode of transport should be readily attainable from any of the sources. The sources and methods summarized in the table are subsequently explained in more detail.

Freight and Insurance on Imports

12.44 The balance of payments compiler should measure international freight services provided by nonresident transport operators on imports of the compiling economy as these services are part of freight debit items. However, when it is not possible to measure these services directly, the compiler may measure total international freight on imports and

deduct those services (if any) provided by resident transport operators. It may also be necessary to measure total international freight in order to adjust imports of goods that have been measured on a c.i.f. basis to the preferred f.o.b. basis.

12.45 While insurance premiums¹⁰ on international freight are not part of transport, there is a close relationship between these premiums and the freight services themselves. Because of this relationship, it is often convenient to estimate these two items at the same time.

12.46 The compiler may use several methods to estimate freight and insurance premiums on imports, and these are set out in Table 12.2. Many of these methods require detailed collection and/or assembly

¹⁰The compiler should make sure that the insurance premiums are broken down into service charge (insurance services) and net premiums (secondary income), as explained in Appendix 2, “Insurance Transactions and Positions.”

Table 12.1 Methods for Estimating Transport¹

Description	Source and method of compilation
Sea, air, and other transport <i>Passenger</i>	<i>Services Provided by Resident Transport Operators (credit)</i> Data could be collected—through an enterprise survey or an ITRS—from resident operators. Fares earned from nonresident passengers on domestic transport should be excluded and included in travel. Alternatively, a data model based upon the number of nonresident passengers carried by resident operators, passengers economies of origin and destination, and average fare rates could be used.
	<i>Services Provided by Nonresident Transport Operators (debit)</i> Data could be collected—through an enterprise survey or an ITRS—from branches of nonresident operators or ticket selling agents. Ideally, data should be collected on earnings, rather than a ticket sales basis. Gross data should be recorded—that is, before the deduction of commissions. Alternatively, a data model on numbers of resident passengers carried by nonresident operators and classified by destination and data on average fares could be used.
Freight Freight on exports and imports of the compiling economy	<i>Export Freight Services Provided by Residents (credit)</i> Data could be collected, through an enterprise survey or an ITRS, from resident operators. If an ITRS is used, freight paid on exports by exporters to resident operators should be measured and added to freight on exports. Alternatively, a data model could be used.
	<i>Import Freight Services Provided by Nonresidents (debit)</i> This item could be collected through an ITRS if it provides a breakdown of import costs and if the amounts paid to resident operators by nonresident exporters are deducted. Alternatively, freight on imports could be measured by approaching, via an enterprise survey, branch offices and agents for nonresident operators. Another way to derive this item is to estimate total freight on imports (see Table 12.2 for various methods) and to deduct from this estimate the income earned by resident transport operators from freight on imports. The latter item could be collected through an enterprise survey.

Table 12.1 Methods for Estimating Transport¹ (concluded)

Description	Source and method of compilation
<p><i>Other</i> Other earnings by transport operators—for example, salvage</p>	<p><i>Services Provided by Resident Transport Operators (credit)</i> Data could be collected—through an enterprise survey or an ITRS—from resident operators.</p> <p><i>Services Provided by Nonresident Transport Operators (debit)</i> Data could be collected through an enterprise survey or an ITRS, either by approaching branch offices and agents for nonresident operators or by approaching resident users of the services.</p>
<p>Services provided to transport operators—for example, agent fees and commissions; loading, unloading, and demurrage charges; and port charges</p>	<p><i>Services Provided to Resident Transport Operators (debit)</i> Data could be collected from the operators through an enterprise survey or through an ITRS. Alternatively, a data model could be used.</p> <p><i>Services Provided to Nonresident Transport Operators (credit)</i> Data could be collected from the branch offices or agents of the nonresident transport operators, from the resident companies providing the services, or from official sources (such as port authorities). Rules should be clearly defined so that there is no omission or duplication in reporting. Alternatively, a data model² based on related information could be used. Even if the owner is not the operator (the unit determining the residency in the case of services delivered from a base), in a port of call, the owner may have expenditures that should be included in this item.</p>
<p>Postal and courier services</p>	<p>Data could be collected from the companies that provide postal and courier services through an enterprise survey or an ITRS. Recording of these services on imports and exports of merchandise follows the same principles as for other freight services (gross basis, f.o.b. valuation).</p>

Source: IMF staff.

¹The table provides the general description of sources and methods. The applicability depends on the economy's circumstances.

²A data model may not be suitable in the case of code sharing, where each bilateral contract is unique and refers to a specific segment and where the international market of passenger air transport is changing rapidly.

of data, and it may not be possible to undertake the work required on a regular or timely basis. Therefore, until data become available, the compiler may have to estimate freight and insurance premiums on imports by: (1) calculating ratios of freight and insurance premiums to total imports (or to groups of commodities imported) from a detailed analysis and (2) extrapolating ratios for more recent periods. Factors such as changes in freight and insurance rates, capacity, type of transport, and the commodity composition of imports should be taken into account.

Alternative bases for collecting passenger fares

12.47 To measure passenger fares, which will typically be the largest component of passenger services, the compiler has two broad options: to collect information on the basis of overall travel revenue value or to collect information on the basis of ticket sales. Regardless of the basis used, the data provider should report revenue or sales before the deduction of commissions.

12.48 It is common for an airline ticket sold by one airline (the validating or plating carrier¹¹) to be used by a passenger on a number of airlines when segments of the journey are traveled on airlines other than the airline issuing the ticket. This practice is called interlining. If there is no interlining between the companies involved, then separate tickets have to be issued. It is also common for airlines to operate certain segments under a code share agreement. A code share flight is a commercial flight that is operated by one airline (the operating carrier), but marketed by others (the marketing carriers). Therefore, for balance of payments purposes, the compiler should—when possible—obtain data on revenue earned by an airline from residents of other economies rather than data on sales by an airline to residents of other economies and clarify payments

¹¹The plating carrier collects the entire fare from the customer and is responsible for distributing the proceeds to other carriers in that itinerary only as those carriers carry the passenger. Only the plating carrier is responsible for paying commission to the issuing agency, and only based on the fare associated with the portion of the itinerary flown by the plating carrier.

Table 12.2 Methods for Estimating Freight and Insurance on Imports**Option 1. Extract data from IMTS**

Some IMTS record both the f.o.b. and c.i.f. values of imports (see model form 3.2); therefore, the values of freight costs and insurance premiums can be directly taken from IMTS. (However, some method is needed to identify freight costs and insurance premiums separately.) When both valuations are not reported as a matter of course, it may be possible to analyze the supporting import documentation supplied to customs to obtain freight costs and insurance premiums. Such analysis could be achieved by means of a properly designed sample survey of the customs records. In some economies, import documentation may also provide the name or registration of the vessel carrying the imported goods. The compiler could match this information against lists of vessels operated by residents; if no match is found, it could be assumed that the freight service was provided by a nonresident operator.

Option 2. Collect, from importers, data on freight and insurance premiums paid on imports

Data could be collected from importers through enterprise surveys or an ITRS. In an ITRS, the basic breakdown of freight and insurance costs could be collected on a supplementary basis, or the ITRS could be used as a basis for identifying certain importers that could be approached on a sample or selective basis. Alternatively, enterprise surveys could be used to obtain cross-the-board measures or selective data on commodities, modes of transport, and/or operators.

Option 3. Collect freight data from branch offices or agents of nonresident operators

Through enterprise surveys, data could be collected from branch offices or agents of foreign transport operators on the value of freight and the value and volume of imports. These data could be categorized by type of cargo (containerized, bulk, etc.) or commodity carrier, the economy from which the goods were consigned, and the mode of transport. Unfortunately, agents for nonresident operators may not always have these data in respect of their principals. Therefore, although enterprise surveys represent a partial approach in some cases, they could be useful to identify freight for selected commodities and/or modes of transport.

Option 4. Analyze trade flows, freight, and insurance rates

Tables on the value (c.i.f. or f.o.b.) and volume of imports broken down by commodity, mode of transport, and economy from which the goods were consigned could be derived from IMTS. Freight and insurance premium rates could then be applied to these to derive freight costs and insurance premiums. Freight and insurance premium rates could come from several sources, including trade journals, any of the sources described elsewhere in this table, partner economy data for the major commodities imported, as available, or surveys of industry prices. (These surveys could range from highly sophisticated surveys to small selective surveys, including periodic surveys of major players.) In this option, some cells of data may be very accurate, but other cells may be less accurate. This is a good example of a data model approach.

Option 5. Use an arbitrary ratio approach

Some compilers may consider it unnecessary to measure freight and insurance accurately and may therefore apply somewhat arbitrary ratios to determine the value of freight and insurance on imports. For example, they may assume that freight is x percent of the value of imports and insurance premiums are y percent. To the extent that these ratios are inaccurate, there will be a misclassification of current account debits between imports and freight and insurance. This method of ratio estimation should be avoided. Most analysts would find accurate data on transport costs to be an advantage. By undertaking even a small survey of selected importers, more reliable estimates could be generated.

Option 6. Extrapolate from residents' experiences

Data on freight and insurance premium rates could be collected, through enterprise surveys or an ITRS, from resident transport operators and insurance companies. These data could be broken down by commodity, mode of transport, economy of origin, and so forth and used in conjunction with option 4, for example, to derive the amounts earned by nonresidents.

Source: IMF staff.

among airlines caused by interlining and code sharing. It may be possible to collect such data as airlines keep records on revenue generated by economy of sale.

12.49 The compiler must make a simple, but not altogether unreasonable, assumption that tickets sold

in a particular economy are sold to residents of that economy and adjustments made to estimates as necessary, by using surveys of travelers. In the case of interlining and code sharing agreements, the compiler should consider adjusting the data based on the distribution of proceeds among the airlines under

such agreements. However, as not all airlines earning revenue from residents of a particular economy will have offices in that economy, it may be difficult for the compiler to obtain complete coverage of passenger fare revenue earned by nonresident operators from residents of the home economy. In such situations, the compiler should seek alternative sources to complement the information.

12.50 An alternative means of measuring passenger fare revenue earned by nonresident operators is to collect information on the total value of tickets sold in the compiling economy and deduct from this total value the earnings of resident carriers. An estimate of ticket sales may also be derived from a household budget survey or other surveys of individuals. It may be possible to approach airlines with offices in the compiling economy and travel agents who place business directly abroad with nonresident carriers to obtain data on total ticket sales—but this measure should be used with caution. Many tickets are purchased and not used; therefore, allowance should be made for refunds as well as for the time lag between ticket purchase and its use. Additionally, the compiler must be aware that in most economies, rapid changes are underway, including the increasing use of Internet (e-commerce) to purchase tickets (see “Other Services”). In some cases, passenger fares may be a component of package tour payments, and the compiler may, in consultation with travel industry representatives, have to separate passenger transport (to be included under transport) from other components of the value of the package (to be included in travel).

Transport activities of resident transport operators (exports)

12.51 Proper measurement of these transactions typically requires a direct approach to operators. Such an approach would be similar to the approach that is outlined in Chapter 2 on enterprise surveys. Information on balance of payments transactions of resident transport operators will often be available, through enterprise surveys or an ITRS, from the operators themselves. An ITRS would measure transactions made by these companies through the banking system. In addition, these companies are likely to have numerous balance of payments transactions that bypass an ITRS or are recorded on a net basis. Also, payments by nonresidents to resident operators for transport of the compiling economy’s

imports are not to be included in balance of payments because freight of transported goods outside the exporting economy border is deemed to be paid by the importing economy. Therefore, a correction should be made to ITRS data so that freight credits are not recorded. As mentioned in paragraph 12.36, a corresponding counterentry should be registered conceptually under currency and deposits in the financial account.

12.52 It may also be necessary to approach resident transport operators for information on transactions that go beyond the scope of balance of payments. For example, freight undertaken by residents on imports could be deducted from total freight on imports to estimate the services provided by nonresidents (freight imports) (see also *MSITS 2010*, paragraphs 3.107–3.110).

12.53 When actual data on balance of payments transactions are unavailable, data models utilizing related information could be established. For example, data on passenger fare earnings of resident operators could be estimated by multiplying appropriate fares by numbers of nonresident passengers carried by resident carriers and classified by economy of origin/destination combinations. After a total earnings figure is determined, balance of payments expenses, such as commissions on ticket sales and port charges associated with these earnings, could then be determined by applying ratios of expenses to earnings or values per number of operations (e.g., takeoffs equal to number of flights). Such ratios could be determined in consultation with industry representatives or by an analysis of historical data.

12.54 Until data from operators or data models become available, it may be necessary for the compiler to extrapolate the relevant transport series. The extrapolation could be accomplished by establishing the historical relationship between transport series and other aggregates (e.g., passenger fares to nonresident arrivals or freight services to imports). Similar methods could be used to project the transport services. For best results, volumes and prices should be projected separately. Extrapolations and projections should take into account factors affecting the demand for services, known as changes in capacity and changes in prices. This might be particularly relevant for quarterly estimates or anticipated estimations.

Transport services associated with nonresident operators (imports)

12.55 Balance of payments transactions of nonresident transport operators with the compiling economy are typically more difficult to measure than those of resident operators. Nevertheless, by using a well-designed ITRS, an enterprise survey of agents and branches of nonresident operators, certain official sources, data models, or a combination of these sources, it should be possible to compile reliable estimates for relevant components in the balance of payments.

12.56 Data on freight services on imports that are provided by nonresident transport operators could be obtained from agents and branches of nonresident operators or from importers themselves. Enterprise surveys or an ITRS could be used for either approach. However, if an ITRS is used, it would be necessary to estimate the value of international freight services included in amounts paid by importers to nonresident exporters. Such amounts, which may be available from importers, should be added to freight debits actually measured in an ITRS.¹² Data on payments made by nonresidents to resident operators for transport of imports should be deducted from freight on imports rather than recorded as freight credits. Also, it would be important to identify in the ITRS, or through a supplement to the ITRS, any payments made in domestic currency by importers to nonresident transport operators.¹³ If, on the other hand, enterprise surveys of agents and branches of nonresident operators are used, the compiler should be satisfied that coverage is adequate and that branches and agents are fully aware of relevant balance of payments transactions of com-

panies for which they act. If this is not the case, alternative strategies should be investigated.

12.57 An alternative method for estimating import freight services provided by nonresidents is to estimate total freight on imports (as previously described) and to deduct from the estimate freight services provided by resident transport operators. The latter could be collected through a supplement to an ITRS or through enterprise surveys. This may be the most effective way to measure freight on imports.

12.58 In some economies, customs records provide information, such as name and Lloyd's number, on vessels carrying the economy's imports. From this information, it should be possible to identify vessels operated by nonresidents.¹⁴ If customs data can also be used to measure freight on imports—for example, by taking the difference between imports c.i.f. and imports f.o.b. and deducting an estimate for insurance premiums—these data could be matched with information on the vessel to determine freight services provided by vessels operated by nonresidents.

12.59 Data on passenger fares could be collected by approaching branch offices and ticket selling agents of nonresident operators. Alternatively, total ticket revenue earned from the transport of residents by nonresident operators could be estimated by: (1) multiplying, by average fares, the number of resident passengers (classified by destination of travel and mode of transport) who are leaving and entering the compiling economy, and (2) deducting earnings by resident operators. Data on the number of passengers may come from migration statistics or from other statistics, such as reports by airports or airline operators, on arrivals and departures.¹⁵ Data on average fares could, with allowances made for different fare structures, be obtained from travel agents or airline companies.

12.60 Other earnings for services provided by nonresident operators could be measured by using an ITRS, an enterprise survey of resident users of these

¹² Alternatively, these amounts could be calculated by estimating total freight on imports (see Table 12.2) from which one deducts import freight fees earned by residents (an item that could be derived from enterprise surveys) and importer payments to nonresident transport operators (an item that could be obtained from an ITRS).

¹³ Nonresident transport operators often maintain domestic currency accounts with resident banks. Payments for services provided to residents may be paid into these accounts, and payments for services acquired from residents may be made from these accounts. Any withdrawals from these accounts by nonresident operators therefore reflect net, not gross, balance of payments transactions. Consequently, it is necessary to measure the flows through these accounts in order to derive correct balance of payments entries.

¹⁴ Vessels operated by residents could be identified from information provided by resident operators; all other vessels could be assumed to be operated by nonresidents.

¹⁵ When migration statistics are used, allowance should be made for the possibility of a more complete accounting for arrivals than for departures.

services, or an enterprise survey of local agents of nonresident transport operators.

12.61 Data on services provided to nonresident transport operators could be collected through an ITRS, through a survey of resident providers of these services or of local agents of nonresident transport operators, or through official sources (such as port records).

12.62 Alternatively, for some or all of the services, a data model could be developed. The compiler could establish a set of cost ratios, such as of agent fees, loading and unloading services, or various taxes and charges to freight on imports and/or exports. Such analyses should be performed on the basis of commodity and mode of transport. Historical data could be used to establish ratios, or local agents and branch offices of nonresident transport operators could be approached on a selective basis. Next, shares of freight on imports and exports carried by nonresident operators should be established. Information for imports should be available from the relevant balance of payments item. For exports, information may be available from IMTS, or an estimate could be made on the basis of discussions with, or a collection from, a representative group of importers and exporters.

12.63 After nonresident shares of freight on exports and imports are established, relevant ratios would be applied to these shares for the purpose of estimating values of services provided to nonresident operators.

12.64 Alternatively, for some services (such as port charges) provided to nonresidents, the value could be obtained by: (1) estimating the value of total services provided to all operators and (2) deducting from this estimate the value of services provided to resident operators (data on the latter could be collected from resident operators).

12.65 Some of the methods previously outlined will require collection and/or assembly of detailed data, and it may not be possible to undertake the work required on a frequent or timely basis. Therefore, until data become available, the compiler may have to extrapolate certain transport services.

12.66 Passenger fares and related statistical data series could be extrapolated by using ratios that reflect the historical relationship between passenger fares (in constant prices) and arrivals and departures. Results

should be inflated by using a price index for passenger fares. Other transport services could be extrapolated by using ratios of services to various volume aggregates (such as import and/or export volumes) and adjusting for price changes.

Travel

Description and Classification

12.67 Travel covers expenditure by residents of one economy that are traveling in another.¹⁶ These expenditures should be classified as business and personal travel because, in the national accounts, frequently (but not always) the former represents an intermediate expenditure of business and the latter represents final consumption expenditure of households.¹⁷ In addition, an alternative breakdown of travel by product group (goods, local transport services, accommodation services, food-serving services, other) may be identified by the compiler. This breakdown allows for closer links with other macroeconomic statistics, in particular the supply and use tables in the national accounts (see *BPM6*, paragraph 10.95).

Data Sources and Methods

12.68 Four broad approaches could be used to measure travel expenditure, and these are summarized in Table 12.3. These approaches could be used individually or combined. The first approach is based on the instruments used to pay for travel, and the most common instruments considered are credit and debit cards. Another approach measures the total value of the expenditure including the types of goods and services acquired by residents traveling to economies other than their own, as well as flows of traveling residents as recorded at the borders. A third approach uses partner economy data, and the fourth approach uses a data model, which may combine all the aforementioned.

12.69 Some economies use an ITRS as the main data source to measure travel. However, in some economies, the individual transaction threshold set for an

¹⁶For a complete description of balance of payments travel items, see Chapter 10 of the *BPM6*.

¹⁷More strictly, in the case of business travel, the related goods and services are considered to be consumed for the benefit of the employer of the traveler rather than that of the traveler.

Table 12.3 Estimating the Travel Component

Type of approach	Credit	Debit
Instruments used to measure expenditures by individuals traveling outside their economy of residence	Enterprise surveys or an ITRS could be used to measure expenditures of nonresidents traveling in the compiling economy and using principally credit and debit cards, although travelers checks, foreign currency notes and coins, and bank accounts held with domestic banks could also be used if relevant.	An ITRS could be used to measure expenditures of residents traveling abroad and using principally credit and debit cards, and information on prepaid tours and packages, although travelers checks, foreign currency notes and coins, and bank accounts held with domestic banks could also be used if relevant.
	Estimates may be required for travel financed by domestic currency acquired abroad by nonresidents traveling in the compiling economy or from income earned by nonresidents in the host economy. (Information could possibly be obtained from surveys of travelers.) Supplementary estimates may also be required for travel goods and services provided to specific categories, such as students and medical patients that would cover education- and health-related expenditures, including goods and services in kind, such as scholarships and other aid provided to nonresident students. (Information could possibly be obtained from surveys of students or educational institutions or from official records.)	Estimates may be required for travel financed from accounts held abroad or earnings acquired abroad by residents and travel services provided to specific categories, such as students and medical patients that would cover education- and health-related expenditures, including goods and services in kind, such as scholarships and other aid provided to students. Such estimates could be obtained from surveys of travelers. Alternatively, in surveys of returned residents, the recourse to the instruments used for expenditure might be useful to minimize memory recall effects. Partner economy data may also be used, in particular, for economies specialized in certain types of services, such as health- or education-related services. (Information could possibly be obtained through representative offices, consulates, etc.)
Expenditure by types of goods and services acquired by residents traveling abroad	This approach is typically used in surveys of nonresidents traveling in reporting economy. These are mostly applied at the border, but might also be used at collective accommodation or tourism attractions. Alternatively, surveys of tourism companies such as hotels, domestic airlines, restaurants, etc. could be used if these companies can identify nonresident expenditure. Those could be reconciled with surveys of travelers using a similar type of approach for reconciling sources, as that used in the Tourism Satellite Account.	This approach would typically be restricted to surveys of returned residents, either at the border as they return, or within a household survey.
Partner economy data	A partner economy's travel debits in respect of the compiling economy could be used to contrast and check the compiling economy's travel credits visàvis the partner economy.	A partner economy's travel credits in respect of the compiling economy could be used to contrast and check the compiling economy's travel debits visàvis the partner economy. This is in particular useful in the case of students or medical patients traveling to partner economies that are specialized in certain types of services, such as health- or education-related services. (Information could possibly be obtained through representative offices, consulates, etc.)
Data model	Most data models involve assigning a per capita estimate of expenditures to estimates of the number of nonresident short-term traveling individualstypically obtained from migration statistics.	Most data models involve assigning a per capita estimate of expenditures to estimates of the numbers of residents traveling abroadtypically obtained from migration statistics.

Source: IMF staff.

ITRS may be too high to properly cover travel-related expenses.¹⁸ Moreover, some travel components such as personal expenses of short-term workers abroad are not captured by an ITRS. Persons traveling abroad now rely less on resident banks for services transactions such as the purchase of traveler's checks or foreign currency notes. Instead there is an increasing use of credit and debit cards. In addition, there is an increasing use of prepaid package tours¹⁹ that are paid for in the economy of the traveler using domestic currency. Generally, these modalities of payment can be easily captured through the ITRS; however, complementary information (e.g., surveys covering travel agents) may be needed to properly identify and allocate the amounts by service type. On the contrary, payment in cash (domestic or foreign currency) carried by travelers is more difficult to capture. Given the insufficiencies already noted, economies using the ITRS should ensure supplementary data sources or models are employed to measure the travel item.

12.70 Another problem with the reliance on a strict ITRS is that it is difficult to determine the breakdown between business and personal travel. Additionally, an ITRS needs to be supplemented by other sources to obtain such data as expenditure financed from income earned in the host economy, expenditure by others on behalf of the individual traveling abroad, and travel goods and services provided in kind or on own account.

12.71 In respect of traveler's checks and credit and debit cards, the compiler should ensure that data are reported on a gross basis—that is, before the deduction of commissions on traveler's check sales or commission on transactions. Collection rules should be designed to ensure that there is no overlap or duplication of the information captured. When compiling data on the export of travel services, data on settle-

ments of transactions by nonresidents using traveler's checks and credit and debit cards could be easily derived from an ITRS. A short investigation could be previously undertaken to determine the pattern in using these modalities of settlement by nonresidents visiting the compiling economy. Very often, nonresidents use credit cards for major transactions, such as hotel or acquisition of expensive gifts, while cash is withdrawn from an automatic teller machine for settlement of smaller expenses. Also, nationals living abroad may return more or less regularly for vacation or around certain holidays. During their stays, they may use preponderantly debit cards to withdraw cash for their current expenses and also for gifts to relatives (personal transfers). If a pattern of spending and visiting peaks during the year is identified among the population of visiting nationals, reliable estimates may be produced for the travel component related to debit/credit card settlements after the part related to personal transfers has been removed.

12.72 Surveys may be used to collect information from tourism businesses that provide services to non-resident individuals. These surveys may have to be supplemented by other sources to obtain such data as expenditure by short-term nonresident workers, visitors and other short-term individuals traveling abroad to relatives and friends that do not use services of organized tourism businesses, students, and medical patients as they might behave more as residents in terms of their expenditure patterns. Furthermore, in some economies, certain groups of individuals abroad (such as students and medical patients) may be significant. As the expenditure of these individuals may be substantially different from the expenditure of others, it may be necessary to conduct separate surveys targeting these special categories. As an alternative to surveying tourism businesses, the compiler may use household surveys to measure the expenditures of travelers.

12.73 An expansion of tourism statistics to include other short-term individuals traveling abroad that are not visitors²⁰ is discussed in Chapter 3. When surveys

¹⁸For example, in the case of EU27, in 2011, frontier surveys and credit card data are the main sources for compiling the travel item. Settlement data also play an important role in a few European Union (EU) member states (in particular, these data are important in eastern and central European member states, and in hybrid data collection systems). However, a survey undertaken in March–April 2011 of EU member state balance of payments compilers indicated that settlements data are being replaced by direct reporting systems due to increases in the reporting threshold pertaining to settlements data.

¹⁹Passenger fares (transport services) may be a component of package tour payments, in which case the compiler will have to find a way to properly distribute them between the two service components.

²⁰*Tourism Satellite Account: Recommended Methodological Framework 2008* defines the "visitor" as "a traveler taking a trip to a main destination outside his/her usual environment for less than a year and for any main purpose (business, leisure or other personal purpose) other than to be employed by a resident company in the country or place visited." The "visitor" category covers both overnight visitors (tourists) and same-day visitors (excursionists).

of travelers are used as primary sources of information, information could be collected directly on actual goods and services acquired by individuals abroad. Indirectly, the information on travel-related expenses incurred by individuals abroad may be obtained through the instruments used for payment. The former approach is recommended when travel debits are measured by surveying residents upon their return from travel abroad, or when travel credits are measured by surveying nonresidents as they depart from the compiling economy. Surveys of returning residents are preferred as they are likely to retain appropriate financial records of their trips or are able to provide reasonable estimates. Border surveys are increasingly used in many economies, in particular where tourism is an important activity. The range of data collected by such surveys varies according to the design and frequency. Generally, such surveys collect information structured according to the primary purpose of travel (business, health care, education, leisure, other) and categories of expenses. More details could be added for tourism purposes—that is, to define the structure of individuals traveling abroad by categories (overnight visitor or same-day visitor) and their respective expenses.

12.74 Partner economy data (mirror statistics) could serve as a supplementary source data when compiling an economy's travel credits or debits. It is assumed that at least one of the two partner economies actually collects "primary" travel data. Very often, statistics on visitor and other short-term individuals traveling abroad numbers by economy of origin and their average expenses compiled by neighboring economies or economies of frequent destination could be taken into account. However, the methods of compiling these statistics may vary from economy to economy and could range from border surveys to household surveys. Asymmetries in partner economy data may occur not only because of different methodology but also because of other factors such as the sample size of surveys, recording intervals, or estimations models. Given these considerations, the mirror statistics should preferably be used as a supplementary source.

12.75 A data model to measure travel could be constructed using various data, primarily the number of visitor and other short-term individuals traveling abroad and estimates of per capita expenditure. Data

on number of visitors and other short-term individuals traveling abroad are typically available from tourism statistics. Alternatively, various transport operators, such as airline and bus companies, may be able to provide partial information on the number of persons carried inbound and outbound, and from these data estimates could be derived on the number of nonresidents (visitors and other short-term individuals traveling abroad, to estimate travel credits) and the number of residents. However, it should be noted that these data are not always accurate as the transport operator may not always collect information on the residence of the customer. Furthermore, when collected, the information may relate to the nationality of the customer and not the residence. Estimates of per capita expenditure could be obtained from occasional surveys of persons who travel. If necessary, separate data models may be designed to measure education and/or medical services based on information from relevant institutions or special surveys (e.g., survey of students).

12.76 Tourism statistics provide a potential alternative data source, which might be used to partly estimate travel, in particular some of its components. Moreover, data sources used for compiling the tourism satellite account (*2008 SNA*), for example, are also likely to be relevant for balance of payments statistics. However, in order to enable the use of tourism statistics, the differences in terms of the coverage between balance of payments definitions, on the one hand, and tourism statistics as used in the *International Recommendations for Tourism Statistics 2008 (IRTS 2008)* (as well as in *Tourism Satellite Account: Recommended Methodological Framework 2008*), on the other, need to be understood.

12.77 *IRTS 2008* uses the concept of "usual environment" as an additional criterion to residence. The concept is designed to exclude from tourism statistics persons who travel regularly between their place of residence and place of work (e.g., border or seasonal workers), who study (individuals studying abroad for more than one year), or who visit other places as part of their regular life routine, although these places may be in different economic territories.

12.78 There are also some additional differences in terms of the coverage of expenditure between travel (*BPM6*) and tourism (*IRTS 2008*) expenditure. Some of the main differences in the *BPM6* are as follows:

- *Travel* includes imputed values of products (such as accommodation²¹) that may be provided free of charge. It includes the acquisitions of goods and services by border, seasonal, and other short-term workers (i.e., persons in an employer-employee relationship²² with a unit resident in the visited economy). It also includes acquisitions by students and medical patients (as well as their accompanying dependents) away from their economy of residence for a period of one year or more. Tourism expenditure, as defined, excludes these items.²³
- *Travel* excludes purchases of valuables and consumer durables above a customs threshold by residents traveling abroad (see also Chapter 5 on IMTS). Tourism expenditure, as defined, includes all such purchases irrespective of the threshold. *Travel* also excludes expenditure on international passenger transport (included under *passenger transport*); tourism expenditure includes such expenses in the case of visitor and other short-term individuals traveling abroad.

12.79 The *BPM6*, as does the *Manual on Statistics of International Trade in Services 2010 (MSITS 2010)*, excludes migrants from its definition of individuals traveling abroad, and tourism statistics similarly exclude migrants from its definition of visitors. Regarding refugees, following an identified intention to stay in their place of refuge for one year or more, they are identified as migrants in the *BPM6* (paragraph 4.128) and in the *MSITS 2010* (Annex V, paragraph 16), whereas tourism statistics exclude refugees in all cases, as they are considered to be within their usual environment.

12.80 To highlight the link between balance of payments and tourism statistics, the *BPM6* and *MSITS 2010* include a supplementary item, tourism-related services in travel and passenger transport. This supplementary item includes travel expenditures and international transport of visitors—both overnight visitors (tourists) and same-day visitors (ex-

ursionists). It consequently excludes acquisition of goods and services by the following business-travel categories: border, seasonal, and other short-term workers (including crews of ships, aircrafts, oil rigs, etc. stopping off or laying over)—that is, those in an employer-employee relationship with a unit resident in the economy visited, as well as passenger transport payable by border, seasonal, and other short-term workers.²⁴

12.81 If statistics compiled on services are to be used for compiling the tourism satellite account, or vice versa, adjustments will be needed for these differences in coverage. However, it is important to note that the data sources used for compiling the tourism satellite account are also likely to be relevant for balance of payments statistics.

12.82 When data from these sources are not available in time to compile series of travel data for the most recent periods, extrapolation methods may be used. Data models of the type described previously are often used in extrapolations (and interpolations). The extrapolations are derived by adjusting the base period estimates for price changes and exchange rate changes. However, these extrapolations do not take account of changes in expenditure patterns over time or changes in the market composition of visitors and other short-term individuals traveling abroad—that is, their economy of origin. The expenditure patterns of visitors and other short-term individuals traveling abroad in any given period would vary substantially based on their economy of origin.

Other Services

12.83 Other services include construction; insurance; financial services; charges for the use of intellectual property n.i.e.; telecommunication, computer and information services; other business services; personal, cultural, and recreational services; and government goods and services n.i.e. provided by residents of one economy to residents of another economy. The

²¹ For example, the imputation for time-sharing arrangements (see *BPM6*, paragraph 10.100).

²² The employer-employee relationship is discussed in more details in Chapter 13.

²³ Although the imputed values are excluded from the concept of tourism expenditure, they are included in the tourism consumption concept.

²⁴ The *BPM6* and *MSITS 2010* also recommend an alternative presentation of *travel*, by product, according to the following categories: *goods*; *local transport services*; *accommodation services*; *food-serving services*; and *other services*. A further breakdown of “*travel, other services*” into *health services* and *education services* is also suggested.

complete list recommended by the *BPM6* is set out in Table 12.4 of this chapter.²⁵

12.84 Data sources and methods that could be used to compile items in *other services* are described ahead. In addition, a discussion follows on some of the more complex transactions recorded in these items—namely, construction, treatment of intellectual property, foreign exchange services (part of financial services), operating leasing (part of other business services), and government goods and services n.i.e. Detailed descriptions of compilation of FISIM and insurance and pension services are provided in Appendices 2 and 3, respectively.

Data Sources and Methods

12.85 Table 12.4 summarizes data sources and methods that could be used to compile items in other services. Depending on the system design, an ITRS can provide a comprehensive source of many balance of payments transactions in services and is used in some economies as the main data source. However, in some cases, the individual transaction threshold set for an ITRS may be too high to adequately cover expenses related to many services. Moreover, the ITRS may have difficulties in ensuring a proper coverage or classification by service type at the level of detail required. If an ITRS is used, supplementary information may often be needed, such as enterprise surveys and other (official) sources. Whatever approach is adopted, collections should be designed in accordance with identified information needs.

12.86 In an ITRS, some inherent problems require attention if the compiler is to measure transactions in other services accurately. Many international transactions in services do not necessarily involve cash payments and merely give rise to entries in intercompany accounts. Such situations may occur, for example, when transactions in other services take place between companies in a direct investment relationship. The compiler should ensure that transactions settled through these accounts are reported in the system and that the gross entries giving rise to these transactions are recorded. Reporters may record certain transac-

tions on a net basis—that is, after certain costs, such as finance charges and commissions, have been deducted. On other occasions, data may be commingled. For example, data from an ITRS may commingle the amount paid for a security and financial service. Clear rules are required to ensure that reporters supply data according to balance of payments requirements—that is, services (and other transactions) need to be separately identified, and provided on a gross basis. Classification of transactions may be a problem as persons completing an ITRS form may be overburdened by the level of detail requested in the form. A well-designed ITRS should address these issues.

12.87 A specialized type of ITRS relevant to measuring expenditures of nonresident government entities and international institutions located in the compiling economy (government goods and services n.i.e.) is a survey of banks to report on the value of transactions passing through accounts of foreign governments and international institutions.

12.88 An enterprise survey can be selective (e.g., concentrating on important players or a sample of a particular industry, such as insurance) or broadly based (e.g., covering all companies that may provide or use international services). Also, it is important to note that a large share of companies engaged in international trade in services can be found among companies undertaking other international business activities. Chapter 3 discusses the enterprise survey covering transactions in other services. To overcome problems inherent in the enterprise survey, the compiler should set an objective of obtaining complete coverage of the different types of services, and develop a clear set of reporting rules to avoid omission or duplication of data. Good survey design, which is discussed in Chapter 2, is thus essential.

12.89 Official sector data (essentially government accounting records) could be used to measure expenses of diplomats and other representatives abroad, defense expenditures abroad, and expenditures for other services abroad.

12.90 For measuring the expenditures of nonresident government entities and international institutions located in the compiling economy, partner economy data obtained from balance of payments compilers in partner economies or surveys of foreign embassies and international institutions could be

²⁵ A full description of each of these items is provided in Chapter 10 of the *BPM6*, and a more detailed description is provided in the *MSITS 2010*. The latter may prove useful for compilers willing to compile more detailed services statistics.

Table 12.4 Compilation of Items in Other Services

Description	Source and method of compilation
Maintenance and repair services n.i.e.	An enterprise survey or an ITRS could be used to compile this item. Special attention should be made to distinguish these services from the repair and maintenance recorded under the construction activity or those related to computers included under computer services. See relevant survey model forms in Appendix 8.
Construction	An ITRS or enterprise survey could be used to compile this item. If an ITRS is used, particular care should be taken to measure transactions involving bank accounts of construction companies in the host economy, because some of these companies may meet the criteria for treatment as residents. More generally, a survey collecting data on construction could jointly collect information on foreign direct investment and other nonresident-resident transactions. Special note should be taken of the treatment of construction activity, which is discussed in paragraphs 8.61–8.63 of Chapter 8 and further in this chapter
Insurance services	An enterprise survey or an ITRS could be used to obtain the underlying premiums and claims data necessary to compile this item. The most comprehensive data could be obtained from surveying resident insurance companies, in particular for estimating the exports of insurance services and for estimating reinsurance imports and exports. Such surveys would collect data on the nonresident policyholders share in premiums, claims, and reserves. However, the same information will not be possible for the import of insurance services where the providers of the insurance services are nonresident to the compilers economy. Thus estimates have to be based on ratios available from the domestic insurance sector, information derived from ITRS, or partner economy data, as possible. Data from an ITRS will capture premiums paid and claims received on a cash basis. See Appendix 2, Insurance Transactions and Positions, for a discussion of how relevant source data are manipulated in order to derive estimates of insurance services.
Financial services Explicitly charged and other financial services, except FISIM Financial intermediation services indirectly measured (FISIM)	An ITRS or an enterprise survey could be used as a primary source to compile the first item. Care should be taken to ensure that financial service fees are reported separately from underlying financial transactions, particularly if an ITRS is used. If primary source data are unavailable, this item could be estimated by applying appropriate ratios to various measures of financial activity involving nonresidents. If significant, the collection of supplementary information will probably be necessary to derive estimates of foreign exchange services when the service element is implicit in transactions rates. The treatment of these services is described further in this chapter. Compilation of the FISIM estimate requires detailed information on position data on loans and deposits, by maturity structure and currency, as well as the identification of relevant interest rates used by financial corporations. A description of the compilation of FISIM is presented in Appendix 3.
Charges for the use of intellectual property n.i.e.	An enterprise survey or an ITRS could be used to compile this item. The breakdown of these services and their treatment is described further in this chapter.
Telecommunication, computer, and information services	An enterprise survey or an ITRS could be used to compile this item. Care should be taken to ensure the gross reporting of transactions.
Other business services: Research and development Professional and management consulting services Technical, trade-related, and other business services Operating leasing	An ITRS or an enterprise survey could be used to compile these items. For the compilation of research and development services, the discussion in Research and Development in this chapter is relevant. For leasing, it is important to note the different treatments of financial and operating leasing. (The treatment of financial leasing is discussed in Chapter 10.)
Personal, cultural, and recreational services; audiovisual and related services; other personal, cultural, and recreational services	An ITRS or an enterprise survey could be used to compile these items.

Table 12.4 Compilation of Items in Other Services (*concluded*)

Description	Source and method of compilation
Government goods and services n.i.e.	For debits, most information could be obtained from an ITRS or from official sources (as discussed in paragraphs 6.12–6.14 of Chapter 6). For credits, information could be obtained from balance of payments compilers in partner economies, surveys of embassies (see Collections on Goods and Services Statistics in Chapter 3), an ITRS, or a data model. Further in this chapter is presented additional information on the compilation of this item.

Source: IMF staff.

used. Alternatively, some form of estimation based on a data model may be used.

Construction

12.91 Construction should be recorded in the balance of payments when a company undertakes construction activity in an economy other than the one in which it is resident, and in which the activity carried out is not substantial enough to recognize it as a separate institutional unit (see also Chapter 8). Establishing the residency of the construction companies (or its related company) is thus the first step in determining the proper treatment of transactions typical of a company engaged in construction activity in an economy other than the one where its headquarters is located.

12.92 A construction company established in one economy may undertake the construction of large-scale projects (e.g., plant, buildings, bridges) in another economy either through a direct investment relationship (creating a foreign branch in that economy or through subsidiary or associate companies in that economy), or by directly undertaking the work itself. If the construction company undertakes the work itself (via an unincorporated site office, for example), its activities may be regarded either as a direct investment activity or as an export of services by that company, depending on circumstances.

12.93 If certain criteria are met the work undertaken is to be treated as having involved the creation of a separate institutional unit—a branch—resident in the economy where the activity is being carried out, which is a direct investment enterprise (DIENT). Such criteria (as recommended in the *BPM6*) could be as follows:

- (1) The project extends over a period of at least one year.
- (2) The maintenance of a complete and separate set of accounts for the activity (i.e., income statement, balance sheet, transactions with the parent company, etc.)
- (3) The activity being subject to tax in the host economy
- (4) The existence of a substantial physical presence
- (5) The receipt of funds for its work for its own account, and so forth.

12.94 If some of the aforementioned criteria are not met, the activity is to be treated as an export by the construction company. The decision is based on the weight of the evidence for a set of criteria and not on any single criterion; for example, it would be very difficult to identify a branch if for the construction activity a separate set of accounts cannot be prepared or maintained. Construction activities involving major projects (bridges, dams, power stations, etc.) that are carried out through unincorporated site offices, in many cases, meet the criteria of a DIENT and thus are treated as part of the production of the host economy, not as an export of services to that economy. Chapter 8 discusses the residency aspects together with a comparative treatment of the most common transactions specific to the construction activity in both cases, first, where the company conducting the construction project is a resident of the host economy (direct investment relationship), and second, where the construction activity is conducted by a nonresident company in the compiling economy.

12.95 The value of construction recorded in the balance of payments should equal the gross value of output by the producing company. It should include the value

of all goods and services used as inputs to the work, other costs of production, and the operating surplus that accrues to the owners of the construction company.

12.96 As discussed in Chapter 10 of the *BPM6*, it is recommended that construction be disaggregated into construction abroad and construction in the compiling economy. *Construction abroad* includes the gross value of the construction work for nonresidents by companies resident in the compiling economy (export of construction, credits). The goods and services acquired from residents of the host economy by those companies are recorded in the balance of payments of economy of residence of construction company under construction abroad debits (i.e., construction-related expenditure in the host economy by the company conducting the project²⁶).

12.97 *Construction in the reporting economy* includes construction work for residents of the compiling economy by nonresident construction companies (import of construction, debits). The goods and services acquired by the nonresident construction company from residents of the compiling economy for projects in the reporting economy should be recorded as construction in the reporting economy credits (whether these goods and services were previously acquired by the residents from within or outside the compiling economy). As part of the inputs into the construction work, the construction company may choose to purchase some of the goods and services in its home economy, in which case these still constitute part of the value of construction. However, because they have not been purchased from residents of the host economy, they are excluded from goods and services purchased in the host economy and, equally important, will not be recorded as debit transactions²⁷ by the host economy.

²⁶Includes expenditures on goods and services that were procured from the host economy where the construction activity is taking place. Imported goods and services from a third economy are recorded as imports. Goods and services brought directly into the host economy by the construction company are not balance of payments transactions.

²⁷It should be noted that the merchandise trade statistics will generally include the value of goods imported into the host economy for use on the construction site as imports under the general and special trade systems. In the case of goods purchased by the construction company in its home economy and shipped to the construction site, an adjustment must be made to the merchandise trade statistics so as to exclude the value of any such goods from the balance of payments—goods component.

12.98 Depending on the method of data collection used, it may not be possible to identify separately the goods purchased from residents of the home economy and from those of the host economy. For practical reasons, the compiler may need to estimate a breakdown, or otherwise attribute all goods purchased to either the host or the home economy of the construction company. Also, it may not always be possible to identify the purchase of goods and services separately from labor costs (which should in principle be recorded under primary income if an employer-employee relationship is established—see Chapter 13). In this case, the compiler will need to estimate a breakdown or, alternatively, allocate all costs either as goods and services or as compensation of employees (for employees that are residents in the host economy). Where a nonresident construction company employs workers from third economies for projects in the host economy, their salaries will not be recorded as compensation of employees by the host economy since it is intended that they be employed for the duration of the construction project, which by definition should be less than one year. Both subcomponents of construction cover the work performed on construction projects and installations by a company in locations outside the economic territory of the company.

12.99 Finally, it is important that the compiler ensures that the gross flows giving rise to the credit and debit aggregates for the construction services are recorded. In other words, the construction credits would result from summing up the credit flows from construction abroad and from construction in the compiling economy. Similarly, the construction debits would consist of debit entries from construction abroad and from construction in the compiling economy.

12.100 Example 12.1 presents the recording of construction. Table 8.7 of Chapter 8, which shows the range of balance of payments entries that should be recorded for construction activity, should be consulted for additional details.

12.101 As discussed in paragraphs 10.103 of the *BPM6*, if the external operations of a construction company are substantial enough, a separate branch, resident in the host economy, will be constituted. This will usually give rise to a direct investment relationship between the parent and the branch. The

Example 12.1 Recording of Construction Activity in Balance of Payments

This example assumes information is available to distinguish all cost-related components and attribute the balance of payments transactions as appropriate. A company from economy A undertakes a construction project in economy B for a period of six months¹. The total value of the project is 34,500 units of domestic currency, and the following costs are incurred by the construction company:

Materials purchased from residents of economy A	18,000
Materials purchased from residents of economy B ²	1,000
Acquisition of materials from residents of economy C ³	2,000
Services procured in economy B (including equipment rental) ²	3,000
Wages and salaries paid to residents of economy A ⁴	4,500
Wages and salaries paid to residents of economy B	1,000
Total cost of inputs	29,500
Gross operating surplus accruing (profit)	5,000
Total gross value of construction work	34,500

The gross value of construction work is calculated as the sum of the inputs into the production process (goods and services consumed as inputs, and labor) and the gross operating surplus accruing to the producing company. Thus, the value of construction is 34,500 units. The following transactions should be recorded in the balance of payments of economies A and B:

	Economy A (construction abroad)		Economy B (construction in host economy)	
	Credit	Debit	Credit	Debit
Current account				
Goods		2,000 ⁵		
Services				
Construction services	34,500	4,000 ⁶	4,000 ⁶	34,500
Primary income				
Compensation of employees		1,000	1,000	
Financial account	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Other investment				
Currency and deposits	27,500		5,000	
Reserve assets ⁷				
Currency and deposits			-34,500	

¹This example also covers the case of construction work (excluding repairs to existing premises) for an embassy undertaken by a resident unit of the economy where the foreign embassy is located (see *BPM6*, paragraph 10.177).

²This is a transaction between a resident and a nonresident, as the company from economy A is not resident in economy B.

³These imports are not to be recorded in the merchandise trade of the economy B, as they are imported by a nonresident unit. They are, however, recorded as imports by the economy A.

⁴Wages and salaries are paid directly in their accounts in economy A.

⁵Covers acquisition of goods from economy C.

⁶Includes materials purchased in economy B (1,000) and services procured in economy B (3,000).

⁷It is assumed that the work is undertaken for the government of economy B and paid out of reserve assets.

treatment and measurement of construction activity in the balance of payments in respect of direct investment relationship is discussed further in Chapter 8.

Financial Services

12.102 As stated in Chapter 10 of the *BPM6*, financial services covered under this heading refer to financial intermediation, auxiliary services, and other financial services, other than those associated with insurance and pension funds. These services are almost exclusively provided by banks and other financial corporations, because of the usually stringent supervision associated with their provision. Conversely, financial institutions rarely produce other services, a fact that is important in data collection.

12.103 Financial services may be charged for explicitly or implicitly, and some transactions in financial assets may involve both explicit and implicit charges (for more details, see *BPM6*, Chapter 10). In the case of financial intermediaries, the funds necessary to engage in such activities are obtained not only by taking deposits but also by issuing bills, bonds, or other securities. These funds, as well as own funds, are used to acquire mainly financial assets not only by making advances or loans to others but also by purchasing bills, bonds, or other securities. As mentioned in Table 12.4, care should be taken to ensure that charges for financial service are reported separately from underlying financial transactions, particularly if an ITRS is used.

12.104 For many financial services, explicit fees are charged, and thus estimation does not require any special calculation. They may be derived either from an ITRS or from bank statements. Surveys on financial claims on and liabilities to nonresidents may also collect the explicit fees charged on financial transactions in these instruments (see Appendix 8, model form 14).

12.105 Implicit charges for financial services have to be measured indirectly. Ignoring the implicit charges for financial services may lead to understating the value of such services and also distorting related financial flows (investment income or financial account recordings). The most common implicit charges result from (1) estimation of margins on buying and selling transactions; (2) expenses related to asset management that are deducted from property income receivable, in the case of asset-holding com-

panies; or (3) margins between the interest rate and the reference rate on loans and deposits (FISIM). A description of these services is provided in the relevant section of Chapter 10 in the *BPM6*. The subheader ahead describes the treatment of financial services associated with transactions in financial instruments having a spread between their buying and selling prices. The treatment of FISIM is described in Appendix 3.

Margins on Buying and Selling Transactions—Foreign Exchange Services

12.106 This type of service is often related to the activities of dealers in financial instruments such as foreign exchange, shares, bonds, financial derivatives, and other financial instruments. The dealers' charges often are included indistinguishably in the financial transactions to which they relate—that is, the amounts actually paid or received. The service charge that is to be separated from the actual amount paid for the financial transactions is calculated as the difference (margin) between the reference price and the dealer's buying price at the time of purchase, and the difference between the reference price and the dealer's selling price at the time of sale. The reference price is usually a mid-price (i.e., an average—see ahead) between the buying and selling prices.

12.107 Debt securities such as bills and bonds are often traded on organized markets (see Chapter 10). A service charge is levied when securities are acquired and sold by brokers/financial institutions. The service charge represents in each case the margin added to the estimated market value of the security that makes up the purchase price (or ask price) or the price offered to the seller (the bid price). Prices of securities may change rapidly, and to avoid including holding gains and losses in the estimation of the service margins, it is important to calculate the margins on sales and purchases in terms of mid-prices. The mid-price of a security is the average at a given point in time between the bid and ask price. Thus the margin on the purchase of a security is one half of the difference between the bid and ask prices of the security at the time of the purchase, and the margin on the sale is the other half of the difference between the bid and ask prices of the security.

12.108 As stated in Chapter 3 of the *BPM6*, transactions denominated in foreign currencies should be converted at midpoint rates applicable at the times of

the transactions. When a transactor sells or buys foreign currency to or from a foreign exchange dealer (or bank), the dealer will buy at the buy rate and sell at the sell rate. Dealers derive income from the difference (or spread) between buy and sell rates. The *BPM6* recommends use of the midpoint rate because the spread reflects the provision of services. If actual buy and sell rates were used to measure transactions, a distortion could be recorded in balance of payments numbers.

12.109 For example, a dealer sells 100 units of foreign currency to importers (to pay for imports) for 101 units of domestic currency, buys 100 units of foreign currency from exporters for 99 units of domestic currency, and thereby makes a profit of 2 units of domestic currency. If importers and exporters converted their international trade transactions by using the relevant sell and buy rates, the following transactions would be recorded in the balance of payments:

	Credit	Debit
Goods	99	101
Net errors and omissions	2	

12.110 In the foregoing example, it is assumed that the dealer converted transactions at the midpoint rate; if the dealer also used the buy and sell rate, the offsetting item would be recorded as a transaction in external financial assets. Nevertheless, an apparent deficit in goods would be recorded in spite of the fact that the economy paid, in foreign currency terms, exactly the same amounts for both imports and exports.

12.111 The problem is avoided if both the exporter and importer convert transactions by using the midpoint rate.

	Credit	Debit
Goods	100	100
Net errors and omissions		

12.112 If foreign exchange dealers and their counterparts are residents of different economies, service transactions equal to differences between actual buy or sell rates and the midpoint rate should be recorded in the balance of payments of transactor economies. For example, if a foreign exchange dealer in economy A sells 100 units of foreign currency to a resident of economy B for 102 units of domestic currency (financial services exports of 2 units to B), and a dealer in economy A buys 100 units of foreign currency from residents of economy C for 97 units of domestic cur-

rency (financial services exports of 3 units to C), the following transactions should be recorded in the balance of payments of economy A:

	Credit	Debit
Financial services		
<i>Provided to economy B</i>	2	
<i>Provided to economy C</i>	3	
	Net acquisition	Net
	of financial	incurrence of
	assets	liabilities
Financial account		
Other investment		
Currency and deposits		
<i>Of economy B*</i>		-102
<i>Of economy C**</i>		97

*It is assumed that economy B purchases the foreign exchange with domestic currency that is held in accounts with banks in economy A.

**It is assumed that economy C deposits the domestic currency received into accounts with banks in economy A.

12.113 Dealers may also earn profits because they take speculative positions. For example, they may buy and hold currencies because they expect the value to rise. However, this speculative profit is capital in nature and should not be recorded as income.

12.114 The direct collection of information on balance of payments transactions attributable to foreign exchange trading may be difficult. Resident consumers of the services are unlikely to know the values of those services implicitly purchased from nonresident dealers, and, in many cases, resident dealers will be unable to supply information on services provided to nonresidents. A data model, which would enable the compiler to calculate estimates of foreign exchange services by multiplying the average spread between midpoint and buy/sell rates by the volume of foreign exchange transactions with nonresidents, may have to be used. Information on spreads could come from discussions with dealers. Information on volumes of foreign exchange transactions could be obtained either from the institution responsible for supervising and regulating the foreign exchange market or from market participants. The compiler may also consider consulting the statistics collected by the BIS from central banks on the triennial global survey on foreign exchange and derivative market activity.²⁸ The

²⁸The objective of this survey is to obtain information on the size and structure of the foreign exchange and derivative markets. The most recent survey was carried out in 2010, and the BIS has announced its intention of coordinating the ninth survey in 2013.

frequency of the BIS survey is relatively low; however, it could provide useful information as a reference point.

12.115 When a resident dealer transacts with a non-resident other than a dealer, a financial service credit entry should be recorded. When a nonresident dealer transacts with a resident other than a dealer, a financial service debit entry should be recorded. When a foreign exchange transaction occurs between a resident dealer and a nonresident dealer, transactions may occur at the midpoint between buy and sell prices, with neither dealer selling services to the other. At other times, one dealer will act as the price-maker (producer) and the other will be a price-taker (consumer). In economies where such transactions are significant, the compiler should endeavor to identify separately those transactions in which the resident dealer is the price-maker (service credits are recorded) from those in which the dealer is the price-taker (service debits are recorded).

12.116 In practice, many transactions in balance of payments recordings may be reported at buy and sell rates; thus, errors are introduced into the accounts. Such errors may not have a significant impact in the current account unless the economy is a major provider of foreign exchange services to nonresidents. However, in the financial account, such errors could have a significant impact in economies where the turnover of transactions is high. Therefore, the compiler should examine reporting practices and make adjustments to the accounts (or publish findings) when serious misreporting occurs.

Charges for the Use of Intellectual Property

12.117 Intellectual property products are largely the results of research and development, computer software and databases, and entertainment, literary, or artistic originals.²⁹ Intellectual property products

²⁹As indicated in the *2008 SNA*, paragraph 10.98, they may also result from mineral exploration and evaluation, but in the vast majority of cases such products are not subject to international transactions. Such exploration transactions are often by nature resident-resident (i.e., a notional direct investment enterprise established in the host economy acquiring from a resident of the host economy the rights to use the results of mineral exploration and evaluation). In some cases, yet, the residential status of the mineral exploration service provider may not be known (e.g., geologists tend to travel around the world for relatively short periods of time). In general, services incidental to mineral prospecting and explorations can give rise to international transactions; these are usually recorded under *Technical, trade-related, and other business services* (see *BPM6*, paragraph 10.152, or *MSITS 2010*, paragraph 3.245).

often are subject to substantial international trade. Commonly the international flows relate to copies of intellectual property products, such as packaged software, and musical and film recordings (including products provided over the Internet; see e-commerce under the “Travel” section of this chapter) or the services provided by them, but trade in originals,³⁰ such as research and development, can be important. Given their growing importance, ensuring the accurate measurement of exports and imports of intellectual property products is essential.

12.118 The *BPM6* records transactions in originals and copies of intellectual property products and related services in the goods and services account. Chapter 10 of the *BPM6* describes the categories in which they are recorded, and Table 10.4 of the *BPM6* lists the intellectual property products by major categories and indicates their treatment according to the licensing type and/or whether the ownership rights are transferred. This breakdown indicates whether the payments/revenues related to the intellectual products are treated either as charges for the use of intellectual property services, other relevant services (e.g., computer or audiovisual services), capital account transactions, or transactions in goods (e.g., noncustomized software products provided on physical media).

12.119 One of the most important sources for estimating payments and other related charges for the use of intellectual property products is business surveys (collected as license fees, royalties, and other fees under various licensing agreements). If relevant, the survey may be designed to collect data separately on various types of licensing agreements, such as unilateral licensing, cross licensing,³¹ or patent pools.³² All types involve an agreement by the owner of a patent (licensor) to allow another party (licensee) to use, or reproduce and sell a patented invention without transferring the ownership. In the context of economies’ experience with data collection in the framework of global production, the globalization survey for multinational companies

³⁰Originals and copies of intellectual property products are introduced as distinct products.

³¹Cross licensing agreements involve an exchange of two or more patent portfolios and are typically used to allow the mutual use of patents by multiple patent holders in order to secure freedom of operation. Neither party pays monetary royalties to the other party, the aim being to create a barrier to entry for new entrants.

³²Patent pools typically consist of the collection of patents required to offer a product or service.

conducted by Organisation for Economic Co-operation and Development (OECD) economies is considered a suitable source for international transactions to be reported under charges for the use of intellectual property, if it provides separate data on international flows of intellectual property products.

12.120 Payments for the acquisition of intellectual property products under a license to use or to reproduce and/or distribute may be made in one single (large) payment, in several installments over the period of contract, or in a large initial payment followed by a series of small payments in succeeding years. The recording of payments should follow the substance of the license agreement in terms of time for recording (see *BPM6*, paragraph 10.139). In practice, it may be feasible to record the payments only when they are made. The recording of such payments in balance of payments would be as charges for the use of intellectual property, except for computer, audiovisual, or other similar intellectual property when the license to use is included in the product sold (i.e., sold to consumers with no reproduction/distribution license attached to it). The latter are recorded under the relevant goods or services items (e.g., mass produced computer software with right to perpetual use should be included under goods; downloaded or online use of computer software should be included under services (see *BPM6*, Table 10.4, for more details).

12.121 When the indications are that the ownership rights are transferred as well, the recording of transactions is different (see ahead). The recording is further complicated by the fact that some of the intellectual property products, such as software, can be recorded either as goods or services. Also, capital account transactions involving the acquisition and disposal of marketing assets,³³ for instance, can be difficult to separate from services transactions recording charges for the use of intellectual property. It is thus recommended that business surveys on services cover all flows related to transactions in these products in a comprehensive manner. Depending on its relevance for the economy, separate surveys by type of intellectual property products may be undertaken (i.e.,

separate surveys for computer, research and development, or audiovisual, as such industries have a completely different functioning).

12.122 The information required for the compilation of related flows can also come from other sources, including customs statistics or the ITRS (depending on its design). The compiler should be mindful of the coverage of each source and avoid double counting where sources overlap.

12.123 The breakdown of the main types of intellectual property products internationally traded follows the EBOPS classification described in the *MSITS 2010*. The treatment of each of the subcomponents is as follows.

12.124 *Franchise and trademark licensing fees* generally cover all payments and charges for the use of marketing assets,³⁴ most notably trademarks and franchises. The charges related to trademarks cover both the initial fee and annual fees for the domain name registration for the Internet, as applicable. They also include fees for sponsorship of related events if the fee is for the right to use the logo or trademark. For example, a sponsor of the Olympics would include the payments of sponsorship fees if this conveys the right to use the Olympic logo, in advertising, or to place such a trademark on its products. Generally, payments for franchise and trademark licensing include an aspect of property income (e.g., putting a nonfinancial, non-produced asset at the disposal of another party) besides the service itself. In practice, the entire payment would be treated as a charge for the use of intellectual property unless additional information is available to allow the breakdown.

12.125 If the ownership rights are transferred (i.e., for existing logos, domain names, or trademarks), the balance of payments records the transactions as acquisition/disposals of nonproduced, nonfinancial assets in the capital account.

12.126 *Licenses for the use of outcomes of research and development* cover fees and charges for the use of proprietary rights arising from research and development. In the *BPM6*, research and development

³³ Marketing assets include brand names, mastheads, trademarks, logos, and domain names.

³⁴ With reference to the rights to sell products under a particular trademark, brand name, or signature.

transactions are recorded either as charges for the use of intellectual property or research and development services. The research and development component that is part of the former relates to licenses to reproduce and licenses to use outcomes of research and development. In practice, it may be difficult to differentiate all payments for licenses to reproduce from the sale of proprietary rights (research and development services), as in some cases the former will represent sales of proprietary rights.

12.127 Licenses to reproduce and/or distribute computer software cover the charges for the authorized reproduction and/or distribution (through licensing agreements) of produced software originals. For example, a manufacturer pays for the right to include the software on the computers that it produces, in which case the payment would be a license to reproduce and/or distribute provided by the owner of the original software and recorded in balance of payments as charges for the use of intellectual property. But a license to distribute does not cover the sale of a copy of a computer software package that is purchased by an individual or company for individual use. The sale of the software (customized) for individual or personal use is recorded in computer services. Mass-produced, noncustomized software sold on physical media with the right to perpetual use is included under goods.

12.128 Licenses to reproduce and/or distribute audiovisual and related products, which cover two product categories: (1) audiovisual and related services and (2) other related products, such as original works of authors (e.g., translation rights), painters, sculptors, and so forth, other than those relating to products of an audiovisual nature. The first category of products covers fees and charges for the authorized reproduction and/or distribution, through licensing agreements, of produced audiovisual originals or prototypes (e.g., cinematographic works and sound recordings, including drama performances, musical performances, sporting events, etc.). Also included are rights relating to the reproduction and/or distribution of recordings of live performances on radio, television, cable, and satellite broadcast.

12.129 In the case of major events, such as the Olympics, the payments for the rights to broadcast it

live often extend over several years prior to the event. However, the cumulative amount of the prepayments made with the institution responsible for the organization of the event will be recorded under the charges for the use of intellectual property during the period in which the event is actually taking place, the individual payments made over the prior-to-event years being recorded under trade credit and advances.

12.130 Retransmission rights for sport events are also covered under this heading. However, licenses to use audiovisual products that cover, for example, transactions in audiovisual products provided on physical media (CDs, DVDs, etc.) and other audiovisual services will be separately recorded as transactions in goods (CDs, DVDs carrying the right to perpetual use) or audiovisual and related services, recording transactions such as fees to actors (unless employees of the company making the payments), payments to encrypted television channels, and so forth.

12.131 Statistics on international transactions related to intellectual property services are difficult to separate from other related activities. In particular, the arrangements for intragroup services may sometimes entail transferring goods or intangible property. In some cases, such as know-how contracts containing a service element, it may be very difficult to determine where the exact border lies between the ownership transfer and licensing of intellectual property.

12.132 Exploiting patents or other intellectual property products via licensing generates important cross border transactions between various institutional units, much of these flows reflecting transactions among affiliated companies located in different economies. This is one of the areas posing considerable statistical challenges because the monetary transactions in the intellectual property products are rarely recorded by either party, either implicitly or otherwise. It should also be noted that in the presence of cross licensing agreements, only net figures can be derived (often zero). Where the phenomenon is significant, the compiler should attempt, as possible, to input values for the gross flows using available data on fees charged to third parties.

12.133 Depending on the modality of conveying the rights from one party to another, either entirely or via a license to use or reproduce, a number of

possibilities for recording the transaction arise. Most often, the following cases³⁵ are encountered:

- Provision of access to the intellectual property products through a license agreement between the provider and the recipient in exchange for a fee that is observable in monetary terms; these flows should be recorded in the balance of payments under the charges for the use of intellectual property products with a counterentry under financial account.
- Provision of license to reproduce without a visible fee, either by (1) the parent to a foreign subsidiary with the expectation of receiving property income in the future or (2) the foreign subsidiary to the parent in return to previous foreign direct investment; in both cases, the estimated value of expected fees should be recorded under charges for the use of intellectual property and the counterpart transaction under the direct investment equity capital.

12.134 Accounting for international flows related to intellectual property products poses many challenges, including difficulties in determining the economic ownership of intangible products. A particular case could be, in the context of multinational companies, diverting the production and management of licensing of such products to subsidiaries located in other economies to maximize their revenues. Moreover, the flows between affiliated companies may be partially or entirely missing from financial reports, and the values of such records may not necessarily reflect the market value of the companies involved in the flows, leading thus to underestimated values.

12.135 In the case of flows between unaffiliated companies, records may exist in cases of sales or leasing, but due to their intangible nature, these products are not always tracked and registered in customs, banking, and similar administrative data, and may also not be evaluated at market prices. The OECD's publication *Handbook on Deriving Capital Measures of Intellectual Property Products* treats in more detail statistical challenges related to movements of intellectual property products between affiliated companies

in different economies. However, further research at the international level to clarify the existing standards is needed, and the Task Force on Global Production is currently working on developing some guidance in the field.

Research and Development

12.136 The internationally recognized standards for the collection and use of research and development statistics are set by the *Frascati Manual: Proposed Standard Practice for Surveys on Research and Experimental Development* (Paris: OECD, 2002). These standards are further developed in the OECD's publication *Handbook on Deriving Capital Measures of Intellectual Property Products*, which follows the 2008 SNA line, introducing for the first time the expenditures on research and experimental development as capital formation. The balance of payments adopted a broader notion of research and development services that encompasses the *Frascati Manual's* research and development (the outputs of research and development as treated by 2008 SNA) and technical services that may also give rise to patents (e.g., other testing and product development activities that may give rise to patents). Further details on the breakdown of this product category are provided in the *MSITS 2010* (paragraphs 3.237–3.239) following the EBOPS classification.

12.137 Valuation of research and development should take into account all expenditure undertaken in the process of production. Since much of the research and development is carried on own account, by convention, the best measure for its valuation is at cost, unless the market value is observed.

12.138 Surveys specifically designed to capture research and development activities that may be undertaken by both market and nonmarket performers are one of the most important data sources for estimating international trade in these services. The surveys identify the transfers of funds to/from abroad related to the performance of research and development and could in principle identify the economic nature of these transfers. Other source data could be industry-specific surveys targeting data from specialized business companies on their revenues from exports, for instance. Companies whose main activity is different from research and development can be surveyed separately using questionnaires that would cover, among

³⁵More details are covered in the OECD's publication *Handbook on Deriving Capital Measures of Intellectual Property Products*.

other information on their research and development, exports and imports. However, research and development surveys may fail to capture companies that import research and development services but do not carry out research and development themselves, and companies that own (and potentially export and import) economic rights to outputs of research and development they did not develop themselves (e.g., patent trolls).

12.139 General trade surveys covering all services would, however, capture these activities, provided the survey clearly identifies the activities and related external flows at the desired level of detail.

12.140 In many economies, an important segment of research and development is covered by public research organizations, including universities, which may be classified in the government or nonprofit sectors. Specific surveys could be designed to collect data on international trade in research and development. At present, most research and development surveys do not include questions on payments (domestic or international) for the transfer of economic ownership of research and development outputs carried out in the past.

12.141 Depending on its design, the ITRS would also capture research- and development-related flows. In this context, it is important to distinguish the payments for a transfer of economic ownership of research and development outputs (research and development services), and charges for the use of research and development outputs (classified under charges for the use of intellectual services).

12.142 Given existing shortcomings in the currently available data sources for international trade in research and development services, the compiler may undertake supplementary studies or cross source comparisons to improve the estimates.

Other Business Services: Operating Leasing

12.143 Paragraphs 10.153–10.157 in Chapter 10 of the *BPM6* describe the distinctive features of operating leasing. Leasing is an important source of finance for many businesses. Distinguishing operating leasing from financial leasing is important because the former relates to payments for services whereas the latter is a purely financial transaction. It is important to consider the terms and conditions of operating leases,

as in some cases they may closely resemble a financial lease (leases that last for all or most period of the expected service life of the underlying asset, and where the lessee assumes the risks and rewards of ownership, such as maintenance costs). In these cases the transactions should reflect the economic, rather than legal, reality. Although similar, a financial lease is seen as the sale of a product for a loan, and therefore the transactions concerned are excluded from services. The treatment of financial leasing is discussed in Chapter 10.

12.144 Using the ITRS as source data may not be sufficient to distinguish the operating leases from financial leasing in estimating the cash flows related to leases. In the case of operating leasing, the lessee does not acquire the economic ownership of the underlying assets. Consequently, the lessee's balance sheet does not show any assets or liabilities in respect to the lease contracts; the lessee simply acquires the right to use the underlying assets, reflected by lease payments (operating lease service).

12.145 Further distinctions from operating leasing should be made in the following cases:

- Rental of buildings by international organizations, embassies, and so forth (included in government goods and services n.i.e.)
- The leasing of telecommunications lines or capacity (included in telecommunications services)
- The rental of mobile equipment (ships, aircrafts, etc.) with crew (included in transport)
- Rental of dwellings for accommodation and vehicles to nonresidents during their stays in economies other than their economies of residence (included in travel)
- License payments for the right to use intangible assets, such as software and intellectual property, are included under specific headings (included in computer services, charges for the use of intellectual property n.i.e., etc.)
- Rent of land and other natural resource lease (included in other primary income); the allocation of the payment for the leasing of dwellings with land, when there is no objective basis for splitting it between rent on land (primary income) and rental on the dwellings (operating lease or government goods and services n.i.e. if leased by international organizations, embassies,

and so forth), is done in the favor of the component with the highest value. More elaboration on rent can be found in Chapter 13, paragraphs 13.98–13.104

- Marketable operating leases may create new contracts (assets) when the right can be transferred or subleased; in such cases, the lessee sells the right and thus realizes the price difference (included in capital account—contracts, leases, and licenses).

12.146 The correct identification of the type of lease covered by the terms of contracts of business companies is essential. If an enterprise survey is used, care should be taken not to overlap with the information already captured through ITRS.

Mobile oil rigs and floating production, storage, and off-load vessels (FPSO)

12.147 The hiring of (offshore) mobile oil drilling rigs and floating production, storage, and off-load (FPSO) vessels is likely to be on a long-term basis, thereby implying a financial lease arrangement that involves an imputed change of ownership (with the result that the rig or FPSO should be recorded as an import/export of a good). In fact, FPSOs are often refitted to the specifications of individual fields. In other instances, more often for onshore work, rigs are hired for relatively short periods and without crews.

12.148 The mobile drilling rigs and FPSOs should be treated the same as shipping vessels or aircraft leased, without crews, from their principals. In practice, the onshore rigs can be readily identified from records of port authorities, and relevant data should be available from operators or lessees. Offshore rigs and FPSOs may not be captured by the port authorities as they may never enter harbor. However, as they are usually hired by only a few exploration companies, they can usually be identified through other sources of information. The services provided by mobile oil drillings rigs hired with crews should be classified as other business services.

Government Goods and Services Not Included Elsewhere

12.149 The balance of payments treatment and sources for information on the three main types of transactions recorded in this item are described

subsequently. Due to practical difficulties in distinguishing some of the government-function-related services that are supplied by and to government units, by convention they are classified under this heading. Where possible, such services should be classified to relevant services (see *BPM6*, paragraph 10.179).

Government Expenditure Abroad (Debits)

12.150 Data on government expenditure abroad should be available from an ITRS or from official sources (see Chapter 6).³⁶ Should the data not be timely, it may be necessary to extrapolate certain series—in which case government expenditure policies, budget decisions, and trends in historical data should be considered.

12.151 Local expenditures of diplomats and other government personnel posted abroad should also be recorded as debits for government goods and services n.i.e. Estimates of these expenditures could be based on the wages and so forth—details of which should be available from government records—paid to these persons and an assumption about the percentage of wages spent on such expenditures.

Expenditure by Foreign Governments and International Institutions Located in the Compiling Economy (Credits)

12.152 This expenditure could be measured by using an ITRS or by using a survey of foreign embassies and international institutions. (See paragraphs 3.94–3.97 of Chapter 3 for details on surveys of foreign embassies and international institutions.) In each case, source data may provide only broad aggregates or partial data. Therefore, the compiler may have to establish a data model that uses data from these and other sources.

12.153 For example, from analyzing historical data, the compiler may observe a relationship between the numbers of foreign embassy staff and expenditures by foreign governments. Timely information on staff numbers, which may be available from an economy's Ministry of Foreign Affairs, could be used to derive current estimates of expenditure by multiplying the staff number by the historical data ratio. Allowances

³⁶Wages and salaries paid by embassies and so forth to local staff—that is, residents of the host economy—should be recorded as compensation of employees in the balance of payments.

should be made for such factors as inflation. Alternatively, a sample survey of cooperative embassies may provide information on the relationship between staff numbers and expenditures, and that ratio could be multiplied by total staff numbers to derive an overall estimate.

12.154 As with the compiling economy's government expenditure abroad, wages and salaries paid by foreign governments and international institutions to local staff and to long-term international staff should be classified as compensation of employees. In certain sources, such as an ITRS, it may be difficult to separate these wages and salaries from related expenditures. However, it may be possible to determine, either from an occasional analysis of data from other sources or from discussions with certain embassies, a ratio for dividing total expenditure into appropriate components.

12.155 Local expenditure of diplomatic and similar personnel stationed in the compiling economy should also be recorded in government goods and services n.i.e.³⁷ Previous observations about measuring the expenditure of compiling economy officials stationed abroad are also pertinent here.

Services Associated with the Provision of Technical Assistance and Aid

12.156 As noted in paragraphs 10.179 and Box 10.6 of the *BPM6*, the value of goods and services, including the administrative costs incurred in the donor economy as a result of providing technical assistance and aid, should be included under specific services provided (e.g., computer services within the telecommunication, computer, and information services or under professional and management consulting services within other business services). Technical assistance provided by government or an international organization is classified under government goods and services only when not specified to a specific service and if the technical assistance personnel are

³⁷Persons working in international institutions cannot be residents of these institutions. All staff of international institutions staying in the host economies for 12 months or more should be regarded as residents of those host economies. Persons staying in host economies for less than 12 months should be regarded as residents of the economies in which they maintain permanent households—typically their economies of origin.

employed by the donor government or an international organization. Chapter 14 presents some examples of recording technical assistance in balance of payments.

12.157 The balance of payments compiler of the donor economy could obtain information on the costs and type of provided services from official sources, such as records of the aid agency. In the recipient economy, the balance of payments compiler could obtain information from the embassy of the donor economy or the relevant domestic ministry or agency. Information on several related transactions could also be obtained from an ITRS (e.g., current transfers to government received through the banking system) or from customs (data on imports of materials and equipment). An alternative source would be to use OECD's Official Development Assistance (ODA) records,³⁸ which show these costs unclassified by recipient economy. A particular recipient economy's share of the domestic administrative costs of a particular donor economy could be calculated by applying to total administrative costs the ratio of the recipient economy's grants to total grants provided by the donor economy. Care should be exercised by the compiler to avoid duplication of amounts when using more than one source.

E-commerce

12.158 An increased use of credit and debit cards and other similar payment means in settling transactions via the Internet or other computer-mediated networks, more widely known as electronic commerce (e-commerce), has been noted recently in many economies. This payment method is used by both business companies and households/individuals, and the products purchased through e-commerce may include a wide range of goods and services (e.g., travel arrangements, e-books, online games, online insurance, etc.). In principle, charges for electronically delivered products are included in services, while goods ordered by electronic means and supplied across the border are generally classified as goods (except for some products, such as software products, obtained with a nonperpetual license to use).

12.159 There are a number of practical challenges in measuring international e-commerce transactions, in particular those undertaken by the households: (1) these are usually small-scale transactions that may

³⁸More details on ODA are provided in Chapter 7.

not be captured via ITRS; (2) settlement payments may be on a net basis (possibly via a clearing house) or nontraditional payment systems—payment card network—may be used; (3) households surveys may not properly capture these transactions or data may be collected indistinguishably for domestic and international transactions made via the Internet; (4) shipment of goods may be made via postal and courier services; and (5) it is difficult to estimate the fees associated with transactions intermediated by trade e-platforms, such as eBay or Amazon.

12.160 The compiler should make efforts to identify these transactions within the available source data and allocate the amounts to the relevant goods or services entries. As possible, shipping charges associated with e-commerce should be allocated to relevant transport

services, and financial services associated with e-commerce should be included in financial services.

12.161 Some economies have established special surveys collecting data separately from business companies on the use of electronic forms of payments for their sales and purchases. To the extent such surveys distinguish the international transactions from the domestic ones, they may be a good source for the balance of payments. Where the phenomenon is widely spread, special surveys may be designed to capture the main agents facilitating these transactions covering both traditional circuits and the nontraditional payment systems. Household surveys may also be a source of information for e-commerce. The compiler should be mindful of the coverage of each source and avoid double counting where sources overlap.



13

Primary Income

Introduction

13.1 Primary income represents the return that accrues to resident institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources to non-resident institutional units. Primary income includes the following components:

- (1) Income Associated with the Production Process
 - (a) Compensation of employees
 - (b) Taxes and subsidies on products and production.
- (2) Property Income
 - (a) Investment income:
 - Dividends and withdrawals from income of quasi-corporations
 - Reinvested earnings
 - Interest
 - (b) Rent.

13.2 Further grouping of primary income is discussed in the subsequent sections.

Compensation of Employees

13.3 Compensation for employment may be earned by persons residing in economies that differ from the economies in which they are employed on a short-term basis (for less than one year) and also by persons residing in their own economies but employed by a nonresident company established in the economy of these persons or by foreign government enclaves located in this economy. The former would include earnings of border, seasonal, and other short-term workers resident in one economy paid by an employer resident in another economy that are in an employer-employee relationship. The latter would include compensation paid by foreign embassies, foreign military establishments, and international institutions to residents of

the economies in which the embassies and so forth are located.

13.4 The existence of an employer-employee relationship is central in determining whether the remuneration received by short-term workers is treated in the balance of payments as compensation of employees or as fees for services. The identification of an employer-employee relationship requires good knowledge of the type of activity conducted by resident workers outside their economy (e.g., construction, housekeeping, agriculture work, etc.) and type of agreement between such workers and the institutional unit for which they work. The first characteristic that indicates that the employer-employee relationship exists is whether the employer has the right to control or to direct what shall be done and how it shall be done. However, certain control on the work also exists when the work is provided by a self-employed person. Other characteristics of the existence of employer-employee relationship are existence of an agreement (formal or informal) between the employer and employee into which they enter voluntarily and when the remuneration is based on either the time spent at work or some other objective criteria. Additional criteria that could help determine if an employer-employee relationship exists are: payment of social contributions by the employer as well as the entitlement of the employee to the benefits that usually are provided to employees by a company (e.g., certain types of allowances, holidays, and sick leave).

13.5 If an individual is contracted to produce a certain amount of work or a given result, this suggests that the individual is self-employed and is selling services. An individual is deemed to be self-employed if: he/she operates his/her own unincorporated company and therefore sells its output; he/she is responsible for the scale of operations and finances, owns or rents machinery for the work; pays social contributions by himself/herself; pays taxes on the provision of services; and so forth.

13.6 Several types of services, such as construction, agricultural services, and software development, can raise questions about the borderline between compensation transactions and sales of services. For instance, if a worker is hired by a nonresident employer to undertake long-term construction activity and the worker is paid regular remuneration measured by the time spent at the work, the remuneration should be treated as compensation of employees. However, in many cases an employer contracts a nonresident individual to conduct a certain amount of construction work with a certain result. The contracted individual, in turn, may conduct the work by subcontracting to other nonresident workers. The first contracted individual pays a lump sum to the second contracted individual for the agreed amount of work, and the second individual further pays to subcontracted nonresident workers the remuneration for the provided work. If the contracting parties are residents of the same economy, the transactions between them are beyond the balance of payments scope. When the contracted individual is deemed to be selling construction services to nonresidents, the remuneration received should be registered in balance of payments as construction services.

13.7 When an employer-employee relationship exists, it may also be important to identify which institutional unit is the employer of the worker, and if this employing unit is resident or nonresident of the compiling economy. This may be particularly challenging when an employment agency is involved in the transaction.

13.8 Compensation of employees includes compensation paid in kind, as well as that paid in cash. Transactions under this item should be recorded on a gross basis—that is, before any deductions for expenses (such as income taxes and acquisition, by the employee, of goods and services in the host economy). These expenses should be recorded under appropriate balance of payments items. Example 13.1 may help clarify the treatment of compensation of employees.

Example 13.1 Recording of Compensation of Employees in Balance of Payments

A resident of economy A works for three months in economy B and earns US\$500 in cash before tax. In addition, the employer provides accommodation estimated to be worth US\$100. The worker pays income tax of US\$70 to the government of economy B. Additionally, the worker con-

tributes with US\$50 to a social security scheme in economy B and spends US\$130 on clothing and food during his stay in economy B. The following entries would appear in the balance of payments of economy A:

Current account	Credit	Debit
Services		
Travel		
Business		230 ¹
Acquisition of goods and services by border, seasonal, and other short-term workers		230
Primary income		
Compensation of employees	600 ²	
Secondary income		
Other current transfer		120
Current taxes on income, wealth, etc.		70
Social contribution		50
Financial account	Net acquisition of financial assets	Net incurrence of liabilities
Other investment		
Currency and deposits	+250 ³	

¹Includes 130 for clothing and food and 100 for accommodation.
²500 paid in cash plus 100 for accommodation paid in kind.
³500 paid in cash minus 70 income tax minus 50 contribution to social security scheme minus 130 spent on clothing and food.

13.9 Credits for compensation of employees have two distinct components: (1) compensation earned by residents working for institutional units abroad and (2) compensation earned by local staff working for foreign embassies and similar institutions—including international organizations—and by local staff working for nonresident institutional units operating in the compiling economy. Likewise, debits for compensation of employees have two distinct elements: (1) compensation earned by nonresidents working for resident institutional units of the compiling economy and (2) compensation earned by local staff working for the compiling economy's foreign embassies and similar institutions located abroad and by local staff working for resident institutional units that have an activity

abroad. The balance of payments compiler should be aware of each of these components because a collection methodology well suited to measuring one component may not be appropriate for measuring another.

13.10 The compensation of employees net of taxes, social contributions, and other expenses made by the short-term workers in host economies is included, along with personal transfers and capital transfers between households, in the value of personal remittances (see *BPM6*, paragraph 12.27).

Data Sources

13.11 Compensation of employees is typically measured by using one or more of the following sources: an international transactions reporting system (ITRS), enterprise surveys of employers, surveys of travelers, official sources, surveys of embassies, and partner economy data. More about data sources that could be employed for collecting and/or estimating compensation of employees is presented in *International Transactions in Remittances: Guide for Compilers and Users* (IMF, 2009).

International transactions reporting system

13.12 An ITRS may provide satisfactory coverage of compensation of employees sent by residents working abroad or of nonresidents working in the compiling economy. However, the compiler should understand that amounts reported in ITRS for compensation of employees are on a net basis that does not include expenses in the host economy. The compiler should attempt to estimate gross amounts. Also, the data collected through an ITRS on compensation of employees could include misclassifications, because the ITRS reporters cannot accurately identify if workers are in an employer-employee relationship and also if they work in the host economy for more than or less than one year.

13.13 The compiler might use an alternative source, such as a survey of travelers, to make the estimate.¹ For example, in order to estimate the gross amount of compensation of employees, the compiler might establish percentages of compensation for employment that relate to income tax payable to the host economy's government, to contributions to social and pension schemes, to goods and services acquired in the host economy, and to the net amount retained by the

employee. Net amounts reported in an ITRS could then be expanded by using relevant percentages, and appropriate offsetting entries for transfers and travel could also be calculated. For example, the balance of payments compiler might establish that, for residents working abroad, 10 percent of compensation is paid in taxes and social contributions, 15 percent is spent on goods and services, and the remaining 75 percent is remitted to the compiling economy and recorded in an ITRS. Credits for total compensation of employees would be equal to the ITRS figure multiplied by 1.33 (grossed up from 75 percent). Transfer and travel debits would be equal to 10 and 15 percent, respectively, of estimates of gross compensation of employees.²

13.14 In order to adjust the ITRS data for misclassifications already mentioned, the compiler might use variables collected through a survey of travelers, migration survey, or a specialized survey of remittances. Such variables are the existence of a cross border employer-employee relationship and the duration of stay in host economy, by pattern of surveyed workers.³

13.15 Use of an ITRS to measure compensation of employees will omit compensation paid in kind. Such compensation could be identified by using surveys of travelers, household surveys, or enterprise surveys (for debits only). However, the compiler should be aware of limitations of each type of survey related to data on remittances, including compensation of employees. To improve the coverage of information on remittances collected through surveys, the compiler should make efforts to include additional questions in surveys that would provide useful information for estimating remittances by components. For example, questions on the existence of an employer-employee relationship, on type of remittances received (in cash or in kind), or on channel of remittances (banks, money transfer operators, or informal channels such as bringing money in-pocket, hawala, etc.) could be added to a survey of travelers or to a migration survey. This would bring a great improvement to the estimates of compensation of employees and remittances-related balance of payments components.

²For best results, separate percentages should be calculated for nonresidents working in the compiling economy and for residents working abroad.

³For more information on types of surveys employed in estimating remittances data, see Chapter 4 of the *International Transactions in Remittances: Guide for Compilers and Users* (IMF, 2009).

¹The survey of travelers is discussed in more detail in Chapter 3.

13.16 The compiler should ensure that compensation for employment paid to local workers by foreign embassies and similar institutions and by companies that are not residents of the economies in which they are located (e.g., construction companies engaged in short-term projects) is not “bundled” with other balance of payments transactions. For example, an ITRS may record amounts transferred to cover expenses of the compiling economy’s foreign embassies. It is important that amounts used to pay local staff be recorded separately from other expenses. If this is not the case, supplementary sources (such as official sources in the case of embassies located abroad; surveys of embassies in the case of foreign embassies in the compiling economy; or enterprise surveys in the case of companies operating in economies in which they are not resident) could be used to provide necessary balance of payments information.

Surveys of employers

13.17 Surveys of employers could be useful sources of information on compensation payable by resident companies to nonresident employees and on compensation payable to local employees by nonresident companies located in the compiling economy.⁴ The main advantages of using surveys of employers are that amounts are typically recorded on a gross basis, and compensation paid in kind can often be readily reported. The disadvantages of using surveys of employers are the amount of effort required to maintain coverage; the lack of information on credits for compensation of employees earned by residents working abroad and on compensation paid to local staff of embassies and so forth; difficulties in identifying nonresidents who are short-term workers residing temporarily in the economy from the company accounting system; and the expense of conducting a separate collection to measure what is, for some economies, a relatively trivial item in the balance of payments. Of course, collection expenses might be greatly reduced if the information were collected as part of a general approach that used enterprise surveys to compile balance of payments statistics.

⁴Such surveys are discussed in Chapter 3, “Collections on Goods and Services Statistics.”

Surveys of travelers

13.18 As well as collecting information on travel expenditure, surveys of travelers⁵ could be used to collect information on compensation earned by travelers. The main advantage of using this source is that it collects data directly from workers on a timely basis, and therefore the mistakes due to memory recall would be avoided. The disadvantage to using a travelers’ survey is that supplementary data sources would be needed to capture information on compensation payable to local staff of foreign embassies and so forth, and on compensation payable to local staff working for companies operating in economies other than those in which the companies are resident.

Official sources

13.19 Official sources may be able to provide useful information on compensation payable to the local staff of the compiling economy’s embassies and so forth located abroad. Also, some economies have official agencies responsible for nonresidents working in the economy or for residents working abroad. These agencies could have information that would be useful for compiling the compensation of employees item in the balance of payments. In addition, administrative data on the number of work visas issued by the compiling economy’s government could be used to estimate the number of cross border commuters, seasonal, and other short-term workers.

13.20 Also, the border authorities in some economies may conduct studies on the economic impact of border crossers and for this purpose collect information on number of daily commuter workers. This information could be useful for estimating the compensation of employees of border workers. The main disadvantage in using data from the border authorities is that such a survey is not conducted on a regular basis.

Surveys of embassies and so forth

13.21 Surveys of foreign embassies and similar institutions, including international organizations, located in the domestic economy could be a good source of information on compensation payable to

⁵For information on this survey, see Chapter 3, “Collections from Persons and Households.”

resident staff working for these institutions.⁶ Even if only a subset of embassies responds to such surveys, there may be reasonable information on per capita salary and so forth, which could then be multiplied by the number of local staff working for foreign and international institutions in order to obtain an overall estimate. Information on staff employed by these institutions should be available from an economy's ministry for external affairs or from similar government organizations.

Partner economy data

13.22 In some economies, partner economy data may be the best source of information on compensation of employees (particularly credits). Alternatively, partner economy data could be used as a check on estimates derived from other sources. However, the compiler should assess the data collection and the estimation techniques employed by the partner economies in order to assure that those data are reliable.

Data Models and Extrapolations

13.23 In the absence of complete data, a data model or models could be used to estimate part or all of the compensation of employees. The use of most data models involves multiplying estimates of numbers of employees by estimates of per capita compensation. The numbers of residents in an employer-employee relationship abroad and of nonresidents in an employer-employee relationship in the domestic economy could be available from migration statistics or from an official source, such as a relevant government agency. Estimates of per capita compensation could be based on benchmark studies and adjusted for growth occurring in wages after the period of the study and for any other necessary factors. The estimates could also be based on other related indicators, such as the average earnings of employees in the compiling economy. This indicator could be used for deriving estimates of compensation paid to nonresidents in an employer-employee relationship in the compiling economy or compensation paid to local staff of foreign embassies and so forth. In addition, such estimates could be based on the average earnings of employees in

partner economies. This indicator could be used for deriving estimates of compensation paid to residents in an employer-employee relationship abroad or compensation paid to local staff of the compiling economy's embassies and similar institutions abroad.

13.24 Extrapolations of compensation of employees generally involve similar techniques. When numbers of employees are extrapolated, provision should be made for any known or expected developments taking place in the compiling economy (or in partner economies) and having a potential impact on these numbers. Likewise, when per capita compensation estimates are extrapolated, account should be taken of known or expected developments in wages and, when relevant, exchange rates.

Investment Income

Introduction

13.25 Investment income is income derived from ownership of external financial assets and payable by residents of one economy to residents of another economy. The structure of the investment income account is consistent with that of the corresponding financial flows and positions, thus facilitating the analysis of rates of return. Most financial instruments give rise to investment income. Debt instruments such as SDRs, loans, most debt securities, and deposits (including unallocated gold accounts) give rise to interest. Equity and investment fund shares give rise to dividends or other distributions from corporate income. Gold bullion, currency, noninterest bearing deposits, financial derivatives, and employee stock options never give rise to investment income.

13.26 Investment income is broken down by the following components for purposes of compilation (not in *BPM6* standard component sequence):

- Pure interest (excluding financial intermediation services indirectly measured (FISIM))
- Distributed income of corporations:
 - Dividends on equity other than on investment fund shares
 - Withdrawals from income of quasi-corporations
- Reinvested earnings on foreign direct investment other than on investment funds

⁶These surveys are described in Chapter 3, "Collections on Goods and Services Statistics."

- Other investment income:
 - Investment income attributable to insurance policyholders
 - Investment income payable on pension entitlements and standardized guarantees
 - Investment income attributable to investment fund shareholders
- Dividends
- Reinvested earnings.

13.27 Investment income should be classified by financial account functional categories: direct investment, portfolio investment, other investment, and reserve assets. Direct investment income should be classified by dividends and withdrawals from income of quasi-corporations, reinvested earnings (including investment income attributable to investment fund shareholders that are in a direct investment relationship), and interest. These components, except for reinvested earnings, are further subdivided by counterpart—that is, direct investors, direct investment enterprises (DIENTs), and fellow enterprises. In supplementary classifications for fellow enterprises, the ultimate controlling parent is identified as resident or nonresident in the compiling economy, or as unknown. A supplementary item provides direct investment income attributable to policyholders in insurance, pension, and standardized guarantee schemes, and to investment fund shareholders, with a separate classification of investment income attributable to investment fund shareholders.

13.28 Portfolio investment income should be classified by dividends on equity other than investment fund shares, investment income attributable to investment fund shareholders (subdivided into dividends and reinvested earnings), and interest on debt securities by maturity (i.e., short-term and long-term).

13.29 Other investment income is classified by income on equity and investment fund shares that are not classified in any other functional categories, interest, and income attributable to policyholders in insurance, pension, and standardized guarantee schemes.

13.30 Income on reserve assets is classified by income on equity and investment fund shares and interest.

13.31 Interest before FISIM should be disclosed as a memorandum item for direct investment, other investment, and reserve assets.

13.32 Close relationships often exist among investment income, transactions in external financial assets and liabilities (the financial account of the balance of payments), and positions of these assets and liabilities (the international investment position—IIP). Because of these relationships, investment income estimates are often compiled from sources similar to those used to compile the financial account and the IIP. Accordingly, it may be helpful to refer to Chapter 9 in conjunction with the Investment Income part of this chapter.

Data Sources

13.33 Surveys of companies (including financial corporations) with external assets and liabilities, an ITRS, or official sources can be used to measure balance of payments transactions in investment income. Whatever approach is used, collection and estimation methods should be well designed to ensure that investment income is measured accurately. Table 13.1 summarizes the possible compilation strategies available to the compiler.

13.34 Enterprise surveys may be selective (e.g., concentrating only on financial corporations or companies in direct investment relationships) or broadly based (e.g., covering nearly all companies with external assets and liabilities). Primary income should be recorded on a gross basis—that is, before the deduction of financial fees and withholding taxes. It is important that enterprise survey collection forms be well designed, that reporters have a good understanding of the collection requirements, and that close contact is maintained between the compiler and survey respondents. Enterprise surveys may include collections from financial intermediaries that report data on income from securities.

13.35 Data on investment income, such as income related to official debt and reserve assets, could also be obtained from official sources. The official debt office may also have information on interest payable by other sectors of the economy, particularly when interest payments are guaranteed by the government. Some economies require, either as part of foreign exchange controls or foreign investment approval procedures, that companies submit applications to remit profits. These applications could be used to estimate some components of investment income, but be aware that applications may not always materialize into actual remitted profits.

Table 13.1 Compilation of Investment Income and Other Primary Income Items

Description	Source and method of compilation
<p>Direct investment income</p> <p>Income on equity and investment fund shares</p> <p>Dividends and withdrawals of income from quasi-corporations</p> <p>Direct investor in direct investment enterprise</p> <p>Direct investment enterprises in direct investor</p> <p>Between fellow enterprises</p> <p><i>If ultimate controlling parent is resident</i></p> <p><i>If ultimate controlling parent is nonresident</i></p> <p><i>If ultimate controlling parent is unknown</i></p> <p>Reinvested earnings</p> <p><i>Investment income attributable to policyholders in insurance, pension, and standardized guarantee schemes, and to investment fund shareholders</i></p> <p>Interest</p> <p>Direct investor in direct investment enterprise</p> <p>Direct investment enterprises in direct investor</p> <p>Between fellow enterprises</p> <p><i>If ultimate controlling parent is resident</i></p> <p><i>If ultimate controlling parent is nonresident</i></p> <p><i>If ultimate controlling parent is unknown</i></p> <p>Memorandum: Interest before FISIM</p>	<p>Data on dividends and withdrawals of income from quasi-corporations, together with interest, can be collected through enterprise surveys or an ITRS. In either case, care should be taken to ensure that noncash income is collected. However, the compiler should be aware of the limitations of ITRS in collecting such data—for example, reporters might have difficulties in identifying the counterpart (direct investor, direct investment enterprise, or fellow enterprise), as well as the location of the ultimate controlling parent.</p> <p>Data on reinvested earnings can be collected as a supplement, in enterprise surveys, in an ITRS, or sometimes as a by-product of a foreign exchange or foreign investment approval system.</p> <p>Data on investment income attributable to policyholders in insurance, pension, and standardized guarantee schemes, and to investment funds shareholders can be collected through a survey of companies involved in such activity—e.g., insurance companies.</p>
<p>Portfolio investment income</p> <p>Income on equity and investment fund shares</p> <p>Dividends on equity excluding investment fund shares</p> <p>Investment income attributable to investment fund shareholders</p> <p>Interest</p> <p>Short-term</p> <p>Long-term</p>	<p>Income credits and debits (income receivable on claims on nonresidents and income payable on liabilities to nonresidents) can be collected in surveys of companies, surveys of financial intermediaries and/or custodians, an ITRS, or from official records. Care should be taken to ensure that income accrued but not paid is measured and offset appropriately in the financial account. An alternative methodology may involve maintaining an inventory of securities held by residents and estimating the dividends and interest on those securities by using yield analysis.</p>
<p>Other investment income</p> <p>Withdrawals from income of quasi-corporations</p> <p>Interest</p> <p>Memorandum: Interest before FISIM</p> <p>Investment income attributable to policyholders in insurance, pension, and standardized guarantee schemes</p>	<p>Data can be collected through enterprise surveys, an ITRS, or official sector sources. Some economies estimate income flows on certain assets, such as other sectors deposits abroad, by using data obtained from international institutions. Alternatively, data models based on yield analysis may be used to estimate certain components.</p> <p>Interest includes also interest payable on SDR allocations.</p>
<p>Reserve assets</p> <p>Income on equity and investment fund shares</p> <p>Interest</p> <p>Memorandum: Interest before FISIM</p>	<p>Data can be collected from official sector sources. It includes, among others, interest receivable on SDR holdings.</p>
<p>Other primary income</p> <p><i>Taxes on products and production</i></p> <p><i>Subsidies</i></p> <p><i>Rent</i></p>	<p>Data can be collected through enterprise surveys, an ITRS, or official sector sources. Care should be taken to ensure that rent accrued but not paid is measured and offset appropriately in the financial account. Data on taxes on products and production should be available from official sources, such as tax records (in the case of withholding) and records of other relevant government agencies (in the case of fees, fines, etc.). Data on subsidies also should be available from relevant government agencies.</p>

Source: IMF staff.

13.36 An ITRS can serve as a useful source of data for measuring investment income. However, some transactions require special attention if investment income is to be measured completely and accurately. Interest accrued and not yet paid will be missed unless the compiler monitors such transactions carefully. The issue of recording interest on an accrual basis is discussed further in paragraph 13.73 of this chapter. Furthermore, many investment income transactions are not made through the banking system or do not involve the payment of cash (e.g., reinvested earnings and investment income earned on technical reserves held by insurance corporations). Where these transactions are significant, the compiler should ensure that these transactions are reported and that offsetting entries in the balance of payments accounts are also recorded. For example, it is likely that the compiler will have to approach companies and insurance corporations directly to measure reinvested earnings attributable to direct investors and investment income attributable to policyholders.

13.37 Many survey respondents tend to record certain transactions after certain costs, such as after commissions, fees, or taxes have been deducted. Instructions to the surveys pertinent to these matters should be clear to ensure that data are reported according to balance of payments requirements, before deducting these costs. Also, discounts and premium income associated with nonequity securities may not be separated from other amounts paid at the redemption, so an ITRS should be designed to collect information on premiums and discounts that have to be included under investment income. If not, alternative sources for this information should be established.⁷

13.38 As persons completing ITRS forms may be unfamiliar with the level of detail, an ITRS must be well designed to ensure correct classification of transactions. The compilation of reinvested earnings is discussed in a subsequent section of this chapter.

⁷Related financial transactions reported in an ITRS also may have to be adjusted for premiums and discounts.

Estimation in the Absence of Data and Extrapolations

13.39 The most common approach to estimating investment income in the absence of direct information on investment income receipts or payments is to use a data model in which income yields are applied to levels of financial assets or liabilities.⁸ This approach is quite commonly used to estimate interest and dividends on securities and is sometimes used to estimate income on other financial items, such as loans and deposits. However, this approach is rarely used to measure direct investment income. Like most other data models, the income yield model often works well when used at a detailed level of disaggregation. For example, better estimates of portfolio investment income debits would be derived if separate models were established for equities and for debt securities. In more sophisticated models, the income on each type of security held might be estimated separately. Data models are further discussed in Chapter 8.

13.40 One of the keys to developing estimates of good quality is choosing an appropriate income yield. For estimates of dividend debits, the average dividend yield in the compiling economy's stock markets could be a good indicator. For estimates of dividend credits, the weighted average yield in the stock markets of partner economies could be appropriate. For interest debits and credits, separate models could be developed for each significant type of instrument and by each currency in which financial assets and liabilities are denominated. For example, for loan liabilities denominated in U.S. dollars, an appropriate yield might be the United States lending rate, adjusted for risk (if any) associated with the compiling economy. *International Financial Statistics (IFS)*, which is published by the IMF, provides a number of interest rates that may be useful in determining appropriate yields.⁹ If disaggregation of this nature is not possible, then a

⁸Levels of financial assets and liabilities may either be measured directly or derived by using the perpetual inventory method. Perpetual inventory models for portfolio securities typically involve use of appropriate financial market indices to determine the impact of nontransactions changes in levels. However, at a minimum, stock should be measured annually.

⁹These rates are included in world and regional tables provided at the beginning of issues of *IFS*.

weighted average yield, with weights determined on the basis of whatever information is available, could be applied. Regarding the currency composition of financial assets and liabilities, the *BPM6* recommends a set of tables to be compiled as memorandum item that cover currency composition of debt claims to nonresidents (Table A9-I-1a) and of debt liabilities to nonresidents (Table A9-I-2a).

13.41 When actual data are not available on a timely basis, estimates of investment income may have to be extrapolated from data for earlier periods. Most extrapolation techniques for portfolio and other investment income involve determination of historical income yields. These yields are then adjusted, in the case of interest, for changes in interest rates and credit risks and, in the case of dividends, for changes in profitability and policies with regard to the retention of earnings.¹⁰ The adjusted yields are then applied to estimates of positions, which may be based on actual data or extrapolated. Alternatively, the compiler may use known interest payment schedules for certain components of debt and yield analysis for the remainder.

13.42 For the extrapolation of direct investment income, similar techniques could be used. For equity income on direct investment, the best results are usually achieved when total equity income—that is, dividends and withdrawals from income of quasi-corporations plus reinvested earnings—is extrapolated and then broken down into component parts on the basis of historical distribution patterns and known changes in these patterns. The compiler may also be able to obtain useful information on profitability and on dividend payments from discussions with a few significant direct investors (in the case of credits) and DIENTs (in the case of debits).

¹⁰Changes in interest rates will not fully impact other investment income in the periods in which the changes occur because many financial assets and liabilities will have fixed rates of interest. The compiler should analyze the composition of other investment assets and liabilities to determine the fixed-interest component. This information should be used to moderate the impact of changes in interest rates on income estimates. For dividends, information on changes in profitability could be available from profit surveys used to compile national accounts or from tax records. Information on changes in distribution policies could be obtained from stock exchanges. For example, changes in the ratio of average dividend yields to the inverse of the average price/earnings ratio could be used as an indicator of changes in distribution policies.

Calculation of Reinvested Earnings for Direct Investors and Investment Fund Shareholders

13.43 Reinvested earnings are calculated by using the accounts of DIENTs or investment funds. Reinvested earnings of a company are the owner's share of the company's retained earnings or net saving (before reinvested earnings payable are deemed distributed). Retained earnings or net saving (before attributing reinvested earnings) of a company may be formally stated as follows:

Retained earnings¹¹ =

- + Net operating surplus (operating revenue minus operating expenses)
- + Net dividend income receivable
 - + Dividends receivable
 - Dividends payable
- + Net interest receivable
 - + Interest receivable
 - Interest payable
- + Company's share of retained earnings of any direct investment enterprises
- + Net rent receivable
 - + Rent receivable
 - Rent payable
- + Net current transfers
 - + Current transfers receivable
 - Taxes and other current transfers payable
- Adjustment for the change in pension entitlements.

13.44 In the next step, to obtain reinvested earnings, each shareholder/owner's share of retained earnings is determined by multiplying total retained earnings by the percentage of the shareholder/owner's claims on these retained earnings:

Reinvested earnings =

Retained earnings

- × Percentage of equity held by the shareholder/owner.

13.45 Thus, reinvested earnings do not include any realized or unrealized holding gains or losses (e.g., holding gains and losses due to price changes,

¹¹See the *BPM6*, paragraph 11.34, and the *2008 SNA*, paragraph 26.63.

exchange rate changes, or other changes in volume of assets, such as write-offs); consequently they are excluded from this calculation. Because business accounting measures of profits often include holding gains or losses, adjustments to business accounting records may be necessary.

13.46 All of these data should be available from the accounts of companies concerned and, more particularly, from company income and expenditure and profit and loss statements. For direct investment, companies could be permitted to report on an individual basis or a group of related companies could report on a consolidated basis. When these companies are consolidated, they are referred to as a “local enterprise group.” In the case of a resident direct investor, the local enterprise group includes the institutional unit that directly owns a foreign direct investment enterprise (DIENT), the resident companies that directly or indirectly control this company, and the resident companies that any of these companies directly or indirectly control in their own economy. In the case of a resident DIENT, the local enterprise group includes the resident company that is directly controlled or influenced by a foreign direct investor, plus the institutional units that it directly or indirectly controls in its own (local) economy. To be fully consistent with requirements of the balance of payments methodology, the balance of payments compiler may have to make some of the adjustments that are subsequently discussed.

13.47 One of the components of the retained earnings is the net operating surplus, which is the value added from the operations of the company—that is, the value of the outputs *less* the value of the intermediate inputs; *less* consumption of fixed capital (including any provision for this consumption); *less* taxes on production (*less* subsidies); and *less* compensation of employees.

13.48 Consumption of fixed capital should be calculated on the basis of current replacement cost (BPM6, paragraph 11.45). However, company accounts may reflect a variety of bases, including historic cost depreciation. When advising companies on how to report, the compiler could suggest that consumption of fixed capital be calculated by using current cost accounting methods and by excluding any special tax allowances for depreciation, such as accelerated depreciation allowances. Alternatively, the balance of payments compiler may, in conjunction

with the national accounts compiler, make an aggregate adjustment, which is based upon knowledge of company accounting practices, to consumption of fixed capital estimates underlying reported reinvested earnings data. Another option is for the balance of payments compiler to ask companies on what basis consumption of fixed capital was recorded; when current replacement cost was not used, the compiler may consider making adjustments to data reported in individual collection forms.

13.49 Net operating surplus should be adjusted to determine retained earnings by taking into account other current earnings (such as dividends receivable), net interest receipts (interest receivable less interest payable), current transfers (such as subsidies received), and the reinvested earnings receivable from other companies (including companies located abroad).

13.50 Retained earnings are finally obtained after deducting taxes due for payment from net earnings and any dividends due for payment (or withdrawals from income of quasi-corporations). A shareholder/owner’s share of retained earnings should be calculated according to the shareholder/owner’s equity share in the company.

13.51 As previously noted, the calculation of retained earnings should exclude capital gains and losses, even if these are included in company profit and loss statements. For example, if a company paid a dividend because it sold a financial asset on which it made a windfall profit—that is, the sale price of the asset was much greater than the purchase price—the distribution to the investor should be shown in the financial account as a distribution of equity capital and excluded in the calculation of reinvested earnings.

13.52 Insurance companies may be DIENTs. Net operating surplus of insurance companies is equal to the following:

Net operating surplus (operating revenue minus operating expenses) =

Output from “production” (whereby calculated as actual premiums earned *plus* premium supplements *minus* adjusted claims incurred (or changes in actuarial reserves)

+ Dividends/interest receivable from the investment of own assets

– Operating costs (salaries, rent, etc.).

13.53 Deposit-taking corporations (banks) may also be DIENTs. Net operating surplus for deposit-taking corporations and other financial corporations should equal fee-based revenue (including imputed fees such as those from foreign exchange trading), *plus* property income receivable, *less* property income payable. Write-downs and write-offs of loans and other financial instruments are capital losses, and so they should be excluded from the calculation of operating surplus.

13.54 Reinvested earnings can also be derived from examination of a company balance sheet. One of the components of a balance sheet is shareholder funds. Shareholder funds may change in a period as a result of the following:

- Issues less redemptions of shares
- Extraordinary items, such as capital gains and losses
- Changes in revaluation reserves
- Retained earnings.

13.55 Thus, retained earnings can be measured directly or derived by deducting the first three components from the total change in shareholder funds. However, the compiler should be aware that a company balance sheet may be prepared according to accounting rules that differ from those required by the balance of payments methodology. (In particular, differences may arise with position valuations, recording and classification of capital gains and losses, and consumption of fixed capital.) The differences may have an impact on the derivation of reinvested earnings from balance sheets, and when the impact is significant an appropriate adjustment should be made. For this reason, many balance of payments compilers prefer to calculate reinvested earnings by analyzing profit and loss statements (in which appropriate adjustments are more easily identified) rather than calculating reinvested earnings from balance sheets.

13.56 When a chain of direct investment relationships exists, it is clarified that reinvested earnings should be recorded between the direct investor and its directly owned DIENTs only—that is to say when there is an immediate 10 percent or more equity ownership; this directly owned DIENT should include its share of the reinvested earnings of DIENTs in its ownership chain in the calculation of its own reinvested earnings.

13.57 Reinvested earnings can be negative or positive in sign for both the investor and the DIENT or investment funds. Negative reinvested earnings indicate that, for the reference period, the dividends paid out by the DIENT or investment funds are higher than net earnings in that period or that the company is operating at a loss.

13.58 Negative reinvested earnings incurred by a *resident direct investment enterprise* should be recorded as follows:

- *Negative debit* for investment income on direct investment—Income on equity—reinvested earnings
- *Offsetting negative* entry in the financial account—Direct investment—equity—reinvestment of earnings (net incurrence of liabilities).

13.59 Negative reinvested earnings obtained by a *resident direct investor* should be recorded as follows:

- *Negative credit* for investment income on direct investment—Income on equity—reinvested earnings
- *Offsetting negative* entry in the financial account—Direct investment—equity—reinvestment of earnings (net acquisition of financial assets).

13.60 Thus, if a DIENT incurs an operational loss of 100 units, the following balance of payments entries that should be recorded are presented ahead.

A. For the *direct investment enterprise*:

	Credit	Debit
Current account		
Primary income		
Investment income		
Direct investment		
Income on equity		
Reinvested earnings		-100
	Net acquisition of financial assets	Net incurrence of liabilities
Financial account		
Direct investment		
Equity		
Reinvestment of earnings		-100

B. For the direct investor:

	Credit	Debit
Current account		
Primary income		
Investment income		
Direct investment		
Income on equity		
Reinvested earnings	-100	
	Net acquisition of financial assets	Net incurrence of liabilities
Financial account		
Direct investment		
Equity		
Reinvestment of earnings	-100	

13.61 For investment fund shares owned by nonresidents and for direct investors' equity in their DIENTs, retained earnings are imputed as being payable to the owners/direct investors and reinvested as an increase in their equity. In other cases of equity owned by nonresidents, there is no imputation of income or financial account transactions to the owners on account of retained earnings. As the result, the increase in the value of the equity caused by the accumulation of retained earnings not attributed to owners is reflected in increased value in equities in IIP without transactions in balance of payments and is, therefore, shown as a revaluation.

Recording Interest Income on an Accrual Basis

13.62 The interest can be seen as including both an income element and a charge for a service (FISIM).¹² The identification of FISIM as the financial service implicitly included in interest requires corresponding adjustments to interest as recorded in the primary income account. Actual interest payable by borrowers is partitioned between a "pure interest" charge at the reference rate (in primary income) and FISIM (a service). Similarly, pure interest receivable by depositors is calculated by applying the reference rate to depositors, and depositors are shown as consuming a service equivalent to the difference between the actual interest and interest at the reference rate. The interest

shown in the primary income accounts is shown after adjusting for FISIM—"pure interest"; also, there is a memorandum item for interest before adjusting for FISIM—"actual interest" (see *BPM6*, Box 10.5, for a numerical example).

13.63 Interest is recorded in the balance of payments on an accrual basis.¹³ That is, interest on the amount of principal outstanding is recorded as accruing continuously to the creditor. Accrued interest is the amount ultimately receivable by the creditor and payable by the debtor. Accrued "actual interest" (disseminated as a memorandum item) also includes FISIM accrued. Accrued interest may differ from the amount due to be paid during a specified period, and this amount may, in turn, differ from the amount actually paid in the period. In the balance of payments, offset entries to accrued interest can take one of three forms.

13.64 First, if interest is accrued during a particular period but not due for payment in that period, the offset to the accrued interest should be recorded as a financial account transaction in the same type of instrument as the underlying principal. For example, if a resident (e.g., nonfinancial corporation) of the compiling economy holds a bond issued by a nonresident company, and interest of 10 is accrued but not due for payment during a particular period, the following balance of payments entries should be recorded:

	Credit	Debit
Current account		
Primary income		
Investment income		
Portfolio investment		
Interest		
Long-term	10	
	Net acquisition of financial assets	Net incurrence of liabilities
Financial account		
Portfolio investment		
Debt securities		
Other sectors		
Nonfinancial corporations		
Long-term		10

¹²Detailed discussion on FISIM is presented in Appendix 3 of this Guide.

¹³For numerical examples on recording of accrued interest on loans see *External Debt Statistics: Guide for Compilers and Users*, Box 2.3.

13.65 When interest is actually paid—which, in the case of a security issued at a discount with no interest payments, will be when the security is redeemed—the offset to the payment that flows through the banking system should be recorded in the financial account as a reduction in investment in the instrument in which the offset to the accrued interest was recorded, rather than as investment income. Following the foregoing example, when the security matures and interest and principal are paid, the following balance of payments entries should be recorded:

	Net acquisition of financial assets	Net incurrence of liabilities
Financial account		
Portfolio investment		
Debt securities		
Other sectors		
Nonfinancial corporations		
Long-term	-10	
Other investment		
Currency and deposits		
Deposit-taking corporations		
Short-term	10	

13.66 Second, if interest accrued during a particular period is paid during that period, the offset to the accrued interest is simply a financial transaction through the banking system.

13.67 Third, if the interest accrued during a particular period is due for payment during that period but not actually paid (interest in arrears) the offset to the accrued interest should be recorded as a financial account transaction in the same type of instrument as the underlying principal. Balance of payments entries are similar to those presented earlier for the accrued interest.

13.68 Data on arrears are important in their own right, and thus should be presented as supplementary items, where significant, or memorandum items in the case of exceptional financing (see *BPM6*, Appendix 1).

13.69 For debt securities (portfolio investment) and other types of debt, accrued interest should be calculated in accordance with interest terms speci-

fied in the contract.¹⁴ For example, if a bond is issued at par and the contract specifies a fixed-interest rate of 10 percent each year, the accrued interest for each year should be calculated as 10 percent of the amount outstanding. On the other hand, if variable interest rates are applicable to debt, the prevailing rate appropriate to the debt instrument should be used to calculate accrued interest.

13.70 If the debt security has coupon payments, in both cases described earlier the result may differ depending on coupon interest payments made during the period. If coupon interest payments are higher than calculated accrued interest (i.e., the instrument was issued at a premium), the difference should be recorded as a withdrawal of investment in the underlying security in the financial account. If coupon interest payments are lower than accrued interest (i.e., the instrument was issued at a discount), the difference should be recorded as further investment in the underlying security.

13.71 It should be noted that, for debt securities, the valuation in the balance sheets and recording of purchases and sales in the financial account and positions do not depend on the method used for the calculation and recording of interest accrual. Acquisitions and disposals of debt securities are recorded at transaction prices, and the positions are recorded at market prices or fair values.

13.72 To obtain the information necessary for properly recording accrued interest on securities, the balance of payments compiler could approach creditors and debtors through enterprise surveys or a supplement to an ITRS.

13.73 The nature of an ITRS makes it more difficult to measure interest on an accrual basis than on a payment basis. Nonetheless, an ITRS can be used as a source for measuring investment income in the balance of payments because interest, in many cases, is paid in the periods in which it is accrued. The compiler need be concerned largely about collecting supplementary information for significant cases in which interest is not paid in the same period in which it is accrued (e.g., interest in arrears and interest on zero cou-

¹⁴Debtor approach. Box 11.2 of the *BPM6* gives an example of a zero-coupon bond.

Figure 13.1 Dates Associated with Dividends

Date declared	Ex-dividend date	Date payable	
	Shares go ex-dividend or start quoted ex-dividend	To the owner at date declared	
		If shares are sold, the buyer does not receive this dividend payment	
	Dividends are recorded		
		Other accounts receivable / payable	

pon and deep discounted bonds). Conversely, the use of yield analysis to derive estimates of investment income accords closely with the requirements of accrual accounting but is an approximation of the method preferred in the *BPM6* for recording interest. The compiler should be aware of situations in which prevailing interest rates are not relevant for the calculation of accrued interest—that is, in the case of fixed interest, nontradable debt—and should ensure that these are considered in the calculation of interest yields.

Dividends and Ex-dividend Date

13.74 For corporations, the distributed income is in the form of dividends. For quasi-corporations, the investment income is withdrawals from income of quasi-corporations, such as distributed branch profits, which are recorded when they actually take place.

13.75 Dividends represent a part of income that has been generated over a substantial period; sometimes they may be related to the company's profits in the previous period, and in other cases, they are only loosely related or not at all.

13.76 There are three dates associated with dividends:

- (1) The date they are declared
- (2) The ex-dividend date: this is the date when the declared dividend is excluded from the market price of shares. The holder of the security at the moment shares go ex-dividend is entitled to receive the dividend on the date payable
- (3) The date they are settled.

13.77 Dividends are recorded at the moment the shares go ex-dividend (date 2). Between the ex-dividend date and actual settlement (2 and 3), the amount pay-

able is recorded as other accounts receivable/payable (see Figure 13.1).¹⁵

Superdividends

13.78 As mentioned, dividends may be or may not be related to the company's profits in the previous period. For practical reasons, no attempt is made to align dividend payments with earnings, except when the dividends are disproportionately large. Superdividends are extraordinarily large dividends that are out of line with recent experience on the amount of income available for distribution to the owners of the corporation or quasi-corporation. They arise when the corporation declares payments disproportionately large relative to the recent past level of dividends and earnings. The superdividends can be identified by the following characteristics:

- (1) They are often paid out of the proceeds from sales of fixed assets, operating units, or liquidations.
- (2) The level of dividends declared is greatly in excess of previous dividends and trends in earnings (considering around the last five years).

13.79 The excess payment should be excluded from dividends and treated as a financial transaction, specifically as withdrawal of shareholders' equity from the corporation. Equally, liquidating dividends paid to shareholders should be recorded as a withdrawal of equity (see Example 13.2).

¹⁵According to *GFSM 2014*, in the unusual case where there is no ex-dividend date (which may occur when there is only a single shareholder in certain public corporations), dividends should be recorded at the time they are declared. This methodology may be also used in the international accounts.

Example 13.2 Calculation of Dividends

On March 4, a DIENT of the compiling economy declares a payment of dividends of US\$800. On June 26 its shares go ex-dividend, and on July 14 the company pays dividends. Knowing that the level of dividends paid in each of the last five years was US\$200, the following balance of payments entries should be recorded in the balance of payments of the DIENT's economy, assuming that the US\$800 is a material amount for that economy:

Balance of payments for quarter 1 (dividend declared payable to holders of record on June 26): No entries should be recorded.

Balance of payments for quarter 2
(shares go ex-dividend):

Balance of payments for quarter 3
(payments are made):

	Credit	Debit		Net acquisition of financial assets	Net incurrence of liabilities
Current account					
Primary income					
Investment income			Other investment		
Direct investment			Currency and deposits		
Income on equity and investment fund shares			Other sectors		
Dividends		200	Short term	-800	
			Other accounts payable—other		
			Other sectors		
			Short-term		-800
	Net acquisition of financial assets	Net incurrence of liabilities			
Financial account					
Direct investment					
Equity and investment fund shares					
Equity other than reinvestment of earnings					
Direct investor in direct investment enterprises		-600			
Other investment					
Other accounts payable—other ¹					
Other sectors					
Short-term		800			

¹Between the ex-dividend date and the payable date dividends and superdividends are recorded as other accounts receivable/payable—other.

Investment Income Attributable to Investment Fund Shareholders

13.80 Investment funds are collective investment undertakings through which investors pool funds for investment in financial or nonfinancial assets. Those units acquiring shares in the funds thus spread their risk across all the instruments in the fund. Investment funds provide a convenient, accessible, and affordable vehicle for financial investment. Typically, investment funds sell shares or units to the public and invest in a diversified portfolio of securities, although they

may also invest in other assets, including real estate, or they may be limited to a small number of investors. Investment fund shares have a particular role in financial intermediation as a collective investment in other assets, so they are identified separately.

13.81 Investment fund shares refer to the shares issued by mutual funds, rather than the shares the mutual fund may hold. Each share represents a proportional equity in the investment portfolio managed by investment funds.

13.82 Investment income attributed to holders of shares or units in investment funds includes the following:

- (1) Dividends distributed to investment fund shareholders
- (2) Reinvested earnings attributed to investment fund shareholders.

13.83 Dividends attributable to investment fund shareholders are recorded in exactly the same manner as dividends for individual corporations. Dividends are a form of investment income covering all distributions of profits by corporations to their shareholders or owners.

13.84 It is considered that the net earnings of investment funds after deducting the operating expenses belong to shareholders. When only a part of the net earnings is distributed as dividends, the part of retained earnings owned by nonresident shareholders should be treated as if they were distributed to them and then deemed reinvested.

13.85 Reinvested earnings are recorded using the same principles as those described earlier for foreign DI-ENTs; any undistributed earnings of an investment fund owned by nonresidents are shown as reinvested earnings in the primary income account and as reinvestment of earnings in the financial account. When nonresident shareholders own only part of the shares of the investment fund, the amount that is deemed to be remitted to, and reinvested by, the nonresident shareholders is proportional to the percent share of the equity owned.

13.86 Investment income attributable to nonresident owners of investment fund shares (both dividends and reinvested earnings) is usually recorded as portfolio income; nonresident shareholders' participation usually provides less than 10 percent of the voting power in the investment fund, but it may also arise in other functional categories—that is, direct investment, other investment, or reserve assets.

13.87 Investment funds could be DI-ENTs when a nonresident shareholder owns 10 percent or more of the voting power in the investment fund. In this case, dividends and reinvested earnings attributable to that shareholder should be recorded under direct investment income. As mentioned before, this heading refers to income attributed to the shares issued by mutual funds, rather than to income attributed to the shares the mutual fund may hold, except when investment funds invest in other investment funds. In this case, investment funds can be direct investors in other

investment funds, and investment income should also be recorded under direct investment income attributable to investment fund shareholders.

13.88 Investment income attributable to investment funds shareholders is recorded in other investment income when it cannot be classified in any other functional category (see *BPM6*, paragraph 11.106). This could be the case when funds are limited to certain investors (who are not direct investors), such as unincorporated funds, instead of being available to the public generally.

13.89 There may be considerable holding gains and losses on investment fund shares; indeed, the most frequent reason for acquiring these instruments is to benefit from the holding gains that arise from holding them. Investment income attributable to owners of investment funds excludes holding gains and losses arising from investment by the funds. Holding gains and losses are recorded in the other changes in financial assets and liabilities account.

Fees for Securities Lending without Cash Collateral

13.90 Securities lending without cash collateral consists of the delivery of securities by their owner (the securities lender) for a given period of time to another party (the securities borrower). In this circumstance, legal ownership of the securities is transferred to the borrower (and the borrowers can subsequently on-sell the securities outright to other entities), but the economic risks and rewards of ownership remain with the original owner, who remains susceptible to gains and losses from changes in prices of the securities.

13.91 The lender receives a fee from the borrower under the securities lending agreement that represents a return to the security lender for putting the securities at the disposal of the securities borrower. This securities lending fee received by the securities lender is, by convention, to be recorded as interest, under other accounts receivable/payable in *other investment income*, rather than in the category associated with the instrument to which this payment relates (see *BPM6*, paragraphs 5.73 and 11.68).

13.92 The economic owner of securities (securities lender) continues to record investment income on the securities (see *BPM6*, paragraph 11.69). If coupons or dividends are paid to the securities borrower, who then pays the securities lender, a rerouting from the securities borrower to the securities lender of these payments is recorded. In this way the payments are

recorded as transactions between the issuer of the securities and the securities lender. This maintains consistency between stocks and flows.

13.93 If the total payment by the securities borrower to the securities lender includes both the securities lending fee and the rerouted payments, and these two elements cannot be disaggregated in the manner described above, for practical reasons, the compiler may wish to record the total payment as interest in *other investment income*.

Other Primary Income

13.94 Other primary income is a residual category that includes primary income other than compensation of employees and investment income. This category includes the following:

- (1) Taxes on products and production
- (2) Subsidies on products and production
- (3) Rent.

13.95 Data sources available to collect other primary income are presented in Table 13.1.

Taxes and Subsidies on Products and Production

13.96 Taxes and subsidies on products and production are recorded separately in other primary income. This includes any payments of taxes on production payable by a resident to another government as well as any subsidy receivable by a resident from another government.

13.97 Taxes on products and production are included in the primary income account, while taxes on income and wealth are included in the secondary income account (e.g., taxes on capital gains and taxes on wages and salaries) (*BPM6*, paragraphs 11.92 and 12.28). A tax on products is a tax that is payable per unit of a good or service (e.g., value-added tax and import duties). These taxes may be added to the prices of the goods or services sold. Other taxes on production consist of all taxes except taxes on products that companies incur as a result of engaging in production (e.g., payroll taxes and business licenses).

13.98 For most economies, taxes and subsidies receivable from or payable to nonresident producers would be nonexistent or negligible. They arise if an international or regional organization levies its own taxes or pays subsidies. They may also arise when eco-

nomic activity by nonresidents (such as short-term construction or installation projects) is insufficient to constitute a branch.

13.99 The f.o.b. valuation for international accounts purposes means that export taxes are treated as payable by the exporter and that import duties and other taxes of the importing economy are payable by the importer; therefore these are resident-to-resident transactions and are not recorded in the international accounts. In some cases, an exporter of a good contractually agrees to pay import duties. In such cases, the duties are outside the scope of the primary distribution of income in the international accounts. This treatment is adopted because the duties arise from the process of importation, and so they are an obligation of the importer. They are, therefore, treated as payable by the importer, and so are resident-to-resident transactions. The amount of import duties paid by the exporter, therefore, is not included in the f.o.b. value of the goods. Similarly, if an importer agrees to pay export taxes, the tax is still an obligation of the exporter. The amount of the export tax paid by the importer, therefore, is included in the f.o.b. value of the goods and rerouted through the exporter.

13.100 In some circumstances, a duty or other tax may be imposed by the customs authorities without ownership being acquired by a resident of that economy. Examples may include goods to be processed, repaired, or stored, or for use by visitors. In such cases, when customs duties are payable by nonresidents, the duties are recorded as taxes on products in other primary income.

Rent

13.101 The income payable for the use of a natural resource is called rent. Natural resources include land, mineral rights, forestry rights, water, fishing rights, air space, and electromagnetic spectrum.

13.102 Rent covers income associated with the ownership of natural resources. Natural resources give rise to property income other than investment income. Rent may arise in cross border situations, but rarely, because all land is deemed to be owned by residents, if necessary by creating a notional resident unit. An example where rent may be recorded in the international accounts may be short-term fishing rights in territorial waters provided to foreign fishing fleets. It is also possible that other natural resources adjoining a border could be extracted from a base on the other side of the border, thus giving rise to rent. Another example of rent in the balance of payments is given in

Box 10.1, describing the treatment of production sharing agreements.

13.103 Payments and receipts by government of rent on land areas without buildings (such as embassies, consulates, military bases, representative offices with diplomatic status) that are used by other governments that rent them for diplomatic, military, or other purposes should be shown as rent. For rent on land and buildings see the section ahead.

13.104 Another component that is classified under rent is related to agreements in professional sports involving the sale of rights to use players. Under so-called loan agreements, a player is allowed to temporarily play for a club other than the one with whom the player is currently under contract. The fees paid under loan agreements should be recorded in property income as rent. More details on transfer of rights to use the sport players are presented in “Contract, leases, and licenses” in Chapter 15.

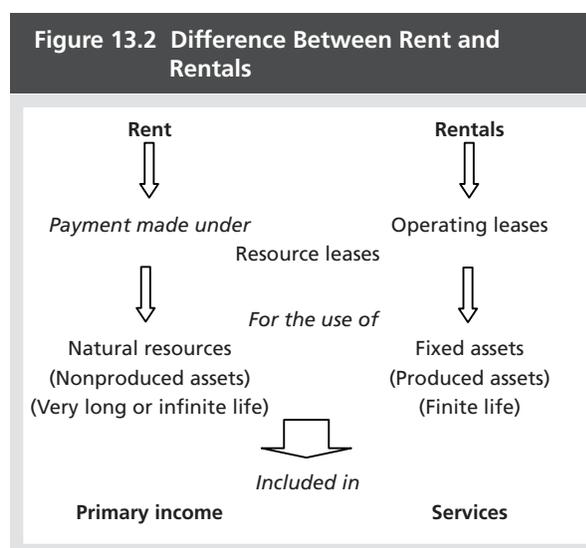
Rent and Rentals

13.105 The compiler should distinguish between rent and rentals. Rentals are payments made under an operating lease to use a fixed asset, such as buildings or equipment, belonging to a resident in another economy. Rent is a payment made under a resource lease for the use of a natural resource. Rent is considered property income and included in the primary income account while rentals are treated as sales or purchases of services.

13.106 An operating leasing is one in which the legal owner of a produced asset has the operating risks and rewards from ownership of the asset. It is the responsibility of the legal owner to provide any necessary repair and maintenance of the asset. Under an operating lease, the asset remains on the balance sheet of the lessor (owner) even though it is used by the lessee. The operating leasing gives rise to services and is recorded as technical, trade-related, and other business services

(if leased by a commercial entity), and as government goods and services n.i.e. (if leased by international organizations, embassies, and so forth). A resource lease is an agreement whereby the legal owner of a natural resource that has a very long or infinite life makes it available to a lessee in return for a regular payment, which is recorded as rent. The resource continues to be recorded on the balance sheet of the lessor (owner) even though it is used by the lessee.

13.107 The differences between rent and rentals are illustrated in Figure 13.2.



13.108 In practice, however, a single payment may cover both rent and rentals when an institutional unit rents land that consists of land in its natural state and buildings situated on it in a single contract, or lease, in which the two kinds of payments are not differentiated from each other. The allocation of the payment between rent and rentals when there is no objective method of splitting it is done in the favor of component with the highest value. (See also “Operating Leasing” in Chapter 12.)

14

Secondary Income

14.1 The transactions recorded in the secondary income account pertain to those current transfers between residents and nonresidents that directly affect the level of gross national disposable income and thus influence the economy's ability to consume goods and services.

14.2 From an accounting point of view, the entry made in the secondary income account balances the economic value in kind or in cash recorded in the goods, services, or financial account provided to or received from a nonresident company without quid pro quo.

14.3 Transfers should be distinguished as current or capital. Capital transfers, which are part of the balance of payments capital account, are discussed in Chapter 15. Current transfers are all transfers that are not capital (see *BPM6*, paragraphs 12.13–12.15).

14.4 In the balance of payments, the current transfers are classified as those involving the compiling economy's general government and those involving

other (domestic) sectors. The latter are further split into personal transfers (transfers between resident and nonresident households) and other current transfers.

14.5 Table 14.1 summarizes sources and methods that could be used to compile the specific types of current transfers described in more detail ahead.

Data Sources and Methods International Transactions Reporting System (ITRS)

14.6 An ITRS can serve as a cost-efficient and comprehensive data source to capture cash transactions throughout the whole balance of payments. However, supplementary collection of information apart from ITRS is necessary to capture all noncash transactions, as well as other complex transactions that are not channeled through the banking sector. For instance, certain technical assistance activities involving technical assistance personnel are often funded directly by

Table 14.1 Compilation of Secondary Income Items

Description	Source and method of compilation
General government	
Current international cooperation:	
Technical assistance	For the donor economy (debits), data should be available from official records from the donor company within the government sector responsible for coordinating technical assistance. For the recipient economy (credits), information should be available from official records of the recipient company within the government sector responsible for coordinating external aid, from donors records, or from partner economy data. Project data should provide the breakdown of the project costs into the relevant components (see main text and examples). Costs incurred in the donors economy should be included in the value of technical assistance. Data on the cash component could be available from an ITRS. Data could also be available from partner economy records.
Budgetary grants	For both recipient and donor economies, data should be available from official budget records or from an ITRS. Care should be taken to ensure that investment grants are recorded, in the capital account, as capital transfers rather than as current transfers. Data could also be available from partner economy records.

Table 14.1 Compilation of Secondary Income Items (*concluded*)

Description	Source and method of compilation
Contributions (membership fees) payable to international organizations and transfers by the international organizations to governments (as a matter of policy)	Data should be available from official budget records or from the responsible agency, such as the ministry of external affairs.
Taxes on income, wealth, and other taxes including fines, penalties, fees (that are taxes and not a payment for a service), etc. (credits only)	Data should be available from official sources, such as tax records (in the case of taxes on income and wealth), and records of other relevant government agencies (in the case of fees, fines, etc.).
Social contributions payable by nonresidents (credits only)	Data should be available from official budget records, from the responsible agency (such as the ministry of social security), including social contributions paid by both employers and employees.
Social benefits—for example, pension and nonpension benefits payable to nonresidents (debits only)	Data should be available from official budget records, from the responsible agency (such as the ministry of social security), or from an ITRS.
Scholarships for education (debits only)	Data should be available from official budget records or from the responsible agency, such as the ministry of education. It is important that the counterpart to this transfer be recorded in the travel credits item if the scholarship relates to study in the donor economy.
Other miscellaneous current transfers of general government	Data could be available from official records or, for cash transfers, from an ITRS.
Other sectors	
Personal transfers (including workers' remittances)	Data could be available from an ITRS, surveys of money transfer operators, employers and recruitment organizations, or household surveys (such as income and expenditure surveys). Data could also be available from partner economy records.
Other current transfers:	
Taxes on income, wealth, etc. (debits only)	Data could be available from an ITRS or from enterprise surveys. Care should be taken that these transactions are recorded as transfers and not netted against other related transactions, such as income payments.
Social contributions, social benefits	Data could be available from an ITRS, from the records of a local payments agent (if such an agent exists), from surveys of households, or from partner economy information.
Net premiums and claims on nonlife insurance, life insurance, and reinsurance	An ITRS or enterprise surveys could be used to obtain underlying data on premiums and claims; such data could be used to calculate these entries. However, as explained in Appendix 2, the compiler must manipulate these data to derive estimates of transfers associated with nonlife insurance and reinsurance.
Current international cooperation	Data on transactions of fiscal entities could be collected from the government administrative records (in economy of residence of government) or through enterprise surveys (in economy of residence of fiscal entity). Data could also be available from partner economy records.
Scholarships for education	Data could come from the local agency responsible for distributing the grants (if such an agency exists), from scholarship foundations, education institutions, or from partner economy records. It is important that the offset to the transfer be recorded in the travel debits item if the scholarship relates to study outside the recipient economy.
Other miscellaneous current transfers	Data could come from an ITRS or from surveys of enterprises and households.

Source: IMF staff.

donor governments and other nonresident companies and cannot be captured through the ITRS. Also, when using ITRS for personal transfers in cash between households, the compiler needs to be cautious in order to distinguish properly personal transfers from transactions that satisfy other purposes, such as saving, investment, or making private gifts in the form of grants (see Table 14.2). Regarding social contributions paid to nonresident pension funds, data from an ITRS can capture only the compensation of employees net of contributions.

Other Data Sources

14.7 Surveys of domestic insurance companies and pension funds are possible data sources that enable the compiler to capture information on a conceptually sound basis, including information necessary for imputing cross border insurance components, and adjusting for accrual accounting.

14.8 The same comprehensive approach will not be feasible when companies are nonresident to the compiler's economy. In that case, and for other items—in the absence of data—estimates may be developed via data models by using ratios and secondary data sources, such as partner economy data.

14.9 Official data sources, such as government accounts, could be used to measure current international cooperation, taxes on income and wealth, or social security transactions.

Personal Transfers

14.10 Personal transfers consist of all *current* transfers in cash or in kind made or received by resident households to or from nonresident households. They often consist of regular transfers in cash or in kind between members of the same families that are resident in different economies, when family members with the intent to work abroad for a year or longer send home resources to support their relatives.

14.11 Personal transfers include workers' remittances, but are not confined to transfers within families and income from employment (see *BPM6*, paragraph 12.21). For economies with diasporas abroad, personal transfers constitute an important source of income, sometimes even exceeding receipts from exporting goods and services.

14.12 Several institutions are involved in providing international remittances services to households: (1) international money transfer operators (MTO) licensed to provide cross border money-transferring services; (2) commercial banks; and (3) in some cases government-owned companies, which are allowed to engage in remittance services through their branches overseas.

14.13 Not all transactions channeled through MTOs or commercial banks from individuals and households abroad, and between households, represent personal transfers. The compiler needs to distinguish personal transfers from transactions that satisfy other purposes, such as transferring funds between accounts for saving (pure financial account transaction), putting up housing units (real estate), or making private gifts in the form of grants (which may be capital transfers). Importers may sometimes use MTOs to pay for their goods.

International Transactions in Remittances

14.14 The international concept of "remittances" is broader than that of personal transfers, as it also encompasses the net income generated by short-term workers abroad—that is, compensation of employees; however, it is measured net of the expenses incurred abroad for travel, transport, taxes, and social contributions. Three main measures of remittances are (1) personal remittances; (2) total remittances; and (3) total remittances and transfers to NPISHs (see *BPM6*, Appendix 5).

14.15 The high international interest in analyzing remittances data and their impact on economic development led to the publication of the *2009 International Transaction in Remittances: Guide for Compilers and Users*.¹ It summarizes the definitions and concepts related to remittances in the balance of payments framework, and it includes guidance on data sources and compilation, as well as several case studies of economies.

14.16 The remittances categories are included as supplementary items in the balance of payments statement; they are cumulative measures that are

¹It can be downloaded from the IMF Website at <http://www.imf.org/external/np/sta/bop/remitt.htm>.

Table 14.2 Borderline Cases for Account-to-Account Transfers

Examples	Classification in the balance of payments of the reporting economy A
Individual employed short-term in economy B transfers most of his salary to his account in home economy A; he spends the residual part for accommodation, transport, and food in economy B.	Primary income—compensation of employees—credit (the gross amount of his salary); services—travel—debit (the amount spent in economy B)
Individual employed long-term in economy B transfers part of his salary to his mothers account in economy A.	Secondary income account—personal transfers— <i>workers' remittances</i> —credit (the amount transferred to his mothers account)
Individual employed long-term in economy B transfers part of his salary and income revenue to his account in home economy (economy A), to which his fiancée has access directly or through an ATM.	Secondary income account—personal transfers— <i>workers' remittances</i> —credit (the amount transferred to his account); recorded when transfer takes place as opposed to when fiancée withdraws funds from the account
Individual employed long-term in economy B transfers funds to his savings account in home economy (economy A).	Financial account—other investment—currency and deposits—net incurrence of liabilities [increase] (the amount transferred to the savings account)
Individual employed long-term in economy B transfers funds to economy A and acquires real estate.	Financial account—direct investment—liabilities—equity and investment fund shares—net incurrence of liabilities [increase] (the amount transferred to economy A)
Individual employed long-term in economy B transfers funds to the account of his brother in economy A for buying real estate for the brothers family.	Capital account—capital transfers (<i>of which: between households</i>)—credit (the amount transferred to economy A)
Individual resident of economy A is attending a two-year masters program at a university in economy B, where he regularly receives financial support from his family resident in economy A.	Services account—travel (<i>personal travel—education—related</i>)—debit (the amount transferred by the family and any additional amounts spent by the student in the economy of study)

Source: IMF staff.

compiled by combining components that are included/identified in different standard components of the balance of payments. For instance, personal remittances are compiled by adding to two standard components—personal transfers and compensation of employees net of taxes, social contributions, and other expenses made by the short-term workers in host economies—the capital transfers between households. Or total remittances are calculated by adding to personal remittances the amount of social benefits received by resident households / paid to nonresident households.

14.17 Data sources for collecting data on components used in compiling remittances measures are described in chapters or paragraphs that cover the standard balance of payments components to which they pertain (e.g., see travel for expenses in host economy, other current transfers for social contributions, social benefits, and taxes; and capital transfers for capital transfers between households).

Other Current Transfers

Taxes on Income, Wealth, and So Forth

14.18 Cross border current taxes on income, wealth, and so forth consist mainly of taxes on incomes, capital gains, and financial transactions (*BPM6*, paragraph 12.28). In principle, taxes on income are deducted at the source and should be attributed to the period in which the income is earned. In practice, however, taxes may sometimes be recorded in the periods in which they are paid; some flexibility may be needed because the liability to pay income taxes can be determined only in a later accounting period than that in which the income accrues.

14.19 For taxes receivable on employment income, the local or national government usually withholds part of the employee's compensation based on the employee's estimated tax liability (withholding tax); only the net compensation is paid to the employee

abroad.² The compiler should keep in mind that the compensation of employees should be recorded on a gross basis, including taxes on income. Although the tax payment to the local government is paid by a domestic employer, it does not constitute a domestic transaction; the compiler needs to include the income tax receivable in the employee's gross compensation and regard the tax as being paid by the nonresident employee (see *BPM6*, paragraph 11.23). Tax refunds from the government where the employee is working abroad to the nonresident employees are deducted from taxes received—that is, as negative taxes (see *BPM6*, paragraph 12.28). Withholding taxes on interest and dividends are often calculated by the compiler as a fixed percentage of gross transactions.

14.20 Many economies have joined multilateral taxation arrangements. According to these arrangements, employees may either pay taxes in their economy of residence and are exempted from income taxes in the economy of employment, or the taxation is deducted at the source, and thus employees are exempted from taxation by the government of their economy of residence.

14.21 In any case, the compiler may approach tax authorities to request aggregate information on tax records and on any existing withholding tax arrangements with third economies in order to make the necessary adjustments to compensation of employees and corresponding taxes in the secondary income account. The compiler needs to increase the net amounts for compensation of employees reported in the ITRS by the percentages that relate to income tax withheld by the host economy's government; or use the information from government entities on numbers of cross border employees, short-term workers, and local staff hired by foreign embassies, international organizations, and nonresident donor governments, to estimate average income and average tax rates thereon. Economies with tax arrangements may agree to exchange information in order to pursue tax evasion, and such information may be useful in compiling the balance of payments accounts.

14.22 Alternatively to collecting data directly from tax authorities, the compiler could estimate taxes by

applying implicit tax rates to compensation of employees and make adjustments for tax refunds from the government to the nonresident employee.

Example 14.1 Taxes on income and wealth

Mr. A is a resident of economy A and lives at the border of economy B. He works at company B in economy B, and earns US\$3,000 net after tax. The governments of economy A and B concluded a bilateral taxation agreement based on which nonresident employees pay 10 percent taxes on their taxable income earned in the host economy. The compiler needs to increase the net earnings (US\$3,000) that constitute 90 percent of total earnings to arrive at the gross income (US\$3,333), and reroute the 10 percent tax payment payable (US\$333) to government B through Mr. A's employment compensation. The following entries would appear in the balance of payments of economy A:

	Credit	Debit
Current account		
Primary income		
Compensation of employees	3,333	
Secondary income		
Financial corporations, nonfinancial corporations, households, and NPISHs		
Other current transfers		333
Current taxes on income, wealth, etc.		333
	Net acquisition of financial assets	Net incurrence of liabilities
Financial account		
Other investment		
Currency and deposits		
Deposit-taking corporations, except the central bank	3,000	

14.23 Conceptually, the compiler needs to also make the distinction between taxes levied and fees charged by government entities in return for services provided to nonresidents. The distinction is made

²Only taxes payable by nonresident workers in the reporting economy are recorded in the balance of payments.

based on the amount of work involved on the part of government—for example, whether there is any regulatory function exercised; this is not always clear cut in practice. But as a convention, amounts payable by households for licenses to own or use vehicles, boats, or aircraft, as well as licenses for recreational hunting or fishing, are treated as taxes, whereas amounts payable by households for all other kinds of licenses, permits, certificates, passports, and so forth are treated as purchases of services (see *BPM6*, paragraphs 10.180–10.181 and 12.30).

Social Contributions and Social Benefits

14.24 Estimations for pension transactions are relevant for economies with high percentages of border workers and guest workers in the domestic economy or abroad, and for economies with international organizations that employ a significant number of residents of the compiling economy.

14.25 Social contributions to and benefits from pension funds are recorded in the secondary income account. The *2008 SNA* and *BPM6* distinguish between social security schemes and employment-related schemes other than social security, partly based on the provider of the social insurance or pension. The part provided by general government is called social security (assuming it provides social benefits to members of the community as a whole, or of particular sections of the community), and the part provided by employers is called employment-related schemes other than social security (see *2008 SNA*, paragraph 17.118).

14.26 Employment-related schemes other than social security are further classified as defined benefit or defined contribution schemes according to how the benefits are determined—that is, by who is bearing the risk of the scheme to provide an adequate income in retirement (see *BPM6*, paragraph 7.65). Conceptually, these two schemes trigger transactions in accounts similar to the ones in insurance accounting (see Appendix 2, “Insurance Transactions and Positions”)—namely, the derivation of an output of the pension fund is recorded in the services account; the net³ contributions made to the pension fund are recorded in the secondary income account, as well as the benefits received; the change in pension

entitlements due to transactions is recorded in the financial account; and the investment income earned on existing entitlements is recorded in the primary income account. However, the different features with regard to the benefits payable upon retirement result in differences in the accounting concepts of these pension schemes and, consequently, in how the compiler will have to design the reporting forms to obtain the relevant information.

14.27 Appendix 2 provides an overview of the characteristics of accounting in both schemes, followed by how the pension fund accounting data need to be manipulated in order to derive balance of payments and IIP components according to the *BPM6*. The underlying methodology is explained by using numerical examples.

14.28 The Social security schemes part of Appendix 2 presents a short description of social security systems. Accounting for social security funds is less complex, because current workers’ contributions are used by the government company operating the scheme to pay out current benefits.

14.29 Information on cross border workers or “resident aliens” can be sought from government agencies issuing work permits and visas, or from tax authorities. The latter may also be relevant for pension benefits paid to or received for retirees as they may be subject to domestic taxation, or double tax treaties. Pension funds should likely be able to provide either aggregate information on actual contributions received from the respective companies on behalf of their nonresident employees, or on average contribution rates relative to gross wages; information should also be available on the benefits that are being paid to retirees abroad. Through surveying domestic pension funds, the compiler is able to request information on a conceptually correct basis as explained in Appendix 2. In general, the compiler will need to inquire about the pension plans’ breakdown into its cross border components. Model form 13 in Appendix 8 is an example of a pension fund survey form.

14.30 In case of social benefits received by retirees from nonresident pension funds, the collection of data could be more difficult considering that the nonresident providers of benefits are not available for survey in economy of residence of retirees. An ITRS could capture the benefits received if the amounts are transferred through the banking system. Pensions from

³“Net” implies that the service charge has been deducted; see Appendix 2 for further details.

abroad could also be transferred through the postal service, specifically in economies with bilateral postal agreements. If the postal administration is reporting data on cross border transactions for the balance of payments purpose, the compiler should request the identification in the reported data of transactions related to pensions. In case the postal administration does not report such data, the compiler should consider establishing the collection of data from the postal administration, including on transfers of pensions. Also, the household survey could provide valuable inputs for estimating the benefits received from abroad by retired household members.

14.31 Data from an ITRS will be on a cash basis and capture only the compensation of employees net of contributions. For residents paying contributions to defined benefit pension funds abroad, the net salary received on the domestic bank account would serve as a basis for estimating both the employee and employer contributions; information on average contribution rates for employees and for employers could be used for this purpose. Secondly, a small percentage thereof should be derived as pension service payable to pension funds abroad. The ITRS provides information on economies to and from which salaries and wages are paid/received. The compiler could contact the authorities in these economies respectively, to obtain appropriate ratios for their contribution rates and services estimates.

Net Nonlife Insurance Premiums and Claims and Calls under Standardized Guarantees

14.32 Nonlife insurance premiums⁴ and nonlife insurance claims are recorded in the secondary income account. The chief function of nonlife insurers lies in the proper redistribution of premiums earned and other income to individuals of homogeneous groups that have incurred losses. Furthermore, funds at the disposal of the insurance unit, called (nonlife) insurance technical reserves, are invested in financial and other assets to generate income. The insurance technical reserves and the corresponding income from their investment, called premium supplements, are assets of the policyholders and liabilities of the insurance companies.

14.33 The *BPM6* is based on and in strong accordance with the accounting terminologies that insurance companies use to set up their accounts. Nevertheless, the compiler needs to make certain adjustments before data can be used to derive relevant balance of payments entries according to the *BPM6*. These adjustments are necessary, for instance, to determine and differentiate the amounts of premiums related to direct business with policyholders, and the amounts related to reinsurance (see Appendix 2, “Insurance Transactions and Positions”).

14.34 There are differences between nonlife and life policies leading to different types of entries in the international accounts. For life insurance, the prebenefits period generally extends throughout the entire life of the contract and there is little or no uncertainty about the payment. The payments made over the years are regarded as a financial investment (or saving), which will be returned to the policyholder in later years. Thus the recording of premiums (net of services) and benefits is made in the financial account.

14.35 The compiler can obtain most comprehensive data for exports of insurance services from surveying resident insurance companies. To enable an appropriate coverage of the domestic insurance sector, a survey frame should be available, including a list of insurance companies, which may be provided by the authority issuing the licenses for insurance business. Through surveying domestic insurance companies, the compiler is able to request information on a conceptually correct basis—that is, premiums earned and claims due—as well as insurance technical reserves and the income earned on those reserves.

14.36 Resident insurance companies should report details of premiums and claims in respect of business obtained from abroad and in respect of international reinsurance flows. In addition, these companies may be asked to report details of premiums and claims in respect of insurance written by them on imports. Insurance terms may differ due to different accounting practices that are being applied in worldwide insurance accounting.

14.37 For estimating the import of insurance services (debit), the compiler could apply the ratio of domestic service charge on premiums to premiums paid to nonresident insurance companies.

⁴Insurance premiums are recorded net of the service charge; see Appendix 2 for further details.

Current International Cooperation

Forms of technical assistance and their data source

14.38 Current international cooperation consists of current transfers in cash or in kind between the governments of different economies or between governments and international organizations (see *BPM6*, paragraph 12.47). External aid provided by governments through a nonresident entity created to undertake fiscal functions is also considered to be current international cooperation (see *BPM6*, paragraphs 12.48). These can include cash transfers for the purpose of financing current expenditures by the recipient government, or shipped aid items like food and medication. Especially for cash transfers, the compiler needs information from the government on the purpose of the cash grants provided to or received from abroad in order to distinguish current from capital transfers.

14.39 Capital transfers are transfers in which the ownership of an asset⁵ changes from one party to another; or that oblige one or both parties to acquire or dispose of an asset; or where a liability is forgiven by the creditor. Cash transfers involving disposals of noncash assets (other than inventories) or acquisition of noncash assets (other than inventories) are also capital transfers (see *BPM6*, paragraph 12.13). Some information may be readily available on individual projects that are being monitored and supervised by government entities such as the Ministry of Finance or the Ministry for Development.

14.40 Current transfers related to transactions of fiscal companies owned or controlled by the general government that are residents of another territory occur if the fiscal company provides borrowed funds to a third party (not to the general government that established or controls it). In this case, a current or capital transfer between the government and the fiscal company is imputed with an offset entry in the reduction of government's equity in the fiscal company (see *BPM6*, paragraphs 8.24–8.25). Data on transactions of fiscal companies could be collected from the government administrative records (in economy of residence of government) or through enterprise surveys (in economy of residence of fiscal company).

⁵ Assets in this paragraph generally refer to fixed assets and other assets that are capital in nature (see *BPM6*, paragraph 12.13).

14.41 The valuation of technical assistance should be done distinguishing between assistance in kind and those in cash. The value of the assistance in kind includes (1) the value of goods and services themselves (it will be the market value if acquired from market producers or the cost value if produced by the delivery agency), and (2) the associated costs that could be identified in relation to the delivery of related goods and services.⁶

14.42 Regarding the assistance in cash (financial assets), their value should reflect the transfer value; it is difficult to distinguish administrative costs directly related to the cash transfer. For practical reasons, the administrative costs are excluded from the cash assistance, even if it creates an inconsistency with the valuation of assistance in kind.

14.43 For aid in kind the customs authorities generally can provide information on the recipient sector (government or nongovernmental organization), as well as on the purpose (e.g., emergency aid, material for construction), as these goods are exempted from taxes and duties. This information should be cross-checked with project data from government entities. In some cases, depending on the funding arrangements with donors, goods can be imported within the context of a technical assistance project, but the funds to pay for the goods may have been separately provided by the donors to the government's accounts. In other words, those goods methodologically constitute a regular import paid with donor money (see Example 14.3).

Technical assistance

14.44 Technical assistance in the form of staffed missions sent to economies for undertaking project work is another form of international cooperation that needs to be captured in the balance of payments accounts. Such projects include a number of components that are relevant for the balance of payments. The total cost of projects should be registered as a transfer as a counter-entry for transactions that reflect the goods, services, or funds provided by the donor within the technical assistance project. The costs include administrative expenses incurred in the donor economy, costs incurred in the recipient economy (e.g., for transport, administrative arrangements), and the salaries paid to short-term technical assistance personnel as well as long-term person-

⁶See 2008 SNA, paragraph 22.101.

nel and local staff. Furthermore, while on mission in the recipient economy, staff spend part of their salaries⁷ for accommodation and for consumption; long-term staff also often transfer part of their salary to their home economies (see examples ahead).

14.45 Technical assistance activities of such kind cannot be captured through ITRS data except for the cases when funds within the technical assistance project are transferred to the government or to the project implementation units' accounts established in recipient economy. As is often the case, donor governments transfer funds directly to the accounts of the contractors, who in turn send personnel to the recipient economies. Compensation of employees' receivable for staff hired in the context of technical assistance is recorded in the balance of payments if it concerns local staff or other residents in the recipient economy that are being employed or paid for directly by the donor government or international organizations. If, on the other hand, the staff is resident in the recipient economy and considered employed by the recipient authorities, but paid through funds of the donor government, a current transfer receivable is recorded in the recipient economy's balance of payments, whereas the compensation of employees is recorded only in the domestic accounts. Should the recipient authorities, however, hire short-term technical assistance staff

⁷The salaries are often transferred to local bank accounts (increase in liabilities of the local commercial bank vis-à-vis the nonresident staff, and at the same time increase in banks' foreign currency assets).

themselves (for instance, from third economies), this would again incur compensation of employees debits.

14.46 Data source for the noncash transfers within the technical assistance projects is the donor or recipient company within the government sector responsible for coordinating external aid. Project data should provide the breakdown of the project costs into the relevant components (see examples ahead). Travel expenditures of short-term staff can be approximated by using ratios applied on salaries. The cash component of the projects could be captured through an ITRS or through the same companies as for noncash transfers.

14.47 For valuing certain services provided in kind, such as health-related or emergency relief-related services, which are provided pro bono or at a salary that significantly understates the value of the service provided, the compiler needs to approximate the value of these services with prices that would have been paid if the services were sold in the market (see *BPM6*, paragraph 3.72).

Examples of Technical Assistance Reporting in the Balance of Payments

14.48 The following examples differentiate the way technical assistance is funded, and by whom technical assistance personnel are employed. Example 14.2, 14.3, and 14.4 explain the balance of payments entries from the viewpoint of the recipient economy; Example 14.5 switches to the recordings in the balance of payments of the donor economy. Appendix 8 provides model forms for official sources (e.g., ministries).

Example 14.2 Technical assistance personnel employed by donors

In this example, technical assistance is funded through the representative office of an international organization¹ or a foreign donor government. The personnel are employed by the international organization/donor government, which transfers the salaries to a local bank account. The overall project in this example comprises consulting services for government accounting, cash grants to finance current expenditures, and the shipping of donated office supplies.

From the government entity in the recipient economy, the compiler is able to obtain the following breakdown of the project costs during the accounting period:

Total cost of technical assistance for providing consulting² services: 155

of which:

Salaries paid to short-term³ technical assistance personnel: 70

Salaries paid to long-term⁴ technical assistance personnel, or locals: 35

Administrative costs incurred in donor economy: 5

Other expenses in recipient economy with regard to consulting services: 45

Example 14.2 Technical assistance personnel employed by donors (concluded)

Additionally, donors agreed to provide the following aid:

Cash grants paid by donors to finance other current expenditures: 200

Office supplies shipped from donor economy: worth 100

Short-term staff are assumed to spend a portion of their salaries for accommodation and consumption in the recipient economy while on duty. The compiler should try to estimate an average ratio for travel expenses to salaries, and preferably base it on a small and recurring sample of short-term technical assistance personnel in the economy. Information could also be obtained from payments made by nonresidents from their local bank accounts or by credit cards. Long-term staff might transfer a proportion of their salary to bank accounts in their home economies. This could be captured from the ITRS. The compiler needs to distinguish personal transfers from transactions that satisfy other purposes, such as transferring funds between accounts for saving (pure financial account transaction), acquiring housing units (real estate), or making private gifts in the form of grants (capital transfers).

The total technical assistance project costs (155) are recorded as an import of consulting services counterbalanced by a transfer receivable under current international cooperation in the secondary income account. During the period, expenses (45) for other business services are incurred by the donors in connection with the project and paid with foreign currency to the local banks. The salaries for short-term (70), and long-term and local (35) personnel are transferred from abroad in foreign currency to the local banks, where staff have local bank accounts. Local bank accounts of short-term staff are external liabilities of the local banking sector (70). The assumed ratio of travel expenses that short-term staff incur during duty is about 30 percent of their average salary. Expenses that short-term staff have for food and accommodation (21) are paid from their accounts. Long-term staff are assumed to have transferred part (15) of their compensation of employees receivable to their bank accounts abroad. The additional cash grant for other current expenditures (200) is transferred by the donor to the local central bank.

The following entries should be recorded in the balance of payments of the recipient economy:

	Credit	Debit		Net acquisition of financial assets	Net incurrence of liabilities
Current account					
Goods		100			
Services			Financial account		
Travel			Other investment		
Business	21		Currency and deposits		
Other business			Deposit-taking	+70	+70
services	45	155	corporations, except	+35	-21
Professional and			the central bank	+45	
management				-15	
consulting services			Other sectors		
Primary income			Nonfinancial	+15	
Compensation of	35		corporations,		
employees			households and		
Secondary income			NPISHs		
General government			Reserve assets		
Current	155+100+200		Other reserve assets		
international			Currency and deposits	+200	
corporation					

¹Branches of international organizations are considered nonresidents.

²Technical assistance covers a wide range of different services, and should be classified according to the nature of services (BPM6, Box 10.6).

³Short-term refers to personnel that remain in the recipient economy for less than one year.

⁴Long-term refers to personnel that remain in the recipient economy for one year or longer.

Example 14.3 Technical assistance personnel employed by recipient government

In this example, technical assistance is funded by an international organization or a foreign donor government; however, the local recipient government receives the funds in full and uses them to cover the salaries of the long-term and short-term technical assistance personnel, as well as all other expenses, including imports from third economies.

From the government entity in the recipient economy, the compiler is able to obtain the following breakdown of the funds received for covering the project costs:

Cash grants received to finance current expenditures: 450

of which:

To pay salaries to short-term technical assistance personnel: 70

To pay salaries to long-term technical assistance personnel, or locals: 35

To pay for other expenses in recipient economy with regard to consulting project: 45

To pay for imports of office supplies: 100

Resident-to-resident transactions of the recipient of the grant: 200.

The total cash grant (450) is recorded as transfer receivable under current international cooperation in the secondary income account and as foreign currency received in the central bank reserve assets. The recipient government transfers salaries to the local bank accounts of the short-term personnel (70). Local bank accounts of short-term staff are external liabilities of the local banking sector (70). The assumed ratio of travel expenses short-term staff incur during duty is again about 30 percent of their average salary. Expenses that short-term staff have for food and accommodation (21) are paid from their accounts. Long-term staff are assumed to have transferred part (15) of their compensation of employees to support their relatives abroad, which is recorded as personal transfers in the secondary income account. The office supplies (100) are imported by the recipient government and paid from the grant funds.

The following entries should be recorded in the balance of payments of the recipient economy:

	Credit	Debit		Net acquisition of financial assets	Net incurrence of liabilities
Current account					
Goods		100			
Services			Financial account		
Travel			Other investment		
Business	21		Currency and deposits		
Primary income			Deposit-taking	-15	+70
Compensation of		70	corporations, except		-21
employees			the central bank		
Secondary income			Reserve assets		
General government			Other reserve assets		
<i>Current international</i>	450		Currency and	450	
<i>corporation</i>			deposits	-100	
Financial corporations, nonfinancial corporations, households, and NPISHs					
<i>Personal transfers</i>		15			

Example 14.4 Grants and donations sent to local NPISHs in the recipient economy

In this example, local nonprofit institutions serving households (NPISHs) (called nongovernmental organizations) receive from their headquarters abroad collected donations for consumption (e.g., paper, office supplies) and cash grants to finance teachers' salaries in the current period.

From the customs authorities and the banking data, the compiler is able to obtain the following breakdown of donations received during the accounting period:

Donations received to finance current teachers' salaries: 200

Paper and office supplies received to equip schools: 140

The following entries should be recorded in the balance of payments of the recipient economy:

	Credit	Debit		Net acquisition of financial assets	Net incurrence of liabilities
Current account					
Goods		140			
Secondary income			Financial account		
Financial corporations, nonfinancial corporations, households, and NPISHs			Other investment		
Other current transfers			Currency and deposits		
Miscellaneous current transfers			Deposit-taking corporations, except the central bank	+200	
<i>Of which: Current transfers to NPISHs</i>	<i>140 200</i>				

Example 14.5 Long-term technical assistance missions financed by the donor government (from the perspective of the donor economy)

If all technical assistance personnel are resident in the recipient economies and receive salaries from the donor government: from the government entity in the donor economy, the compiler is able to obtain the following information on sponsored technical assistance missions to recipient economies.

Total cost of technical assistance missions: 185

Of which:

Salaries paid to long-term technical assistance personnel: 50

Salaries paid to locals: 40

Administrative costs incurred in the donor's own economy: 10

Salaries paid to short-term technical assistance personnel—residents of donor's economy: 85

In this example, a breakdown of the services provided to beneficiary economies abroad is not available. The compiler in the donor economy, therefore, classifies the technical assistance as government services.

Example 14.5 Long-term technical assistance missions financed by the donor government (from the perspective of the donor economy) (concluded)

	Credit	Debit		Net acquisition of financial assets	Net incurrence of liabilities
Current account					
Services					
Government goods and services n.i.e.	185		Financial account		
Primary income			Reserve assets		
Compensation of employees		50	Other reserve assets		
Secondary income		40	Currency and deposits	-50	
General government				-40	
<i>Current international corporation</i>		185			

Miscellaneous current transfers

14.49 NPISHs have a center of predominant economic interest in the economy in which they were legally created, and are often financed largely or entirely by current or capital transfers from abroad to support their functions as charity, relief, or aid organizations (see *BPM6*, paragraph 4.101). Aid in cash from NPISHs headquarters institutions and other donors may be captured through ITRS, if available, or through undertaking

surveys of NPISHs. Central registers for NPISHs can be a good initial source for defining a valid sample. Aid in kind could be captured through customs data; data on the recipient sector as well as the purpose may be also available in customs data. Furthermore, administrative data from government agencies responsible for handling international disaster and other relief efforts can also be a good source for identifying and compiling current and capital transfers by NPISHs.



15

The Capital Account

Introduction

15.1 The capital account shows capital transfers receivable and payable between residents and non-residents, 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 Arrangements¹

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.

¹This 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 criteria 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.

¹See 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 changes 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 Capital account—capital transfer—other capital transfers (C)	Net incurrence of liabilities Appropriate financial account debt entry (C) [increase]	Credit Capital account—capital transfer—other capital transfers (A)
		Other change in financial assets and liabilities account (IIP) Debt liability (C) [decrease]	Net acquisition of financial assets Appropriate financial account debt entry (A) [increase]
Original debtor exists, no claim from debt assumer on original debtor (case b)	Debit Capital account—capital transfer (B)	Net incurrence of liabilities Appropriate financial account debt entry (C) [increase]	Net acquisition of financial assets Appropriate financial account debt entry (A) [increase] Appropriate financial account debt entry (B) [decrease]
		Credit Capital account—capital transfer (A)	Net incurrence of liabilities Appropriate financial account debt entry (C) [decrease]
Original debtor exists, reduced claim from debt assumer on original debtor (case b)	Debit Capital account—capital transfer ¹ (B)	Net incurrence of liabilities Appropriate financial account debt entry ² (C) [increase]	Net acquisition of financial assets Appropriate financial account debt entry ² (A) [increase] Appropriate financial account debt entry (B) [decrease]
		Credit Capital account—capital transfer ¹ (A)	Net incurrence of liabilities Appropriate financial account debt entry ² (A) [increase] Appropriate financial account debt entry (C) [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 Appropriate financial account entry (B) [increase]	Net incurrence of liabilities Appropriate financial account debt entry (C) [increase]	Net acquisition of financial assets Appropriate financial account debt entry ² (A) [increase] Appropriate financial account debt entry (B) [decrease]
		Net incurrence of liabilities Appropriate financial account debt entry (C) [increase]	Net acquisition of financial assets Appropriate financial account debt entry (A) [increase] Appropriate financial account debt entry (B) [decrease]

Source: IMF staff.

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

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

³Equal 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		Credit	Debit
Current account			Capital account		
Goods and services			Capital transfers		
Goods			General government		
General merchandise		30	Other capital transfers	155+70	
Services			Financial account	Net	Net
Construction		25		acquisition of	incurrence of
Other business services				financial assets	liabilities
Technical, trade-related, and other business services		15	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.



16

Exceptional Financing Transactions

Introduction

16.1 The recording of exceptional financing transactions in the balance of payments is relevant in the context of analytical presentation described in Chapter 14, paragraphs 14.16 and 14.17, and in Appendix 1 of the *BPM6*. The analytic presentation is used also in the IMF's publication *Balance of Payments Statistics Yearbook* and *International Financial Statistics*. Exceptional financing combines financial transactions under financial arrangements made by the authorities (or by other sectors fostered by the authorities) of an economy to meet balance of payments needs. These transactions can be viewed as an alternate to or in conjunction with the use of reserve assets and IMF credit and loans to deal with payments imbalances. Appendixes 1 and 2 of the *BPM6* provide details on exceptional financing transactions and also on transactions related to debt reorganization that give rise to exceptional financing. The analytic presentation of balance of payments statistics aims to distinguish between transactions in reserves (and closely related items) and other transactions, and draws a line between the ways that monetary authorities finance balance of payments needs (below the line) and all other transactions (above the line).

16.2 This chapter (1) provides guidance on identifying transactions in the standard presentation that are exceptional financing, (2) discusses the rearrangement of balance of payments transactions to highlight exceptional financing components of the analytic presentation, (3) reviews the treatment of a range of exceptional financing transactions in the analytic presentation of the balance of payments, (4) discusses the timing of recording and the valuation of exceptional financing transactions, and (5) identifies data sources for exceptional financing transactions.

Identifying Exceptional Financing Transactions

16.3 Exceptional financing transactions are transactions that are undertaken by the authorities to accommodate balance of payments needs. Exceptional financing transactions include both direct financing (e.g., intergovernmental grants, debt forgiveness) and indirect financing (e.g., accumulation of arrears). It includes arrears on both interest and principal, borrowing to meet balance of payments requirements, rescheduling of loans and other obligations that are either in arrears or due, debt swaps, grants from other governments for balance of payments support, and debt forgiveness. These transactions can all be regarded as new extensions of credit, or as alternatives to raising funds. The early repayment of borrowings (prepayment) associated with balance of payments financing needs is also included in exceptional financing. Arrears are identified/included as transactions in the analytic presentation (in contrast to the standard presentation) because this presentation is focused on the actions of monetary authorities to meet balance of payments financing needs, and the accumulation of arrears may be viewed as a monetary authority's action for this purpose.

16.4 In some cases, such as rescheduling or refinancing of existing debt, the identification of the exceptional nature of the transaction is straightforward. In other cases, exceptional financing transactions cannot be identified using totally objective criteria; examples of such cases may include borrowing for balance of payments need, or advance repayment of debt. In such cases, it is necessary to decide whether the purpose of the transactions by the authorities (or by other sectors on their behalf) is to manage the balance of payments deficit or surplus.

16.5 As a general rule, exceptional financing transactions should meet two criteria: (1) to be

undertaken for balance of payments needs and (2) to have a direct or indirect impact on reserve assets.

16.6 It is sometimes necessary to examine prepayments and advance payments to determine whether they are exceptional financing transactions. If a balance of payments need exists or appears imminent, and the debtor agreed with the creditor to prepay debt at a significant discount using a reserve asset currency, this prepayment is an exceptional financing transaction. In other cases, prepayments and advance payments should not be included in exceptional financing.

16.7 Disbursements by monetary authorities in the current period also should be examined to determine whether they should be included in exceptional financing. Borrowing from the IMF should be included in exceptional financing. Borrowing for general budget purposes should not be included in exceptional financing.

Recording Exceptional Financing Transactions

16.8 Table A.1.1 in Appendix 1 of the *BPM6* provides a comprehensive description of the accounting for exceptional financing transactions. As a general rule, when exceptional financing transactions concern the use of external resources that will be repaid later, the items that should be included below the line are the *credit* entries that indicate the use (disbursement) of the resources. The debit entries that subsequently balance these financings are included above the line in the appropriate items of the financial account. However, when arrears occur, debt is swapped, and debt is repaid or cancelled through transfers, then both the debit and credit entries for these transactions are recorded under exceptional financing, or below the line. The recording of some specific cases is presented in Table 16.1.

Table 16.1 Examples of Recording of Exceptional Financing Transactions¹

Balance of payments item	Standard presentation		Analytic presentation	
Accumulation of arrears: In standard presentation accumulation of arrears is not reported as a transaction; however, in analytic presentation they are presented as exceptional financing transactions below the line.				
Example: In the reported period, the general government failed to repay 10 units of income and 100 units of principal on long-term loan.				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Current account Primary income, investment income, other investment, interest		10		10
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term		+10		-100
<i>Below-the-line</i>				
Exceptional financing				
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Other investment, loans Accumulation of arrears, principal on long-term debt				+100
Accumulation of arrears, original interest				+10
Debt forgiveness: Only forgiveness of debt (principal and interest) in arrears or due for payment in the current period is reported as exceptional financing. Forgiveness of future payments is recorded as repayments above the line under the relevant instrument, offset by a capital or current transfer that is also recorded above the line.				
Example: In the reported period, the creditor forgave 220 units of debt in arrears on long-term loan, including 200 units arrears on principal and 20 units arrears on accrued interest; 180 units of debt due for payment in the reported period, of which 30 units of accrued interest and 150 units of principal; and 310 units of debt not yet due, of which 10 units of interest and 300 units of principal.				

Table 16.1 Examples of Recording of Exceptional Financing Transactions (<i>continued</i>)				
Balance of payments item	Standard presentation		Analytic presentation	
(i) Debt arrears (forgiveness of principal/interest already in arrears)				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Capital account Capital transfers, debt forgiveness	220			
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term		-220		
<i>Below-the-line</i>				
Exceptional financing				
	Credit	Debit	Credit	Debit
Capital transfers Debt forgiveness			220	
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Other investment, loans Repayment of arrears, principal Repayment of arrears, interest				-200 -20
(ii) Payments falling due (forgiveness of principal/interest due in the current period)				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Current account Primary income, investment income, other investment, interest		30		30
Capital account Capital transfers, debt forgiveness	180			
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term		-150		-150
<i>Below-the-line</i>				
Exceptional financing				
	Credit	Debit	Credit	Debit
Capital transfers, debt forgiveness			180	
(iii) Debt not yet due (forgiveness of principal/interest due in the future)				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Current account Primary income, investment income, other investment, interest	-	-	-	-
Capital account Capital transfers, debt forgiveness	300		300	

Table 16.1 Examples of Recording of Exceptional Financing Transactions (*continued*)

Balance of payments item	Standard presentation		Analytic presentation	
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term		-300		-300
<i>Below-the-line</i> Exceptional financing				
Debt refinancing: Existing debt instrument is extinguished, and a new (or similar) debt instrument with new terms is created. Example: <i>Loan-for-loan exchange:</i> In the reported period, the government exchanged existing loans (50 units principal arrears, 25 units interest arrears, 30 units due for payments principal, 12 units due for payment interest, 60 units principal not yet due, and 40 units interest not yet due) for a new single loan. Interest not yet due will be recorded in the period when it is accrued. <i>Loan-for-bond-swap:</i> The existing loan with the aforementioned terms is extinguished with funds raised from the issuance of a bond issued at 70% discount. The nominal value of the bond is 200 and issuance (discounted) value 140.				
(i) Loan-for-loan exchange				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Current account Primary income, investment income, other investment, interest		12		12
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term		+177 -165		-30 -60
<i>Below-the-line</i> Exceptional financing				
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Other investment Liabilities, loans Drawing of new loan Repayment of arrears, principal Repayment of arrears, interest				+177 -50 -25
Loan-for-bond-swap (debt owed to private creditors)				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Current account Primary income, investment income, other investment, interest		12		12
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Portfolio investment, liabilities, debt securities, general government, long-term		+140		

Table 16.1 Examples of Recording of Exceptional Financing Transactions (*continued*)

Balance of payments item	Standard presentation		Analytic presentation	
Other investment, liabilities, loans, general government, other long-term		-128		-53 ²
<i>Below-the-line</i> Exceptional financing				
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account				
Portfolio investment, liabilities, debt securities				+140
Other investment, loans				
Repayment of arrears, principal				-50
Repayment of arrears, interest				-25
Loan-for-bond-swap (debt owed to official creditors) <i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Current account				
Primary income, investment income, other investment, interest		12		12
Capital account				
Capital transfers, debt forgiveness	37			
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account				
Portfolio investment, liabilities, debt securities, general government, long-term		+140		
Other investment, liabilities, loans, general government, other long-term		-165		-30
				-60
<i>Below-the-line</i> Exceptional financing				
	Credit	Debit	Credit	Debit
Capital account				
Capital transfers, debt forgiveness			37	
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account				
Portfolio investment, liabilities, debt securities				+140
Other investment, loans				
Repayment of arrears, principal				-50
Repayment of arrears, interest				-25
Debt prepayment is reported as exceptional financing only if it is for balance of payments needs.				
Example: In the reported period, the government prepaid under a bilateral agreement, using reserve assets, an outstanding loan in the value of 130 units for 75 units:				
(i) From a commercial creditor (ii) From an official creditor				

Table 16.1 Examples of Recording of Exceptional Financing Transactions (<i>concluded</i>)				
Balance of payments item	Standard presentation		Analytic presentation	
(i) From a commercial creditor				
<i>Above-the-line</i>				
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term Reserve assets, other reserve assets, currency and deposits	-75	-75 ³		
<i>Below-the-line</i>				
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Reserve assets Exceptional financing Other investment, liabilities, loans, prepayment			-75	-75
(ii) From an official creditor				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Capital account Capital transfers, debt forgiveness	55			
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term Reserve assets, other reserve assets, currency and deposits	-75	-130		
<i>Below-the-line</i>				
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Reserve assets Exceptional financing			-75	
	Credit	Debit	Credit	Debit
Capital account Capital transfers, debt forgiveness			55	
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, prepayment				-130

Source: IMF staff.

¹For the purpose of showing the balancing of counterentries in financial account, the "credit" and "debit" are used instead of "net increase of financial assets" and "net incurrence of liabilities."

²The *BPM6* does not explain how the difference in price between old and new debt should be attributed to instruments involved in the transaction. Because the main purpose of the analytic presentation is to highlight the transactions with exceptional character, the *Guide* recommends that transactions below the line (arrears) be presented at the nominal value and that the remaining value be attributed to instruments extinguished above the line (e.g., loan).

³The difference between nominal value and prepayment value equal to 55 units is registered in IIP reconciliation as valuation changes.

Timing of Recording and Valuation of Exceptional Financing Transactions

16.9 The valuation of exceptional financing transactions is not always straightforward. For example, debt swaps and other forms of debt conversion undertaken for balance of payments purposes may raise complex issues: What is the value of the liability that is cancelled? What is the value of the asset that is acquired? Is there an element of debt forgiveness? Clear answers to these questions may not exist. If the debt is traded on a market, the listed price may

be regarded as the value to be used in determining transactions and IIP values for the liability. When the debt is exchanged for another debt, the value of the new debt is used to value the original liability with a valuation change recorded, unless there is element of debt forgiveness involved. Debt forgiveness would not be associated with a purely commercial transaction.

16.10 Table 16.2 presents in an aggregated format the valuation principles for different types of exceptional financing transactions.

Table 16.2 Timing of Recording and Valuation of Exceptional Financing Transactions

	Timing of recording	Valuation
Debt forgiveness	At the time specified in the agreement that the forgiveness takes place	Market price is the basis for valuation for flows and positions, except for loans and deposits, where the nominal value is used.
Debt rescheduling	At the time both parties record the change in terms of the liability in their books; if no precise time is determined, the decisive one is the time when the creditor records the changes in its books.	The value of the new debt and of the old debt typically will be equal; if not equal, transactions should be valued at the value of the new debt. If there is a difference in the value between the old and new debt, this difference is recorded in revaluation account in IIP. When there is no established market price for the new debt, an appropriate proxy is used. For nonmarketable debt owed to official creditors, any reduction in the nominal value of the old debt is recorded as debt forgiveness.
Debt refinancing	Same as for debt rescheduling	The old debt is extinguished (valued) at the value of the new debt instrument, with the difference between it and the value of the old debt recorded in the revaluation account in IIP. Exception for nonmarketable debt (loan) owed to official creditors: the old debt is extinguished at its original value, with the difference in value with the new instrument recorded as debt forgiveness.
Debt-for-equity swap	At the time both parties record the exchange of value in their books	The old debt is valued at the market value of the equity acquired. If the market value of the equity is lower than the value of the old debt, a valuation adjustment is recorded in IIP under the swapped debt instrument.
Debt-for-development swap	Same as for debt-for-equity swap	The old debt is valued at the value of the new liability acquired. If the value of the liability acquired is lower than the value of the old debt, a valuation adjustment is recorded in IIP under the old debt instrument.
Debt prepayment	At the time when the transaction takes place	At the value of the prepaid amount; if the market value of the prepaid debt is less than the amount recorded in the IIP, a valuation adjustment is recorded in IIP under the prepaid debt instrument. If the debt is owed to official creditors and it is nonmarketable, the transaction is valued at the nominal value of the debt. The difference between nominal value and the amount paid is recorded as debt forgiveness.
Debt assumption	At the time the debt is removed from the original debtors balance sheet	At the nominal value of the outstanding debt assumed by the new debtor

Source: IMF staff.

Data Sources and Collection of Data on Exceptional Financing

16.11 As described in the foregoing sections, exceptional financing transactions have specific features, and proper identification of such transactions often requires knowledge of details about related transactions. Difficulties in using collections such as through international transactions reporting system or business surveys for gathering data on exceptional financing transactions arise from the fact that many exceptional financing transactions (e.g., debt forgiveness, debt rescheduling, debt refinancing) do not result in cash transactions. Also, some exceptional financing transactions may not be recorded as separate transactions in the standard presentation (e.g., accumulation and repayment of arrears). Consequently, the compiler needs additional data sources, or needs to collect details about transactions that permit them to identify exceptional financing transactions in existing report forms. Additional information that needs to be collected to allow a proper classification of exceptional financing transactions is presented in Table 16.3.

16.12 Data on exceptional financing transactions would typically be available from official sources. The

most prevalent official data sources for exceptional financing transactions are: central bank information on reserves; public sector debt monitoring unit's record on external debt management; government accounts; and foreign aid accounts on grants for balance of payments purpose. Useful general information can be also gathered from mass media on negotiated/planned debt refinancing/rescheduling, debt forgiveness, and new borrowing for balance of payments needs. Exceptional financing transactions are unique in nature and are conducted by the public sector (including central banks), and so they usually are well monitored by mass media. Therefore, in most cases, the compiler may be able to obtain good information on upcoming exceptional financing transactions. He/she should consult in advance with concerned institutions regarding the reporting of detailed data on such transactions.

16.13 Whatever data sources are used, data collections should be well designed, and should capture all necessary details to assure correct recording of exceptional financing transactions. For example, report forms should collect detailed data for each individual significant exceptional financing transaction

Table 16.3 Additional Information on Exceptional Financing Transactions

Exceptional financing transactions	Additional information to be collected for proper classification
Arrears (accumulation, repayment)	Debt service schedule Principal by maturity (short-term and long-term) not paid when due Interest by type (original and penalty) not paid when due Extinguishment of arrears on principal and interest by source of financing (e.g., repayment, cancellation, rescheduling)
Current and capital transfers	Intergovernmental grants by source, destination, and type
New borrowing for balance of payments purpose	Information on purpose of borrowing, on terms of borrowing, on creditors, and on debtors
Reserve assets	Use of reserve assets for repayment of arrears and other exceptional financing transactions (e.g., prepayment/buyback) Increase in reserve assets as result of exceptional financing transactions (drawing of new loans, issuance of new debt securities, intergovernmental grants received)
Debt refinancing, rescheduling, debt swaps, debt forgiveness	Detailed terms of agreements on such kinds of transactions Paris Club agreed minutes (umbrella agreement) Bilateral agreements under umbrella agreement

Source: IMF staff.



17

Serviceability and Accessibility of External Sector Statistics

17.1 The focus of this chapter is on two important aspects of data quality assessment—serviceability and accessibility—and on their applicability to the external sector statistics. Serviceability of statistics refers to the extent to which datasets are kept in good working condition to be able to serve various users’ needs effectively. Accessibility refers to the extent to which statistics are made available to users in a clear and understandable manner; the adequacy of the forms of dissemination; the level of restriction in accessing the data; the extent to which pertinent metadata are made available and kept up-to-date; and the availability and promptness of support to data users. Serviceability and accessibility are two of the five dimensions of the IMF data quality assessment framework (DQAF), the Fund’s organizing model of the Report on the Observance of Standards and Codes (Data ROSC). Other dimensions of data quality are assurance of data integrity, methodological soundness, accuracy and reliability, along with the prerequisites of quality that relate to institutional aspects (see Box 17.1). These attributes of data quality are applicable in the assessment of external sector statistics.

Serviceability

17.2 To serve the various users’ needs effectively, external sector statistics must be in good working condition. This requires that data and metadata must be kept relevant, produced in a timely manner within the defined periodicity, be fully consistent within the dataset, and based on a clearly defined revision policy and practice. These attributes are elaborated upon ahead.

17.3 To remain relevant for effective use, external sector statistics must be closely monitored through a comprehensive and well-established process of consultation. The consultation process must involve both compilers and users of the statistics and, to the extent possible, must involve several stakeholders including

representatives from the government, private sector, and the academia. In some economies, such consultation involves formally established advisory bodies or user groups that bring together both compilers and users. The advisory bodies provide an opportunity for the compiling agency to identify the extent to which user views are reflected in the ongoing work of external sector data developments, compilation, and analysis. Feedback received from such bodies play a crucial role in helping to prioritize developmental projects for external sector statistics.

17.4 Timeliness and periodicity of production are another important element in data quality assessment. Timeliness usually refers to the time lag between the reference period (to which the data pertain) and the date at which the data become available (including the time lag between the advertised date for release and the actual date of release). For example, the reference period may be the 2011 calendar year, but data may not become available for analysis until June 2012. These aspects are important and should be taken into consideration when assessing data quality, as lengthy delays between the reference period and data availability, or between advertised and actual release dates, can have implications for data accuracy or reliability, and the credibility of the statistical agency. If data collection is expected to be ongoing, the frequency of release is an important measure of data serviceability. Frequency includes information about the proposed frequency of repeated collections and when data will be released for subsequent reference periods. To assist in evaluating the timeliness and periodicity aspects of production of external sector statistics or products, the following questions could be helpful:

- What gap of time exists between the reference period, the time when the data were collected, and time when the statistics became available?

- Are there likely to be subsequent surveys or data collection issues for this topic?
- Are there likely to be updates or revisions to the data after official release?
- What is the gap between the advertised and actual release dates of the data?

17.5 Consistency within the dataset is another important element in assessing the extent to which external sector statistics are serviced. Consistency refers to the internal coherence of a statistical collection, product, or release, as well as its comparability with other sources of information, within a broad analytical framework and over a reasonable period of time. To be well serviced, external sector statistics must be coherent within the dataset, over time, and with other major datasets. The use of standard concepts, classifications, and target population promotes coherence, as does the use of common methodology across surveys. Consistency is an important element as it provides an indication of whether the dataset can be usefully compared with other sources to enable data compilation and comparison. However, this does not necessarily imply full numerical consistency, but consistency in methods and collection standards. Whenever the agency responsible for external sector statistics introduces changes in source data, methodology, or techniques, it is imperative that historical series are reconstructed as far back as reasonably possible. Quality statements of statistical measures must include a discussion of any factors that would affect the comparability of the data over time. To this end, the coherence of a statistical collection, product, or release can be evaluated by considering a number of key aspects:

- **Changes to data items**—To what extent a long time series of particular data items might be available, or whether significant changes have occurred to the way that data are collected and analyzed
- **Comparison across data items**—This refers to the capacity to make meaningful comparisons across multiple data items within the same collection. The ability to make comparisons may be affected if there have been significant changes in collection, processing, or estimation methodology that might have occurred across multiple items within a collection.
- **Comparison with previous releases**—The extent to which there have been significant changes in collection, processing, or estimation methodology in this release compared with previous releases, or any “real world” events that have impacted on the data since the previous release
- **Comparison with other products available**—This refers to whether there are any other data sources with which a particular series has been compared, and whether these two sources tell the same story. This aspect may also include identification of any other key data sources with which the data cannot be compared, and the reasons for this, such as differences in scope or definitions.

17.6 The IMF DQAF provides comprehensive guidance on consistency evaluation, and the following questions could be helpful in this regard:

- Is it possible to compile a consistent time series of a particular data item of interest over a number of years?
- To what extent can a user meaningfully compare several data items within this collection?
- Could any natural disasters or significant economic events have influenced the data since the previous release?
- Have these data been confronted with other data sources, and are the messages consistent from all data sources?

17.7 Finally, fully serviced external sector statistics must follow a well-articulated data revision policy and practice. The IMF DQAF specifies three attributes of good revision policy. Firstly, the revision policy must follow a regular, well-established, and transparent schedule. For example, revision policy should be clearly stated in balance of payments quarterly publications, as well as for users accessing the data online. Quarterly data could be revised on an ongoing basis, while data for previous years could be revised once a year. Secondly, preliminary data or first estimates must be clearly identified and users with direct access to such data informed accordingly. Because of the need for more information, the recent financial crisis has brought to the fore the need to provide clear guidelines for compiling “flash” estimates of datasets. Thirdly, whenever major revisions are carried out, it is important to explain the changes with, or before, first release of revised data.

Accessibility

17.8 Generally, accessibility of a statistical collection, product, or release can be evaluated by considering the extent to which data and metadata are made available to the general public and the level of assistance provided to users. Good access to external sector data requires that pertinent metadata are made publicly available in a clear and understandable manner; forms of dissemination are adequate; and statistics are made available on an impartial basis and are up-to-date; and prompt and knowledgeable support service is available to users. As regards the latter, pertinent information should be publicly available in appropriate formats and through appropriate delivery channels, and should be written in plain language adapted to the level of understanding of the main user groups. For many citizens, the news media provide their only exposure to official statistics; therefore it is very important that the statistical agency responsible for external sector statistics be able to communicate effectively with the media. The media uses many vehicles to reach their audiences, including newspapers, magazines, and other periodicals, as well as radio, television, and the Internet. Newspaper and other printed media can provide more detailed coverage of statistical information. The Internet has also become a prominent source of information for many data users; thus it is important to have a good Internet site to facilitate easy retrieval of data and dissemination of key messages to the media.

17.9 The statistical agency responsible for external sector statistics must ensure that its clients are able to access and correctly interpret the information on statistical methods, concepts, variables, and classifications used in producing statistical results. This means that external sector statistics must be presented in a manner that facilitates proper interpretation and meaningful comparisons. To promote proper interpretation, publication of external sector statistics should feature a section with comprehensive metadata providing key concepts, definitions, and data sources for the main accounts. If data quality assess-

ment is made, any discrepancies should be adequately explained to the reader. For a major statistical release, it is often helpful for the statistical agency to organize a press briefing event.

17.10 Good access to external sector statistics requires that users be provided with adequate information on how and where to access key information, the contact person, and other services, including information on any charges. Where feasible, special data services could be provided, including special or non-standard groupings of data items or outputs, and their usefulness and their costs. For example, the publication for each release should include tables and charts (if appropriate) as well as analysis of developments in the form of highlights. The highlights could be used to convey significant findings, comparisons, and trends to assist the media, and other users, in understanding and using the publications. This approach helps to demonstrate the relevance of external sector statistics to the general public and fosters informed decision making throughout society more effectively.

17.11 Users often have more confidence in the integrity of the statistics if they are released according to a published advanced release schedule giving the date (and preferably the time) when the figures will be available to all users. It is essential that the dates in the schedule are met.

17.12 The extent to which the agency responsible for external sector statistics can communicate effectively with and through the media has a large impact on how well it can achieve these objectives. Thus it is in the best interest of the agency responsible for disseminating external sector statistics to build a strong working relationship with the media, to make it easy for journalists to report on statistical information in an accurate, timely, and informative manner, and to take steps to increase media coverage as a way of reaching the broader society with important statistical information. The key to building strong working relationships with the media is to understand who they are and how best to meet their information needs in a manner that is both proactive and user friendly.

Box 17.1 The Data Quality Assessment Framework

The DQAF covers five dimensions of quality and a set of prerequisites for the assessment of data quality. The coverage of these dimensions recognizes that data quality encompasses characteristics related to the institution or system behind the production of the data, as well as characteristics of the individual data product. Within this framework, each dimension comprises a number of elements, which are in turn associated with a set of desirable practices. The following are the statistical practices that are associated with each dimension:

Prerequisites of quality—The environment is supportive of statistics; resources are commensurate with needs of statistical programs; and quality is a cornerstone of statistical work.

Integrity—Statistical policies and practices are guided by professional principles, are transparent, and are guided by ethical standards.

Methodological soundness—Concepts and definitions used are in accord with internationally accepted statistical frameworks; the scope is in accord with internationally accepted standards, guidelines, or good practices; classification and sectorization systems are in accord with internationally accepted standards, guidelines, or good practices; and flows and positions are valued and recorded according to internationally accepted standards, guidelines, or good practices.

Accuracy and reliability—Source data available provide an adequate basis to compile statistics; statistical techniques employed conform with sound statistical procedures; source data are regularly assessed and validated; intermediate results and statistical outputs are regularly assessed and validated; and revisions, as a gauge of reliability, are tracked and mined for the information they may provide.

Serviceability—Statistics cover relevant information on the subject field; timeliness and periodicity follow internationally accepted dissemination standards; statistics are consistent within the dataset, over time, and with other major datasets; and data revisions follow a regular and publicized procedure.

Accessibility—Statistics are presented in a clear and understandable manner, forms of dissemination are adequate, and statistics are made available on an impartial basis; up-to-date and pertinent metadata are made available; and prompt and knowledgeable support service is available.



APPENDIX

1

Conversion Matrix from the *BPM5* to the *BPM6*

Comments and Explanatory Notes to the Conversion Matrix

For the balance of payments and IIP, the conversion matrix matches the standard components and additional details of the *BPM5* to the standard components and selected other items of the *BPM6*; see:

- *BPM5* Balance of Payments: Standard Components, pages 43–48
- *BPM5* Tables 7 and 8, Balance of Payments: Standard Components and Additional Detail
- *BPM5* International Investment Position: Standard Components, pages 108–111
- *BPM5* Table 9, International Investment Position: Standard Components and Additional Detail
- *BPM6* Appendix 9 Standard Components and Selected Other Items

The Comments column of the conversion matrix provides further explanation and information regarding the changes between the *BPM5* and *BPM6*. To enhance clarity, the titles of *BPM5* standard components are shown in italics in the comments.

The conversion matrix follows the Standard Components and Selected Other Items of the *BPM6*. In a number of cases the order of the *BPM5* items has been adjusted to facilitate the linking.

In the conversion matrix, the corresponding items of the *BPM5* and *BPM6* are linked via arrows. To reduce confusion, in cases where nonrelated arrows cross, different fonts have been selected for the crossing arrows.

In cases where the *BPM5* item is broken down in the *BPM6*, split arrows are used to link all new items to the old one. Split arrows are also used when the *BPM6* shows not only the original *BPM5* item, but also an “of which” item thereof that was not included in the *BPM5*. For the sake of clarity, in those cases different fonts are used to distinguish the “of which” item.

Balance of Payments Account Items (continued)				
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification	
Nonmonetary gold	↓	5. Nonmonetary gold 5.1 Held as a store of value 5.2 Other (partly)		
Services (P72/P82)				
Manufacturing services on physical inputs owned by others <i>Goods for processing in reporting economy — Goods returned (CR), Goods received (DR) Goods for processing abroad - Goods sent (CR), Goods returned (DR)</i>	↓	2. Goods for processing	* In <i>BPM6</i> , the fee received for the processing services rendered is included in Manufacturing services on physical inputs owned by others; gross reporting is supplementary; see <i>BPM6</i> , paragraphs 10.62 - 10.71. In <i>BPM5</i> , goods sent abroad for manufacturing services are included in <i>Goods for processing</i> and a simultaneous change of ownership is imputed, except under certain circumstances; see <i>BPM5</i> , paragraph 199. In <i>BPM6</i> , imputed financial account entries for trade credit required by the imputed flows for 'goods for processing' are no longer needed.	
Maintenance and repair services n.i.e.	↙	3. Repairs on goods 1.3.3. Other modes of transport / Other (partly)	*The <i>BPM5</i> item <i>Repairs on goods</i> has been renamed in Maintenance and repair services n.i.e. Unlike <i>BPM5</i> , this item is included under services, rather than goods. It comprises Maintenance of transport equipment, which was recorded in <i>Other transport</i> , other in <i>BPM5</i> ; see <i>BPM6</i> , paragraphs 10.72 - 10.73 and <i>BPM5</i> , paragraphs 200 and 240.	
Transport ^{*1}	↓	1. Transportation	* Transport services is renamed (<i>BPM5: Transportation</i>) in line with the Central Product Classification (CPC); see <i>BPM6</i> , paragraph 10.61.	
Sea transport Passenger <i>Of which: payable by border, seasonal, and other short-term workers</i> Freight Other	↓	1.1 Sea transport 1.1.1 Passenger 1.1.2 Freight 1.1.3 Other	* This supplementary item is needed for the compilation of Personal remittances; see <i>BPM6</i> , paragraph 12.51 (a) and Appendix 5.	

Balance of Payments Account Items (continued)			
BPM6 Balance of Payments: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	BPM5 Balance of Payments: Standard Components and Additional Detail (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Air transport Passenger <i>Of which: payable by border, seasonal, and other short-term workers</i> Freight Other	↓	1.2 Air transport 1.2.1 Passenger 1.2.2 Freight 1.2.3 Other	* This supplementary item is needed for the compilation of Personal remittances; see <i>BPM6</i> , paragraph 12.51 (a) and Appendix 5.
Other modes of transport Passenger <i>Of which: payable by border, seasonal, and other short-term workers</i> Freight Other	↓	1.3 Other transport 1.3.1 Passenger 1.3.2 Freight 1.3.3 Other (partly)	* This supplementary item is needed for the compilation of Personal remittances; see <i>BPM6</i> , paragraph 12.51 (a) and Appendix 5. * In <i>BPM5</i> , 1.3.3 <i>Other transport / Other</i> includes maintenance of transport equipment; see <i>BPM5</i> , paragraph 240. In <i>BPM6</i> , maintenance of transport equipment is included under Maintenance and repair services n.i.e.; see <i>BPM6</i> , paragraph 10.72.
Postal and courier services	↓	3. Communications services (partly)	* In <i>BPM5</i> , postal and courier services is included in <i>Services</i> , 3. <i>Communication Services</i> . In <i>BPM6</i> , it is included in <i>services / transport</i> ; see <i>BPM6</i> , paragraphs 10.74, 10.82–10.85.
For all modes of transport ² Passenger <i>Of which: payable by border, seasonal, and other short-term workers</i> Freight Other			* This supplementary item is needed for the compilation of Personal remittances; see <i>BPM6</i> , paragraph 12.51 (a) and Appendix 5.

Balance of Payments Account Items (<i>continued</i>)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Travel		2. Travel	
Business <i>Acquisition of goods and services by border, seasonal, and other short-term workers</i> Other	↓	2.1 Business	* This supplementary item is needed for the compilation of Personal remittances; see <i>BPM6</i> , paragraph 12.51 (a) and Appendix 5.
Personal <i>Health-related</i> <i>Education-related</i> Other	↓	2.2 Personal 2.2.1 <i>Health-related</i> 2.2.2 <i>Education-related</i> 2.2.3 <i>Other</i>	* The recording of alternative time-share arrangements (either as direct investment or other investment / trade credit, with periodic counterflows in accommodation services in travel) is explained; see <i>BPM6</i> , paragraph 10.100 and Table 10.3. <i>BPM5</i> does not discuss time-share arrangements, but the description in <i>BPM6</i> is in line with the general principles of <i>BPM5</i> . * In <i>BPM6</i> , goods bought abroad for own use or to give away that exceed customs thresholds are included in general merchandise; see <i>BPM6</i> , paragraph 10.20. In <i>BPM5</i> , these goods are included in travel.
For both <i>business and personal travel</i> Goods <i>Local transport services</i> <i>Accommodation services</i> <i>Food-serving services</i> <i>Other services</i> <i>Of which</i> <i>Health services</i> <i>Education services</i>			This supplementary breakdown of travel allows for closer links with tourism satellite accounts as well as supply and use tables <i>BPM6</i> , paragraph 10.95.
Construction <i>Construction abroad</i> ³ <i>Construction in the reporting economy</i> ³	↙ ↘	4. Construction services 9. Other business services (partly)	* The separate items Construction abroad and Construction in the reporting economy are introduced as supplementary items; see <i>BPM6</i> , paragraphs 10.105 - 10.106. In <i>BPM6</i> , expenditures by nonresident construction enterprises on local supplies are included in Construction services; see <i>BPM6</i> , paragraph 10.102. In <i>BPM5</i> , they are part of Other business services (see <i>BPM5</i> , paragraph 254). As in <i>BPM5</i> , goods and services provided from the home economy of the enterprise (resident-to-resident transactions) should be excluded from general merchandise and/or services of the local economy. Other than in <i>BPM5</i> , goods and services acquired from third economies are recorded under general merchandise and/or services for the economy of the enterprise; see <i>BPM6</i> , paragraph 10.102.

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Insurance and pension services* ¹ <i>Direct insurance</i> <i>Reinsurance</i> <i>Auxiliary insurance services</i> <i>Pension and standardized guaranteed services</i>	↓	5. Insurance services	* In <i>BPM6</i> , premium supplements are taken into account in deriving insurance services; see <i>BPM6</i> , paragraph 10.111 and Appendix 6c. <i>BPM5</i> accepts ignoring these flows on practical grounds; see <i>BPM5</i> , paragraph 257. In <i>BPM6</i> , reinsurance and direct insurance are treated consistently; see <i>BPM6</i> , paragraph 10.111, whereas <i>BPM5</i> recommends recording the balance of all flows between resident insurers and nonresident reinsurers (and vice-versa) in services; see <i>BPM5</i> , paragraph 257. In contrast to <i>BPM5</i> , the estimate of insurance claims used to derive the value of insurance services may be adjusted to take account of claim volatility; see <i>BPM6</i> , paragraph 10.114 (c).
Financial services <i>Explicitly charged and other financial services</i>	↓	6. Financial services	* Financial dealers' implicit charges via margins are included under financial services; see <i>BPM6</i> , paragraph 10.119. In <i>BPM5</i> , implicit margins are not discussed separately and may therefore be included in the financial flows. In <i>BPM6</i> , services of asset-holding entities to their owners, where asset management costs are taken out of income, are included in financial services; see <i>BPM6</i> , paragraph 10.124. In <i>BPM5</i> , these costs are not discussed separately and may therefore be included in investment income.
<i>Financial intermediation services indirectly measured (FISIM)</i>	↓	B.2 Investment income (partly) <i>Financial intermediation charge indirectly measured</i>	* <i>BPM6</i> recognizes FISIM on loans and deposits when those loans and deposits are provided by, or deposited with, financial corporations (as defined in <i>BPM6</i> , paragraphs 4.63 - 4.64); see <i>BPM6</i> , paragraph 10.127. In <i>BPM6</i> , FISIM can be attributed to interest on loans and deposits in direct investment, other investment, and reserve assets, but not portfolio investment. In <i>BPM5</i> , FISIM is not recognized in Financial services; see <i>BPM5</i> , paragraph 508.
Charges for the use of intellectual property n.i.e.* ¹	↓	8. Royalties and license fees	* <i>BPM6</i> uses the title Charges for the use of intellectual property instead of <i>Royalties and license fees</i> in <i>BPM5</i> . It includes charges for the use of (i) franchises and trademarks, like in <i>BPM5</i> ; and (ii) the outcomes of research and development (R&D). In <i>BPM6</i> , as in <i>BPM5</i> , outright purchases/sales of franchises and trademarks are recorded in the capital account. Charges for the use of intellectual property also includes licenses to reproduce and/or distribute (i) software; and (ii) audiovisual and related services; (<i>BPM5</i> is not explicit on the recording of licenses to reproduce and/or distribute). See <i>BPM6</i> , paragraphs 10.137–10.140 and Table 10.4.

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Telecommunications, computer, and information services ¹ <i>Telecommunications services</i>	↓	3. Communications services (partly)	* In <i>BPM6</i> , a grouping of telecommunications, computer, and information services is introduced (see <i>BPM6</i> , paragraph 10.141). This includes the following <i>BPM5</i> items: (i) <i>3. Communications services (except postal and courier services, which are recorded under Transport in BPM6)</i> ; and (ii) <i>7. Computer and information services</i> .
<i>Computer services</i> <i>Information services</i>	↓	7. Computer and information services	* In <i>BPM6</i> , Computer services includes (i) licenses to use software; and (ii) outright purchases/sales of software. Computer services does not include (i) licenses to reproduce and/or distribute software (see Charges for use of intellectual property; <i>BPM6</i> , paragraph 10.137 (b)); and (ii) transactions in noncustomized (mass-produced) software provided on physical media with right to perpetual use, which need to be recorded under goods (the latter is not a change, but clarification to <i>BPM5</i>). See <i>BPM6</i> , paragraph 10.143 and Table 10.4.
Other business services ¹		9. Other business services	
Research and development services	↓	2. Capital and Financial Account 2.A.2. Acquisition/disposal of nonproduced, nonfinancial assets (partly)	* In <i>BPM6</i> , the results of R&D are considered produced assets. Outright purchases and sales of the results of R&D are therefore recorded under Research and development services; see <i>BPM6</i> , paragraphs 10.147–10.148. In <i>BPM5</i> , sales and purchases of the results of R&D are recorded in the capital account / nonproduced nonfinancial assets; see <i>BPM5</i> , paragraph 358. In <i>BPM6</i> , charges for the use of the outcomes of R&D are included in Charges for the use of intellectual property. In <i>BPM5</i> , the provision of R&D services is included under 9.3 <i>Miscellaneous business, professional, and technical services</i> ; see <i>BPM5</i> , paragraph 264.
Professional and management consulting services Technical, trade-related, and other business services	↓	9.1 Merchandising and other trade- 9.2 Operational leasing services 9.3 Miscellaneous business, professional, and technical services	* In <i>BPM6</i> , merchandising is recorded under Goods / Net exports of goods under merchandising, unlike services in <i>BPM5</i> ; see <i>BPM6</i> , paragraphs 10.41–10.49.

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italics</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italics</i> are supplementary)	Comments on Change in Treatment or Clarification
Personal, cultural, and recreational services ¹		10. Personal, cultural, and recreational services	
Audiovisual and related services	↓	10.1 Audiovisual and related services	* In <i>BPM6</i> , Audiovisual and related services, and Other personal, cultural and recreational services include (i) licenses to use the products; and (ii) outright purchases/sales. Audiovisual and related services do not include (i) licenses to reproduce and/or distribute (see Charges for the use of intellectual property); and (ii) transactions in non-customized (mass-produced) products provided on disks, etc., which need to be recorded under goods (this is not a change, but clarification to <i>BPM5</i>). See <i>BPM6</i> , paragraphs 10.162 - 10.166 and Table 10.4.
Other personal, cultural, and recreational services	↓	10.2 Other personal, cultural, and recreational services	* <i>BPM6</i> describes the service charge of lotteries and gambling as the margin between the gambling charges and the winnings payable by the operator. The service charge is included under Other personal, cultural, and recreational services; see <i>BPM6</i> , paragraph 10.170. Winnings payable between the operator and the participants are recorded under Personal transfers; see <i>BPM6</i> , paragraphs 12.53 - 12.54. <i>BPM5</i> only discusses the recording of gambling in terms of Other current transfers; see <i>BPM5</i> , paragraph 303. Gambling by visitors abroad (not discussed in <i>BPM5</i>) is to be included in travel; see <i>BPM6</i> , paragraph 10.88.
Government goods and services n.i.e. ¹ <i>Tourism-related services in travel and passenger transport</i>	↓	11. Government services n.i.e.	This supplementary item allows for a link with tourism satellite accounts as well as supply and use tables <i>BPM6</i> , paragraph 10.95.

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Primary income: General Comments			
<p>* The term <i>Primary income</i> is introduced to be consistent with the 2008 SNA; see <i>BPM6</i>, paragraph 11.1. Rent and Taxes/subsidies on products and production are explicitly included in primary income; see <i>BPM6</i>, Tables 11.1, 11.2, and 11.3.</p> <p>* <i>Compensation of employees</i>. The employer-employee relationship is clarified to distinguish between compensation of employees and payment for services in <i>BPM6</i>, paragraph 11.12. This is a clarification to <i>BPM5</i> and in accordance with its general principles. Yet, it may result in reclassifications involving compensation of employees and services.</p> <p>* <i>Dividends</i>. In <i>BPM6</i>, dividends are recorded when the shares go ex dividend; see <i>BPM6</i>, paragraph 3.48; in <i>BPM5</i>: when payable; see <i>BPM5</i>, paragraphs 282 and 284. Withdrawals of income from quasi-corporations are recorded when withdrawn, consistent with <i>BPM5</i> principles; see <i>BPM6</i>, paragraph 11.31. <i>BPM6</i> describes superdividends, which should be recorded as withdrawals of equity, not primary income; see <i>BPM6</i>, paragraph 11.27. The term 'superdividends' is not discussed in <i>BPM5</i>, but the treatment in <i>BPM6</i> is in line with the general principals of <i>BPM5</i> (notably liquidating dividends; see <i>BPM5</i>, paragraph 290). In <i>BPM6</i>, the title Income from quasi-corporations replaces the <i>BPM5</i> term <i>Distributed branch profits</i>; see <i>BPM6</i>, paragraph 11.26. Adjustments for transfer pricing (which may result in a counterentry in dividends or equity flows) are clarified; see <i>BPM6</i>, paragraphs 11.101 - 11.102. This clarification is not a change from <i>BPM5</i>; see <i>BPM5</i>, paragraphs 97 - 103.</p> <p>* <i>Interest</i>. In <i>BPM6</i>, interest income is adjusted to show 'pure' interest, i.e. the financial intermediation services indirectly measured (FISIM) component is included in Financial services; see <i>BPM6</i>, paragraphs 11.74 - 75. <i>BPM6</i> recognizes FISIM on loans and deposits when those loans and deposits are provided by, or deposited with, financial corporations (as defined in <i>BPM6</i>, paragraph 4.64); see <i>BPM6</i>, paragraph 10.127. FISIM can be attributed to interest on loans and deposits in direct investment income, other investment income, and reserve assets, but not portfolio investment. <i>BPM5</i> does not recognize FISIM; see <i>BPM5</i>, paragraph 258, note 7. Nonetheless, it is included as additional detail in <i>BPM5</i>, Table 7 to allow reconciliation with the SNA.</p> <p>* <i>Reserve assets</i>. In <i>BPM6</i>, income on reserve assets is identified separately. If not available for publication, income from reserve assets may be included in other investment / interest; see <i>BPM6</i>, paragraph 11.109. In <i>BPM5</i>, income on reserve assets is included in other investment income; see <i>BPM5</i>, paragraph 281.</p> <p>* <i>Fees on securities lending and gold loans</i>. In <i>BPM6</i>, fees on securities lending and gold loans are clarified and treated as interest if the fees accrue to the owner lending these assets (see <i>BPM6</i>, paragraphs 11.67 - 11.68) with the counter-entry in other accounts receivable/payable; see <i>BPM6</i>, paragraph 5.73. <i>BPM5</i> does not discuss these fees explicitly. As in <i>BPM5</i>, fees payable to custodians etc. for the administrative services associated with the lending are recorded in Financial services.</p>			

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italics</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Primary income		B. Income	
Compensation of employees (D1)	↓	1. Compensation of employees	* See Primary income, general comments: compensation of employees.
Investment income		2. Investment income	* Unlike in <i>BPM5</i> , direct investment income is broken down by type of FDI relationships; see <i>BPM6</i> , paragraph 6.37.
Direct investment		2.1 Direct investment	* See Primary income, general comments: dividends from direct investment.
Income on equity and investment fund shares		2.1.1 Income on equity	
Dividends and withdrawals from income of quasi-corporations (D42D)	↓	2.1.1.1 Dividends and distributed branch profits	
Direct investor in direct investment enterprises			
Direct investment enterprises in direct investor (reverse investment)			
Between fellow enterprises if ultimate controlling parent is resident			
if ultimate controlling parent is unknown			
Reinvested earnings (D43D)	↓	2.1.1.2 Reinvested earnings and undistributed branch profits	* In <i>BPM6</i> , the title Reinvested earnings replaces the <i>BPM5</i> term <i>Reinvested earnings and undistributed branch profits</i> , without changing the substance of the item.
Investment income attributable to policyholders in insurance, pension schemes, and standardized guarantees, and to investment fund shareholders (D44D)			
of which: investment income attributable to investment fund shareholders (D443D)			

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Interest (D41D) Direct investor in direct investment enterprises Direct investment enterprises in direct investor (reverse investment) Between fellow enterprises <i>if ultimate controlling parent is resident</i> <i>if ultimate controlling parent is unknown</i>	↓	2.1.2 Income on debt (interest), (partly)	* See Primary income, general comments: interest.
Memorandum: Interest before FISIM	↓	2.1.2 Income on debt (interest)	* In <i>BPM6</i> , 'actual interest', i.e. interest including FISIM, is a memorandum item; see <i>BPM6</i> , paragraph 11.74. This item corresponds with interest reported under <i>BPM5</i> .
Portfolio investment		2.2 Portfolio investment	* See Primary income, general comments: interest.
Investment income on equity and investment fund shares Dividends on equity excluding investment fund shares (D42P) Investment income attributable to investment fund shareholders (D443P) Dividends Reinvested earnings	↓ ↘ ↓	2.2.1 Income on equity (dividends) (partly)	* See Primary income, general comments: dividends. * Other than in <i>BPM5</i> , reinvested earnings of investment funds are included in primary income for portfolio investment, with counterpart in the financial account; <i>BPM6</i> , paragraphs 11.37 - 11.39.

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italics</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italics</i> are supplementary)	Comments on Change in Treatment or Clarification
Interest (D41P)		2.2.2 Income on debt (interest) (partly)	* See Primary income, general comments: interest, and fees on securities lending and gold loans.
Short-term	↓	2.2.2.2 Money market instruments	
Long-term	↓	2.2.2.1 Bonds and notes	
		2.2.2.1.2 Other interest	
		2.2.2.1.1 FISIM	* Unlike in <i>BPM6</i> , <i>BPM5</i> does not recognize FISIM; see <i>BPM5</i> , paragraph 258, note 7. Nonetheless, it is included as additional detail in <i>BPM5</i> , Table 7 to allow reconciliation with the SNA. <i>BPM6</i> does not recognize FISIM on portfolio investment.
Other investment		2.3 Other investment	* See Primary income, general comments: interest, and reserve assets.
Withdrawals from income of quasi-corporations (D420)	↓	Equity income (not available in <i>BPM5</i>)	* In <i>BPM6</i> , income from equity not included in direct investment and not in the form of securities (i.e. D420) is separately distinguished in income from other investment; see <i>BPM6</i> , paragraphs 5.26-5.27. <i>BPM5</i> does not specify this kind of equity.
Interest (D410)	↓	2.3.2 Other interest (partly)	
Memorandum: Interest before FISIM	↓	2.3.1 FISIM	* In <i>BPM6</i> , 'actual interest', i.e. interest including FISIM, is a memorandum item; see <i>BPM6</i> , paragraph 1.74. This item corresponds with interest reported under <i>BPM5</i> .
Investment income attributable to policyholders in insurance, pension schemes, and standardized guarantees (D4410+ D4420)	↓	2.3.3 Imputed income to households from net equity in life insurance and in pension funds	* In <i>BPM6</i> , premium supplements are taken into account in deriving insurance services; see <i>BPM6</i> , paragraph 10.111 and Appendix 6c. Thus, the total amount of investment income attributable to policyholders is classified as premium supplements; see <i>BPM6</i> , Appendix 6c.26. <i>BPM5</i> accepts ignoring these flows on practical grounds; see <i>BPM5</i> , paragraph 257.
Reserve assets ⁴			* See Primary income, general comments: interest; fees on securities lending and gold loans; and reserve assets.
Income on equity and investment fund shares			
Interest (D41R) ⁴			
Memorandum: Interest before FISIM ⁴			

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Other primary income <i>Taxes on production and imports (D2)</i> <i>Subsidies (D3)</i>	↓	C. Current transfers (partly) 1. General government (partly) 1.2 <i>Other taxes on production</i> 1.3 <i>Other subsidies on production</i> 2. Other sectors 2.2 Other transfers (partly) 2.2.2 <i>Other taxes on production</i> 2.2.3 <i>Other subsidies on</i>	* In <i>BPM6</i> , taxes and subsidies on products and production are classified as primary income, not as secondary income (current transfers) as in <i>BPM5</i> ; see <i>BPM6</i> , paragraphs 11.91 - 11.94.
Rent (D45)			* In <i>BPM5</i> , rent (D45) is not separately identified.
Secondary income : General Comments			
* The term Secondary income is introduced to be consistent with the SNA and is clarified in <i>BPM6</i> , paragraphs 12.1 - 12.4. More detailed types of current transfers are introduced on a supplementary basis; see <i>BPM6</i> , paragraphs 12.21 - 12.24. Refunds of taxes to taxpayers are treated as negative taxes, i.e., the amount of taxes is reduced by tax refunds; see <i>BPM6</i> , paragraph 12.21. In <i>BPM5</i> , tax refunds are recorded under government transfers; see <i>BPM5</i> , paragraph 299. The delineation between taxes and services is clarified. Business licenses to fish, hunt, etc. are no longer automatically treated as taxes as in <i>BPM5</i> , but as services, rent, taxes, or acquisition of a license asset, depending on what is supplied in return; see <i>BPM6</i> , paragraphs 10.179-180, 12.23, <i>BPM5</i> , paragraph 300.			
Secondary income			
General government		C. Current transfers 1. General government	
<i>Current taxes on income, wealth, etc. (D5)</i>	↓	1.1 <i>Current taxes on income, wealth etc.</i>	
<i>Of which: payable by border, seasonal, and other short-term workers</i>			* Supplementary data related to cross-border employment is used to compile personal remittances; see <i>BPM6</i> , paragraph 12.51.

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
<i>Social contributions (D61)</i> <i>Of which: payable by border, seasonal, and other short-term workers</i>	↓	1.2 <i>Other taxes on production</i> 1.3 <i>Other subsidies on production</i>	* In <i>BPM6</i> , taxes and subsidies on products and production are classified as primary income; not as secondary income (current transfers) as in <i>BPM5</i> ; see <i>BPM6</i> , paragraphs 11.90 - 11.93.
<i>Social benefits (D62+D63)</i>	↓	1.4 <i>Social contributions</i>	* Supplementary data related to cross-border employment is used to compile personal remittances; see <i>BPM</i> , paragraph 12.51.
<i>Current international cooperation (D74)</i> <i>Miscellaneous current transfers of general government (D75)</i> <i>Of which: Current transfers to NPISHs</i>	↓	1.5 <i>social benefits</i> 1.6 <i>Other current transfers of general government</i>	* Supplementary data on current transfers to NPISHs is used to compile total remittances to NPISHs; see <i>BPM6</i> , paragraph 12.51.
Financial corporations, nonfinancial corporations, households, and NPISHs		2. Other sectors	

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Personal transfers (Current transfers between resident and nonresident households) <i>Of which: Workers' remittances</i>		2.1 Workers' remittances	* <i>BPM6</i> introduces the concept of <i>Personal transfers</i> , which is broader than workers' remittances (in both <i>BPM5</i> and <i>BPM6</i>) because it includes all transfers between individuals, not just those of migrants who are employed in new economies and considered residents there; see <i>BPM6</i> , paragraphs 12.47 - 12.51 and Appendix 5.
Other current transfers		2.2 Other transfers	
Current taxes on income, wealth, etc. (D5)		2.2.1 Current taxes on income, wealth, etc	
		2.2.2 Other taxes on production 2.2.3 Other subsidies on	* In <i>BPM6</i> , taxes and subsidies on products and production are classified as primary income; not as secondary income (current transfers) as in <i>BPM5</i> ; see <i>BPM6</i> , paragraphs 11.91 - 11.94).
Social contributions (D61) Social benefits (D62+D63)		2.2.4 Social contributions 2.2.5 Social benefits	
Net nonlife insurance premiums (D71) Nonlife insurance claims (D72)		2.2.6 Other current transfers of other sectors	* In <i>BPM6</i> , premium supplements are taken into account in deriving insurance services; see <i>BPM6</i> , paragraph 10.111 and Appendix 6c. <i>BPM5</i> accepts ignoring these flows on practical grounds; see <i>BPM5</i> , paragraph 257. In <i>BPM6</i> , reinsurance and direct insurance are treated consistently; see <i>BPM6</i> , paragraph 10.111, whereas <i>BPM5</i> recommends recording the balance of all flows between resident insurers and nonresident reinsurers (and vice versa) in services; see <i>BPM5</i> , paragraph 257. Unlike in <i>BPM5</i> , the estimate of insurance claims used to derive the value of insurance services may be adjusted to take account of claim volatility; see <i>BPM6</i> , paragraph 10.114 (c). Unlike in <i>BPM5</i> , insurance claims may be treated as capital transfers in exceptional cases of catastrophic losses to be consistent with the <i>SNA</i> ; see <i>BPM6</i> , paragraph 13.24.
Current international cooperation (D74)			* Technical assistance that is part of or tied to capital projects (item not explicitly discussed in <i>BPM5</i>) is recorded as capital transfers; see <i>BPM6</i> , paragraph 12.43. Transfers of equipment in the form of weapons or equipment that are classified as fixed assets are considered as investment grants and thus recorded in the capital account; see <i>BPM6</i> , paragraph 13.26. In <i>BPM5</i> , these transfers are treated as current transfers; see <i>BPM5</i> , paragraph 349.
Miscellaneous current transfers (D75) <i>Of which: Current transfers to NPISHs</i>			* Supplementary data on current transfers to NPISHs is used to compile total remittances to NPISHs; see <i>BPM6</i> , paragraph 12.51.

Balance of Payments Account Items (continued)			
BPM6 Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	BPM5 Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
<i>Adjustment for change in pension entitlements</i>			* The treatment of pension contributions / receipts is aligned with the SNA 2008 and the adjustment item for the change in pension entitlements is introduced; see <i>BPM6</i> , paragraph 12.31. When crossborder flows are minor, the adjustment item may be omitted; see <i>BPM6</i> , paragraph 12.32.
Capital account: General Comments			
			* Debits and credits for the acquisition/disposal of nonproduced nonfinancial assets are to be recorded separately, not netted as in <i>BPM5</i> ; see <i>BPM6</i> , paragraphs 13.7 and 3.113.
			* Unlike in <i>BPM5</i> , emission rights and internet domain names are identified as possible economic assets; see <i>BPM6</i> , paragraphs 13.14 and 13.18, respectively.
			* In <i>BPM6</i> , the results of R&D, such as patents and copyrights, are no longer treated as nonproduced assets. Outright purchases and sales of these products no longer appear in the capital account (as in <i>BPM5</i> , see paragraphs 312 and 358), but are classified as produced assets with transactions recorded in services (R&D services for patents and copyrights); see <i>BPM6</i> , Table 10.4 and <i>BPM5</i> , paragraph 358.
			* Capital transfers associated with the activation of one-off guarantees and other debt assumption are specified; see <i>BPM6</i> , paragraphs 8.42 - 8.45, 13.19, and Box 8.1. One-off guarantees are not discussed in <i>BPM5</i> .
			* Large inheritances are treated as capital transfers, instead of current transfers as in <i>BPM5</i> ; see <i>BPM6</i> , paragraph 13.30.
			* Unlike in <i>BPM5</i> , insurance claims may be treated as capital transfers in exceptional cases of catastrophic losses to be consistent with the SNA; see <i>BPM6</i> , paragraph 13.24.
Capital account		A. Capital account	
Gross acquisitions (DR.) / disposals (CR.) of nonproduced nonfinancial assets (N2)	↓	2. Acquisition/disposal of nonproduced, nonfinancial assets	
Capital transfers (D9)		1. Capital transfers	
General government		1.1 General government	
Debt forgiveness	↓	1.1.1 Debt forgiveness	* A convention for distinction between write-offs and debt forgiveness is introduced; see <i>BPM6</i> ,
Other capital transfers Of which: <i>Capital taxes (D91)</i>	↓	1.1.2 Other	
Financial corporations, nonfinancial corporations, households, and NPISHs		1.2. Other sectors	
		1.2.1 Migrants' transfers	* The personal effects, financial assets, and liabilities of persons changing residence are no longer recorded as capital transfers; <i>BPM6</i> , paragraphs 13.30, 9.21-9.22 and 10.22(b); <i>BPM5</i> , paragraphs 352-353.
Debt forgiveness	↓	1.2.2 Debt forgiveness	* A convention for distinction between write-offs and debt forgiveness is introduced; see <i>BPM6</i> , paragraph 9.10.

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Other capital transfers <i>Of which: Capital taxes (D91)</i> <i>Of which: Between households</i>	←	1.2.3 Other	This supplementary item is used to compile personal remittances; see <i>BPM6</i> , Paragraph 12.51.
<i>Of which: for each item in capital transfers: Transfers to NPISHs</i>			* Supplementary data on capital transfers to NPISHs is needed to compile total remittances to NPISHs; see <i>BPM6</i> , paragraph 12.51(c) and Appendix 5.
Net lending (+) / net borrowing (-) (balance from current and capital account) (B9)			The sum of the balances of the current and capital account, i.e., the sum of all credits minus the sum of all debits in these accounts, represents the net lending (surplus) or net borrowing (deficit) by the economy with the rest of the world. This is conceptually equal to the net balance of the financial account; see <i>BPM6</i> , paragraph 2.18 and Table 2.1.
Financial account: General Comments			
* In <i>BPM6</i> , central bank replaces monetary authorities as an institutional subsector, whereas monetary authorities remains an essential concept for defining reserve assets and a supplementary subsector where relevant; see <i>BPM6</i> , paragraphs 4.70 and 6.66. <i>BPM6</i> introduces a breakdown of other sectors into 'other financial and nonfinancial corporations, households and NPISHs'; see <i>BPM6</i> , Chapter 4, Table 4.2.			
* In <i>BPM6</i> , the detailed classification of financial assets and liabilities is harmonized with the <i>SNA</i> and <i>Monetary and Financial Statistics Manual 2000</i> in terms of detail and terminology; see <i>BPM6</i> , Table 5.3. In the <i>BPM5</i> standard components, instruments are combined and different names for them are used in different places.			
* In <i>BPM6</i> , arrears are retained in the original asset/liability and identified as a memorandum item if related to exceptional financing (otherwise supplementary item). In <i>BPM5</i> , arrears are reclassified from the original asset/liability to short-term other assets / liabilities and requested as a supplementary item; see <i>BPM6</i> , paragraphs 5.99 - 5.102, <i>BPM6</i> , paragraphs 8.58 - 8.59, and <i>BPM5</i> , paragraphs 453, 528 - 529.			
* A convention for distinction between write-offs and debt forgiveness is introduced; see <i>BPM6</i> , paragraph 9.10.			
* Financial assets and liabilities of entities (migrants) changing residence are included as Other changes in volume; see <i>BPM6</i> , paragraphs 9.21 - 9.23, unlike as transactions in <i>BPM5</i> ; see <i>BPM5</i> , paragraph 354.			
* The content of the <i>Financial Derivatives Supplement 2000</i> is incorporated. As a consequence, the coding of the <i>BPM5</i> Balance of Payments: Standard Components and Additional Detail in this conversion table is not corresponding to <i>BPM5 1993</i> but rather to the revised coding of the <i>Financial Derivatives Supplement 2000</i> .			
Direct investment: General Comments			
* In <i>BPM6</i> , direct investment is presented on an assets and liabilities basis, unlike on the directional principle in <i>BPM5</i> . In the standard components, direct investment is classified according to the relationship between the investor and the entity receiving the investment; see <i>BPM6</i> , paragraphs 6.37 - 6.41. Thus, under 'Direct investor in direct investment enterprises' the reporting economy of the direct investor records the assets of the direct investor, and the reporting economy of the direct investment enterprises records the (mirror) liabilities of the direct investment enterprises (whether in an immediate or indirect relationship); see <i>BPM6</i> , paragraphs 6.37.(a). Under 'Direct investment enterprises in direct investor' (reverse investment) the reporting economy of the direct investment enterprises records the assets of the direct investment enterprises, and the reporting economy of the direct investor records the liabilities of the direct investor (whether in an immediate or indirect relationship); see <i>BPM6</i> , paragraphs 6.37.(b). Under the item 'Between fellows' the reporting economy reports assets and /or liabilities as appropriate; see <i>BPM6</i> , paragraph 6.17.			
* Data on the directional basis are also recognized as essential for many purposes; see <i>BPM6</i> , paragraphs 6.44 - 6.45. The details needed to compile these data are shown in <i>BPM6</i> , Box 6.4.			

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
			* In <i>BPM6</i> , the Framework for Direct Investment Relationships (FDIR) is adopted for identifying direct investment relationships; see <i>BPM6</i> , paragraphs 6.8 - 6.18 and <i>BPM6</i> Box 6.1. Ownership of ordinary shares is removed from the operational definition of direct investment; see <i>BPM6</i> , paragraphs 6.12 and 6.19. In <i>BPM6</i> , the separate category of investment in fellow enterprises is included, see <i>BPM6</i> , paragraph 6.17 (c). The coverage of direct investment relationships due to indirect voting power and fellow enterprises is elaborated; see <i>BPM6</i> , paragraph 6.14.
			* Superdividends are treated as a withdrawal of equity; see <i>BPM6</i> , paragraph 8.23. The term 'superdividends' is not used in <i>BPM5</i> , but the treatment in <i>BPM6</i> is in line with the general principals of <i>BPM5</i> (notably liquidating dividends; see <i>BPM5</i> , paragraph 290).
			* Insurance technical reserves are potentially included in direct investment; see <i>BPM6</i> , paragraph 6.27. In <i>BPM5</i> , technical reserves of insurance enterprises are excluded from the stock of direct investment; see <i>BPM5</i> , paragraph 379.
			* The concept of pass-through funds is introduced; see <i>BPM6</i> , paragraphs 6.33 - 6.34. It is encouraged that compilers in economies that have large values of pass-through funds consider the compilation of supplementary data on funds in transit, based on national definitions.
			* In <i>BPM6</i> , all debt between selected types of affiliated financial corporations is excluded from direct investment, unlike in <i>BPM5</i> , where so-called <i>Permanent debt</i> was included in direct investment. The financial corporations to whom this applies are central banks, deposit-taking corporations other than the central bank, investment funds, and other financial intermediaries except insurance companies and pension funds; see <i>BPM6</i> , paragraph 6.28.
Financial account		B. Financial account	
Net lending (+) / net borrowing (-) (balance from financial account) (B9)			The net balance of the financial account is equal to the net increase of assets minus the net increase in liabilities. This concept is conceptually equal to the net balance of the current and capital account; see <i>BPM6</i> , paragraphs 2.17 - 2.18 and Table 2.1.
Direct investment (FD)		1. Direct investment	
Net acquisition of financial assets		1.1 Abroad	
Equity and investment fund shares (F5D)			
Equity other than reinvestment of earnings		1.1.1 Equity capital	
Direct investor in direct investment enterprises		1.1.1.1 Claims on affiliated enterprises	* In <i>BPM5</i> , fellow enterprises are not explicitly mentioned.
Direct investor enterprises in direct investor (reverse investment)			
Between fellow enterprises			
<i>if ultimate controlling parent is resident</i>		1.2 In reporting economy	
<i>if ultimate controlling parent is unknown</i>		1.2.1 Equity capital	
		1.2.1.1 Claims on direct investors	

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Net acquisition of financial assets		1.1 Abroad	
Reinvestment of earnings <i>Of which: Investment fund shares or units</i> <i>Of which: Money market fund shares or units (F521D)</i>	↓	1.1.2 Reinvested earnings	* In <i>BPM6</i> , the terminology for the financial account entry is 'reinvestment of earnings', to distinguish it from 'reinvested earnings', which is continued to be used for the counterpart item in Primary income; see <i>BPM6</i> , paragraph 8.15.
Debt instruments	↓	1.1.3 Other capital	* In <i>BPM6</i> , the term Debt instruments replaces <i>Other capital</i> .
Direct investor in direct investment enterprises	↓	1.1.3.1 Claims on affiliated enterprises	* As discussed above, in <i>BPM6</i> , all debt between selected types of affiliated financial corporations is excluded from direct investment.
Direct investment enterprises in direct investor (reverse investment)	↘	1.1.3.1.1 Debt securities issued by affiliated enterprises	
Between fellow enterprises	↘	1.1.3.1.2 Other claims on affiliated enterprises	* In <i>BPM6</i> , the item Other claims (as used in <i>BPM5</i>) is not classified separately.
<i>if ultimate controlling parent is resident</i> <i>if ultimate controlling parent is nonresident</i> <i>if ultimate controlling parent is unknown</i>	↘		* In <i>BPM5</i> , fellow enterprises are not explicitly mentioned.
	↘		
Of which: Debt securities (F3D)	↘	1.2 In reporting economy	
Direct investor in direct investment	↘	1.2.3 Other capital	
Direct investment enterprises in direct (reverse investment)	↘	1.2.3.1 Claims on direct investors	* As discussed above, in <i>BPM6</i> , all debt between selected types of affiliated financial corporations is excluded from direct investment.
Between fellow enterprises	↘	1.2.3.1.1 Debt securities issued by direct investors	
<i>if ultimate controlling parent is resident</i> <i>if ultimate controlling parent is nonresident</i> <i>if ultimate controlling parent is unknown</i>	↘	1.2.3.1.2 Other claims on direct investors	* In <i>BPM6</i> , the item Other claims (as used in <i>BPM5</i>) is not classified separately. * In <i>BPM5</i> , fellow enterprises are not explicitly mentioned.

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Net incurrence of liabilities		1.2 In reporting economy	
Equity and investment fund shares (F5D)		1.2.1 Equity capital	
Equity other than reinvestment of earnings		1.2.1.2 Liabilities to direct investors	
Direct investor in direct investment enterprises	↙ ↘	1.1 Abroad	
Direct investment enterprises in direct investor (reverse investment)		1.1.1 Equity capital	* In <i>BPM5</i> , fellow enterprises are not explicitly mentioned.
Between fellow enterprises		1.1.1.2 Liabilities to affiliated enterprises	
<i>if ultimate controlling parent is resident</i>			
<i>if ultimate controlling parent is if ultimate controlling parent is unknown</i>			
Reinvestment of earnings Of which: <i>Investment fund shares or units (F52)</i> Of which: <i>Money market fund shares or units (F521D)</i>	↓	1.2.2 Reinvested earnings	* In <i>BPM6</i> , the terminology for the financial account entry is 'reinvestment of earnings', to distinguish it from 'reinvested earnings', which is continued to be used for the counterpart item in Primary income; see <i>BPM6</i> , paragraphs 8.15.

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Debt instruments		1.2 In reporting economy	
Direct investor in direct investment enterprises		1.2.3 Other capital	* In <i>BPM6</i> , the term Debt instruments replaces Other capital.
Direct investment enterprises in direct investor (reverse investment)		1.2.3.2 Liabilities to direct investors	* As discussed above, in <i>BPM6</i> , all debt between selected types of affiliated financial corporations is excluded from direct investment.
Between fellow enterprises if <i>ultimate controlling parent is resident</i>		1.2.3.2.1 Debt securities issued by affiliated enterprises	* In <i>BPM5</i> , fellow enterprises are not explicitly mentioned.
if <i>ultimate controlling parent is nonresident</i>		1.2.3.2.2 Other liabilities to direct investors	* In <i>BPM6</i> , the item <i>Other claims</i> (as used in <i>BPM5</i>) is not classified separately.
if <i>ultimate controlling parent is unknown</i>			
Of which: Debt securities (F3D)		1.1 Abroad	
Direct investor in direct investment		1.1.3 Other capital	
Direct investment enterprises in direct (reverse investment)		1.1.3.2 Liabilities to affiliated enterprises	* As discussed above, in <i>BPM6</i> , all debt between selected types of affiliated financial corporations is excluded from direct investment.
Between fellow enterprises		1.1.3.2.1 Debt securities issued by direct investors	
if <i>ultimate controlling parent is resident</i>		1.1.3.2.2 Other liabilities of direct investors	* In <i>BPM5</i> , fellow enterprises are not explicitly mentioned.
if <i>ultimate controlling parent is nonresident</i>			
if <i>ultimate controlling parent is unknown</i>			
Portfolio investment (FP)		2. Portfolio investment	
Net acquisition of financial assets		2.1 Assets	
Equity and investment fund shares (F5P)		2.1.1 Equity securities	
Central bank		2.1.1.1 Monetary authorities	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
General government		2.1.1.2 General government	
Monetary authorities (where relevant)			

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Deposit-taking corporations, except central bank	↓	2.1.1.3 Banks	
Other sectors	↓	2.1.1.4 Other sectors	
Other financial corporations	↓		* In <i>BPM6</i> , unlike <i>BPM5</i> , Reinvestment of earnings in investment funds is included in the financial account via the item Equity and investment fund shares, Other financial corporations. The item is not classified as a separate standard component. The counter-entry is in the Primary income account; see <i>BPM6</i> , paragraphs 8.28 and 11.37 - 11.39.
Nonfinancial corporations, households, and NPISHs			
<i>Equity securities other than investment fund shares (F51P)</i>	↓		* A supplementary breakdown of equity securities other than investment fund shares (of which listed / nonlisted) is included unlike in <i>BPM5</i> ; see <i>BPM6</i> , paragraphs 5.24 - 5.27.
Listed (F511P)			
Unlisted (F512P)			
<i>Investment fund shares or units (F52P)</i>	↓		* Investment fund shares and money market fund shares are separately identified as supplementary items; see <i>BPM6</i> , paragraphs 5.28 - 5.30.
Of which: Reinvestment of earnings			
Of which: Money market fund shares or units			
Portfolio investment (FP)		2.2 Liabilities	
Equity and investment fund shares (F5P)		2.2.1 Equity securities	
Net incurrence of liabilities			
Deposit-taking corporations, except central bank	↓	2.2.1.1 Banks	
Other sectors	↓	2.2.1.2 Other sectors	

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Other financial corporations Nonfinancial corporations, households, and NPISHs	↓	↘	* In <i>BPM6</i> , unlike <i>BPM5</i> , Reinvestment of earnings in investment funds is included in the financial account via the item Equity and investment fund shares, Other financial corporations. The item is not classified as a separate standard component. The counter-entry is in the Primary income account; see <i>BPM6</i> , paragraphs 8.28 and 11.37 - 11.39.
<i>Equity securities other than investment fund shares (F51P)</i> <i>Listed (F511P)</i> <i>Unlisted (F512P)</i> ,	↓	↘	* A supplementary breakdown of equity securities other than investment fund shares (of which listed / nonlisted) is included unlike in <i>BPM5</i> ; see <i>BPM6</i> , paragraphs 5.24 - 5.27.
<i>Investment fund shares or units (F52P)</i> <i>Of which: Reinvestment of earnings</i> <i>Of which: Money market fund shares or units (F521P)</i>	↘	↘	* Investment fund shares and money market fund shares are separately identified as supplementary items; see <i>BPM6</i> , paragraphs 5.28 - 5.30.
Debt securities: General Comments			
* The <i>BPM5</i> titles <i>Bonds and notes</i> and <i>Money market instruments</i> are replaced by Long-term and Short-term debt securities in <i>BPM6</i> ; see <i>BPM6</i> , paragraphs 5.44 and 5.103 - 105.			
* The conditions to reclassify traded loans as securities are clarified; see <i>BPM6</i> , paragraph 5.45. However, the impact is likely to be small.			
*Debt instruments with both the amount to be paid at maturity and periodic payments indexed to a foreign currency are classified and treated as if they are denominated in foreign currency. Also, the treatment of index-linked debt instruments is clarified and modified; see <i>BPM6</i> , paragraphs 11.50(a) - (c) and 11.59 - 11.65. <i>BPM5</i> is less explicit about the treatment of this type of securities; see <i>BPM5</i> , paragraphs 397.			
Debt securities (F3P)	↓	2.1.2 Debt securities	
Net acquisition of financial assets			
Central bank	↓	2.1.2.2 Money market instruments	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
Short-term	↓	2.1.2.2.1 Monetary authorities	
Long-term	↓	2.1.2.1 Bonds and notes	
General government	↓	2.1.2.1.1 Monetary authorities	
Short-term	↓	2.1.2.2 Money market instruments	
Long-term	↓	2.1.2.2.2 General government	
<i>Monetary authorities (where relevant)</i>	↓	2.1.2.1 Bonds and notes	
<i>Short-term</i>	↓	2.1.2.1.2 General government	
<i>Long-term</i>	↓		

Balance of Payments Account Items (continued)			Comments on Change in Treatment or Clarification
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	
Deposit-taking corporations, except central bank Short-term	↓	2.1.2.2 Money market instruments	
Long-term	↓	2.1.2.2.3 Banks	
Other sectors	↓	2.1.2.2.1 Bonds and notes	
Short-term	↓	2.1.2.2.1.3 Banks	
Long-term	↓	2.1.2.2.1.4 Other sectors	
Other financial corporations			
Short-term			
Long-term			
Nonfinancial corporations, households, and NPISHs			
Short-term			
Long-term			
Debt securities (F3P)	↓	2.2.2 Debt securities	
Net incurrence of liabilities			
Central bank		2.2.2.2 Money market instruments	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
Short-term	↓	2.2.2.2.1 Monetary authorities	
Long-term	↓	2.2.2.2.1 Bonds and notes	
General government	↓	2.2.2.2.1.1 Monetary authorities	
Short-term	↓	2.2.2.2.2 Money market instruments	
Long-term	↓	2.2.2.2.2 General government	
Monetary authorities (where relevant)		2.2.2.2.1 Bonds and notes	
Short-term		2.2.2.2.1.2 General government	
Long-term			

Balance of Payments Account Items (continued)			Comments on Change in Treatment or Clarification
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	
Deposit-taking corporations, except central bank	↓	2.2.2.2.2 Money market instruments	
Short-term		2.2.2.2.3 Banks	
Long-term	↓	2.2.2.2.1 Bonds and notes	
Other sectors		2.2.2.1.3 Banks	
Short-term	↓	2.2.2.2.2 Money market instruments	
Long-term	↓	2.2.2.2.4 Other sectors	
Other financial corporations		2.2.2.2.1 Bonds and notes	
Short-term		2.2.2.1.4 Other sectors	
Long-term			
Nonfinancial corporations, households, and NPISHs			
Short-term			
Long-term			
Financial derivatives (other than reserves) and employee stock options: General Comments			
* The content of the 2000 <i>Financial Derivatives Supplement</i> is incorporated. As a consequence, the coding of the <i>BPM5</i> Standard Components and Additional Detail in this conversion table is not corresponding to <i>BPM5</i> , but rather to the revised coding of the 2000 <i>Financial Derivatives Supplement</i> .			
* The functional category is renamed to distinguish it from the instrument classification Financial derivatives and Employee stock options; see <i>BPM6</i> 6.58 - 6.60.			
Financial derivatives (other than reserves) and employee stock options (F7F)⁵		3. Financial derivatives	
Net acquisition of financial assets		3.1 Assets	
Central bank	↓	3.1.1 Monetary authorities	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
General government	↓	3.1.2 General government	
<i>Monetary authorities (where relevant)</i>			

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Deposit-taking corporations, except central bank	↓	3.2.3 Banks	
Other sectors	↓	3.1.4 Other sectors	
Other financial corporations	↘		
Nonfinancial corporations, households, NPISHs			
<i>Financial derivatives (other than reserves) (F71F)</i>			* In <i>BPM6</i> , supplementary additional breakdowns of financial derivatives are introduced; see <i>BPM6</i> 5.95.
<i>Options (F711F)</i>			
<i>Forward-type contracts (F712F)</i>			
<i>Employee stock options (F72)</i>			* Employee stock options (ESOs) are included with Financial derivatives in <i>BPM6</i> and recorded as a separate supplementary item if transactions in ESOs are significant; see <i>BPM6</i> 5.96 -5.98 and <i>BPM6</i> 6.58.
Net incurrence of liabilities		3.2 Liabilities	
Central bank	↔	3.2.1 Monetary authorities	
General government	↔	3.2.2 General government	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
<i>Monetary authorities (where relevant)</i>			
Deposit-taking corporations, except central bank	↓	3.2.3 Banks	
Other sectors	↓	3.2.4 Other sectors	
Other financial corporations	↘		
Nonfinancial corporations, households, NPISHs			
<i>Financial derivatives (other than reserves) (F71F)</i>			* In <i>BPM6</i> , supplementary additional breakdowns of financial derivatives are introduced; see <i>BPM6</i> 5.95.
<i>Options (F711F)</i>			
<i>Forward-type contracts (F712F)</i>			
<i>Employee stock options (F72)</i>			* Employee stock options (ESOs) are included with Financial derivatives in <i>BPM6</i> and recorded as a separate supplementary item if transactions in ESOs are significant; see <i>BPM6</i> 5.96 -5.98 and <i>BPM6</i> 6.58.

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Other investment (FO)		4. Other investment	* <i>BPM6</i> specifies all other investment instruments and does not have a residual item Other investment / other assets - other liabilities as in <i>BPM5</i> .
Other equity (F5190) Net acquisition of financial assets Net incurrence of liabilities	↓		* In <i>BPM6</i> , equity not included in direct investment and not in the form of securities is separately distinguished in Other investment / other equity; see <i>BPM6</i> 5.26 -5.27. <i>BPM5</i> does not specify this kind of equity. In <i>BPM6</i> , capital subscriptions to international organizations is included in other equity, whereas <i>BPM5</i> includes these subscriptions in other assets / liabilities (see items 4.1.4/4.2.4 below).
Currency and Deposits: General Comments			
* In <i>BPM6</i> , unlike <i>BPM5</i> , unallocated accounts in gold and other precious metals are included in currency and deposits, except for unallocated gold accounts held by monetary authorities for reserves purposes, for which the asset holding is included in monetary gold; see <i>BPM6</i> , paragraph 5.39.			
* The treatment of overnight deposits (or sweep accounts) is discussed; see <i>BPM6</i> , paragraph 7.62. In view of the fact that the positions can differ substantially depending on when these accounts are measured, it is recommended to record them consistently after the funds are moved at the end of the day and a cross-border position is created.			
* In <i>BPM6</i> , interbank positions is introduced as an 'of which' item to deposits; see <i>BPM6</i> , paragraph 5.42.			
Currency and deposits (F20) Net acquisition of financial assets		4.1.3 Currency and deposits / Assets	
Central banks Short-term Long-term	↙	4.1.3.1 Monetary authorities	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
General government Short-term Long-term	↘	4.1.3.2 General government	
Monetary authorities (where relevant) Short-term Long-term			
Deposit-taking corporations, except central bank Short-term Long-term	↙	4.1.3.3 Banks	
Of which: Interbank positions	↘		

Balance of Payments Account Items (continued)		Comments on Change in Treatment or Clarification
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)
Other sectors	↓	4.1.3.4 Other sectors
Short-term Long-term		
Other financial corporations	↓	
Short-term Long-term		
Nonfinancial corporations, households, NPISHs	↓	
Short-term Long-term		
Currency and deposits (F20)		
Net incurrence of liabilities		4.2.3 Currency and deposits / Liabilities
Central banks	↓	4.2.3.1 Monetary authorities
Short-term Long-term		
General government	↘	
Short-term Long-term		
<i>Monetary authorities (where relevant)</i>	↓	
<i>Short-term</i> <i>Long-term</i>		
Deposit-taking corporations, except the central	↓	4.2.3.2 Banks
Short-term Long-term		
<i>Of which: Interbank positions</i>	↘	

* Unlike *BPM5*, *BPM6* distinguishes currency and deposits liability entries for general government and other sectors / other financial corporations.

* In *BPM6*, the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Other sectors			
Short-term			
Long-term			
Other financial corporations			
Short-term			
Long-term			
Loans: General Comments			
* In <i>BPM6</i> , arrears are retained in the original asset / liability and identified as a memorandum item if related to exceptional financing (otherwise supplementary item). In <i>BPM5</i> , arrears are reclassified from the original asset / liability to short-term other assets / liabilities and requested as a supplementary item; see <i>BPM6</i> , paragraphs 5.99 - 5.102, <i>BPM6</i> , paragraphs 8.58 - 8.59, and <i>BPM5</i> , paragraphs 453, 528 -			
* The conditions to reclassify traded loans as securities are clarified; see <i>BPM6</i> , paragraph 5.45. However, the impact is likely to be small.			
* In <i>BPM6</i> , a convention for the treatment of the activation of one-off guarantees and other debt assumption is included; see <i>BPM6</i> , paragraphs 8.42 - 8.45, 13.12, and Box 8.1.			
Loans (F40)		4.1.2 Loans / Assets	
Net acquisition of financial assets			
Central bank		4.1.2.1 Monetary authorities	* Guidance on positions with the IMF is provided in <i>BPM6</i> , Chapter 7, Annex 7.1.
Credit and loans with the IMF (other than reserves)		4.1.2.1.2 Short-term	* In <i>BPM5</i> , only credit and loans from the Fund (i.e., liabilities of the reporting economy) are shown as standard components.
Other short-term	↓	4.1.2.1.1 Long-term	* Under <i>BPM6</i> , credit and loans / assets with the Fund can be recorded either under general government or central bank, depending on the entity that holds the asset on its books (usually central bank or ministry of finance).
Other long-term	↓	4.1.2.2 General government	
General government		4.1.2.2.2 Short-term	
Credit and loans with the IMF (other than reserves)	↓	4.1.2.2.1 Long-term	
Other short-term	↓		
Other long-term	↓		
Monetary authorities (where relevant)			* In <i>BPM6</i> , the functional category of monetary authorities is supplementary. Credits and loans with the Fund need to be recorded as standard components either under central bank or general government, depending on the entity that holds the asset on its books (usually central bank or ministry of finance).
Credit and loans with the IMF (other than reserves)			
Other short-term			
Other long-term			

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Deposit-taking corporations, except the central		4.1.2.3 Banks	
Short-term	↙	4.1.2.3.2 Short-term	
Long-term	↘	4.1.2.3.1 Long-term	
Other sectors		4.1.2.4 Other sectors	
Short-term	↙	4.1.2.4.2 Short-term	
Long-term	↘	4.1.2.4.1 Long-term	
Other financial corporations			
Short-term			
Long-term			
Nonfinancial corporations, households, and NPISHs			
Short-term			
Long-term			
Net incurrence of liabilities		4.2.2 Loans / Liabilities	
Central bank		4.2.2.1 Monetary authorities	* Guidance on positions with the IMF is provided in <i>BPM6</i> , Chapter 7, Annex 7.1.
Credit and loans with the IMF	↙	4.2.2.1.1 Use of Fund credit and loans from the Fund	* Credit and loans with the Fund can be recorded either under general government or central bank, depending on the entity that holds the liability on its books (usually central bank or ministry of finance).
Other short-term	↘	4.2.2.1.3 Short-term	
Other long-term	↘	4.2.2.1.2 Other long-term	
General government		4.2.2.2 General government	
Credit and loans with the IMF	↙		
Other short-term	↘	4.2.2.2.2 Short-term	
Other long-term	↘	4.2.2.2.1 Long-term	
<i>Monetary authorities (where relevant)</i>			* In <i>BPM6</i> , the functional category of monetary authorities is supplementary. Credits and loans with the Fund need to be recorded as standard components either under central bank or general government, depending on the entity that holds the liability on its books (usually central bank or ministry of finance).
<i>Credit and loans with the IMF</i>			
<i>Other short-term</i>			
<i>Other long-term</i>			

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Deposit-taking corporations, except the central bank		4.2.2.3 Banks	
Short-term	↓	4.2.2.3.2 Short-term	
Long-term	↓	4.2.2.3.1 Long-term	
Other sectors		4.2.2.4 Other sectors	
Short-term	↓	4.2.2.4.2 Short-term	
Long-term	↓	4.2.2.4.1 Long-term	
Other financial corporations			
Short-term			
Long-term			
Nonfinancial corporations, households, and NPISHs			
Short-term			
Long-term			
Insurance, pension, and standardized guarantee schemes: General Comments			
* In <i>BPM 6</i> , for nonlife insurance, changes in insurance technical reserves consist of prepayments of insurance premiums and changes in outstanding claims. Similarly, for life insurance, pension funds, annuity funds, and standardized guarantee schemes, the changes in technical reserves due to transactions are recorded in the financial account and consist of amounts of the estimated obligations to beneficiaries and holders that were accrued during the period; see <i>BPM6</i> , paragraphs 8.46 - 8.49 and Appendix 6c. <i>BPM5</i> 's definition of technical reserves is effectively the same as in <i>BPM6</i> (see <i>BPM5</i> , paragraphs 257, footnote 6), with technical reserves recorded as separate additional detail in other investment / other assets/liabilities, where relevant; see <i>BPM5</i> , Table 7. In <i>BPM6</i> , provisions for calls under standardized guarantees are identified and treated similarly to insurance technical reserves; see <i>BPM6</i> , paragraph 5.68. Standardized guarantees are not classified as financial assets / liabilities in <i>BPM5</i> .			
Insurance, pension, and standardized guarantee schemes (F60)		4.1.4 Other assets (partly / additional detail)	
Net acquisition of financial assets		Prepayments of premiums and reserves against outstanding	
Central bank		4.1.4.1.1.1 Monetary	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
General government	↓	4.1.4.2.1.1 General government	
Monetary authorities (where relevant)	↓		
Deposit-taking corporations, except the central	↓	4.1.4.3.1.1 Banks	
Other sectors	↓	4.1.4.4.1.2 Other sectors	
Other financial corporations	↓	4.1.4.4.1.1 Net equity of households in life insurance reserves and pension funds	
Nonfinancial corporations, households, NPISHs			

Balance of Payments Account Items (continued)			
BPM6 Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	BPM5 Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
<i>Nonlife insurance technical reserves (F610)</i> <i>Life insurance and annuity entitlements (F620)</i> <i>Pension entitlements (F630)</i> <i>Claims of pension funds on sponsors (F640)</i> <i>Entitlement to nonpension benefits (F650)</i> <i>Provisions for calls under standardized guarantees (F660)</i>			
Net incurrence of liabilities		4.2.4 Other liabilities (partly / additional detail)	
Central bank General government <i>Monetary authorities (where relevant)</i> Deposit-taking corporations except central bank Other sectors Other financial corporations Nonfinancial corporations, households, NPISHs <i>Nonlife insurance technical reserves (F610)</i> <i>Life insurance and annuity entitlements (F620)</i> <i>Pension entitlements (F630)</i> <i>Claims of pension funds on sponsors (F640)</i>		4.2.4.4.1.1 Net equity of households in life insurance reserves and in pension funds 4.2.4.4.1.2 Prepayments of premiums and reserves against outstanding claims	* Unlike BPM6, BPM5 does not identify this item for central bank, general government and deposit-taking corporations except central bank. * In BPM6, the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.

Balance of Payments Account Items (<i>continued</i>)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
<i>Entitlements to nonpension benefits (F650)</i> <i>Provisions for calls under standardized guarantees (F660)</i>			
Trade credit and advances: General Comments			
* In <i>BPM6</i> , the term Trade credit and advances replaces Trade credits from <i>BPM5</i> , while the definition is unchanged; see <i>BPM6</i> , paragraph 5.70.			
* In <i>BPM5</i> , goods sent abroad for manufacturing services are included in Goods for processing and a simultaneous change of ownership is imputed in the financial account, except under certain conditions; see <i>BPM5</i> , paragraph 199. In <i>BPM6</i> , these imputed entries are no longer needed; see <i>BPM6</i> , paragraphs 10.62 - 10.71.			
Trade credit and advances (F810) Net acquisition of financial assets		4.1.1 Trade credits / Assets	
Central bank			
Short-term			
Long-term			
General government		4.1.1.1 General government	
Short-term	↓	4.1.1.1.2 Short-term	
Long-term	↓	4.1.1.1.1 Long-term	
<i>Monetary authorities (where relevant)</i>			* In <i>BPM5</i> , trade credits are not requested as separate item for monetary authorities. In <i>BPM6</i> , monetary authorities are requested as supplementary data where relevant.
<i>Short-term</i>			
<i>Long-term</i>			
Deposit-taking corporations, except central bank			* In <i>BPM5</i> , trade credits are not requested as separate items for banks.
Short-term			
Long-term			
Other sectors		4.1.1.2 Other sectors	
Short-term	↘	4.1.1.2.2 Short-term	
Long-term	↘	4.1.1.2.1 Long-term	

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Other financial corporations Short-term Long-term			
Nonfinancial corporations, households, and NPISHs Short-term Long-term			
Trade credit and advances (F810) Net incurrence of liabilities		4.2.1 Trade credits / Liabilities	
Central bank Short-term Long-term			
General government Short-term Long-term	↕ ↕	4.2.1.1 General government 4.2.1.1.2 Short-term 4.2.1.1.1 Long-term	
<i>Monetary authorities (where relevant)</i> Short-term Long-term			* In <i>BPM5</i> , trade credits are not requested as separate item for monetary authorities. In <i>BPM6</i> , monetary authorities are requested as supplementary data where relevant.
Deposit-taking corporations, except central bank Short-term Long-term	↙ ↘		* In <i>BPM5</i> , trade credits are not requested as separate items for banks.
Other sectors Short-term Long-term	↙ ↘ ↙ ↘	4.2.1.2 Other sectors 4.2.1.2.2 Short-term 4.2.1.2.1 Long-term	

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Other financial corporations Short-term Long-term			
Nonfinancial corporations, households, and NPISHs Short-term Long-term			
Other accounts receivable / payable: General Comments			
<p>* The <i>BPM5</i> items <i>Other investment / other assets / other liabilities</i> (as shown in <i>BPM5</i>, Table 7: Standard Components and Additional Detail) is a residual category. Additionally to the <i>BPM6</i> items <i>Other investment / other accounts receivable / payable</i>, it includes (i) Net equity of households in life insurance reserves and in pension funds and Prepayments of premiums and reserves against outstanding claims; in <i>BPM6</i>, these <i>BPM5</i> items are classified under <i>Insurance, pension, and standardized guarantee schemes</i>; (ii) <i>Other investment / other equity</i>; and (iii) other items that could not be classified elsewhere; under <i>BPM6</i> these items are to be allocated to the appropriate financial instrument.</p>			
Other accounts receivable (F890) Net acquisition of financial assets		4.1.4 Other investment/other assets (residual)	
Central bank		4.1.4.1 Monetary authorities	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
Short-term	↙	4.1.4.1.2 Short-term	
Long-term	↘	4.1.4.1.1 Long-term	
		4.1.4.1.1.2 Other assets	
General government		4.1.4.2 General government	
Short-term	↙	4.1.4.2.2 Short-term	
Long-term	↘	4.1.4.2.1 Long-term	
Monetary authorities (where relevant) Short-term Long-term		4.1.4.2.1.2 Other assets	

Balance of Payments Account Items (continued)				
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification	
Deposit-taking corporations, except central bank	↓	4.1.4.3 Banks		
Short-term	↓	4.1.4.3.2 Short-term		
Long-term	↓	4.1.4.3.1 Long-term		
Other sectors	↓	4.1.4.3.1.2 Other assets		
Short-term	↓	4.1.4.4 Other sectors		
Long-term	↓	4.1.4.4.2 Short-term		
		4.1.4.4.1 Long-term		
		4.1.4.4.1.3 Other assets		
Other financial corporations				
Short-term				
Long-term				
Nonfinancial corporations, households, NPISHs		4.1.4 Of which Prepayments of premiums and reserves against outstanding claims	* In <i>BPM6</i> , these subcomponents of <i>BPM5</i> , category 4.1.4, other investment / other assets are reclassified to <i>BPM6</i> category insurance, pension, and standardized guarantee schemes (F60).	
Short-term		4.1.4.1.1 Monetary authorities		
Long-term		4.1.4.3.1.1 Banks		
		4.1.4.2.1.1 General government		
		4.1.4.4.1.2 Other sectors		
		4.1.4 Of which Net equity of households in life insurance reserves and in pension funds		
		4.1.4.4.1.1 Households		
Other accounts payable (F890) Net incurrence of liabilities		4.2.4 Other liabilities (residual)		
Central bank	↓	4.2.4.1 Monetary authorities	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.	
Short-term	↓	4.2.4.1.2 Short-term		
Long-term	↓	4.2.4.1.1 Long-term		
General government	↓	4.2.4.2 General government		
Short-term	↓	4.2.4.2.2 Short-term		
Long-term	↓	4.2.4.2.1 Long-term		

Balance of Payments Account Items (continued)			Comments on Change in Treatment or Clarification
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	
<i>Monetary authorities (where relevant)</i>			
Short-term			
Long-term			
Deposit-taking corporations, except central bank		4.2.4.3 Banks	
Short-term	↙	4.2.4.3.2 Short-term	
Long-term	↘	4.2.4.3.1 Long-term	
Other sectors		4.2.4.4 Other sectors	
Short-term	↙	4.2.4.4.2 Short-term	
Long-term	↘	4.2.4.4.1 Long-term	
Other financial corporations		4.2.4.4.1.3 Other liabilities	
Short-term		<i>4.2.4 Of which Net equity of households in life insurance reserves and in pension funds</i>	* In <i>BPM6</i> , these subcomponents of <i>BPM5</i> , category 4.1.4, other investment / other liabilities are reclassified to <i>BPM6</i> category insurance, pension, and standardized guarantee schemes (F60).
Long-term		4.2.4.4.1.1 Households	
Nonfinancial corporations, households, NPISHs		<i>4.2.4 Of which Prepayments of premiums and reserves against outstanding claims</i>	* In <i>BPM6</i> , the allocation of SDRs to IMF members is recorded as an occurrence of a liability; see <i>BPM6</i> , paragraph 8.50. In <i>BPM5</i> , the allocation of SDRs is not recognized as a liability; see <i>BPM5</i> , paragraph 440.
Short-term		4.2.4.4.1.2 Other sectors	
Long-term			
Special drawing rights (F12) Net incurrence of liabilities			

Balance of Payments Account Items (continued)			
BPM6 Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	BPM5 Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Reserve assets: General comments			
* <i>Monetary gold</i> . In <i>BPM6</i> , unlike <i>BPM5</i> , unallocated gold accounts held by monetary authorities with nonresidents for reserves purposes are included in monetary gold, which is broken down in gold bullion and unallocated gold accounts. Unallocated accounts in other precious metals held with nonresidents are included in currency and deposits; see <i>BPM6</i> , paragraphs 5.39 and 5.74 - 5.78. <i>BPM6</i> gives an extensive explanation of the recording of gold swaps; see <i>BPM6</i> , paragraphs 6.82. The explanation is in line with the general principles of <i>BPM5</i> , although the latter is more concise; see <i>BPM5</i> , paragraph 434.			
* In <i>BPM6</i> , the conditions under which net creditor positions in regional payment agreements can be included in reserve assets have been brought in line with the general principles of reserve assets and have thus become more restrictive; see <i>BPM6</i> , paragraphs 6.112 and <i>BPM5</i> , paragraph 432.			
* Unlike in <i>BPM5</i> , working balances of government agencies are not included in reserve assets in <i>BPM6</i> ; see <i>BPM6</i> , paragraphs 6.112 and <i>BPM5</i> 433.			
* In <i>BPM6</i> , the treatment of pooled assets and assets in special purpose government funds are described consistent with the general principles of reserve assets; in <i>BPM5</i> they were not described. The treatment of pledged assets in reserve assets is clarified; see <i>BPM6</i> , paragraphs 6.93, 6.99 and 6.107 - 6.109. <i>BPM6</i> , paragraph 6.110 discusses the treatment of frozen assets that do not qualify as reserve assets.			
* Guidance on positions with the IMF is provided in <i>BPM6</i> , Chapter 7, Annex 7.1.			
Reserve assets (FR)			
Monetary gold (F11)	←	5.1 Monetary gold	* See Reserve assets, General comments: monetary gold.
Gold bullion ⁶			
Unallocated gold accounts ⁶			
Special drawing rights (F12)	←	5.2 Special drawing rights	
Reserve position in the IMF	←	5.3 Reserve position in the Fund	
		5.3.1 Deposits	
		5.3.2 Loans	
Other reserve assets		5.4 Foreign exchange	

Balance of Payments Account Items (continued)			
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Currency and deposits	↓	5.4.1 Currency and deposits	
Claims on monetary authorities	↓	5.4.1.1 With monetary authorities	
Claims on other entities	↓	5.4.1.2 With banks	
Securities	↓	5.4.2 Securities	* <i>BPM6</i> explains that securities transferred under repos can either (i) be included as reserves assets with the loan incurred (if to a nonresident) reported as other investment / liabilities / loans (and classified as a memorandum item under reserve-related liabilities); or (ii) excluded from reserve assets and reclassified as portfolio investment; see <i>BPM6</i> , paragraphs 6.88 - 6.90. Securities obtained as collateral under reverse repos result in legal but not in economic ownership changing hands and so should not be included in the reserves (or portfolio) assets of the securities borrower; see <i>BPM6</i> , paragraphs 5.54 and 7.58 - 7.59. <i>BPM5</i> does not discuss the treatment of repo transactions in reserves assets.
Debt securities (F31R)	↓	5.4.2.3 Money market instruments	
Short-term (F31R)	↓	5.4.2.2 Bonds and notes	
Long-term (F32R)	↓	5.4.2.1 Equities	
Equity and investment fund shares (F5R)	↓		
Other claims	↓	5.5 Other claims (partly)	* In <i>BPM5</i> , <i>Other claims</i> is a residual that covers part of currency and deposits and securities n.i.e.; see <i>BPM5</i> , paragraph 443. In <i>BPM6</i> , Other claims includes loans to nonresident nondeposit-taking corporations, long-term loans to IMF Trust Accounts that are readily repayable, loans arising from a reverse repo (unless classified as deposits), and other financial assets not included elsewhere that fulfill the general principles of reserve assets; see <i>BPM6</i> , paragraph 6.92.
Financial derivatives (F7R) ⁷	↓	5.5.1 Currency and deposits	
Net errors and omissions	↓	5.5.2 Securities	
Memorandum items - Exceptional financing	↓	5.5.2.2 Debt securities	
Current and/or capital transfers	↓	5.5.2.1 Equities	
Debt forgiveness	↓	5.4.3 Financial derivatives	
Other intergovernmental grants	↓		Net errors and omissions are derived residually as net lending / net borrowing from the financial account minus the same item derived from the current and capital accounts; see <i>BPM6</i> , paragraph 2.24 and Table 2.1.
Grants received from IMF subsidy accounts	↓	2. Exceptional financing transactions	
Direct investment	↓	2.1 Transfers	
Equity investment associated with debt reduction	↓	2.1.1 Debt forgiveness	
Debt instruments	↓	2.1.2 Other intergovernmental	
		2.1.3 Grants received from IMF subsidy accounts	
		2.2 Direct investment	
		2.2.1 Investment associated with debt reduction	
		2.2.2 Other	

Balance of Payments Account Items (continued)			Comments on Change in Treatment or Clarification
<i>BPM6</i> Balance of Payments: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> Balance of Payments: Standard Components and Additional Detail (Items in italic are supplementary)	
Portfolio investment—liabilities ⁸	↓	2.3 Portfolio investment: <i>borrowing by authorities or by other sectors on behalf of</i>	
Other investment—liabilities ⁸		2.4 Other investment - liabilities	
Drawings on new loans by authorities or by other sectors on behalf of authorities	↓	2.4.1 Drawings on new loans by authorities or by other sectors on behalf of authorities	
Rescheduling of existing debt	↓	2.4.2 Rescheduling of existing	
Arrears ^{8,9}		2.4.3 Accumulation of arrears	* In <i>BPM6</i> , arrears are retained in the original asset/liability and identified as a memorandum item if related to exceptional financing (otherwise supplementary item). In <i>BPM5</i> , arrears are reclassified from the original asset/liability to short-term other assets / liabilities and requested as supplementary item; see <i>BPM6</i> , paragraphs 5.99 - 5.102, <i>BPM6</i> , paragraphs 8.58 - 8.59, and <i>BPM5</i> , paragraphs 453, 528 - 529.
Accumulation of arrears	↓	2.4.3.1 Principal on short-term	
Principal on short-term debt		2.4.3.2 Principal on long-term	
Principal on long-term debt		2.4.3.3 Original interest	
Original interest		2.4.3.4 Penalty interest	
Penalty interest		2.4.4 Repayment of arrears	
Repayment of arrears	↓	2.4.4.1 Principal	
Principal		2.4.4.2 Interest	
Interest		2.4.5 Rescheduling of arrears	
Rescheduling of arrears	↓	2.4.5.1 Principal	
Principal		2.4.5.2 Interest	
Interest		2.4.6 Cancellation of arrears	
Cancellation of arrears	↓	2.4.6.1 Principal	
Principal		2.4.6.2 Interest	
Interest			

BPM6-IIP: Changes in Treatment or Classification

International Investment Position Items			
BPM6 International Investment Position: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	BPM5 International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
<p>IIP: General Comments</p> <ul style="list-style-type: none"> * In <i>BPM6</i>, central bank replaces monetary authorities as an institutional subsector, whereas monetary authorities remains an essential concept for defining reserve assets and a supplementary subsector where relevant; see <i>BPM6</i>, paragraphs 4.70 and 6.66. <i>BPM6</i> introduces a breakdown of other sectors into 'other financial and nonfinancial corporations, households and NPISHs; see <i>BPM6</i>, Chapter 4, Table 4.2. * In <i>BPM6</i>, the detailed classification of financial assets and liabilities is harmonized with the <i>SNA</i> and <i>Monetary and Financial Statistics Manual 2000</i> in terms of detail and terminology; see <i>BPM6</i>, Table 5.3. In the <i>BPM5</i> standard components, instruments are combined and different names for them are used in different places. * In <i>BPM6</i>, arrears are retained in the original asset/liability and identified as a memorandum item if related to exceptional financing (otherwise supplementary item). In <i>BPM5</i>, arrears are reclassified from the original asset/liability to short-term other assets / liabilities and requested as a supplementary item; see <i>BPM6</i>, paragraphs 5.99 - 5.102, <i>BPM6</i>, paragraphs 8.58 - 8.59, and <i>BPM5</i>, paragraphs 453, 528 - 529. * In <i>BPM6</i>, classification, netting and ordering in IIP is consistent with the Financial account and Primary income account of the balance of payments, and with the Other changes of the IIP, so as to facilitate reconciliation and calculation of rates of return; see <i>BPM6</i>, paragraphs 7.13 and 8.5. * In <i>BPM6</i>, a currency breakdown is introduced as memorandum item for debt claims, debt liabilities and financial derivatives positions vis-à-vis nonresidents; see <i>BPM6</i>, Appendix 9.C, Table I. The compilation of data on remaining maturity is encouraged for selected position data; see <i>BPM6</i>, paragraphs 5.103 - 105. * The Other changes in financial assets/liabilities is explained and the distinction between exchange rate and other revaluations is elaborated; see <i>BPM6</i>, Chapter 9. * A convention for distinction between write-offs and debt forgiveness is introduced; see <i>BPM6</i>, paragraph 9.10. * Financial assets and liabilities of entities (migrants) changing residence are included as Other changes in volume; see <i>BPM6</i>, paragraphs 9.21 - 9.23, unlike as transactions in <i>BPM5</i>; see <i>BPM5</i>, paragraph 354. * The content of the <i>Financial Derivatives Supplement 2000</i> is incorporated. As a consequence, the coding of the <i>BPM5</i> Balance of Payments: Standard Components and Additional Detail in this conversion table is not corresponding to <i>BPM5</i> 1993 but rather to the revised coding of the <i>Financial Derivatives Supplement 2000</i>. <p>Direct investment: General Comments</p> <ul style="list-style-type: none"> * In <i>BPM6</i>, direct investment is presented on an assets and liabilities basis, unlike on the directional principle in <i>BPM5</i>. In the standard components, direct investment is classified according to the relationship between the investor and the entity receiving the investment; see <i>BPM6</i>, paragraphs 6.37 - 6.41. Thus, under 'Direct investor in direct investment enterprises' the reporting economy of the direct investor records the assets of the direct investor, and the reporting economy of the direct investment enterprises records the (mirror) liabilities of the direct investment enterprises (whether in an immediate or indirect relationship); see <i>BPM6</i>, paragraph 6.37.(a). Under 'Direct investment enterprises in direct investor' (reverse investment) the reporting economy of the direct investment enterprises records the assets of the direct investment enterprises, and the reporting economy of the direct investor records the liabilities of the direct investor (whether in an immediate or indirect relationship); see <i>BPM6</i>, paragraph 6.37.(b). Under the item 'Between fellows' the reporting economy reports assets and /or liabilities as appropriate; see <i>BPM6</i>, paragraph 6.17. * Data on the directional basis are also recognized as essential for many purposes; see <i>BPM6</i>, paragraphs 6.44 - 6.45. The details needed to compile these data are shown in <i>BPM6</i>, Box 6.4. 			

International Investment Position Items (continued)			
<i>BPM6</i> International Investment Position: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
			<p>* In <i>BPM6</i>, the Framework for Direct Investment Relationships (FDIR) is adopted for identifying direct investment relationships; see <i>BPM6</i>, paragraphs 6.8 - 6.18 and <i>BPM6</i>, Box 6.1. Ownership of ordinary shares is removed from the operational definition of direct investment; see <i>BPM6</i>, paragraphs 6.12 and 6.19. In <i>BPM6</i>, the separate category of investment in fellow enterprises is included, see <i>BPM6</i>, paragraph 6.17 (c). The coverage of direct investment relationships due to indirect voting power and fellow enterprises is elaborated; see <i>BPM6</i>, paragraph 6.14.</p> <p>* Direct investment is valued at the best indicator of market prices. For approximating market value for equity that is not regularly traded, see <i>BPM6</i>, paragraph 7.15 (et seq.). In <i>BPM5</i>, market valuation was adopted in principle, while noting that book values 'are generally utilized' in practice; see <i>BPM5</i>, paragraph 467.</p> <p>* Superdividends are treated as a withdrawal of equity; see <i>BPM6</i>, paragraph 8.23. The term 'superdividends' is not used in <i>BPM5</i>, but the treatment in <i>BPM6</i> is in line with the general principals of <i>BPM5</i> (notably liquidating dividends; see <i>BPM5</i>, paragraph 290).</p> <p>* Insurance technical reserves are potentially included in direct investment; see <i>BPM6</i>, paragraph 6.27. In <i>BPM5</i>, technical reserves of insurance enterprises are excluded from the stock of direct investment; see <i>BPM5</i>, paragraph 379.</p> <p>* The concept of pass-through funds is introduced; see <i>BPM6</i>, paragraphs 6.33 - 6.34. It is encouraged that compilers in economies that have large values of pass-through funds consider the compilation of supplementary data on funds in transit, based on national definitions.</p> <p>* In <i>BPM6</i>, all debt between selected types of affiliated financial corporations is excluded from direct investment, unlike in <i>BPM5</i>, where so-called <i>Permanent debt</i> was included in direct investment. The financial corporations to whom this applies are central banks, deposit-taking corporations other than the central bank, investment funds, and other financial intermediaries except insurance companies and pension funds; see <i>BPM6</i>, paragraph 6.28.</p>
International investment Position / Assets			
Direct investment (AFD)		1. Direct investment abroad	
Equity and investment fund shares (AF5D)		1.1 Equity capital and reinvested earnings	* In <i>BPM6</i> , the title <i>Equity capital and reinvested earnings</i> of <i>BPM5</i> is replaced by Equity and investment fund shares.
Direct investor in direct investment enterprises		1.1.1 Claims on affiliated enterprises	* In <i>BPM5</i> , fellow enterprises are not explicitly mentioned.
Direct investment enterprises in direct investor (reverse investment)			
Between fellow enterprises			
<i>if ultimate controlling parent is resident</i> <i>if ultimate controlling parent is nonresident</i> <i>if ultimate controlling parent is unknown</i>		1. Direct investment in reporting economy	
		1.1 Equity capital and reinvested earnings	
<i>Of which: Investment fund shares or units (AF52D)</i> <i>Of which: Money market fund shares or units (AF521D)</i>		1.1.1 Claims on direct investors	

International Investment Position Items (continued)		Remapping	BPM5 International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
BPM6 International Investment Position: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)				
Debt instruments			1. Direct investment abroad	* In <i>BPM6</i> , the term Debt instruments replaces <i>Other capital</i>
Direct investor in direct investment enterprises			1.2 Other capital	
Direct investor in direct investment enterprises			1.2.1 Claims on affiliated enterprises	* As discussed above, in <i>BPM6</i> all debt between selected types of affiliated financial corporations is excluded from direct investment.
Direct investment enterprises in direct investor (reverse investment)				
Between fellow enterprises				
<i>if ultimate controlling parent is resident</i> <i>if ultimate controlling parent is nonresident</i> <i>if ultimate controlling parent is unknown</i>				
Of which: Debt securities (AF3D):			1. Direct investment in reporting economy	* In <i>BPM5</i> , fellow enterprises are not explicitly mentioned.
Direct investor in direct investment enterprises			1.2 Other capital	
Direct investment enterprises in direct investor (reverse investment)			1.2.1 Claims on direct investors	* As discussed above, in <i>BPM6</i> all debt between selected types of affiliated financial corporations is excluded from direct investment.
Between fellow enterprises				
<i>if ultimate controlling parent is resident</i> <i>if ultimate controlling parent is nonresident</i> <i>if ultimate controlling parent is unknown</i>				* In <i>BPM5</i> , fellow enterprises are not explicitly mentioned.
Portfolio investment (AFP)			2. Portfolio investment	
			A. Assets	
Equity and investment fund shares (AF5P)			2.1 Equity securities	* A treatment for short positions due to the onselling of borrowed securities is provided, unlike in <i>BPM5</i> ; see <i>BPM6</i> 7.28.
Central bank			2.1.1 Monetary authorities	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
General government			2.1.2 General government	
Monetary authorities (where relevant)				

International Investment Position Items (continued)			
<i>BPM6</i> International Investment Position: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> International Investment Position: Standard Components and Additional Details (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Deposit-taking corporations, except the central bank	↓	2.1.3 Banks	
Other sectors	↓	2.1.4 Other sectors	
Other financial corporations			
Nonfinancial corporations, households, and NPISHs			
<i>Equity securities other than investment fund shares or units (AF51P)</i>			* A supplementary breakdown of equity securities other than investment fund shares (of which listed / nonlisted) is included unlike in <i>BPM5</i> ; see <i>BPM6</i> , paragraphs 5.24 - 5.27.
Listed (AF511P)			
Unlisted (AF512P)			
<i>Investment fund shares or units (AF52P) Of which: Money market fund shares / units (AF521P)</i>			* Investment fund shares and money market fund shares are separately identified as supplementary items; see <i>BPM6</i> , paragraphs 5.28 - 5.30.
Debt securities: General Comments			
* The <i>BPM5</i> titles <i>Bonds and notes</i> and <i>Money market instruments</i> are replaced by Long-term and Short-term debt securities in <i>BPM6</i> ; see <i>BPM6</i> , paragraphs 5.44 and 5.103 - 105.			
* The conditions to reclassify traded loans as securities are clarified; see <i>BPM6</i> , paragraph 5.45. However, the impact is likely to be small.			
* Debt instruments with both the amount to be paid at maturity and periodic payments indexed to a foreign currency are classified and treated as if they are denominated in foreign currency. Also, the treatment of index-linked debt instruments is clarified and modified; see <i>BPM6</i> , paragraphs 11.50(a) - (c) and 11.59 - 11.65. <i>BPM5</i> is less explicit about the treatment of this type of securities; see <i>BPM5</i> , paragraph 397.			
Debt securities (AF3P)			
Central bank	↓	2.2 Debt securities	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
Short-term	↓	2.2.2 Money market instruments	
Long-term	↓	2.2.2.1 Monetary authorities	2.2.2.1 Bonds and notes
General government	↓	2.2.1.1 Monetary authorities	
Short-term	↓	2.2.2 Money market instruments	
Long-term	↓	2.2.2.2 General government	
<i>Monetary authorities (where relevant)</i>	↓	2.2.1 Bonds and notes	
Short-term	↓	2.2.1.2 General government	
Long-term	↓		
Deposit-taking corporations, except central bank	↓	2.2.2 Money market instruments	
Short-term	↓	2.2.2.3 Banks	
Long-term	↓	2.2.1 Bonds and notes	
	↓	2.2.1.3 Banks	

International Investment Position Items (continued)			
BPM6 International Investment Position: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	BPM5 International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Other sectors		2.2.2 Money market instruments	
Short-term	↓	2.2.2.4 Other sectors	
Long-term	↓	2.2.1 Bonds and notes	
Other financial corporations		2.2.1.4 Other sectors	
Short-term			
Long-term			
Nonfinancial corporations, households, and NPISHs			
Short-term			
Long-term			
Financial derivatives (other than reserves) and employee stock options: General Comments			
* The content of the 2000 <i>Financial Derivatives Supplement</i> is incorporated. As a consequence, the coding of the BPM5 Standard Components and Additional Detail in this conversion table is not corresponding to BPM5, but rather to the revised coding of the 2000 <i>Financial Derivatives Supplement</i> .			
* The functional category is renamed to distinguish it from the instrument classification Financial derivatives and Employee stock options; see BPM6, paragraphs 6.58 - 6.60.			
Financial derivatives (other than reserves) and employee stock options (AF7F)⁵		3. Financial derivatives	
Central bank	↓	A. Assets	
General government	↓	3.1 Monetary authorities	* In BPM6, the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
<i>Monetary authorities (where relevant)</i>		3.2 General government	
Deposit-taking corporations, except the central bank	↓		
Other sectors	↓	3.3 Banks	
Other financial corporations	↓	3.4 Other sectors	
Nonfinancial corporations, households, and NPISHs			
<i>Financial derivatives (other than reserves) (AF71F)</i>			* In BPM6, supplementary additional breakdowns of financial derivatives are introduced; see BPM6, paragraph 5.95.
<i>Forward-type contracts (AF712F)</i>			
<i>Employee stock options (AF72)</i>			* Employee stock options (ESOs) are included with Financial derivatives in BPM6 and recorded as a separate supplementary item if transactions in ESOs are significant; see BPM6, paragraphs 5.96 -5.98 and BPM6, paragraph 6.58.

International Investment Position Items (continued)			
<i>BPM6</i> International Investment Position: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> International Investment Position: Standard Components and Additional Details (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Other investment (AFO)		4. Other investment	* <i>BPM6</i> specifies all Other investment instruments and does not have a residual item other investment / other assets as in <i>BPM5</i> .
Other equity (AF5110)	↓		* In <i>BPM6</i> , equity not included in direct investment and not in the form of securities is separately distinguished in Other investment / other equity; see <i>BPM6</i> , paragraphs 5.26 - 5.27. <i>BPM5</i> does not specify this kind of equity. In <i>BPM6</i> , capital subscriptions to international organizations is included in other equity, whereas <i>BPM5</i> includes these subscriptions in other assets / liabilities (see item 4.4 below).
Currency and Deposits: General Comments			
* In <i>BPM6</i> , unlike <i>BPM5</i> , unallocated accounts in gold and other precious metals are included in currency and deposits, except for unallocated gold accounts held by monetary authorities for reserves purposes, for which the asset holding is included in monetary gold; see <i>BPM6</i> , paragraph 5.39.			
* The treatment of overnight deposits (or sweep accounts) is discussed; see <i>BPM6</i> , paragraph 7.62. In view of the fact that the positions can differ substantially depending on when these accounts are measured, it is recommended to record them consistently after the funds are moved at the end of the day and a cross-border position is created.			
* In <i>BPM6</i> , interbank positions is introduced as an 'of which' item to deposits; see <i>BPM6</i> , paragraph 5.42.			
Currency and deposits (AF20)		4.3 Currency and deposits A. Assets	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
Central bank Short-term Long-term	↓	4.3.1 Monetary authorities	
General government Short-term Long-term	↓	4.3.2 General government	
Monetary authorities (where relevant) Short-term Long-term			

International Investment Position Items (continued)			
BPM6 International Investment Position: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	BPM5 International Investment Position: Standard Components and Additional Details (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Deposit-taking corporations, except the central bank Short-term Long-term <i>Of which: Interbank positions (AF2210)</i>	↓	4.3.3 Banks	
Other sectors Short-term Long-term	↓	4.3.4 Other sectors	
Other financial corporations Short-term Long-term			
Nonfinancial corporations, households, and NPISHs Short-term Long-term			
Loans: General Comments			
* In <i>BPM6</i> , arrears are retained in the original asset / liability and identified as a memorandum item if related to exceptional financing (otherwise supplementary item). In <i>BPM5</i> , arrears are reclassified from the original asset / liability to short-term other assets / liabilities and requested as a supplementary item; see <i>BPM6</i> , paragraphs 5.99 - 5.102, <i>BPM6</i> , paragraphs 8.58 - 8.59, and <i>BPM5</i> , paragraphs 453, 528 - 529.			
* The conditions to reclassify traded loans as securities are clarified; see <i>BPM6</i> , paragraph 5.45. However, the impact is likely to be small. In <i>BPM6</i> , traded loans are valued at nominal value in the IIP, like other loans; see <i>BPM6</i> , paragraph 7.40. In <i>BPM5</i> , they are recorded at transaction value by the creditor; see <i>BPM5</i> , paragraph 471. While nominal value is the primary valuation method for nonnegotiable instruments in <i>BPM6</i> , memorandum and supplementary items are recorded to measure impaired loan assets; see <i>BPM6</i> , paragraphs 7.45 and 7.48-7.53.			
* In <i>BPM6</i> , a convention for the treatment of the activation of one-off guarantees and other debt assumption is included; see <i>BPM6</i> , paragraphs 8.42 - 8.45, 13.20, and Box 8.1.			
Loans (AF40)		4.2 Loans /Assets	
Central bank Credit and loans with the IMF (other than reserves)		4.2.1 Monetary authorities	* Guidance on positions with the IMF is provided in <i>BPM6</i> , Chapter 7, Annex 7.1. * In <i>BPM5</i> , only credit and loans from the Fund (i.e., liabilities of the reporting economy) are shown as standard components.
Other short-term Other long-term	↓ ↓	4.2.1.2 Short-term 4.2.1.1 Long-term	* Under <i>BPM6</i> , credit and loans / assets with the Fund can be recorded either under general government or central bank, depending on the entity that holds the asset on its books (usually central bank or ministry of finance).
General government Credit and loans with the IMF (other than reserves) Other short-term Other long-term	↓ ↓ ↓	4.2.2 General government 4.2.2.2 Short-term 4.2.2.1 Long-term	

International Investment Position Items (continued)			
<i>BPM6</i> International Investment Position: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> International Investment Position: Standard Components and Additional Details (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
<i>Monetary authorities (where relevant)</i> <i>Credit and loans with the IMF (other than reserves)</i> <i>Other short-term</i> <i>Other long-term</i>			* In <i>BPM6</i> , the functional category of monetary authorities is supplementary. Credits and loans with the Fund need to be recorded as standard components either under central bank or general government, depending on the entity that holds the asset on its books (usually central bank or ministry of finance).
Deposit-taking corporations, except the central bank Short-term Long-term	↓ ↓	4.2.3 Banks 4.2.3.2 Short-term 4.2.3.1 Long-term	
Other sectors Short-term Long-term	↓ ↓	4.2.4 Other sectors 4.2.4.2 Short-term 4.2.4.1 Long-term	
Other financial corporations Short-term Long-term			
Nonfinancial corporations, households, and NPISHs Short-term Long-term			
Insurance, pension, and standardized guarantee schemes: General Comments			
* In <i>BPM 6</i> , for nonlife insurance, changes in insurance technical reserves consist of prepayments of insurance premiums and changes in outstanding claims. Similarly, for life insurance, pension funds, annuity funds, and standardized guarantee schemes, the changes in technical reserves due to transactions are recorded in the financial account and consist of amounts of the estimated obligations to beneficiaries and holders that were accrued during the period; see <i>BPM6</i> , paragraphs 8.46 - 8.49 and Appendix 6c. <i>BPM5</i> 's definition of technical reserves is effectively the same as in <i>BPM6</i> (see <i>BPM5</i> , paragraph 257, footnote 6), with technical reserves recorded as separate additional detail in other investment / other assets/liabilities, where relevant; see <i>BPM5</i> , Table 7. In <i>BPM6</i> , provisions for calls under standardized guarantees are identified and treated similarly to insurance technical reserves; see <i>BPM6</i> , paragraph 5.68. Standardized guarantees are not classified as financial assets / liabilities in <i>BPM5</i> .			

International Investment Position Items (continued)			
BPM6 International Investment Position: Standard Components and Selected Other Items (Items in <i>italics</i> are supplementary)	Remapping	BPM5 International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Insurance, pension, and standardized guarantee schemes (AF60)			
Central bank		4.4 Other assets (partly)	* In <i>BPM5</i> , positions arising from insurance, pension, and standardized guarantee schemes are not recorded separately in the IIP, but implicitly included in item 4.4. <i>Other investment / other assets</i> .
		4.4.1 Monetary authorities	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary. Credits and loans with the Fund need to be recorded as standard components either under central bank or general government, depending on the entity that holds the asset on its books (usually central bank or ministry of finance).
		4.4.1.2 Short-term	
		4.4.1.1 Long-term	
General government		4.4.2 General government	
		4.4.2.2 Short-term	
		4.4.2.1 Long-term	
Monetary authorities (where relevant)			
Deposit-taking corporations, except central bank		4.4.3 Banks	
		4.4.3.2 Short-term	
		4.4.3.1 Long-term	
Other sectors		4.4.4 Other sectors	
Other financial corporations		4.4.4.2 Short-term	
Nonfinancial corporations, households, and NPISHs		4.4.4.1 Long-term	
Nonlife insurance technical reserves (AF610)			
Life insurance and annuity entitlements (AF620)			
Pension entitlements (AF630)			
Claims of pension funds on sponsors (AF640)			
Entitlements to nonpension benefits (AF650)			
Provisions for calls under standardized guarantees (AF660)			
Trade credit and advances: General Comments			
* In <i>BPM6</i> , the term Trade credit and advances replaces <i>Trade credits</i> from <i>BPM5</i> , while the definition is unchanged; see <i>BPM6</i> , paragraph 5.70.			
* In <i>BPM5</i> , goods sent abroad for manufacturing services are included in <i>Goods for processing</i> and a simultaneous change of ownership is imputed in the financial account, except under certain conditions; see <i>BPM5</i> , paragraph 199. In <i>BPM6</i> , these imputed entries are no longer needed; see <i>BPM6</i> , paragraphs 10.62 - 10.71.			

International Investment Position Items (<i>continued</i>)			
<i>BPM6</i> International Investment Position: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Trade credit and advances (AF810)		4.1 Trade credits A. Assets	
Central bank			
Short-term			
Long-term			
General government		4.1.1 General government	
Short-term	↙	4.1.1.2 Short-term	
Long-term	↘	4.1.1.1 Long-term	
<i>Monetary authorities (where relevant)</i>			* In <i>BPM5</i> , trade credits are not requested as separate item for monetary authorities.
<i>Short-term</i>			In <i>BPM6</i> , monetary authorities are requested as supplementary data where relevant.
<i>Long-term</i>			* In <i>BPM5</i> , trade credits are not requested as separate items for banks.
Deposit-taking corporations, except central bank			
Short-term			
Long-term			
Other sectors		4.1.2 Other sectors	
Short-term	↙	4.1.2.2 Short-term	
Long-term	↘	4.1.2.1 Long-term	
Other financial corporations			
Short-term			
Long-term			
Nonfinancial corporations, households, NPISHs			
Short-term			
Long-term			
Other accounts receivable / payable: General Comments			
* The <i>BPM5</i> items <i>Other investment / other assets / other liabilities</i> (as shown in <i>BPM5</i> Table 9: Standard Components and Additional Detail) is a residual category. Additionally to the <i>BPM6</i> items <i>Other investment / other accounts receivable / payable</i> , it includes (i) Net equity of households in life insurance reserves and in pension funds and Prepayments of premiums and reserves against outstanding claims; in <i>BPM6</i> , these <i>BPM5</i> items are classified under <i>Insurance, pension, and standardized guarantee schemes</i> ; (ii) <i>Other investment / other equity</i> ; and (iii) other items that could not be classified elsewhere; under <i>BPM6</i> these items are to be allocated to the appropriate financial instrument.			

International Investment Position Items (continued)			
BPM6 International Investment Position: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	BPM5 International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Other accounts receivable (AF890) - other		4.4 Other assets (partly)	
Central bank		4.4.1 Monetary authorities	
Short-term	↓	4.4.1.2 Short-term	
Long-term	↓	4.4.1.1 Long-term	
General government	↓	4.4.2 General government	
Short-term	↓	4.4.2.2 Short-term	
Long-term	↓	4.4.2.1 Long-term	
<i>Monetary authorities (where relevant)</i>			
Short-term			
Long-term			
Deposit-taking corporations, except central bank		4.4.3 Banks	
Short-term	↓	4.4.3.2 Short-term	
Long-term	↓	4.4.3.1 Long-term	
Other sectors		4.4.4 Other sectors	
Short-term	↓	4.4.4.2 Short-term	
Long-term	↓	4.4.4.1 Long-term	
Other financial corporations			
Short-term			
Long-term			
Nonfinancial corporations, households, and NPIsHs			
Short-term			
Long-term			

* In *BPM6*, the functional category of monetary authorities is supplementary. Credits and loans with the Fund need to be recorded as standard components either under central bank or general government, depending on the entity that holds the asset on its books (usually central bank or ministry of finance).

International Investment Position Items (<i>continued</i>)			
<i>BPM6</i> International Investment Position: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Reserve assets: General comments			
* <i>Monetary gold</i> . In <i>BPM6</i> , unlike <i>BPM5</i> , unallocated gold accounts held by monetary authorities with nonresidents for reserves purposes are included in monetary gold, which is broken down in gold bullion and unallocated gold accounts. Unallocated accounts in other precious metals held with nonresidents are included in currency and deposits; see <i>BPM6</i> , paragraphs 5.39 and 5.74 - 5.78. <i>BPM6</i> gives an extensive explanation of the recording of gold swaps; see <i>BPM6</i> , paragraph 6.82. The explanation is in line with the general principles of <i>BPM5</i> , although the latter is more concise; see			
* In <i>BPM6</i> , the conditions under which net creditor positions in regional payment agreements can be included in reserve assets have been brought in line with the general principles of reserve assets and have thus become more restrictive; see <i>BPM6</i> , paragraph 6.112 and <i>BPM5</i> , paragraph 432.			
* Unlike <i>BPM5</i> , working balances of government agencies are not included in reserve assets in <i>BPM6</i> ; see <i>BPM6</i> , paragraph 6.112 and <i>BPM5</i> , paragraph 433.			
* In <i>BPM6</i> , the treatment of pooled assets and assets in special purpose government funds are described consistent with the general principles of reserve assets; in <i>BPM5</i> they are not described. The treatment of pledged assets in reserve assets is clarified; see <i>BPM6</i> , paragraphs 6.93, 6.99 and 6.107 - 6.109. <i>BPM6</i> , paragraph 6.110 discusses the treatment of frozen assets that do not qualify as			
* Guidance on positions with the IMF is provided in <i>BPM6</i> , Chapter 7, Annex 7.1.			
Reserve assets (AFR)		5. Reserve assets	
Monetary gold (AF11)	↓	5.1 Monetary gold	* See Reserve assets, General comments: monetary gold.
Gold bullion ⁶			
Unallocated gold accounts ⁶			
Of which: Monetary gold under swap for cash collateral			
Special drawing rights (AF12)	↓	5.2 Special drawing rights	
Reserve position in the IMF	↓	5.3 Reserve position in the Fund	
Other reserve assets		5.4 Foreign exchange	
Currency and deposits		5.4.1 Currency and deposits	
Claims on monetary authorities	↓	5.4.1.1 With monetary authorities	

International Investment Position Items (continued)		Comments on Change in Treatment or Clarification
<i>BPM6</i> International Investment Position: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)
Claims on other entities		5.4.1.2 With banks
Securities		5.4.2 Securities
Debt securities (AF3R)		5.4.2.3 Money market instruments
Short-term (AF31R)		5.4.2.2 Bonds and notes
Long-term (AF32R)		5.4.2.1 Equities
Equity and investment fund shares (AF5R)		
Of which: Securities under repo for cash collateral		
Financial derivatives (AF7R) ⁷		5.4.3 Financial derivatives (net)
Other claims		5.5 Other claims (partly)

* *BPM6* explains that securities transferred under repos can either (i) be included as reserves assets with the loan incurred (if to a nonresident) reported as other investment / liabilities / loans (and classified as a memorandum item under reserve-related liabilities); or (ii) excluded from reserve assets and reclassified as portfolio investment; see *BPM6*, paragraphs 6.88 - 6.90. Securities obtained as collateral under reverse repos result in legal, but not in economic ownership changing hands and so should not be included in the reserves (or portfolio) assets of the securities borrower; see *BPM6*, paragraphs 5.54 and 7.58 - 7.59. *BPM5* does not discuss the treatment of repo transactions in reserves assets.

* In *BPM6*, the value of securities included in reserve assets and out on repo (or similar arrangements) for cash collateral is identified in the IIP to facilitate an assessment of the level of reserves adjusted for the repo activities; see *BPM6*, paragraphs 6.88 and 7.58.

* In *BPM5*, *Other claims* is a residual that covers part of currency and deposits and securities n.i.e.; see *BPM5*, paragraph 443. In *BPM6*, *Other claims* includes loans to nonresident nondeposit-taking corporations, long-term loans to IMF Trust Accounts that are readily repayable, loans arising from a reverse repo (unless classified as deposits), and other financial assets not included elsewhere that fulfill the general principles of reserve assets; see *BPM6*, paragraph 6.92.

International Investment Position Items (continued)			
BPM6 International Investment Position: Standard Components and Selected Other Items (Items in <i>italics</i> are supplementary)	Remapping	BPM5 International Investment Position: Standard Components and Additional Details (Items in <i>italics</i> are supplementary)	Comments on Change in Treatment or Clarification
<i>if ultimate controlling parent is resident if ultimate controlling parent is nonresident if ultimate controlling parent is unknown</i>			
Portfolio investment (AFP)		2. Portfolio investment	* A treatment for short positions due to the onselling of borrowed securities is provided, unlike in <i>BPM5</i> ; see <i>BPM6</i> 7.28.
Equity and investment fund shares (AF5P)		B. Liabilities	
Deposit-taking corporations, except the central bank	↓	2.1 Equity securities	
Other sectors	↓	2.1.1 Banks	
Other financial corporations		2.1.2 Other sectors	
Nonfinancial corporations, households, NPISHs			
<i>Equity securities other than investment fund shares or units (AF51P)</i>			* A supplementary breakdown of equity securities other than investment fund shares (of which listed/nonlisted) is included unlike in <i>BPM5</i> ; see <i>BPM6</i> , paragraphs 5.24 - 5.27.
Listed (AF511P)			
Unlisted (AF512P)			
<i>Investment fund shares or units (AF52P)</i>			* Investment fund shares and money market fund shares are separately identified as supplementary items; see <i>BPM6</i> , paragraphs 5.28 - 5.30.
<i>Of which: Money market fund shares or units</i>			
Debt securities: General Comments: see above			
Debt securities (AF3P)		2.2 Debt securities	
Central bank	↓	2.2.2 Money market instruments	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
Short-term	↓	2.2.2.1 Monetary authorities	
Long-term	↓	2.2.1 Bonds and notes	
General government	↓	2.2.1.1 Monetary authorities	
Short-term	↓	2.2.2 Money market instruments	
Long-term	↓	2.2.2.2 General government	
<i>Monetary authorities (where relevant)</i>	↓	2.2.1 Bonds and notes	
Short-term	↓	2.2.1.2 General government	
Long-term	↓		

International Investment Position Items (continued)			
<i>BPM6</i> International Investment Position: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Deposit-taking corporations, except the central bank	↓	2.2.2 Money market instruments	
Short-term	↓	2.2.2.3 Banks	
Long-term	↓	2.2.1 Bonds and notes	
Other sectors	↓	2.2.1.3 Banks	
Short-term	↓	2.2.2 Money market instruments	
Long-term	↓	2.2.2.4 Other sectors	
Other financial corporations	↓	2.2.1 Bonds and notes	
Nonfinancial corporations, households, and NPISHs	↓	2.2.1.4 Other sectors	
Financial derivatives (other than reserves) and employee stock options			
Financial derivatives (other than reserves) and employee stock options (AF7F)⁵			
Central bank	↔	3.1 Monetary authorities	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
General government	↔	3.2 General government	
<i>Monetary authorities (where relevant)</i>	↔		
Deposit-taking corporations, except the central bank	↓	3.3 Banks	* Employee stock options (ESOs) are included with financial derivatives in <i>BPM6</i> and recorded as a separate supplementary item if transactions in ESOs are significant; see <i>BPM6</i> , paragraphs 5.96 - 5.98 and <i>BPM6</i> , paragraph 6.58.
Other sectors	↓	3.4 Other sectors	* In <i>BPM6</i> , supplementary additional breakdowns of financial derivatives are introduced; see <i>BPM6</i> , paragraph 5.95.
Other financial corporations	↔		
Nonfinancial corporations, households, NPISHs	↔		
<i>Financial derivatives (other than reserves) (AF71F)</i>	↔		
<i>Options (AF711F)</i>	↔		
<i>Forward-type contracts (AF712F)</i>	↔		
<i>Employee stock options (AF72)</i>	↔		
Other investment (AFO)			* <i>BPM6</i> specifies all other investment instruments and does not have a residual item other investment / other liabilities as in <i>BPM5</i> .

International Investment Position Items (<i>continued</i>)			
BPM6 International Investment Position: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	BPM5 International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Other equity (AF5110)	↓		* In <i>BPM6</i> , equity not included in direct investment and not in the form of securities is separately distinguished in Other investment / other equity; see <i>BPM6</i> , paragraphs 5.26 - 5.27. <i>BPM5</i> does not specify this kind of equity. In <i>BPM6</i> , capital subscriptions to international organizations is included in other equity, whereas <i>BPM5</i> includes these subscriptions in other assets / liabilities (see item 4.4 below).
Currency and Deposits General Comments: see Currency and Deposits Assets			
Currency and deposits (AF20)		4.3 Currency and deposits B. Liabilities	* Unlike <i>BPM5</i> , <i>BPM6</i> distinguishes currency and deposits liability entries for general government and other sectors / other financial corporations.
Central bank Short-term Long-term	↓	4.3.1 Monetary authorities	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
General government Short-term Long-term	↓		
Monetary authorities (<i>where relevant</i>) Short-term Long-term	↓		
Deposit-taking corporations, except the central bank Short-term Long-term	↓	4.3.2 Banks	
Of which: <i>Interbank positions (AF2210)</i>			
Other sectors Short-term Long-term			

International Investment Position Items (continued)			
<i>BPM6</i> International Investment Position: Standard Components and Selected Other Items (Items in italic are supplementary)	Remapping	<i>BPM5</i> International Investment Position: Standard Components and Additional Details (Items in italic are supplementary)	Comments on Change in Treatment or Clarification
Other financial corporations Short-term Long-term			
Loans General Comments: see Loans Assets			
Loans (AF40)		4.2 Loans	
Central bank		B . Liabilities	
Credit and loans with the IMF	↓	4.2.1 Monetary authorities	* Guidance on positions with the IMF is provided in <i>BPM6</i> , Chapter 7, Annex 7.1.
Other short-term	↓	4.2.1.1 Use of Fund credit and loans from the Fund	* Credit and loans with the Fund can be recorded either under general government or central bank, depending on the entity that holds the liability on its books (usually central bank or ministry of finance).
Other long-term	↓	4.2.1.3 Short-term	
General government	↓	4.2.1.2 Other long-term	
Credit and loans with the IMF	↓	4.2.2 General government	
Other short-term	↓	4.2.2.2 Short-term	
Other long-term	↓	4.2.2.1 Long-term	
<i>Monetary authorities (where relevant)</i> <i>Credit and loans with the IMF</i> <i>Other short-term</i> <i>Other long-term</i>			* In <i>BPM6</i> , the functional category of monetary authorities is supplementary. Credits and loans with the Fund need to be recorded either under central bank or general government depending on the entity that holds the liability on its books(usually central bank or ministry of finance)
Deposit-taking corporations, except the central bank		4.2.3 Banks	
Short-term	↓	4.2.3.2 Short-term	
Long-term	↓	4.2.3.1 Long-term	
Other sectors		4.2.4 Other sectors	
Short-term	↓	4.2.4.2 Short-term	
Long-term	↓	4.2.4.1 Long-term	

International Investment Position Items (<i>continued</i>)			
BPM6 International Investment Position: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	BPM5 International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Other financial corporations Short-term Long-term			
Nonfinancial corporations, households, and NPISHs Short-term Long-term			
Insurance, pension, and standardized guarantee schemes			
Insurance, pension, and standardized guarantee schemes (AF60)		4.4 Other liabilities (partly)	* In <i>BPM5</i> , positions arising from insurance, pension, and standardized guarantee schemes are not recorded separately in the IIP, but implicitly included in item 4.4. Other investment / other liabilities.
Central bank	↙ ↘	4.4.1 Monetary authorities	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
		4.4.1.2 Short-term	
		4.4.1.1 Long-term	
General government		4.4.2 General government	
		4.4.2.2 Short-term	
		4.4.2.1 Long-term	
<i>Monetary authorities (where relevant)</i>			
Deposit-taking corporations, except the central bank	↓	4.4.3 Banks	
		4.4.3.2 Short-term	
		4.4.3.1 Long-term	
Other sectors	↓	4.4.4 Other sectors	
Other financial corporations		4.4.4.2 Short-term	
Nonfinancial corporations, households, NPISHs		4.4.4.1 Long-term	
<i>Nonlife insurance technical reserves (AF610)</i> <i>Life insurance and annuity entitlements (AF620)</i> <i>Pension entitlements (AF630)</i> <i>Claims of pension funds on sponsors (AF640)</i> <i>Entitlements to nonpension benefits (AF650)</i> <i>Provisions for calls under standardized guarantees (AF660)</i>			

International Investment Position Items (continued)			
<i>BPM6</i> International Investment Position: Standard Components and Selected Other Items (Items in <i>italic</i> are supplementary)	Remapping	<i>BPM5</i> International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
Trade credit and advances General Comments: see Assets			
Trade credit and advances (AF810)			
Central bank		4.1 Trade credits	* In <i>BPM5</i> , trade credits are not requested as separate items for the central bank. In <i>BPM6</i> , Monetary authorities are requested as supplementary data where relevant.
Short-term			
Long-term		B. Liabilities	
General government		4.1.1 General government	
Short-term	↙	4.1.1.2 Short-term	
Long-term	↘	4.1.1.1 Long-term	
<i>Monetary authorities (where relevant)</i>			* In <i>BPM5</i> , trade credits are not requested as separate item for monetary authorities. In <i>BPM6</i> , monetary authorities are requested as supplementary data where relevant.
Short-term			* In <i>BPM5</i> , trade credits are not requested as separate items for banks.
Long-term			
Deposit-taking corporations, except central bank			
Short-term		4.1.2 Other sectors	
Long-term		4.1.2.2 Short-term	
Other sectors	↙	4.1.2.1 Long-term	
Short-term	↘		
Long-term			
Other financial corporations			
Short-term			
Long-term			
Nonfinancial corporations, households, and NPISHs			
Short-term			
Long-term			
Other accounts payable - other liabilities General Comments : see Assets			
Other accounts payable (AF890) - other liabilities			
Central bank		4.4 Other liabilities (partly)	
Short-term	↙	4.4.1 Monetary authorities	* In <i>BPM6</i> , the functional category of monetary authorities is supplementary, except for reserves assets. Where monetary authorities are supplementary, their transactions and positions need to be recorded as standard components under either central bank or general government, depending on the entity that holds the instrument on its books.
Long-term	↘	4.4.1.2 Short-term	
General government		4.4.1.1 Long-term	
Short-term	↙	4.4.2 General government	
Long-term	↘	4.4.2.2 Short-term	
		4.4.2.1 Long-term	

International Investment Position Items (concluded)			
BPM6 International Investment Position: Standard Components and Selected Other Items (Items in <i>italics</i> are supplementary)	Remapping	BPM5 International Investment Position: Standard Components and Additional Details (Items in <i>italic</i> are supplementary)	Comments on Change in Treatment or Clarification
<i>Monetary authorities (where relevant)</i>			
<i>Short-term</i>			
<i>Long-term</i>			
Deposit-taking corporations, except the central bank		4.4.3 Banks	
Short-term	↓	4.4.3.2 Short-term	
Long-term	↓	4.4.3.1 Long-term	
Other sectors		4.4.4 Other sectors	
Short-term	↓	4.4.4.2 Short-term	
Long-term	↓	4.4.4.1 Long-term	
Other financial corporations			
Short-term			
Long-term			
Nonfinancial corporations, households, and NPISHs			
Short-term			
Long-term			
Special drawing rights (AF12)			* In <i>BPM6</i> , the allocation of SDRs to IMF members is recorded as an incurrence of a liability; see <i>BPM6</i> , paragraph 8.50. In <i>BPM5</i> , the allocation of SDRs is not recognized as a liability; see <i>BPM5</i> , paragraph 440.
Reserve-related liabilities (memorandum item)			* In <i>BPM6</i> , reserve-related liabilities are introduced as memorandum items to the IIP; see <i>BPM6</i> , paragraphs 6.115 - 6.116 and Box 6.5.
* ⁵ Preferably assets and liabilities reported separately, but otherwise a net figure for liabilities less assets, included, by convention, under assets.			
* ⁶ If available for publication.			
* ⁷ Assets and liabilities combined and reported as a net figure for assets less liabilities, included under assets.			

Insurance Transactions and Positions, and Pension Schemes

Insurance Transactions and Positions

Introduction

A2.1 Over the lifetime of insurance contracts, insurance companies produce services to their policyholders for which they do not charge explicitly. These services include financial protection against risk and financial intermediation services that arise when funds collected from policyholders and held as technical reserves are invested. These services are an undifferentiated component of premiums, and need to be derived from amounts accruing to the insurers and amounts accruing to the policyholders. These amounts are reflected in various accounts of the balance of payments depending on the type of the activity—that is, the primary income account, secondary income account, financial account, and, in some cases, the capital account. Service fees explicitly charged by insurance companies (e.g., for agents' commissions, salvage, claims adjustment, actuarial services) are recorded in the goods and services account as auxiliary insurance services. Compilers wishing to improve insurance data first need to understand the current situation regarding crossborder insurance transactions in order to assess their relative importance. The compiler should get acquainted with the situation and gain an understanding by means of interviewing domestic insurance companies, or, in case of resident policyholders and beneficiaries, of assessing the relevance regarding transactions with insurance companies abroad.

A2.2 Two types of insurance schemes are distinguished in the international standards—social insurance and other insurance. Social insurance schemes differ from other insurance in that they are often linked to public insurance programs that provide protection against various social risks (e.g., loss of income due to sickness, old age, or unemployment), and in which participation is often compulsory. Other insur-

ance includes freight insurance on goods imports and exports, life insurance, other types of direct insurance (i.e., nonlife insurance), and reinsurance. Here, the policies are taken out by an institutional unit on its initiative and for its own benefit, independent of any social insurance scheme. The Insurance Transactions and Positions part of the appendix deals with estimating other insurance services.

A2.3 Within other insurance, nonlife insurance and reinsurance are treated similarly, which is a change to previous international standards. However, there are differences between life and nonlife policies leading to different types of entries in the international accounts. For life insurance, the prebenefits period generally extends throughout the entire life of the contract and there is little or no uncertainty about the payment. The payments made over the years are regarded as a financial investment (or saving), which will be returned to the policyholder in later years. Thus the recording of premiums and benefits is made in the financial account.

A2.4 The balance of payments compiler is confronted with different situations regarding the availability of data on cross border insurance activities. The data for estimating exports of insurance services will be best obtained by surveying resident insurance companies. The data collected through this survey should cover data on the nonresident policyholders' share in net premiums, claims, and reserves. This will enable the conceptual adjustments necessary for the recording of these operations in the balance of payments and international investment position (IIP) statistics.

A2.5 The same will not be possible for the imports of insurance services with the provider of the insurance services being nonresident to the compiler's economy. Thus estimates have to be either based on ratios available from the domestic insurance sector, information derived from an international transactions report-

ing system (ITRS), partner economy data, or from a survey that can be used to collect premiums paid and claims recovered from the domestic policyholder. Imports of reinsurance services could be covered by the same survey of domestic insurance companies discussed in the foregoing paragraph. Model form 12 in Appendix 8 is designed for collecting data on insurance services and other related transactions.

Overview of Insurance Accounting: Nonlife Insurance

A2.6 In nonlife insurance, policyholders make regular premium payments to an insurance company. In return, the company guarantees financial protection against the occurrence of events, such as accidents, sickness, and fire. “Term-life insurance” (as opposed to “life insurance”) is also treated as nonlife insurance in external accounts, because it only provides a stated benefit upon the death of the policy holder, provided that the death occurs within a specific time period. However, the policy does not provide any returns beyond the stated benefit, unlike life insurance policies, which have a savings component that can be used for wealth accumulation.

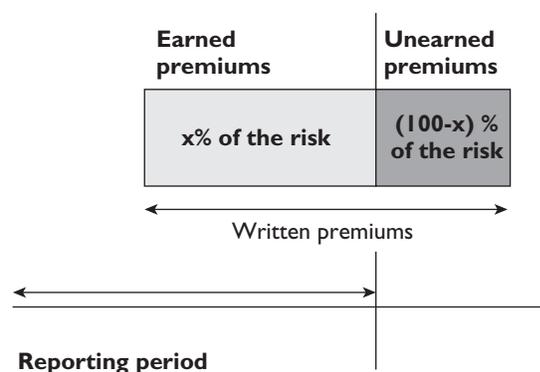
A2.7 The chief function of nonlife insurers lies in the proper redistribution of premiums earned and other income to individuals of homogeneous groups that have incurred losses. A special form of financial intermediation is also involved, in which funds at the disposal of the insurance unit, called (nonlife) insurance technical reserves, are invested in financial and other assets to generate income. Nonlife insurance technical reserves cover unearned premiums, reserves for unexpired risks, and claims outstanding at the end of the reporting period. For the purpose of financial reporting, these funds and the corresponding investment income, called premium supplements, are assets of the policyholders and liabilities of the insurance companies.

Premiums

Written, unearned, and earned premiums

A2.8 An insurance premium represents the price the insurance company charges for the policy and the service it renders to the policyholder. The concept of unearned premiums is important to the insurance business, as it deals with the recognition of revenue for the time period in which the policy is in force. In the jargon of an insurance company, at the time a

policy is first written, the total of the premium may be unearned, as premiums are often fully prepaid at the inception of the policy. Direct written premiums are the amounts charged to and actually paid over the life of a contract by the policyholders for insurance coverage. Each day thereafter, the premium amount accrues to the insurance unit until the end of the policy. At the end of the reporting period, the insurance unit assesses the premium reserves representing the unexpired terms of the policy. The earned premium plus the unearned premium for a policy equals the written premium. The recognition of premiums earned versus premiums received and estimates of claims incurred but not yet reported or resolved can be seen as the application of usual accrual accounting principles.



Net written premiums and reinsurance premiums

A2.9 In most of the cases the direct written premiums constitute the basis for the compiler to determine the amounts of premiums related to direct business and to derive earned premiums at the end of the period. However, an intermediate step may be necessary in case the premium amounts in the accounts of insurers are already further adjusted for reinsurance premiums. Insurance companies purchase reinsurance to protect themselves against the risks of losses above certain thresholds. If a risk is reinsured, the insurance company will cede to a reinsurer (i.e., another insurance company) a part of the premiums in proportion to the risk assumed. The other part is used by the insurance company to finance the risk that remains.¹

¹There are multiple reinsurance types and, hence, methods for ceding business to a reinsurer.

A2.10 On the other hand, insurance companies themselves may act as a reinsurer and accept indirect business from another insurance company in form of assumed premiums. Thus gross written premiums in insurers' accounts could include both written premiums charged to policyholders (also called direct written premiums)² and assumed reinsurance premiums from insurance companies. Net written premiums then constitute gross written premiums minus ceded reinsurance premiums.³

Claims

Insurance claims⁴ incurred and paid

A2.11 At the time the policy becomes effective, the policyholder has transferred the uncertain loss of assets to the insurance company in form of potential claims in exchange for the premium paid. Claims incurred refer to the expected financial obligations that cover the insured risks as provided by the policy. Claims may be known or unknown by the company, reported or unreported. Paid claims occur when actual payments of cash have been made to claimants for insured events of the current or previous periods. To properly match the income earned (premiums) of the insurance company with the expenses incurred in the relevant period, provisions are made in the insurers' accounts as of the accounting date for claims incurred that will be settled after the current accounting period. Claim associated expenses (also called claim/loss adjustment expenses, incurred to investigate and settle losses) are generally considered part of the claim cost for an insurance company.

A2.12 In insurance accounting, claims incurred for the accounting period are calculated as follows:

Claims/losses paid during the accounting period for nonlife insurance contracts
 Minus Loss reserves outstanding (at the beginning of the accounting period)

²Direct written premiums are the premiums received from policies issued directly by the primary insurance company to its policyholders.

³The different meaning of "net" in the context of the *BPM6* should be noted: "Net" as applied to premiums implies that the service charge for the insurance services has been deducted from actual premiums to record the premiums in the secondary income account, whereas here net written premiums are net of ceded reinsurance premiums. See the *BPM6*, paragraph 12.42.

⁴Claims incurred are also called losses incurred in insurance accounting.

Plus Loss reserves outstanding (at the end of the accounting period)

Equals Claims incurred

A2.13 Loss reserves are the unpaid part of claims incurred as of the accounting date, as explained ahead in Insurance technical reserves and expected income attributable to policyholders.

Insurance technical reserves and expected income attributable to policyholders

Insurance technical reserves

A2.14 An insurance company must apply sound methods to estimate potential claim liabilities on its balance sheet to cover all expected and unexpected claims and expenses, as there is always a delay between the times the insured events occur and the times the claims are reported and settled. The insurance company has incurred a potential liability at the time the policy becomes effective. Until the insured incident occurs, the potential liability is reflected in unearned premiums and the other components of insurance technical reserves.

A2.15 Unearned premiums are established as a liability because insurance companies receive premiums in advance of some or all of the policy period that is covered by the policy. Following the accrual principle, these premiums cannot be recognized as revenue until they are earned. Also, insurance companies may need to refund these premiums to policyholders if the policy is cancelled before its stated ending date.

A2.16 The nonlife insurance technical reserves set aside on the balance sheet (see Example A2.2 ahead) for future commitments that arise out of insurance contracts (including any related administration expenses, taxes, etc.) consist of mainly two components:

- a. *Unearned premium reserves* are that part of premiums written that apply to the unexpired part of the policy period. These reserves are to be carried forward to the following accounting period. The insurance policy period for which the premium is paid in advance and during which the insurance company bears the risk does (usually) not correspond with the reporting period. If an insurance company expects its unearned premium reserves to be insufficient to cover estimated claims and expenses in the following accounting period from contracts concluded by

Example A2.1. Illustration of insurance company profit and loss account

In million U.S. dollars	2012	2011
INCOME		
Gross premium written	5,488.9	5,255.7
Reinsurance premium ceded	-288.7	-272.0
Net premium written	5,200.2	4,983.7
Premium assumed	300.0	250.0
Net changes in unearned premium reserves	-35.6	-24.6
Net earned premium	5,164.6	4,959.1
Interest and dividend income	793.8	704.4
Gains and losses on investments (net)	130.2	291.4
Income on investment property	194.4	186.4
Other income	89.1	89.4
Total operating income	6,672.1	6,480.7
EXPENSES		
Claims incurred including claims handling costs (nonlife)	-1,610.9	-1,465.8
Claims and benefits paid (life)	-2,369.8	-2,226.3
Change in actuarial reserve	-591.1	-738.0
Reinsurers' share of benefits and claims	205.9	160.8
Policyholder dividends and bonuses	-173.4	-166.7
Insurance benefits and claims (net)	-4,539.3	-4,436.0
Acquisition costs	-692.4	-647.4
Operating and administrative expenses	-534.2	-509.8
Interest payable	-44.6	-41.8
Other expenses	-51.7	-29.3
Total operating expenses	-5,862.2	-5,664.3
Profit or loss from operating activities	809.9	816.4
Finance costs	-7.2	-6.0
Share of profit or loss of associates	2.8	1.8
Profit or loss before taxes	805.5	812.2
Income taxes	-103.5	-138.4
<i>Profit or loss for the period</i>	<i>702.0</i>	<i>673.8</i>

the end of the accounting period, it may create so-called unexpired risk provisions. Some insurance companies also separately disclose provisions to meet costs of discounts to be granted to certain policyholders.

- b. *Estimated loss reserves and reserves for claims incurred but not reported* are provisions set aside to meet the estimated costs of settling claims that have occurred up to the end of the accounting period from policies currently in force and policies written in the past, after the deduction of amounts already paid. This amount includes

funds for unpaid claims, claims adjustment and handling expenses known but not yet settled, and estimates for claims incurred but not yet notified (so called incurred but not reported) by the balance sheet date. Insurance companies may also set aside funds for preventing cash-flow depletion for significant unforeseen events or catastrophes, when many policyholders may be affected at about the same time. These kinds of reserves should, however, be taken into account only if there has been an event that triggered the increase of liabilities vis-à-vis the policyholders.

Example A2.2. Excerpt from an insurance company balance sheet

Insurance company X: Insurance liabilities at year end			
In million U.S. dollars	Life	General	Total
Participating contracts	12,383.7	–	12,383.7
Unit-linked nonparticipating contracts	9,998.4	–	9,998.4
Other nonparticipating contracts	9,359.1	–	9,359.1
Outstanding claims provisions	–	1,111.8	1,111.8
Provisions for claims handling expenses	–	78.4	78.4
Provisions for claims incurred but not reported	–	480.6	480.6
Provisions for unearned premiums	–	396.4	396.4
Provisions for unexpired risks	–	3.0	3.0
Total	31,741.2	2,070.3	33,811.5

Otherwise these amounts are seen as internal reserves set aside for saving purposes and should not be included in nonlife technical reserves of the balance of payments and IIP.

Expected income (attributable to policyholders)

A2.17 Insurance companies generally distinguish two sources of income, from investing shareholder (equity) capital and from investing policyholders' funds (also referred to as holdings of own assets and technical reserves, respectively). The investment of policyholders' funds is a distinct feature of insurance companies and made possible because of the time span between the collection of premiums and the eventual loss settlements.

Using the Insurance Companies' Accounting Data to Derive Balance of Payments and IIP Components

A2.18 Box A2.1 summarizes the *BPM6* methodology as described in Annex 6c of the *BPM6* regarding the balance of payments data on nonlife insurance. Although the terms used to describe transactions of the insurance sector in the *BPM6* and the *2008 SNA* are based on and in strong accordance with the accounting terminology that insurance companies use to set up their accounts (as explained in Employment-Related Pension Schemes and Social Security Schemes of this

appendix), the compiler may need to make certain adjustments before data can be used to derive relevant balance of payments entries according to the *BPM6*. These adjustments are necessary, for instance, to determine and differentiate the amounts of premiums related to direct business with policyholders, and the amounts related to reinsurance (both ceded and assumed), as further explained ahead.

A2.19 The paragraphs ahead aim at identifying the terms and the necessary adjustments needed to compile balance of payments data. All entries relate to nonresident policyholders.

Secondary income account: Net premiums earned

A2.20 Net premium earned equals premiums earned *plus* premium supplement *minus* service charge. For the compilation of balance of payments purposes according to the *BPM6*, there is no netting between direct insurance and reinsurance. Therefore, the compiler should distinguish between the amounts related to direct business, and the amounts related to reinsurance (both ceded and assumed). This means that direct written premiums received from policyholders should not be netted for any premiums ceded to reinsurers, and should exclude premiums assumed from other insurance companies. The rationale is that the direct insurance company is fully liable vis-à-vis the policyholder, regardless

Box A2.1 BPM6 Entries in the Balance of Payments Related to Nonlife Insurance Transactions**Services account**

The insurance service charge is derived implicitly with the following formula (see *BPM6*, Appendix 6c):

Insurance services = gross premiums earned
plus premium supplements (investment income attributable to policyholders in insurance)
minus claims due/incurred (adjusted for claims volatility, if needed)

Primary income account

Investment income attributable to policyholders in insurance (equal to premium supplements)

Secondary income account

Net premiums earned = gross premiums earned
plus premium supplements
minus insurance services
 Claims payable/due

Financial account

Changes in nonlife insurance technical reserves (e.g., for policyholders' funds invested)
 Currency and deposits (for actual premiums written and claims paid)

of whether part of the risks are reinsured (see *2008 SNA*, paragraph 17.57).

A2.21 The written premiums from direct business are used to determine the earned premiums from the insurers' accounts of the reporting period.⁵ From the business with nonresident policyholders:

Written premiums (for direct business only)

Plus Unearned premium reserve (at the beginning of the reporting period)
Minus Unearned premium reserve (at the end of the reporting period)
Equals Premiums earned (from direct business)

A2.22 The adjusted written premiums and derived earned premiums constitute the first two components for the compilation of the insurance accounts according to international standards. Written premiums correspond to premiums received in the *BPM6*, and are recorded in other investment—for example, as an increase in the insurance companies' deposits abroad.

A2.23 In Example A2.1 (Illustration of insurance company profit and loss account), to determine the earned premiums, the compiler would have to use the gross premiums written (not taking into account the reinsurance premiums ceded) excluding premiums assumed, and the net change in unearned premium reserves, and inquire about the share of nonresident

policyholders. Benefits are payments to life insurance policyholders and would need to be separated from nonlife claims paid.

Secondary income account: Claims payable/due

A2.24 Claims incurred in insurance accounts correspond to claims payable in the *BPM6*, and are recorded in the secondary income account of the balance of payments (see *BPM6*, paragraph 12.44), while claims paid are recorded in other investment—for example, as a decrease in the insurance companies' deposits abroad. The calculation for claims incurred is set out in paragraph A2.12.

A2.25 For insurance companies to accurately estimate future loss payments, especially for claims unknown, predictions are in general based on historical data of settlement and reporting patterns of homogeneous groups of policyholders, and actuarial methods that take account of uncertainties to determine the amount of reserves. Certain lines of business with expected individual large risks involved, with high frequency of losses, or with cumulative risks (such as natural disasters) are likely to be hedged by insurance companies through customized reinsurance.

A2.26 In case of a significant unforeseeable event during the accounting period, the derived insurance services rendered by the insurance company to the policyholders should not turn into a negative figure—that is, neither the volume nor the price of insurance services should be affected by the volatility of claims. The

⁵The results are measured on an accounting period basis, which could be the calendar or fiscal year, as opposed to the policy period.

2008 SNA therefore recommends the use of adjusted claims incurred when measuring the output of insurance companies. The adjustment would be negative in periods when large values of claims are incurred, thus increasing the value of the service by reducing the difference between actual claims in a particular period and a normally expected level of claims.

A2.27 There are three different accounting methods to help estimate the expected level of claims (see *BPM6*, paragraph A6c.22): (1) the expectations approach is based on expected claims using smoothed past figures of gross claims incurred or ratios of gross claims over premiums, applied to current premiums; it replicates the ex-ante model of insurance companies when pricing the premiums based on expectations of loss; (2) the accounting approach uses ex-post data of observed claims incurred and is based on changes in insurance companies' equalization reserves and changes in own funds; and (3) the sum of costs plus "normal" profit approach measures output by taking the sum of costs plus an estimate of normal profit based on smoothed past actual profits.

A2.28 According to international standards, exceptionally high claims following a natural disaster or catastrophe are recorded as secondary income or a capital transfer provided by the insurance company to the policyholders. The rationale for treating certain claims as capital transfers is that these claims do not affect the level of disposable income of the claimants. The net worth of policyholders will thus show the effects of the destruction of assets and an offsetting increase in financial assets from the capital transfers (see 2008 SNA, paragraph 17.40, and *BPM6*, paragraph 13.24). The entries in the secondary income account recognize the intermediation effect of direct insurance by transferring a pool of relatively small premiums from many policyholders to a small number of large claims from some of these policyholders.

Primary income account: Premium supplements

A2.29 When a policy is written, insurance companies receive cash, which is at their disposal to invest until claims are later reported and settled. Distinguishing between technical reserves and own assets is relevant for deriving the insurance services according to the *BPM6*.

A2.30 In international standards, the income earned from the investment of insurance technical reserves are called premium supplements (see

BPM6, paragraph 11.83) and are imputed as primary income receivable by policyholders, as the technical reserves are assets of the policyholders. This income is retained by the insurance companies in practice. The same amount is then shown within the equation as payable to the insurance company by the policyholder as premium supplements in the services account.

A2.31 In Example A2.1, the income retained from investing policyholders' funds is called policyholder dividends (and bonuses). Bonuses are amounts in life insurance policies that are explicitly attributed to policyholders each year. The compiler would need to inquire about the estimated (prorated) share of income payable to nonresident policyholders for nonlife business.

Financial account: Insurance technical reserves

A2.32 Reserves are increased or reduced when premiums are earned and claims are paid from outstanding loss reserves. In the accounting system of the company, the payment is matched to the loss reserve and a corresponding entry is made to reduce the reserve for the payment made to the policyholder. At the end of the accounting period, insurance technical reserves can decrease in net terms when claims paid out of reserves exceed amounts added to respective reserves.

A2.33 These reserves for unearned premiums and against outstanding insurance claims are recorded in the other investment category of the financial account under Insurance, pension, and standardized guarantee schemes (see *BPM6*, paragraphs 5.64, and 7.63–7.64). The split of these reserves between liabilities to residents and nonresidents may have to be undertaken according to a suitable indicator such as premiums earned or written.

A2.34 For the recording of insurance technical reserves in the IIP, flows that result from exposure to the effect of exchange rates will have to be taken into account (see Chapter 9 for more details on other changes in financial positions).

Goods and services account: Deriving insurance services

A2.35 All components are now available to the compiler to derive the insurance service charge according to the *BPM6*, paragraph 10.111.

A2.36 The implicit insurance service the insurance company renders is a measurement of the output of the insurance industry. The service provided to residents and nonresidents is derived by determining the output of the insurance in a way that mimics the accounting practices based on premiums earned and losses incurred pertaining to the accounting period:

Gross premiums earned (from direct business)

Plus Net income from investments attributable to policyholders (premium supplements)

Minus Estimated claims incurred (adjusted for claim volatility, if necessary)

Equals Insurance service charge

Data sources

Conducting a survey of domestic insurance companies

A2.37 The compiler can obtain most comprehensive data for exports of insurance services from surveying resident insurance companies. To enable an appropriate coverage of the domestic insurance sector, a survey frame should be available, including a list of insurance companies, which may be provided by the authority issuing the licenses for insurance business. Insurance agents and brokers are usually required to register with insurance authorities; therefore, a list of these businesses should be readily available from official sources (see also Box A2.2).

A2.38 Through surveying domestic insurance companies, the compiler is able to request information on a conceptually correct basis as explained in previous paragraphs—that is, premiums earned and claims due—as well as insurance technical reserves and the income earned on those reserves.

A2.39 Resident insurance companies should report details of premiums and claims in respect of business obtained from abroad and in respect of international reinsurance flows. In addition, these companies may be asked to report details of premiums and claims in respect of insurance written by them on imports.

A2.40 Supervisory institutions may be a source for qualitative aggregate information. Although balance sheets and profit and loss account information from those institutions may have the caveat of long timeliness, they may be combined with information available from shorter-term external sector statistics (e.g.,

from the ITRS) or administrative data, for estimating an interim (moving) measure for the distinction between national and international business.

A2.41 Insurance terms may differ due to different accounting practices that are being applied in worldwide insurance accounting.⁶

A2.42 A model form for insurance survey is presented in Appendix 8.

Box A2.2 Insurance Sales Agents and Brokers

Insurance sales agents or brokers commonly sell one or more types of insurance, such as property and casualty, life, health, disability, and long-term care. They either work exclusively for one insurance company based on a contractual agreement, or work independently and represent several companies at the same time. As facilitators, agents help match insurance policies for their clients with the company, and help policyholders settle their insurance claims. Insurance agents and brokers are usually required to register with insurance authorities; therefore, a list of these businesses should be readily available from official sources. An exploratory survey could be undertaken to identify agents and brokers placing insurance abroad.

The agent's commission is generally a percentage of each premium. If the insurance company that is surveyed collects premiums directly from its policyholders, the premiums balance receivable would include the full amount of premiums due from policyholders. If agents act as intermediary between insurance company and policyholder, there are generally two possibilities. If the insurance company uses an agent but charges directly the policyholders for premiums due, the commissions payable to the agent will not reduce the amount that is received and recorded for premiums. If the agent collects premiums on behalf of the insurance company, the premium shown in the insurance accounts would normally be recorded net of commissions. The compiler should be aware of the possibility that premiums could be collected by agents but not yet transferred to the insurance company (uncollected premium balances), or that commissions have been deducted (premiums generally should be recorded gross of agent commissions, and commissions for agent services should be separately recorded). Insurance companies keep periodic statements of the sums due and owed to an agent, sometimes referred to as agents' balances.

⁶A joint International Accounting Standards Board and Financial Accounting Standards Board project on the accounting of insurance contracts currently focuses on the recognition and measurement of insurance contracts, and the presentation of income and expenses arising from those contracts; see <http://www.ifs.org/Current+Projects/IASB+Projects/Insurance+Contracts/About+Insurance.htm>.

Insurance technical reserves for life and nonlife insurance policies derived from standardized reporting forms (SRFs) in monetary and financial statistics (MFS)

A2.43 The MFS can be a data source for compiling insurance technical reserves. In MFS, insurance technical reserves receive separate treatment and appear as liabilities in the accounts of insurance corporations and pension funds in the other financial corporations' subsector (see Example A2.3).⁷ In many economies such reserves constitute a significant contribution to the total liabilities of the financial corporations' sector. The separate identification therefore supports the analysis of activities of this particular subsector, which is reflected in their specialized treatment in national financial reporting and international statistical standards.

A2.44 Technical reserves have three components. The first component is the liabilities account for obligations for prepaid insurance premiums received from all resident and nonresident policyholders. Included are prepayments for both life insurance and nonlife insurance policies, as well as premium prepayments for reinsurance (see *Monetary and Financial Statistics Manual and Compilation Guide (MFSM-CG)*). The second component of insurance technical reserves comprises changes in reserves for claims outstanding, which insurance companies hold in order to cover the amounts for (valid) claims that are not yet settled or claims that may be disputed. The third component covers the obligation from net equity of households

Example A2.3 Excerpt from the sectoral balance sheet for the financial corporations subsector (liability side)

<i>Insurance technical reserves</i>
Net equity of households in life insurance reserves
Residents
Nonresidents
Net equity of households in pension funds
Residents
Nonresidents
Prepayment of premiums and reserves against outstanding claims

in life insurance corporations and pension funds reserves, which reflect the present value of the insurance corporation's estimated (actuarial value of) liabilities for future claims by life insurance policyholders.

A2.45 The assets account in the sectoral balance sheet is used to record the amount of financial corporations' prepayments of premiums to insurance corporations. It also includes prepayments that insurance corporations have made to other insurance corporations (i.e., to reinsurance companies abroad). In general, the asset category is relatively minor compared to the liability account. Prepayment of insurance premiums is the only category of insurance technical reserves for which there are both asset and liability accounts in the sectoral balance sheet. Report 4SR of the monetary statistics is the report form used to compile the data on all resident insurance corporations and pension funds.

A2.46 MFS do not contain income statements (see *MFSM-CG*). Data on the investment income from insurance reserve assets could be estimated by applying an appropriate return rate calculated as a specified percentage of the amount of the outstanding balances.

Nonlife insurance services—Deriving insurance services payable from incomplete information

A2.47 The compiler may not always be able to compile a comprehensive set of accounts in order to approximate insurance services exports in a given reporting period, especially for shorter time periods (e.g., quarterly data). Therefore, in conjunction with the national accounts compiler, the insurance services provided to the rest of the world could be estimated from the total estimated output⁸ of the insurance sector and the average ratio of total premiums earned from abroad to total premiums earned (see Example A2.4). Premiums are a better indicator than claims for determining the share of insurance services attributable to the rest of the world. The reason is that claims are contingent on events incurred to trigger payments, and there may be periods without claims or with irregularly large claims. From the ITRS, there may be data available on a cash basis of premiums received from abroad, and claims paid.

⁷Other financial corporations are part of other sectors in the BPM6 classification of institutional sectors (see BPM6, Table 4.2).

⁸See 2008 SNA, paragraph 6.185, on the calculation of output for the insurance industry (total premiums earned *plus* premium supplements *less* adjusted claims incurred).

Example A2.4 Estimation of insurance services provided to nonresidents

Estimated domestic insurance output in period x (could also be based on period x-1)	50
Total premiums written	200
of which premiums received/written from abroad	70
Estimated insurance service provided to nonresidents	$17.5 = 50 \cdot 70 / 200$

Import of insurance services with and without an insurance company resident in the reporting economy

A2.48 Insurance services receivable (imported) are much more difficult to capture, as the compiler is not able to request information directly from insurance corporations. Data from an ITRS will be on a cash basis and capture premiums paid and claims received. An appropriate ratio derived from the domestic insurance industry can be applied to premiums paid. If this ratio cannot be obtained, the compiler should estimate the ratio by using the long-term relationship between premiums and claims. The ITRS provides information on economies to

which premiums are paid and from where claims are received. The compiler could contact the balance of payments compilers in those economies to obtain appropriate ratios for their services estimates.

Overview of insurance accounting: Reinsurance

A2.49 Reinsurance is the primary vehicle used by insurance companies to diversify, mitigate, and manage their risk. Reinsurance is the acceptance by the reinsurance company of all or part of the risk of loss of the primary insurance company (also called the ceding company). There are different types of reinsurers—those whose basic business is reinsurance, and those that conduct reinsurance business in addition to their primary business. Reinsurance companies either use direct negotiation channels, or contact primary insurance companies through brokers or intermediaries to whom they pay commissions as a percentage of the reinsurance premium.

A2.50 There are two principal forms of reinsurance, pro rata and excess of loss reinsurance, which increase the primary insurance company's capacity to accept larger exposures than normal. In a pro rata reinsurance contract, the reinsurers and reinsured company share a proportional part of the premiums

Example A2.5 Deriving transactions related to nonlife insurance

This example presents how to calculate/estimate balance of payments entries related to nonlife insurance. It is assumed that the balance of payment compilers received the following information on nonlife insurance from resident insurance companies:

Total premiums received from abroad	170
Total claims paid to abroad	160
Net increase in technical reserves due to prepayments	30
Net increase in technical reserves due to claims not yet paid until end of year	20
Adjustment for volatility for claims payable during the year	-50
Total investment income earned from investment of assets	40
of which ratio of attributable to nonresident policyholders	30 %

Based on the foregoing information:

(1) The following calculation should be executed:

Gross premiums receivable from abroad = Total premiums received from abroad—Net increase in technical reserves due to prepayments = $170 - 30 = 140$

Claims payable to abroad = Total claims paid to abroad + Net increase in technical reserves due to claims not yet paid = $160 + 20 = 180$

Expected long-term level of claims = Claims payable + Adjustment for volatility in claims payable = $180 + (-50) = 130$

Premium supplements (investment attributable to policyholders) (debits) = Ratio of attributable to nonresident policyholders*Total investment income = $30\% \cdot 40 = 12$

Example A2.5 Deriving transactions related to nonlife insurance (concluded)

(2) The following balance of payments transactions should be derived:

Current Account:

Goods and services—Insurance services (credits)

Gross premiums receivable from abroad + premium supplements—expected long-term level of claims = $140 + 12 - 130 = 22$

Primary income – Other investment—Investment income attributable to policyholders in insurance (nonlife insurance—premium supplements) (debits) = 12

Secondary income—Other current transfers—Net nonlife insurance premiums (credits)

Gross premiums receivable + premium supplements—insurance services = $140 + 12 - 22 = 130$

Secondary income—Other current transfers—Nonlife insurance claims (debits)

Claims payable to abroad = 180

Financial Account:

Other investment—Insurance, pension, and standardized guarantee schemes—Nonlife insurance technical reserves (increase in liabilities to policyholders)

Net increases in technical reserves due to prepayments of premiums + net increase in technical reserves due claims not yet paid (incurred claims not yet paid) = $30 + 20 = 50$

Other investment—Currency and deposits (increase in assets)

Premiums received from abroad—claims paid to abroad = $170 - 160 = 10$

Recording of transactions for nonlife insurance in the balance of payments statistics (economy of insurance companies)

Year	Credit	Debit
Current account		
Services		
Insurance and pension services	22	
Primary income		
Other investment		
Investment income attributable to policyholders in insurance, pension schemes, and standardized guarantee schemes		12
Secondary income		
Financial corporations, nonfinancial corporations, households, and NPISHs		
Other current transfers		
Net nonlife insurance premiums ¹	130	
Nonlife insurance claims ¹		180
	Net acquisition of financial assets	Net incurrence of liabilities
Financial account		
Other investment		
Deposit-taking corporations, except the central bank		
Currency and deposits	+10	
Insurance, pension, and standardized guarantee schemes		
Nonlife insurance technical reserves ¹		+50

¹Supplementary item

and losses of the primary insurance company's pro rata reinsured business. In an excess of loss contract, the primary insurance company pays the amount of each claim up to a limit determined in advance, and the reinsurer pays the amount of the claim above

that limit either per risk, per occurrence, or if reinsured losses incurred in aggregate exceed an agreed amount. A reinsurer can cede all or part of the reinsurance it has previously assumed to another reinsurance company. This transaction is called retrocession.

A2.51 International standards measure transactions of reinsurance companies in a way similar to transactions of direct nonlife insurance companies (see Overview of insurance accounting: Nonlife insurance). However, there are some peculiar payments in reinsurance. The primary insurance company remits to the reinsurer the net premium after deducting the so-called agreed upon ceding commission. This commission is paid by the reinsurer to reimburse the ceding company for its acquisition expenses and other costs incurred to place the business with the reinsurer.

A2.52 Another commission often found in reinsurance agreements provides for profit sharing. The reinsurer and the ceding company generally agree to a predetermined percentage of the profit realized by the reinsurer on the contracts ceded by the primary insurance companies and the cedants' share of such profits, called profit commission.

A2.53 As is the case for the primary insurance company, the premiums for the reinsurer are generally not fully earned when received, so provisions are made for the unearned part of the written premiums. Earned premiums are calculated by the sum of premiums written plus the unearned premium reserve at the beginning of the reporting period, less the unearned premium reserve at the end of the reporting period. The amount of the unearned premium reserve less the ceding commission is the amount the reinsurer would have to pay back, in case the contract was canceled.

A2.54 Reinsurers are also required to establish reserves for claims outstanding and for expenses associated with settling and adjusting these claims. Claims or losses incurred are calculated as claims incurred and paid during the current period, plus claims incurred during the current period that are unpaid at the end of the period.

A2.55 The management of the reserves may differ from those of primary insurance companies due to the longer duration of contracts and the magnitude of losses. Conceptually, the income reinsurers earn from investing the reserves is treated similar to that of primary insurers, as investment income payable to the primary insurance company and returned as premium supplement. A primary insurance company thus pays investment income to its policyholders based on the whole of the premiums earned, and receives investment income from the reinsurer corresponding to the amount of the premiums it has ceded to the reinsurer.

A2.56 The value of output of the reinsurer can be expressed with the following formula:

Gross premiums earned less commission payable

Plus Net income from investments (premium supplements)

Minus Claims due (adjusted for claim volatility, if necessary) and profit commission payable

Equals (Re-) insurance services

A2.57 International accounting standards prohibit the offsetting of reinsurance assets against related liabilities and require transactions between the direct insurer and its clients on the one hand and the holder of a policy and reinsurer on the other to be recorded as entirely separate sets of transactions. In insurance companies' accounts of ceding companies net premiums written (received) generally refer to gross premiums written (including direct and reinsurance assumed) less the premiums ceded proportionally to reinsurers. Indirect business accepted from another insurance company is included in gross premiums written as reinsurance assumed.

A2.58 As with direct insurance, in exceptional cases, some part of reinsurance claims may be recorded as capital transfers rather than as current transfers. All other entries in the international accounts are derived and recorded similarly to nonlife insurances (see Example A2.6).

A2.59 Services receivable from reinsurance companies abroad⁹ can be best captured through surveying the domestic recipient insurance company, as described in paragraphs A2.37–A2.42.

Example A2.6 Estimation of insurance services in indirect insurance

Premiums residents pay to nonresident insurance companies	80
Claims received from nonresident insurance companies	50
Average long-term ratio between insurance service charge and premiums paid	15 %
Estimated insurance services	12 (= 80*15%)
Net premiums	68 (= 80–12)
Claims received	50

⁹Reinsurance is often placed with reinsurance companies abroad and therefore is often cross border.

Overview of insurance accounting: Life insurance

A2.60 There are three distinguishing features for life insurance contracts: the relationship between premiums and claims/benefits over time, the length of time for which the contract is written, and the certainty that a claim/benefit will occur. Practically, the insurance company determines the relationship between premium and benefit by combining the saving element of a single policy with actuarial calculations of an insured population.

A2.61 Actuarial calculations are based on valuation assumptions with regard to mortality, disablement, and morbidity, taking into account the premiums to be received in the future, the investment earnings potential, and all the future liabilities under the conditions of each current insurance contract. A policyholder who cancels the policy before the agreed expiration date is generally entitled to partial benefits from the insurer. Benefits are thus always paid to the policyholder or to his or her beneficiary. For these reasons, part of the premiums paid by the policyholders may be regarded as savings and part of the benefits received by the beneficiaries as withdrawals from savings. The recording, therefore, of premiums and payments of benefits takes place in the financial account rather than in the secondary income account (see *BPM6*, paragraph 5.65).

A2.62 The actuarial reserves represent the present value of the future cash flows payable at the end of the insurance policy, rather than claims in the current period. Actuarial reserves accrue to particular policyholders depending on amounts guaranteed in their policies. Thus the total liability of the insurer is the sum of the actuarial reserves for every individual policy (see Example A2.1).

A2.63 Premium supplements are more significant for life insurance than for nonlife insurance (see *2008 SNA*, paragraphs 6.193 and 6.197). Part of the total income earned on the reserves for policyholders—that is, the income allocated to actuarial reserves—is allocated to the (individual) policyholder and added to the insurance technical reserves.

A2.64 Changes in life insurance actuarial reserves are derived as follows:

	Gross premiums earned
<i>Plus</i>	Part of premium supplements allocated to actuarial reserves

<i>Minus</i>	Benefits due
<i>Equals</i>	Changes in life insurance actuarial reserves

A2.65 Policyholders with life insurance policies may be eligible for additional bonuses in each year distributed to the policyholders by means of increasing the future insurance benefits in addition to a minimum guaranteed amount. Generally, life insurance products mentioning “with profit policy” or “participating policy” means the policy and thereby the policyholder is eligible to receive these bonuses. They are included in investment income attributable to life insurance policyholders and recorded as premium supplements in the income account (see *BPM6*, paragraph 11.81).

A2.66 The value of output of life insurance can be expressed with the following formula:

	Gross premiums earned
<i>Plus</i>	Bonuses (premium supplements)
<i>Minus</i>	Benefits due
<i>Minus</i>	Net increases in life insurance actuarial reserves
<i>Equals</i>	Life insurance services ¹⁰

A2.67 Similar to nonlife insurance, reserves for unearned premiums and against outstanding insurance claims are recorded in the other investment category of the financial account under *Insurance, pension and standardized guarantee schemes*; but in addition there are the actuarial reserves for life insurance and with-profit insurance that represent amounts set aside for payments of benefits in future:¹¹

	Unearned premiums in accounting period
<i>Plus</i>	Increase in reserves for benefits outstanding
<i>Plus</i>	Changes in life insurance reserves (actuarial reserves and reserves for with-profit insurance)

A2.68 Box A2.3 summarizes the *BPM6* methodology as described in Annex 6c of the *BPM6* manual, regarding the balance of payments data on life insurance.

¹⁰Alternatively, the service can be calculated as follows: total investment income earned on the life insurance technical reserves less the part of this investment income actually allocated to the policyholders and added to the insurance reserves (see *2008 SNA*, paragraph 6.199).

¹¹In the commercial accounts of insurance corporations, some of them may be described as provisions for bonuses (and rebates). These comprise amounts intended for policyholders but not yet credited to policyholders, because these are often used by the insurer for smoothing benefits over time (see also *2008 SNA*, paragraph 13.77).

Box A2.3 BPM6 Entries in the Balance of Payments Related to Life Insurance Transactions**Services account**

The insurance service charge is derived implicitly with the following formula (see *BPM6*, Appendix 6c):

Insurance services = gross premiums earned
plus bonuses (investment income attributable to life insurance policyholders)
minus benefits due/incurred
minus net increases (*plus* net decreases) in life insurance actuarial reserves

Primary income account

Investment income attributable to policyholders in insurance (equal to premium supplements)

Financial account

Changes in life insurance reserves
 Currency and deposits (for actual premiums written and benefits paid)

Example A2.7 Excerpt from an insurance company profit and loss accounts

Insurance company X: Gross premiums by life insurance business line and region (in million U.S. dollars)						
	Economy A	Economy B	Economy C	Economy D	Other	Total
2012						
Individual insurance	545.4	123.0	81.8	72.5	133.0	955.7
Group insurance	1,586.4	78.8	36.0	40.4	–	1,741.6
Unit-linked life insurance	74.9	96.1	–	14.1	4.6	189.7
Reinsurance	–	–	–	–	6.9	6.9
Gross premiums life insurance	2,206.7	297.9	117.8	127.0	144.5	2,893.9
2011						
Individual insurance	577.1	118.6	137.4	65.3	133.5	1,031.9
Group insurance	1,555.3	28.6	20.4	34.6	–	1,638.9
Unit-linked life insurance	84.6	64.1	–	8.4	–	157.1
Reinsurance	–	–	–	–	4.5	4.5
Gross premiums life insurance	2,217.0	211.3	157.8	108.3	138.0	2,832.4

A2.69 Insurance companies offer different types of life insurance products. Insurance companies may offer group insurance contracts concluded for companies' employees, or insurance contracts for individuals (see Example A2.7). Group insurance has the distinctive feature that the premium is determined by the group of people eligible to purchase insurances as a whole for reasons such as working for a particu-

lar employer, rather than related to cover a specific (high-) risk factor. Claims, however, are due individually. With regard to the type of investment, so-called unit-linked life insurance policies are fund-linked products where policyholders can determine the type of investment by choosing a particular fund and thus carrying the investment risk. A life insurance benefit may be paid as a lump sum or as an annuity. The

claim may be fixed or may vary to reflect the income earned from the investment of premiums during the period for which the policy operates (with-profit policies). The unit-linked policy is a special kind of with-profit policies, because the claim varies according to the value of the chosen fund. Accruing profits may be paid out in part to the policyholder in the form of dividends. Other policies offer a guaranteed return not dependent on the company's underlying investment performance.

Insurance on imports

A2.70 The point of uniform valuation is the free-on-board (f.o.b.) statistical value of exports at the customs frontier of the exporting economy (see *BPM6*, paragraph 10.30). Imports are normally valued at cost, insurance, freight (c.i.f.), at the domestic custom frontier by customs. To convert imports of goods to the f.o.b. valuation, the value of freight and insurance premiums incurred from the frontier of the exporting economy to the border of the importing economy should be deducted (*BPM6*, paragraph 10.34), and included in balance of payments transport and insurance transactions in case a nonresident transporter or insurer is involved.

A2.71 Insurance premiums are often estimated by the compiler together with freight services on imports by

sampling importers and agents of foreign transport operators, or extracting data from customs import documentation.¹² In order to avoid overstating insurance services, a ratio can be used to estimate services from the reported insurance premiums recorded in the secondary income account. The ratio may be derived from the domestic nonlife insurance industry and applied to premiums paid.

A2.72 It is often the case that freight insurance costs are based on single events (the shipment of a good) and are of short-term nature. They may be determined by the insurance company based on the value of the specific good being shipped (e.g., replacement cost value, or invoice value), and the category of good that is being shipped (e.g., fragile goods, hazardous materials). In those cases, advance payments for insurance coverage can be recorded as current expense by the policyholder and as current revenue by the insurance company, rather than spreading the payments over time. The claims are recorded when paid in the secondary income account. In cases where traders take out insurance policies to cover their freight on a lump-sum and long-term basis, insurance on imports is treated the same way as other nonlife insurance policies.

¹²See in Chapter 11 more details on c.i.f.-f.o.b. conversion of good's value.

Box A2.4 Implementation of the *BPM6*: Insurance, Pension Schemes, and Standardized Guarantee Schemes in the Case of Austria

Background

This example covers the implementation of insurances, pension schemes, and standardized guarantee schemes in accordance with the *BPM6* in the case of Austria. Since the calculation of insurance transactions under the *BPM6* has become more sophisticated compared to the *BPM5* (see *BPM6*, Appendix 6C), the Oesterreichische Nationalbank (OeNB) adapted the collection and compilation of insurance data for the balance of payments and IIP statistics. Prior to the implementation of this new data collection system, the OeNB used less detailed administrative data from the Financial Market Authority (FMA) for insurance exports and mirror data from other economies of the European Union (EU) for imports. For the compilation of the insurance data, information from the national accounts was used—for example, the ratio of the long-term relationship between net premiums and claims. Life/nonlife insurances position information was compiled from flows only; there were no data on claims, and the database differed between balance of payments statistics and national accounts. For the coverage of reinsurance, primarily highly aggregated balance sheet data were available and the cross border / domestic distinction was based on the assumption that active reinsurance is predominantly a domestic business in Austria.

New data collection

In 2015, the EU will introduce the new *Solvency II* regulation for insurances to enhance consumer protection. The new regulation allows the FMA to collect more detailed data. The new quarterly reports include data on cross border premiums and claims on a gross basis for direct insurance and reinsurance (best estimates) on an accrual and cash basis, broken down by insurance division and by economy, including domestic business in Austria. The new annual report includes cross

Box A2.4 Implementation of the *BPM6*: Insurance, Pension Schemes, and Standardized Guarantee Schemes in the Case of Austria (*continued*)

border premiums and claims for reinsurance on an accrual and cash basis, broken down by economy. Additionally, the annual report includes financial assets and liabilities from reinsurance by economy, and insurance technical reserves for index linked and other life insurance. These data were used by the OeNB to adapt the compilation of insurance and pension schemes data to the *BPM6* requirements.

New data compilation

Some adjustments were necessary to compile insurance, pension schemes, and standardized guarantee schemes for balance of payments and IIP statistics. Therefore, the OeNB implemented several calculations and derivations, which are described ahead, to meet all needs for the compilation.

In order to receive more accurate results, the OeNB decided to adjust the general formula for the calculation of the insurance service charge for all types of insurances as described in the *BPM6*. The adjustment—which is referred to in the *BPM6* as the volatility of claims adjustments—was necessary as high claims could have led to a negative value for the service charge. Therefore, the OeNB used the long-term spread ratio for the calculation:

<i>BPM6 approach</i>		<i>OeNB approach</i>	
Insurance services = gross premiums earned		Insurance services = gross premiums earned	
<i>Plus</i>	premium supplements	<i>multiplied by</i>	long-term “spread” between premiums and claims (“ratio”)
<i>Minus</i>	claims due/incurred	<i>Plus</i>	premium supplements

The next step was the recording of net premiums and claims. The net premiums were calculated as described in the *BPM6*:

Net premiums = gross premiums earned
 plus premium supplement
 minus service charge

For nonlife insurances, net premiums and claims were recorded in the secondary income, on different sides: if the insurance taker was a nonresident, premiums were recorded as credits and claims as debits, and vice versa if the insurance taker was a resident.

For life insurances, the net premiums and claims were recorded as a transaction in other investment insurance technical reserves, which covers net premiums increase (assets or liabilities) and claims decrease (assets or liabilities). The following adjustments needed to be done for the compilation:

Transactions (+):

Financial transaction (increase) in insurance technical reserves by economy = gross premiums (accrual basis) for index linked and other life insurance exports and imports by economy
plus premium supplements (income)
minus service charge

Transactions (-):

Claims (accrual basis) vs. insurance companies per economy = financial transaction (decrease) in insurance technical reserves

Annual position reports on technical reserves were distinguished between *index linked* and *other life insurances*. However, there was no geographical breakdown. Therefore the geographical information received for the premiums was used to derive a geographical breakdown of the positions. The differences between the annual positions and the sum of the quarterly transactions were recorded as other valuation adjustments, which were evenly distributed over the year.

Positions (annually including breakdown indexed linked and other)—recorded in the IIP:

Share by economy = premiums earned per economy
 divided by total premiums

Box A2.4 Implementation of the BPM6: Insurance, Pension Schemes, and Standardized Guarantee Schemes in the Case of Austria (continued)

Position in insurance service technical reserves per economy = total position in insurance technical reserves
multiplied by share per economy

Other valuation adjustments = difference between opening position, transactions, and closing position

Financial assets and liabilities from reinsurance:

For financial assets and liabilities from reinsurance the transactions by economy were derived from new quarterly (estimates by insurance companies) and annual balance sheet data (revisions were evenly distributed over quarters). The positions by economy were reported annually together with the revised annual flows. Quarterly (intra-annual) positions were estimated based on provisional quarterly transactions by economy. The annual difference between opening position, transaction, and closing position were recorded as other valuation adjustments and evenly distributed over the quarters.

Active reinsurance = insurer	premiums paid minus premiums earned	if + = increase in liabilities if – = decrease in liabilities
	claims incurred minus claims paid	if + = increase in liabilities if – = decrease in liabilities
Passive reinsurance = insurance taker	premiums paid minus premiums earned	if + = increase in assets if – = decrease in assets
	claims incurred minus claims paid	if + = increase in assets if – = decrease in assets

Investment income attributable to policy holders (= premium supplements):

The premium supplements were recorded in the primary income receivable by policyholders. The same amount was also shown as payable to the insurance company by the policyholder as premium supplements in the secondary income account.

Debits (liabilities vis-à-vis nonresident insurance takers):

Income ratio for rest of the world by economy = position in insurance technical reserves vis-à-vis rest of the world by
economy
divided by total position in insurance technical reserves

Income from insurance technical reserves per economy = income ratio by economy
multiplied by income from financial assets held by insurance sector
(from direct and other investment according to balance of payments, from portfolio investment total)

Plausibility check = total income
divided by position in insurance technical reserves vis-à-vis rest of the world

Credits (assets vis-à-vis nonresident insurance companies):

The average rate from debits/liabilities was applied on the position of technical reserves. The rate was still based on cumulated flows and mirror data, however, including benefits.

Pension schemes and standardized guarantees:

The principal logic of the BPM6 for pension schemes and standardized guarantees is similar to life insurance claims and liabilities.

Service charge = gross contributions
plus supplements
minus benefits payable
plus/minus adjustments

Box A2.4 Implementation of the *BPM6*: Insurance, Pension Schemes, and Standardized Guarantee Schemes in the Case of Austria (*concluded*)

The market valuation of positions depends on the nature of the pension scheme. The defined contribution schemes (function like mutual funds) are assets of the “fund”; the defined benefit schemes, which were based on “promised” benefits, both funded and unfunded, are equal to the present value of the “promised” benefits.

Standardized guarantees are recorded as equal to the present value of expected calls under outstanding guarantees, net of any recoveries the guarantor expects to receive from the default parties.

Position-taking with Austrian insurance companies and Austrian pension funds resulted in the conclusion that cross border pension entitlements and cross border provisions of standardized guarantees are not existing or rather insignificant. There were no immediate actions taken for balance of payments compilation in these areas for the changeover to the *BPM6*. A new stock-taking exercise will be carried out within the next years.

Difficulties encountered

- Insurance companies are not able to deliver data for technical reserves positions by economy. Because these data are necessary for the compilation of balance of payments and IIP statistics, the OeNB decided to estimate the distribution by economy.
- The differentiation between accrual and cash data can be difficult.
- Concerning data delivery, the OeNB relies on the supervisory data as well as the infrastructure and resources of the supervisory authority. This additional link between the insurance and pension fund companies and the OeNB can add complexity and make communication more challenging. In addition, the OeNB depends to a large extent on the developments in supervision regarding quality and details available.

Tables A2.2–A2.4 in the annex to this appendix show the collection and compilation of the insurance transactions in detail.

Employment-Related Pension Schemes and Social Security Schemes

Introduction

A2.73 The availability, coverage, and mechanisms of pension systems benefitting individuals vary widely from economy to economy. In the *2008 SNA* the distinction of so-called social insurance schemes is made between social security and employment-related schemes, based on the provider of these social insurance pensions. The part provided by general government is called social security if it meets certain criteria, and the part by employers is called employment-related schemes other than social security (see *2008 SNA*, paragraph 17.118).

A2.74 The estimation of pension services in the international accounts may be important in economies with high percentages of border workers, guest workers, and international organizations that hire staff from the host economy.

A2.75 There are two forms of employment-related pension schemes, the *defined benefit scheme* and the *defined contribution scheme*. Both schemes are financed by contributions normally shared between the em-

ployer and the employee, which accumulate in special funds, and from which benefits are paid and surplus funds are invested to earn further income. The difference between these schemes lies in the determination of the benefits payable to an employee on retirement, which in turn is determined by who is bearing the risk of the scheme to provide an adequate income in retirement.

A2.76 Conceptually, these two schemes trigger transactions in accounts similar to the ones in insurance accounting (see Insurance Transactions and Positions); namely, the derivation of an output of the pension fund is recorded in the services account, the net contributions made to the pension fund are recorded in the secondary income account, the change in pension entitlements due to transactions is recorded in the financial account as well as an adjustment item in the secondary income account, and the investment income earned on existing entitlements is recorded in the primary income account. However, the different features with regard to the benefits payable upon retirement result in differences in the accounting concepts of these pension schemes and, consequently, in how

the compiler will design the reporting forms to obtain the relevant information. This is further explained ahead.

A2.77 In general, the data for exports of cross border pension services are best captured by obtaining information from resident pension funds. This enables the compiler to undertake conceptual adjustments that are necessary for the recording of these operations in the balance of payments statistics.

A2.78 The same comprehensive approach will not be feasible for obtaining imports of pension services because the pension funds are nonresident of the compiler's economy. Thus when estimating pension services the compiler should take into account data on compensation of employees derived from the ITRS and ratios available from domestic pension funds, or from a combination of estimates and assumptions, such as estimates of the portion of the population receiving pension services combined with estimates of rates of pension compensation.

A2.79 Some social insurance is provided by the government under a social security scheme. Accounting for social security funds is less complex, because there are no funds invested on behalf of the beneficiaries, and instead, current workers' contributions are used by the government entity operating the scheme to pay out current benefits (the system is also known as "pay-as-you-go").

A2.80 In the absence of detailed international standards for accounting for cross border positions and transactions of defined benefit and defined contribution pension funds, the compilation guidance contained in the following paragraphs is one acceptable way of accounting for these pension plans in balance of payments statistics.

Defined benefit scheme

Overview of defined benefit accounting

A2.81 In a defined benefit scheme the amount of pension benefits accrues usually according to a function of one or more factors, such as age and length of service within the company, and will take into account the final salary, or the average of the last few years of earnings. The distinctive difference to the defined contribution scheme is that the risk of the defined benefit scheme lies with the employer in its commitment to

deliver a pension at retirement, regardless of the return on investment. Making contributions to the pension plan alone usually does not satisfy the employer's obligation; rather, the employer remains obligated to pay the defined retirement benefit, and has to decide on how much and where to invest, as well as monitor the progress of the investments.¹³ Thus the benefit to the employee in the current period is determined in terms of the undertakings made by the employer about the level of pension ultimately receivable (see 2008 SNA, paragraph 17.144).

A2.82 Under the accrual approach, the employer's contribution to the employee's compensation is no longer confined to the employer's actual contributions to the plan. Instead, it is the present value of the benefits to which employees become entitled as a result of their service to the employer, and thus additional contributions need to be imputed.

How do pension funds account under a defined benefit scheme?

A2.83 The pension benefit is part of the compensation paid to an employee in future years after the employee retires or terminates service. Generally, the amount of benefit to be paid depends on estimates of relevant future events. Many of such events the employer cannot control, and thus the benefit can be estimated using only a pension plan's benefit formula. In order to properly account for the liability, many assumptions need to be made: (1) how many more years the employee will work; (2) what the employee's ending salary will be; (3) how many years the employee will collect a pension in retirement; and (4) what the appropriate rate is to discount the liability to present value. A simplified example of a formula that determines the employee's retirement benefits is as follows:

$$\begin{array}{l} \text{Employee's retirement benefits} = \\ \text{Contract percentage} \\ \text{multiplied by} \quad \text{Number of years of service} \\ \text{multiplied by} \quad \text{Average salary on which benefits are} \\ \text{based} \end{array}$$

¹³An employer may contract another unit to administer the pension fund and arrange disbursement to the beneficiaries. The operator may simply act as the employer's agent. A second option is for a single unit to contract with several employers to manage their pension funds as a multiemployer pension fund and assume responsibility for meeting the pension obligations (see 2008 SNA, paragraphs 17.163–17.166).

A2.84 The accounting for a defined benefit plan is complex. The pension accounting rules in a defined benefit scheme require recognizing the cost of benefits before the benefits are paid to retirees—that is, the costs are recognized over the employees' working period. Actuaries of pension funds have to build in their estimation methods assumptions about economic developments (interest rates, salary increases, inflation) and demography (retirement age, life expectancy) in order to determine the amount and timing of the future benefit payments and their attribution to each year of employment according to the pension benefit formula.

A2.85 The application of this accrual accounting method implies that recording of the actual cash flows in the employer's financial statement does not suffice; instead, the employer needs to compute the periodic (mostly calculated annually) pension cost incurred, which comprises components that reflect different aspects of the employer's financial arrangements as well as the cost of benefits earned by employees (see Example A2.8). Pension costs are recognized in the company's income statement and reduce reported earnings.¹⁴ The cash payments are referred to as pension contributions a company makes to fund its designated pension plan (also called plan assets), which comprises investments in positions, bonds, and other investments to provide solely for pension benefits. The assets in the pension plan and the earnings on those assets are available only for paying pension benefits. These assets do not belong to shareholders, and earnings are not included in the company's net income.

A2.86 Several components are relevant to calculate the employer's periodic pension costs. The start-

ing point is the so-called projected benefit obligation (PBO), the pension liability or the employee's pension entitlement, which determines the actuarial present value of benefits attributed to an employee by the plan's benefit formula. It takes into account the employee's service to-date (assuming that the plan continues), and assumptions on future compensation levels.¹⁵

A2.87 The PBO is affected by so-called service costs,¹⁶ interest costs, actuarial gains/losses, contributions, and payment of benefits in the current period. These are relevant terms for the compiler in order to derive from the pension funds' books the entries for the macroeconomic accounts:

- a. *Service cost* is the additional liability created because another year has elapsed, for which all current employees get another year's credit for their service; it is estimated as the actuarial present value of the benefits attributed by the pension benefit formula to services rendered by the employees during the current period. In other words, it constitutes the value of benefits earned by employees during the period.¹⁷
- b. *Interest cost* is the additional liability created because these employees are one year nearer to

¹⁵Another actuarial measure is the accrued benefit obligation (ABO), which is the present value of the future benefits to which the employee has actually become entitled. The ABO is often used to estimate the present value of an employee's pension assuming that the employee ceases to work for the company at the time the estimation is made. The PBO is the ABO increased to reflect expected future compensation and increases in the number of years of service.

¹⁶The term "service" is a synonym for labor, work, employment, and should not be confused with the term "services" in balance of payments/IIP statistics.

¹⁷Companies might also incur so-called prior service costs, which are amortized changes in benefits resulting from a change in the pension contract.

¹⁴Based on prevailing accounting rules, companies may be required to record certain accounts of pension plans directly in their financial statements and make notes of other accounts in memo records attached to the main financial statements.

Example A2.8 Excerpt of notes to a company's financial statement on plan asset allocation

Plan Asset Allocation

Principal pension plans

December 31	Target allocation (%)	2010 Actual allocation (%)	2011 Actual allocation (%)
Equity securities	51–63	69	60
Debt securities	21–27	19	20
Real estate	4–8	6	7
Private equities	5–11	6	7
Other	3–7	6	6
Total		100	100

Example A2.9 Excerpt of notes to a company's financial statement, projected benefit obligation

Projected benefit obligation (in million dollars)		
	2012	2011
Balance at January 1	37,827	33,266
Service cost for benefits earned	1,178	1,213
Interest cost on benefits obligations	2,199	2,180
Participant contributions	163	169
Plan amendments	–	654
Actual loss ¹	969	2,754
Benefits paid	–2,367	–2,409
Acquired plans	–	–
Exchange rate and other adjustments	–	–
Balance at December 31	39,969	37,827

¹Principally associated with discount rate changes for principal pension plans.

their benefit payouts; the interest/discount rate is used to adjust for the time value of money.

- c. *Actuarial gains and losses* arise from the difference between expected values (estimates) and actual values in a company's pension plan. They can result from changes in actuarial estimates when assumptions are adjusted concerning the future rate of salary increases, the length of employee service, the discount rate for the plan obligations, and the expected rate of return on plan assets.

A2.88 The periodic cost of the pension plan, which is recognized as part of the employer's income statement under most widely followed financial accounting rules, takes into account the difference between the expected return on plan assets and the service cost, interest cost, amortization of prior service cost, and net actuarial losses or gains.

Example A2.10 Excerpt of notes to a company's financial statement, cost of pension plan

Cost of Pension Plan (in million dollars)		
	2012	2011
Expected return on plan assets	–4,258	–4,245
Service cost for benefits earned	1,438	1,375
Interest cost on benefit obligation	2,516	2,390
Prior service cost	317	252
Net actuarial loss (gain) recognized	242	–544
Total cost	255	–772

A2.89 The measure of the pension entitlement of a defined benefit plan participant is the present value of the benefits to which they are expected to become entitled, and not the actual assets of the plan. If the assets of a defined benefit plan are insufficient to pay the promised benefits, the plan sponsor must cover the funding gap.

Accounting for a defined benefit scheme in balance of payments statistics¹⁸

A2.90 The following paragraphs explain step-by-step which components are needed for capturing the cross border pension fund activities comprehensively in the balance of payments statistics according to international standards, and how the compiler should derive these from the information provided by pension funds. Although the entries are similar to the ones in insurance accounting, the approach to manipulate the data in order to derive the balance of payments and IIP components are somewhat different.

Employer's total contribution (actual and imputed contributions) and pension services

A2.91 In the defined benefit scheme, the costs associated with operating the scheme are borne by the employer, and regarded as "a form of income in kind" included with the employer's contributions (see 2008 SNA, paragraph 17.149) to the employee's compen-

¹⁸The proposed approach to measure pension fund activities largely reflects existing accounting practices in both private and public sectors. In many of the accounting standards, actuarial amounts are used to measure the "current service cost" to business (i.e., labor cost). Information should therefore be observable in the books of the employers, and/or in pension funds' own accounts.

sation. Based on this, the total contribution of the employer in one period is calculated in a way that, together with any actual contribution by the employee and excluding the administrative cost, it matches the increase in the PBO due to the service costs (see paragraph A2.88a)—that is, the pension earned by the employee during the year.¹⁹

A2.92 In Examples A2.11a–11c, the following assumptions are imputed for calculations:

Increase in pension entitlement, due to current year's employment ²⁰	15
Actual payments made by the employer	10
Actual payments made by the employee	1.5
Costs incurred in the current period to run the pension fund	0.6

It is assumed also that actual payments made by the employer and employee are not sufficient to meet the estimated increase in the benefits accruing from the pension earned during the year.

A2.93 The costs incurred to run the pension fund are initially borne by the employer,²¹ and so they should be included in the calculation of the employer's contribution (conceptually, they should also be regarded as compensation in kind provided to the employee). These administrative costs need to be imputed by the compiler—for instance, as a percentage of the employer's and employee's actual contributions in the current period (assumed equal to around 5 percent). They constitute the pension service that the balance of payments compiler needs to record in the services account. An additional contribution from the employer of 4.1 is imputed to level the contributions with the increase in current service costs.

A2.94 Thus, under the accrual approach, the measure of (cross border) compensation of employees for participants in the defined benefit plan includes

¹⁹Contributions to defined contribution schemes (explained ahead) are recorded as the amounts actually paid in, because these do not determine the net equity of households on an actuarial basis.

²⁰These actuarial estimates are carried out by the pension fund's actuary; they constitute the increase in the PBO due to service cost.

²¹The pension manager could be either the employer itself or a unit that has assumed the risk of meeting the pension obligations (see also 2008 SNA, paragraphs 17.149 and 17.151).

Example A2.11a Calculation of data for a defined benefit scheme¹

Actuarial calculations determining the increase of the PBO due to service costs		15.0
Employer's actual contribution	(-)	10.0
Employee's actual contribution	(-)	1.5
Administrative costs of operating the scheme—estimated	(+)	0.6
Employer's imputed contribution—residual		4.1
In the example, the employer must overall contribute 14.1 (= 10 + 4.1).		

¹ See 2008 SNA, paragraph 17.167.

the employer's actual and imputed contributions to the plans as payable by the employer and receivable by the employee (see *BPM6*, paragraph 11.22). It is the present value of the benefits to which employees become entitled as a result of their service to the employer, and adequately reflects the true cost to the employer.

Investment income attributable to beneficiaries in pension schemes

A2.95 As a next step, the investment income attributable to the employee is derived using the so-called interest costs of pension funds,²²—that is, the increase in pension entitlements because the employee is one year nearer to its benefit payouts. Conceptually, this means that the beneficiary earns imputed interest on his or her actuarial entitlements, rather than the actual interest and dividends earned by the pension fund on its pension fund plan assets. Because the discount period becomes shorter, the net present value of defined pension benefits grows the closer the employee is to retirement age.

A2.96 In pension accounting, the interest costs are usually calculated by pension fund actuaries as interest rate multiplied by the PBO at the beginning of the financial year. Prevailing accounting standards advise on the interest rates that are supposed to be used by pension funds. The interest rate could be an estimated discount rate reflecting the market rate currently used to settle benefits due, or a rate based on the expected return on high-quality fixed income securities (e.g., long-term

²²In the 2008 SNA also called past service.

Example A2.11b Transactions for a defined benefit scheme

For recording the investment income attributable to beneficiaries in pension schemes in the primary income account:		
Current year pension fund's interest cost		4
For recording net contributions receivable by the resident pension fund from the nonresident employee as well as the benefits payable/paid to retirees in the accounting period in the secondary income account:		
Net contributions receivable by the resident pension fund from the employee calculated as:		19 nonresident
Contributions actually paid by employer		10
Contributions actually paid by employee	(+)	1.5
Pension fund administrative costs	(-)	0.6
Employer's imputed contribution (see Example A2.11a)	(+)	4.1
Investment income attributable to policyholders in pension schemes ¹ (interest costs)	(+)	4
Benefits payable/paid to retirees in accounting period		16

¹The term "policyholders" is used for convenience to assure consistency with the balance of payments standard component.

government bonds). Different plans will have different valuation interest rates. The compiler needs to inquire about the pension plans' breakdown into its cross border components (data collection is discussed in Section Data Collection ahead in this appendix).

A2.97 In Example A2.11b, in addition to the assumptions presented in paragraphs A2.94–2.95, the increase in the entitlements associated with the passage of time during the year is calculated to be 4. The remaining transactions for the defined benefit scheme can be derived as follows.

A2.98 In cases when employers organize pension schemes for their employees,²³ the employers will deduct the pension contributions from the employees' compensation and pay them directly to the pension scheme; only the net compensation is paid to the employees. The actual contributions received by the retirement scheme from the employer (10) might initially appear to constitute domestic transactions in cases where the employer and the pension fund are resident in the same economy. In the international accounts, however, rerouting records a transaction as taking place in channels different from those observed (see *BPM6*, paragraph 3.16).²⁴ In the

current account, therefore, the gross compensation of the nonresident employee should include the actual and the imputed contribution by the employer to the defined benefit pension scheme, which is then deemed to be paid in full (including the contribution supplement and net of the administrative costs) to the retirement scheme by the employee together with his own contribution (see *BPM6*, paragraph 11.22). In the financial account, other investment (currency and deposits), the actual contributions payable by the employer and the actual contributions receivable by the pension fund from the nonresident employee are recorded in this example as increasing external liabilities of the employer and increasing external assets of the pension fund.

Changes to pension entitlements

A2.99 In the continuation of the Example A2.11b, the financial account transactions that are the change in the pension fund entitlement (i.e., the change in the PBO) are estimated by the increase of the liability due to the service cost and the increase of the liability due to the interest cost, less the benefits paid in the current period. This change in the pension fund's liabilities is recorded in the financial account under insurance, pension, and standardized guarantee schemes as a supplementary item.²⁵

²³These are also called "occupational pension schemes"—that is, schemes that are established and financed voluntarily by individual employers/companies.

²⁴Similarly, employer pension contributions are rerouted to employee compensation for national accounts compilation purposes.

²⁵The 2008 SNA adopted the approach of treating unfunded employers' pension schemes identically to funded employers' pension schemes.

Example A2.11c Transactions for a defined benefit scheme

For recording the *insurance, pension, and standardized guarantee schemes* in the financial account, other investment:

Changes to pension entitlements calculated as:	3
Net contributions receivable by the resident pension fund from the nonresident employee	19 ¹
Benefits payable	-16

Introducing an adjustment item: Adjustment for change in pension entitlements

¹ Net contributions receivable in this example, comprise of an increase in PBO due to service cost of 15, and an increase in PBO due to interest cost of 4.

Introducing an adjustment item: adjustment for change in pension entitlements

A2.100 In the balance of payments/IIP accounts, pension contributions and benefits are recorded as current transfers in the secondary income account, and as pension entitlements in the financial account. In this respect the treatment is different from life insurance accounting, where premiums and benefits are recorded only in the financial account, because part of the premiums paid by the policyholders are regarded as savings and part of the benefits received by the beneficiaries as withdrawals from savings (see *BPM6*, paragraph 5.65).²⁶ Policies that qualify as social insurance differ from insurance policies because beneficiaries usually enter into the initiative by intervention of a third party, the government or the employer, who encourages or obliges the policyholder to make provision for income in retirement (*2008 SNA*, paragraph 17.51).

A2.101 When cross border transactions of pension contributions and benefits are significant in an economy, in balance of payments/IIP statistics, an adjustment item must be recorded in order to “add back” social contributions to and “subtract” pension receipts from the secondary income account. As a result, the current account is the same as if no current transfers for contributions and receipts were recorded, and the

²⁶The rationale for treating pension contributions and benefits as current transfers is that, when looked at for the economy as a whole, the effect of pension provision can be seen as if it were a redistributive process among households (see *2008 SNA*, paragraph 9.23), and so it is important that disposable income of households reflects these transactions (see *BPM6*, paragraph 12.37).

financial and current accounts are reconciled (see *BPM6*, paragraph 12.39).

A2.102 From the viewpoint of compiling data from a resident pension fund, the reconciling adjustment item would be recorded in the balance of payments statistics of the compiler on the debit side as a deduction from the balance of the secondary income, and as a counter entry to the increase in pension entitlements (a credit entry) (see Example A2.11d).

Data collection

A2.103 Estimations regarding the pension fund interest and service costs attributable to nonresidents can best be taken from the accounts of resident pension funds. Through surveying domestic pension funds, the compiler should be able to request information on a conceptually correct basis as explained in Section B.2—that is, actual and imputed contributions—as well as pension entitlements and the interest earned on actuarial entitlements.²⁷

A2.104 Pension funds should likely be able to provide either aggregate information on actual contributions received from the respective companies on behalf of their nonresident employees, or on average contribution rates relative to gross wages; information should also be available on the benefits that are being paid to retirees abroad. The percentage points for the administrative costs (pension services) need to be imputed by the compiler—for instance, as a small percentage of the employer’s and employee’s combined estimated contributions in the current period. In general, the compiler needs to inquire about the pension plans’ breakdown into its cross border components. Appendix 8 provides a model survey form for collecting data from pension funds.

A2.105 Due to the increasing attention in the last few decades to pension schemes and their role in the overall system of retirement provision, in some economies surveys or central registrars have been established, which collect data on the domestic pension industry. National accountants, government finance statisticians, or financial account statisticians might already use these available sources for their own

²⁷The compiler can best assess the justification for the introduction of a new survey measured by the impact on cross border employment on the balance of payments/IIP accounts.

Example A2.11d Recording of transactions for a defined benefit scheme in the balance of payments statistics (economy of pension funds)

	Credit	Debit
Services	0.6	
Insurance and pension services		
<i>Pension and standardized guarantees</i>		
Primary income		
Compensation of employees		61.1 [47+10+4.1] ¹
Investment income attributable to policyholders in insurance, pension schemes, and standardized guarantee schemes		4
Secondary income		
Financial corporations, nonfinancial corporations, households, and NPISHs		
Other current transfers		
<i>Social contributions</i>	19 [10+1.5-0.6+4.1+4]	
<i>Social benefits</i>		16
Adjustment for change in pension entitlements		3
	Net acquisition of financial assets	Net incurrence of liabilities
Financial account		
Other investment		
Currency and deposits		
Deposit-taking corporations, except the central bank	-57	
[accounts of employers] ²	-4.5 [+10;+1.5;-16]	
[accounts of pension schemes] ²		
Insurance, pension, and standardized guarantee schemes		
Other sectors		
<i>Pension entitlements</i>		+3

¹ Compensation of employees in this example consists of gross salary (47) including the actual contribution by the employees (1.5), plus actual and imputed contribution of employers (10+4.1).

² Entries are presented only for the purpose of showing the balancing entries; no balance of payments transactions are registered because they are resident-to-resident transactions.

estimations. Pension funds may also be obliged to send their monthly or annual reports on their assets, income, and expenses together with actuarial information on their liabilities to government agencies for auditing purposes or tax calculations. The compiler may want to focus on the actuarial information found in the financial reports of the largest pension plans and make estimations for smaller ones.

A2.106 Supervisory institutions may be a source for qualitative aggregate information. Although balance sheets and profit and loss account information from those institutions may have the caveat of long

timeliness, they may be combined with information available from timelier external sector statistics (e.g., ITRS) or administrative data on cross border employment, for estimating an interim (moving) measure for the distinction between national and international business.

A2.107 Furthermore, in certain unionized sectors, multiple domestic employers may agree with their pension fund on so-called collective bargaining agreements, which may provide useful aggregate information or average shares for estimating employers' contributions credited to nonresident beneficiaries.

A2.108 Estimations for pension transactions are relevant for economies with high percentages of border workers, and guest workers in the domestic economy or abroad²⁸, for economies with international organizations whose staff return to retire in a different (e.g., home) economy, and for economies that are preferred by retired people as “sunnier” locations. Information on cross border workers or “resident aliens” can be sought from government agencies issuing work permits and visas, or from tax authorities. The latter one may also be relevant for pension benefits paid to or received for current retirees as they may be subject to domestic taxation or double tax treaties.

A2.109 Data from an ITRS will be on a cash basis and capture only the compensation of employees net of contributions and benefits paid. For residents paying contributions to defined benefit pension funds abroad, the net salary received on the domestic bank account would need to be augmented by both employee and employer contributions; information on average contribution rates for employees and for employers could be used as starting point. Secondly, a small percentage thereof should be derived as pension service payable to pension funds abroad. The ITRS provides information on economies to which salaries and wages are paid and from which they are received. The compiler could contact the balance of payments compilers in those economies respectively, to obtain appropriate ratios for their contribution rates and services estimates. Alternatively, household surveys may include or could be complemented to provide information on socioeconomic detail with reference to current or past cross border employment. In case there is a pension fund in the domestic economy, information could be available to build useful ratios on actual and imputed contributions, and service costs.

Defined contribution scheme

Overview

A2.110 Due to increasing demographic and financial pressures during the last few decades, there is a shift from defined benefit schemes to defined contribution schemes, which means that the risk is borne

²⁸When guest workers return to the home economy, an entry in other changes in financial assets and liabilities account should be recorded for the reclassification of pension entitlements as incurrence of liability of pension schemes to nonresident returning workers and an acquisition of the same asset by the economy of returning workers.

by the employee, because the pension solely depends on the value of total contributions and investment returns. Defined contribution plans have become the dominant form of plan in the private sector of many economies.

A2.111 The *defined contribution scheme* defines the benefits exclusively based on the level of the funds built up from contributions over the employee’s working life and on the performance of the financial assets acquired with the future pensioner’s contributions. The pension scheme secures only a certain level of pensions, with the possibility that the returns on money invested could be poor; the entire risk of receiving an adequate pension income in retirement lies therefore with the employee, and not with the employer. The employer’s contribution may be established at the beginning of the contract, and the employee’s contributions are in addition to the employer’s rate of contribution. The pension scheme invests these contributions and provides the employee with the accumulated sum on retirement—for instance, in form of a lump sum or an annuity, with which the employee can secure a pension income. Defined contribution schemes, unlike defined benefit schemes, are always funded.

How do pension funds account under a defined contribution scheme?

A2.112 The accounting for a defined contribution plan is less complex than for a defined benefit plan. There are no actuarial estimations applied by the fund, and there are no associated imputations. The employer’s contributions can be a fixed amount, or a percentage of the salary. The actual contributions are paid into individual accounts and invested in financial markets; thus the employer contributions to the account are guaranteed, but not the success of the investments, and thus not the future entitlements.²⁹

Accounting for a defined contribution scheme in balance of payments/IIP statistics

Changes in pension entitlements

A2.113 Pension entitlements represent liabilities of the pension fund vis-à-vis its beneficiaries (see *BPM6*, paragraph 7.65). The factors that trigger the change in pension entitlements in the current period, and thus require recording in the international accounts, are

²⁹Unlike in the defined benefit scheme, where the benefits are guaranteed, but the scheme itself may be funded or unfunded.

Table A2.1 International Investment Position Entries

IIP item	Opening position	Transactions in current period	Other changes in volume	Closing position
Insurance, pension, and standardized guarantee schemes	1,000	-20	+70	1,050
[liabilities in pension entitlements of resident pension schemes to nonresidents]		[120 – 140]		

the difference between contributions receivable from abroad less benefits payable to retirees abroad, and any holding gains and losses earned from the investment of the cumulated pension entitlements that contribute to the current market value of the assets of the fund (see *BPM6*, paragraph 7.65). The transaction for pension entitlements recorded in the financial account under insurance, pension, and standardized guarantee schemes is the difference between net contributions receivable and benefits payable. Holding gains or losses appear, however, in the revaluation account³⁰ of the IIP.

A2.114 The change in net entitlements recorded in the financial account can be negative, when benefits payable exceed net contributions receivable. For example, under the assumptions ahead, the entries in the IIP will be as presented in Table A2.1.

Liabilities in pension entitlements of resident pension schemes vis-à-vis nonresident beneficiaries:

position at the beginning of the period	1,000
position at the end of the period	1,050
Contribution receivable during the period	120
Benefits payable during the period	140
Holdings gains and losses during the period	70

Income earned on cumulated entitlements and the implicit service charge for running the defined contribution pension scheme

A2.115 Instead of attributing to beneficiaries the imputed investment income on their actuarial entitlements as is the case in defined benefit pension schemes described in Insurance Transactions and Positions of this appendix, in the defined contribution scheme, the actual value of the interest and dividends earned on the plan assets are attributed to the participants.

³⁰The exact delineation between which changes in pension entitlements are treated as transactions and which changes are treated as other changes in the volume of assets is still being researched. The “Changes in pension entitlements” describes the present situation (see *2008 SNA*, paragraph 12.61).

A2.116 Part of the income earned by the pension scheme by investing the assets is used to meet the administrative costs of operating the pension fund on behalf of the beneficiary. In macroeconomic accounting, these costs constitute the service charge payable by the beneficiary and receivable by the pension fund for this purpose. The remaining part of the income is attributable to and reinvested by the beneficiaries with the pension fund as contribution supplements (see *2008 SNA*, paragraph 17.135).

Employers’ and employees’ contributions and benefits in the defined contribution scheme

A2.117 The contributions and benefits are based on actual payments and receipts during the specific period, of which the employer contributions are routed through the compensation of the employees. Social contributions payable by nonresidents to resident pension funds should be available from the pension fund, the official budget records, or from the responsible agency (such as the ministry of social security). Pension benefits payable to nonresidents should be available from the pension fund, from official budget records, from the responsible agency (such as the ministry of social security), or from an ITRS (see also Chapter 12).

A2.118 Information on the earnings on employees’ cumulated pension entitlements and the percentage of these earnings pension fund operators use to meet the costs of operating the pension fund needs to be estimated from the accounts of pension schemes. The compiler should consult the funds administrators in splitting between liabilities to residents and nonresidents by using a suitable indicator, such as contributions receivable and/or benefits payable.

A2.119 With this information at hand from the resident pension fund, the compiler can derive the pension service charge due in the current period and the corresponding net contributions as follows. In

Examples A2.12a–2.12c, the following assumptions are imputed for calculations:

Employers' actual contributions (on behalf of nonresident employees)	11
Employees' actual contributions	11.5
Estimated investment income attributable to nonresident beneficiaries	17.6
of which: estimated percentage of income attributable to beneficiaries	
to meet the costs of operating the fund	8.5%
Benefits paid to nonresident retirees	26

Example A2.12a Transactions for a defined contribution scheme¹

For recording the pension services in the goods and services account:

Pension services	1.5
calculated as:	8.5% of 17.6

The pension contribution supplements are calculated based on the income distributed to households minus the part used to meet the cost of operating the pension fund (that represent pension services) (see 2008 SNA, paragraph 17.135).

For recording the investment income in the primary income account:

Pension contribution supplements	16.1
calculated as:	
Estimated investment income attributable to nonresident beneficiaries	17.6
Pension services	(-) 1.5

¹See 2008 SNA, Table 17.7.

A2.120 For defined contribution schemes, the net total amount of contributions payable can be derived as presented in Example A2.12b (see also *BPM6*, paragraph 12.35).

A2.121 As mentioned earlier, employers often make pension contributions directly to the pension scheme on an employee's behalf; only the net compensation is transferred to the nonresident employees' domestic bank account. The actual contributions received by the retirement scheme from the employers (11 in Examples A2.12a and A2.12b) might initially appear as a domestic transaction, in cases where the employer and the pension fund are resident in the same economy. Through the rerouting of these transactions (see

Example A2.12b Transactions for a defined contribution scheme (based on assumptions and calculations presented in Example A2.12a)

Net contributions payable	37.1
calculated as:	
Employers' actual contributions (on behalf of nonresident employees)	11
Employees' actual contributions	(+) 11.5
Investment income attributable to policyholders in pension schemes ¹	(+) 16.1
Pension service charge	(-) 1.5
For recording the insurance, pension, and standardized guarantee schemes in the financial account, other investment:	
Change in pension entitlements	11.1
calculated as:	
Net contributions receivable	(+) 37.1
Benefits payable	(-) 26

¹See footnote 23.

BPM6, paragraph 3.16 for an explanation of rerouting), the contribution by the employer to the defined contribution pension scheme is deemed to be paid in full (including the contribution supplement net of the administrative costs) to the retirement scheme by the employee together with his own contribution, and they are recorded in the example as increasing external liabilities of the pension scheme.

Adjustment for change in pension entitlements

A2.122 Similar to the defined benefit scheme, the pension contributions and benefits are recorded as current transfers in the secondary income account, and as pension entitlements in the financial account (see Defined benefit scheme). Therefore, when cross border transactions of pension contributions and benefits are significant in an economy, an adjustment item must be recorded in order to "add back" social contributions to and "subtract" pension receipts from the secondary income account. As a result, the current account balance is the same as if no current transfers for contributions and receipts were recorded, and the financial and current account are reconciled (see *BPM6*, paragraph 12.39) (see Example A2.12c).

A2.123 Example A2.12c shows balance of payments entries related to pension schemes. It is constructed based on assumptions and calculations presented in Examples 12a and 12b.

Example A2.12c Recording of transactions for a defined contribution scheme in the balance of payments statistics (economy of pension funds)

	Credit	Debit
Services		
Insurance and pension services		
<i>Pension and standardized guarantees</i>	1.4	
Primary income		
Compensation of employees		61 [38.5+11.5+11] ¹
Investment income attributable to policyholders in insurance, pension schemes, and standardized guarantee schemes		16.11
Secondary income		
Financial corporations, nonfinancial corporations, households, and NPISHs		
Other current transfers		
<i>Social contributions</i>	37.1 [11.1+11+16.1–1.5]	
<i>Social benefits</i>		26
<i>Adjustment for change in pension entitlements</i>		11.1
	Net acquisition of financial assets	Net incurrence of liabilities
Financial account		
Other investment		
Currency and deposits		
Deposit-taking corporations, except the central bank		
[accounts of employers] ²	–61	
[accounts of pension schemes] ²	+3.5 [+11;+11.5;–26]	
Insurance, pension, and standardized guarantee schemes		
Other sectors		
<i>Pension entitlements</i>		+11.1

¹Compensation of employees in this example consists of net salary (38.5) plus actual contribution by the employees (11.5) plus actual contribution of employers (11).

² Entries are presented only for the purpose of showing the balancing entries; no balance of payments transactions are registered because they are resident-to-resident transactions.

Data collection

A2.124 Pension funds managing defined contribution schemes should likely be able to provide to the compiler either aggregate information on actual contributions received from the respective companies on behalf of their nonresident employees, or on average contribution rates relative to gross wages; information should also be available on the benefits that are being paid to current retirees abroad, as well as on an estimated average of interest and dividends

earned on the beneficiaries' plan assets and the administrative costs of operating the pension fund as explained earlier. The compiler can also estimate it by taking a few percentage points of the employer's and employee's combined estimated contributions in the current period. In general, the compiler should inquire about the pension plans' breakdown into its cross border components. Model form 13 in Appendix 8 presents a model survey form of pension funds.

A2.125 Data from an ITRS are on a cash basis and therefore capture only the compensation of employees net of contributions and benefits payable. For residents paying contributions to defined contribution pension funds abroad, the net salary received on the domestic bank account would need to be augmented by both employee and employer contributions; information on average contribution rates for employees and for employers could be used as starting point. Secondly, a small percentage thereof should be derived as pension service payable to pension funds abroad. The ITRS provides information on economies to which salaries and wages are paid and from which they are received. The compiler could contact the balance of payments compilers in those economies to obtain appropriate ratios for their contribution rates and services estimates.

A2.126 Household surveys may be a source of information or could be complemented to provide information on socioeconomic detail with reference to current or past cross border employment. If there are pension funds in the compiling economy, information from them could be used to build useful ratios for estimating imports of cross border pension services and related transactions.

Social security schemes

A2.127 Compared to the two employment-related schemes discussed earlier, the statistical treatment of social security schemes is rather simple (see *2008 SNA*, paragraph 17.124). Social security funds are not invested on behalf of the beneficiaries, and instead, current workers' contributions and taxes are used by the government operating the scheme to pay current benefits (the system is also known as "pay-as-you-go"). There are no assets set aside and thus no financial account entries need to be made. There is also no need to calculate pension services.

A2.128 Any contribution made by the employer on behalf of nonresident employees directly to the social security pension scheme is rerouted through compensation of employees, and is included together with the nonresident employees' part in the secondary income account as transferred to the social security fund (see *BPM6*, paragraph 11.17).

A2.129 The social security benefits are recorded in the secondary income account as payable in the economy of the social security fund, and as receivable in the economy of the employee.

Annex to Appendix 2

Table A2.2 Data Collection and Compilation of the Insurance Transactions for the Current Account

		Balance of payments		
Report		Calculations		Current Account
Funds and Index Linked Life Insurance	Funds and Index Linked Life Insurance	Gross premiums earned * Ratio (domestic) + Premium supplements = Service charge Calculation of premium supplements: - Use once a year the foreign share in general provisions - Use of quarterly ratios on revenues from financial assets of the insurance (equity investment and security investment in foreign countries, portfolio investment in total) - Plausibility: Use the proportion of revenues calculated from the quarterly provisions' stock - Breakdown by country of the revenues from the distribution of the reported gross premiums		Life (service charge)
	Other Life Insurance	Other Life Insurance		
Premiums earned (accrual)	Sea, Air, and Other Transport Insurance	Freight		Services (credit)
	Life Insurance or Decease Insurance			Freight (service charge)
	Accident and Sickness Insurance			
	Fire and Other Property Insurance	Other Direct Insurance		Other direct (service charge)
	Damaged Property Insurance			
	General Liability Insurance	Reinsurance		Reinsurance (service charge)
	Travel Insurance			
	Credit and Credit Cards Insurance			
	Active Reinsurance			
	Passive Reinsurance		Gross premiums earned * + Premium supplements - Service charge = Net premiums		Net premiums nonlife
Accrued benefits (actual)	Freight			Current transfers (credit)
	Other Direct Insurance			
	Sea, Air, and Other Transport Insurance			
	Life Insurance or Decease Insurance			
	Accident and Sickness Insurance			
	Fire and Other Property Insurance			
	Damaged Property Insurance			
	General Liability Insurance			
	Travel Insurance			
	Active Reinsurance			
Passive Reinsurance				
Earnings (debit)		Estimation based on stocks of life-insurance and average performance of insurance companies portfolio investment assets		Current transfers (debit)
Estimation		Estimation based on stocks of life-insurance and average performance of insurance companies portfolio investment assets		Fictive distribution of earnings from technical provisions (premium settlements)

Source: Oesterreichische Nationalbank

Table A2.3 Data Collection and Compilation of the Insurance Transactions for the Financial Account

Balance of Payments					
Report	Funds and Index	Calculations	Other Investment - Insurance Technical Reserves		Counterpart: Other Investment - Currency and Deposit
			Linked Life Insurance	Reserves	
Funds and Index Linked Life Insurance	Funds and Index Linked Life Insurance	Premiums earned * Ratio (domestic) + Premium supplements = Service charge			
		Calculation of Premium supplements: - Use once a year the foreign share in general provisions - Use of quarterly ratios on revenues from financial assets of the insurance (equity investment and security investment in foreign countries, portfolio investment in total) - Plausibility: Use the proportion of revenues calculated from the quarterly provisions' stock - Breakdown by country of the revenues from the distribution of the reported gross premiums			
Other Life Insurance	Other Life Insurance				
Premiums earned (accrual)	Sea, Air, and Other Transport Insurance Life Insurance or Decease Insurance Accident and Sickness Insurance Fire and Other Property Insurance Damaged Property Insurance General Liability Insurance Travel Insurance Credit and Credit Cards Insurance Active Reinsurance Passive Reinsurance		Freight		Earned premiums reported in total (debit)+ or (credit)-
		Premiums earned * Ratio (STAT domestic) = Service Charge	Other Direct Insurance		
			Reinsurance		

Table A2.3 Data Collection and Compilation of the Insurance Transactions for the Financial Account (concluded)

		Balance of Payments			Counterpart: Other Investment - Currency and Deposit
Report	Calculations	Other Investment - Insurance Reserves	Technical		
Funds and Index Linked Life Insurance		Technical provisions from Funds and Index-Linked Life Insurance (debit) –	Increase in liabilities		
Other Life Insurance	Premiums earned - Service Charge = Net premiums	Technical provisions from other Life insurance (debit) +	Increase in liabilities		
Funds and Index Linked Life Insurance		Technical provisions from funds and index-linked Life insurance (debit) +	Decrease in liabilities		
Other Life Insurance		Technical provisions from other Life Insurance (debit) –	Decrease in liabilities		
Sea, Air, and Other Transport Insurance					
Life Insurance or Decease Insurance					
Accident and Sickness Insurance					
Fire and Other Property Insurance					
Damaged Property Insurance					
General Liability Insurance					
Travel Insurance					
Credit and Credit Cards Insurance					
Active Reinsurance					
Passive Reinsurance					
Active Reinsurance	Accrued benefits - Paid benefits = + = Increase in liabilities = – = Decrease benefits	Liabilities from Active Direct/ Reinsurance (debit)+ or (debit) –	Increase in liabilities/ Decrease in liabilities		Calculated increase/decrease in claims (debit)+ or (debit)–
Passive Reinsurance	Premiums paid - Premiums earned = + = Increase in claims = – = Decrease in claims				
Active Reinsurance	Accrued benefits - Paid benefits = + = Increase in liabilities = – = Decrease benefits	Claims from Passive Direct/ Reinsurance (credit)+ or (credit)–	Increase in claims/Decrease in claims		Calculated increase/decrease in liabilities (credit)+ or (credit)–
Passive Reinsurance	Accrued benefits - Paid benefits = + = Increase in claims = – = Decrease in claims				

Report		IIP				
	Position	Position at the beginning of the period	Transaction	Other	Position at the end of the period	
Premiums earned (accrual)	Liabilities from technical provisions from funds and inxlinked life insurance	Updated cumulative transactions during the year once a year compared with the reports	Increase in liabilities = Net premiums Decrease in liabilities = accrued benefits	Position at the end of the period - Position at the beginning of the period - Transaction	Position at the beginning of the period + Transaction	
Accrued benefits (accrual)	Liabilities from technical provisions from other life insurance	Updated cumulative transactions during the year once a year compared with the reports	Increase in liabilities = Net premiums Decrease in liabilities = accrued benefits	Position at the end of the period - Position at the beginning of the period - Transaction	Position at the beginning of the period + Transaction	
Premiums paid	Liabilities from active direct/reinsurance	Updated cumulative transactions during the year once a year compared with the reports	Calculated increase/decrease in liabilities	Position at the end of the period - Position at the beginning of the period - Transaction	Position at the beginning of the period + Transaction	
Services paid	Claims from passive direct/reinsurance	Updated cumulative transactions during the year once a year compared with the reports	Calculated increase/decrease in claims	Position at the end of the period - Position at the beginning of the period - Transaction	Position at the beginning of the period + Transaction	

Source: Oesterreichische Nationalbank

Financial Intermediation Services Indirectly Measured

Overview

A3.1 The 2008 SNA and BPM6 financial intermediation services indirectly measured (FISIM) comprises financial service output for which producers do not explicitly charge. Instead, they levy an implicit charge in the spread between interest rates receivable on financial assets and interest rates payable on financial liabilities. The 2008 SNA and BPM6 recognize FISIM produced only by certain financial corporations and only on the loan and deposit instruments on their balance sheets.

A3.2 From the financial corporations' viewpoint, FISIM on loans is the difference between interest receivable and the interest cost of funds calculated at a *reference rate* on the loan balance. On deposits, FISIM is the difference between interest payable at the *reference rate* on the deposit balance and actual interest payable to depositors. Depositors receive both the monetary interest payable and financial services for maintaining a balance with a deposit-taking financial corporation. The value of the financial services depositors receive is an implicit rather than explicit charge. The reference rate is described in both the BPM6 and the 2008 SNA as a rate "contain[ing] no service element and reflect[ing] the risk and maturity structure of deposits and loans." In general, FISIM on the loan assets and deposit liabilities of financial corporations is expected to be positive and a part of their output.

A3.3 The focus of the BPM6 is on FISIM as a component of exported and imported services. FISIM exports comprise the indirectly measured financial services supplied on the loan *assets* and deposit *liabilities* of resident financial corporations for which the counterparty is a nonresident unit. FISIM imports comprise indirectly measured financial services purchased by resident units from all institutional sectors

(mostly nonfinancial) on their loan liabilities and deposit assets with nonresident financial corporations.

A3.4 Table A3.1 shows FISIM exports in the context of international classifications of products, activities (establishments), financial instruments, and companies (institutional units). Table A3.2 shows FISIM imports in the context of the same international classifications.

A3.5 Table A3.2 shows that FISIM imports are purchased by resident holders of deposit *assets* and loan *liabilities* vis-à-vis nonresident financial corporations. Notice that any resident institutional sectors may import FISIM. For FISIM exports the data collected from the resident financial corporations suffices, while for FISIM imports, data should be collected from all resident institutional sectors.

A3.6 The following paragraphs briefly introduce the concept of indirectly measured financial services following BPM6 methodology in Box 10.5 and as described in the 2008 SNA, paragraphs 6.163–6.169 and 17.249–17.257.

The Reference Rate

Note: the text in this section is indicative only, because clarification of BPM6 and 2008 SNA language on determining the reference rate is the subject of review by international bodies.

A3.7 As noted in Overview, for loans, FISIM is the difference between loan interest and the cost of funds at the reference rate, and for deposits, FISIM is the difference between the cost of funds at the reference rate and the interest actually payable to depositors. The 2008 SNA refers to the cost of funds at the reference rate as "SNA interest." The reference rate thus is a key variable in compiling FISIM and in determining interest flows to and from deposit-taking and/

Table A3.1 Exports of Financial Intermediation Services Indirectly Measured (FISIM) in the Context of International Classification Standards

Products		Financial instruments	Balance of payments institutional units
	Central Product Classification, version 2.0 (CPC, ver. 2.0)—71—Financial services, except investment banking, insurance services and pension services	2008 SNA—financial instruments of resident institutional units that have nonresident counterparties	BPM6 institutional sector (2008 SNA sector code)
Exports (SNA P62)			
Central bank market services (paragraphs 6.151–6.156)	711: Central banking services ¹	Liabilities AF22: Transferrable deposits AF221: Interbank positions AF229: Other transferrable deposits AF29: Other Deposits Assets AF4: Loans	Central bank (S121)
Financial services provided in association with interest charges on loans and deposits (paragraph 6.160b, 6.163–6.169)	7112: Deposit services 71121: Deposit services to corporate and institutional depositors 71122: Deposit services to other depositors	Liabilities AF22: Transferrable deposits AF221: Interbank positions AF229: Other transferrable deposits AF29: Other Deposits Assets AF4: Loans	Central bank (S121) Deposit-taking corporations except the central bank (S122)
	7113: Credit-granting services 71131: Residential mortgage loan services 71132: Non-residential mortgage loan services 71133: Personal non-mortgage loan services for nonbusiness 71134: Credit card loan services 71135: Non-mortgage loan services for business purposes 71139: Other credit-granting services 7114: Financial leasing services	Assets AF4: Loans	Central bank (S121) Deposit-taking corporations except the central bank (S122) Other financial corporations Money market funds ² (S123) Other financial intermediaries, except insurance corporations and pension funds (S125) Captive financial corporations and money lenders (S127)

¹ Central banking services (71110) include "services of maintaining deposit accounts for major financial institutions and for the central government" (United Nations, CPC version 2.0 Explanatory Notes). Loan/credit services of the central bank are not explicitly mentioned under this category.

² Money market funds (S123) are classified as monetary and financial institutions in monetary statistics along with the central bank (S121) and deposit-taking corporations (S122). Their investment fund shares (AF521) are generally included in the monetary position along with deposits (AF229) in monetary statistics. Like other investment funds, the service charge of money market funds is the difference between the yield on the investment portfolio and the rate paid to shareholders. Normally, investment funds publish this margin as a so-called expense ratio. As such, the calculation of their output is similar to FISIM, except that it applies to securities assets and investment fund share liabilities rather than deposit and loan instruments and is considered an explicit service charge rather than FISIM.

Table A.3.2 Imports of Financial Intermediation Services Indirectly Measured (FISIM) in the Context of International Classification Standards

	Products	Financial instruments	Balance of payments institutional units
	2008 SNA—Central Product Classification, version 2.0 (CPC, ver. 2.0)—71—Financial services, except investment banking, insurance services and pension services	2008 SNA—financial instruments with asset/liability status of <i>resident</i> institutional units	BPM6 institutional sectors
Imports (SNA P72)			
Central bank market services (paragraphs 6.151–6.156)	7111: Central banking services	Assets AF22: Transferrable deposits AF221: Interbank positions AF229: Other transferrable deposits AF29: Other Deposits Liabilities AF4: Loans	Central bank (S121) General government (S13) Other financial corporations (S121–S127) Nonfinancial corporations (S11)
Financial services provided in association with interest charges on loans and deposits (paragraph 6.160b, 6.163–6.169)	7112: Deposit services 71121: Deposit services to corporate and institutional depositors 71122: Deposit services to other depositors	Assets AF22: Transferrable deposits AF221: Interbank positions AF229: Other transferrable deposits AF29: Other Deposits Liabilities AF4: Loans	Central bank (S121) General government (S13) Other financial corporations (S121–S127) Nonfinancial corporations (S11) Households (S14) NPISH (S15)
	7113: Credit-granting services 71131: Residential mortgage loan services 71132: Non-residential mortgage loan services 71133: Personal non-mortgage loan services for nonbusiness 71134: Credit card loan services 71135: Non-mortgage loan services for business purposes 71139: Other credit-granting services 7114: Financial leasing services	Liabilities AF4: Loans	Central bank (S121) General government (S13) Other financial corporations (S121–S127) Nonfinancial corporations (S11) Households (S14) NPISH (S15)

Source: IMF Staff

or loan-making financial corporations in the income accounts. According to the *BPM6*:

10.129 FISIM payable by each of the depositors and borrowers are calculated by using the concept of a “reference” rate of interest. The reference rate should contain no service element and reflect the risk and maturity structure of deposits and loans. The rate prevailing for interbank borrowing and lending may be a suitable choice as a reference rate. A single rate should be used for transactions in the domestic currency, whereas different rates should be applied for loans and deposits in other currencies. The reference rate will change over time with market conditions.

A3.8 This is closely similar to the language regarding the reference rate in the *2008 SNA*, paragraph 6.166:

The reference rate to be used in the calculation of *SNA* interest is a rate between bank interest rates on deposits and loans. However, because there is no necessary equality between the level of loans and deposits, it cannot be calculated as a simple average of the rates on loans or deposits. The reference rate should contain no service element and reflect the risk and maturity structure of deposits and loans. The rate prevailing for inter-bank borrowing and lending may be a suitable choice as a reference rate. However, different reference rates may be needed for each currency in which loans and deposits are denominated, especially when a nonresident financial institution is involved. For banks within the same economy, there is often little if any service provided in association with banks lending to and borrowing from other banks.¹

A3.9 The *2008 SNA* and *BPM6*, while specifying no more than one reference rate per currency of denomination, thus allow some flexibility in determination of those rates, advising that they should reflect the risk and maturity structure of deposits and loans, but that the interbank rate may be

¹ The qualifier “For banks within the same economy” allows that FISIM may be significant for interbank positions whose counterparty institutions are resident in different economic territories, the context of this appendix.

suitable.² If the interbank rate is deemed suitable, the reference rate can be calculated as the interbank rate used for calculating FISIM for domestic sectors.³ Economies have implemented or tested a few other alternatives.

A3.10 Ideally reference rates for imported FISIM (from nonresident financial corporations with deposit liabilities to or loan claims on residents) should be calculated for each economy of residence of the financial corporation that supplies the import services, preferably the reference rate used in the calculations of FISIM by the statistical authorities of that economy. If these data are not available, then reference rates considered relevant for assets/liabilities denominated in different currencies or groups of currencies may be used, if data are available for each currency/group of currencies.

Estimation of Export and Import of FISIM

Export of FISIM

A3.11 Exports of FISIM for loans granted to nonresidents should be compiled using the reference rate for domestically produced FISIM as interest receivable less the product of the loan position and the (domestic) reference rate, if it can be assumed that most loans to nonresidents are in national currency. Exports of FISIM for deposits of nonresidents (excluding financial corporations) can be estimated as the product of the deposit position and the domestic reference rate, less interest payable.

A3.12 In calculating loan and deposit positions, it is useful to obtain data on beginning and end of period positions, so that average positions can be calculated. Thus, data needed for the estimations of export of FISIM could be collected in the following format:

² The interbank rate is not suitable when it does not “reflect the risk and maturity structure of deposits and loans.” As such, alternatives, such as the average cost of funds to the financial corporations sector, are likely to be better choices for the reference rate.

³ There also has been some discussion that a different rate may be needed for each currency in which loans and deposits are denominated, but this question has not been fully resolved.

	Position at the beginning of period	Position at the end of period	Interest receivable by resident financial corporations		Position at the beginning of period	Position at the end of period	Interest payable by resident financial corporations
Loans to nonresident nonbanks				Deposits of nonresident nonbanks			

Import of FISIM

A3.13 Imports of FISIM for loans received from nonresidents can be estimated as interest payable to nonresident financial corporations less the product of the loan position and the reference rate for the applicable funds lent. Imports of FISIM for deposits with nonresident financial corporations can be estimated as the product of the deposit position multiplied by the reference rate for the funds deposited,

less the deposit interest receivable from the nonresident FISIM provider.

A3.14 The data needed for the estimations of import of FISIM could be collected for each institutional sector in the following format:

Negative FISIM

A3.15 In cases where calculation of FISIM by financial corporations is negative, for practical reasons, the compiler may wish to assume that FISIM is zero.

	Position at the beginning of period	Position at the end of period	Interest payable by resident to nonresident financial corporations		Position at the beginning of period	Position at the end of period	Interest receivable by resident users from nonresident financial corporations
Loans received from nonresident financial corporations (by economy of lender) (encouraged)				Deposits with nonresident financial corporation (by economy of issuer) (encouraged)			

Balance of Payments Entries Related to FISIM

A3.16 Box A3.1 presents entries that should be registered in balance of payments related to FISIM.

Data Sources

Reference Rate

A3.17 For exports, the reference rate is, in principle, the cost of funds from the liability side of resident financial corporations' balance sheets. For imports, the reference rate is, in principle, the cost of funds from the liability sides of nonresident financial corporations' balance sheets by economy of residency. The data sources available for economies' own financial corporations sectors and for those of their FISIM

trading partners will, however, tend to control the specific approach to determining the relevant reference rates for international trade in FISIM.⁴

⁴ The Advisory Expert Group to the Inter-Secretariat Working Group on National Accounts, which includes national accountants experts from a number of government statistical agencies and central banks, recommended at its meeting in May 2013 the following practical guidelines for setting the reference rate for the financial corporations sectors of a given economy:

The calculation (definition) of the reference rate should be determined according to national circumstances, using preferably any of the following approaches:

- (1) A reference rate based on a single observable rate for a specific instrument, such as interbank lending rates
- (2) A reference rate based on a weighted average of observable rates of maturities with different terms (weighted by the positions of loans and deposits in each maturity)
- (3) A weighted average of the interest rates on loans and deposits.

Box A3.1 Balance of Payments Entries Related to Financial Intermediation Services Indirectly Measured (FISIM)

Services account

Financial services

FISIM is derived with the following formula (see BPM6 Box 10.5):

FISIM exports = interest receivable on deposits held at resident financial corporations by nonresidents at the domestic reference rate of interest (the product of deposits position and the domestic reference rate) – actual interest payable on deposits held at resident financial corporations by nonresidents + actual interest receivable on loans issued by resident financial corporations to nonresidents – interest (property income) receivable on loans issued by resident financial corporations to nonresidents at the domestic reference rate of interest (the product of loan position and the domestic reference rate)

FISIM imports = interest payable on deposits held at nonresident financial corporations by residents at the reference rate of interest of the economy of issuer (the product of deposits position and the reference rate for the economy of residence of the financial corporation issuing the deposits – actual interest receivable on deposits held at nonresident financial corporations by residents + actual interest payable on loans issued by nonresident financial corporations to residents – interest (property income) payable on loans issued by nonresident financial corporations at the reference rate of interest of the economy of issuer to residents (the product of loan position and the reference rate for the economy of residence of the financial corporation that supplies the loan)

Primary income account

Interest (at the reference rate)

Secondary income account

None

Financial account

Deposits¹

Loans

¹Including interbank positions, other transferable deposits, and other deposits.

A3.18 For exports, data for directly calculating the reference rate can be the same reference rate used to calculate total domestic FISIM output, if it can be assumed that transactions are mostly in national currency.

A3.19 For imports, in the interest of global consistency of international trade statistics, the reference rates by supplying economy can be the respective domestic reference rates from the FISIM calculations of those economies' national accounts. For that reason, it would be helpful if economies disseminate their domestic reference rates for possible use by nonresident compilers.

A3.20 For economies where the interbank market does not exist, considering that no internationally accepted methodological guidance exists, the compiler may pick, for practical purposes, a reference rate from a representative government debt security.

Deposit and Loan Interest Flows and Positions between Residents and Nonresidents

A3.21 The data sources for interest flows can be sourced from the balance of payments and for deposit and loan positions from the international investment position.

Financial corporations—FISIM exports and imports

A3.22 The most comprehensive data for exports and imports of FISIM come from surveying resident financial corporations to identify deposits of and loans to nonresidents. In most instances, these data will be available from the administrative data collections of financial supervision authorities, which are usually most comprehensive for deposit-taking corporations. Coverage of captive financial corporations and money lenders

may require fielding a supplementary survey, depending on the regulatory and legal environment. International banking statistics (IBS) available from the Bank for International Settlements (BIS) may also be a useful source of information on deposits and loans with nonresidents.

A3.23 The balance of payments compiler should coordinate with the national accounts compiler, to assure that the calculation of FISIM in the balance of payments accounts is consistent with estimates included in the national accounts.

Nonfinancial corporations, households, and NPISH—FISIM imports

A3.24 Data on residents' accounts with financial corporations resident in other economies may be available from sample surveys. These surveys are selected from a survey frame list built on special filings of resident individuals and corporations report-

ing positions with nonresident financial corporations to the tax authorities or treasury/finance ministry. A sample survey of units selected from this frame can be used for routine reporting of positions with nonresidents. IBS available from the BIS may also be a useful source of information on deposits and loans with nonresidents by the nonbank sector.

A3.25 As for financial corporations, also here the balance of payments compiler should coordinate with the national accounts compiler, to assure that the calculation of FISIM in the balance of payments accounts is consistent with estimates included in the national accounts.

General government—FISIM imports

A3.26 Balances and interest flows on general government accounts with nonresident financial corporations should be available from the government financial accounts.

4

Foreign Direct Investment

Introduction

A4.1 This appendix presents additional material on treatment of direct investment (DI)¹ in international accounts. It provides further detailed discussion on some complex conceptual aspects of the DI, as well as further discussion of the compilation of DI profits.

A4.2 DI arises when a unit resident in one economy makes an investment that gives control or a significant degree of influence over the management of a company that is resident in another economy. This concept is operationalized where a direct investor owns equity that entitles it to 10 percent or more of the voting power (if it is incorporated, or the equivalent for an unincorporated company) in the direct investment enterprise (DIENT). Voting power is usually equal to ownership of ordinary shares. Once that threshold has been reached, the entities involved are said to be in an immediate DI relationship when they are residents in different economies. The equity and debt transactions and positions between the direct investor and the DIENT, and between all DIENTs of the same direct investor, are included in DI, except for debt between selected financial intermediaries. DI also includes transactions and positions between companies that are in indirect DI relationships (see paragraph 10.7 in Chapter 10 for defining direct investment relationships). In summary, DI statistics comprise cross border transactions and positions between companies that are in a DI relationship.

A4.3 The coverage of DI for analytical purposes includes income flows and financial transactions recorded in the direct investment functional category in the balance of payments and financial positions

recorded in the direct investment functional category in the IIP.

A4.4 DI tends to involve a lasting relationship of a direct investor with the DIENT to ensure a significant degree of influence by the direct investor in the management of the DIENT, although it may be a short-term relationship in some cases. By the very nature of its motivation, DI tends to promote stable economic links between economies through direct access for direct investors in home economies to production units in host economies. Within a proper policy framework, DI assists host economies in developing local companies, promotes international trade through access to markets, and contributes to the transfer of technology and know-how. In addition to its direct effects, DI has an impact on the development of labor and financial markets, and influences other aspects of economic performance through its other spillover effects. For these reasons, DI is of analytical and policy interest in its own right, in addition to its contribution to broader macroeconomic indicators.

A4.5 In addition to the discussion of DI in the various chapters of this *Guide* (investment income flows in Chapter 13, financial transactions in Chapter 10, and positions in Chapter 9), Appendix 6a of the *BPM6* discusses various issues in DI. The IMF conducts the Coordinated Direct Investment Survey (CDIS), a collection of inward and outward FDI positions, and the *CDIS Guide* provides further discussion of DI.² In addition, the Organisation for Economic Co-operation and Development (OECD) has a leadership role in research on DI concepts, undertakes a collection of DI positions, transactions, and income flows from member economies, and publishes the OECD *Benchmark Definition of Foreign Direct Investment*, 4th edition,

¹ In this appendix, the terms “direct investment” and “foreign direct investment” are used interchangeably and have the same meaning.

² The CDIS database as a data source is also discussed in Chapter 7.

which describes a range of analytical constructs to assist with the further analysis of DI statistics.

A4.6 This appendix deals with specific issues associated with measuring and analyzing DI.

Statistical Units

A4.7 The choice of statistical unit is one of the most important decisions that the compiler will make for the compilation of DI statistics. The choice of statistical unit for collection and compilation purposes can affect the classification of data and, in some cases, may affect the extent of DI relationships that are identified.

Company

A4.8 A company is defined as an institutional unit engaged in production. Investment funds and other corporations or trusts that hold assets and liabilities on behalf of groups of owners are also companies, even if they are engaged in little or no production. Companies may be corporations (including quasi-corporations), nonprofit institutions, or unincorporated companies (including households or government units in their capacity as producers of goods and services).

A4.9 Companies usually maintain some level of business accounts that are sufficient to satisfy reporting purposes.

Global and Local Enterprise Group

A4.10 Enterprise groups may be either global or local. A global enterprise group refers to an investor and all the companies under that investor. A local enterprise group refers to an investor and legal entities under that investor that are resident in the reporting economy (see *BPM6*, paragraph 4.54–4.56).

A4.11 The local enterprise group may be used for compiling and presenting DI statistics; the ownership links that involve nonresidents are not recognized for the formation of local enterprise groups. For example, two DIENTs located in the same economy, with a common nonresident direct investor but no links directly between them, are not recognized as belonging to the same local enterprise group (although they would belong to the same global enterprise group).

A4.12 Local enterprise groups usually maintain and have available consolidated accounts. The level of

consolidation is often governed by domestic reporting requirements and the organizational structure, and these may not align well with DI concepts.

A4.13 Unless instructions to survey respondents are clear and the compiler is careful, consolidation of companies into local enterprise groups may result in the incorrect inclusion of influencing links within an economy that should break a DI ownership chain when there is an influencing link from abroad (see *BPM6*, paragraph 6.35).

Notional Units

A4.14 When land located in a territory is owned by a nonresident company (with the exception of land owned by foreign governments or international institutions for diplomatic enclaves or military bases), a notional unit is identified for statistical purposes as being the owner of the land. Because land and buildings produce rental services, the notional unit is usually a company. A notional unit is also identified for a long-term lease by a nonresident lessee of land, or buildings, or land and buildings together.

A4.15 The nonresident is treated as owning the resident notional unit rather than the land and structures directly. The notional resident unit is nearly always a DIENT (the exception being for land where an individual nonresident's voting power is below 10 percent) and consequently the nonresident is nearly always a direct investor with an equity investment in the notional unit.

A4.16 The notional unit is created with an injection of equity from the nonresident direct investor. A detailed discussion of notional units is presented in the *BPM6*, paragraphs 4.34–4.40. Information on notional units and, in particular, the income flows and injections of equity after the initial injection should only be compiled where they are significant for either the host economy or the economy of the nonresident investor.

A4.17 Individuals who have migrated to a new economy and become residents there frequently own land or buildings in their economy of origin. These properties should be added to direct investment assets in the IIP of the host economy (and to direct investment liabilities of the originating economy consistently), through a reclassification (other changes in volume), not by imputing transactions in the balance

of payments. Notional units should be created as a result of this change in the residence status of an owner.

A4.18 When a migrant's relatives occupy these properties (real estate) without paying rents (or below market prices), the compiler of the host economy of the migrant should record these rents at market prices through the following imputed transactions: direct investment income, credit and an offsetting entry in the secondary income account, personal transfers, debit (*BPM6*, paragraph A5.18). The compiler of the economy of origin should record these imputed transactions with the corresponding opposite entries. The value of these transactions would be calculated as the difference between actual transactions and market equivalent values. In practice, it is difficult to identify such transactions and calculate their value. The compiler should assess the magnitude of such phenomena in the economy, and if it is deemed to be significant, the collection of data could be organized using the household surveys, or surveys of bodies/agencies (e.g., rental offices) that are identified as possible data sources.

A4.19 When a migrant uses the rent receipts to maintain and repair his/her property, several transactions should be recorded in the host economy; particularly direct investment income, credit, and an offsetting entry in the financial account under direct investment, net acquisition of financial assets. The latter reflects the increase in the value of the property. The compiler of the economy of origin of the migrant should record these transactions through two opposite entries, accordingly.

Entities Established Abroad for Fiscal Purposes

A4.20 In some instances, a government can establish entities in the economic territory of another government for the purpose of carrying out general government activities (i.e., fiscal activities). Fiscal purposes can be distinguished from commercial purposes because fiscal purposes are always oriented to serving the objectives for the government's home territory.

A4.21 Such entities are considered residents in the economy of their incorporation; however, they are not considered as part of the general government in either the economy of residence or the economy of government

that uses the entities. Also, such entities are not treated as territorial enclaves (e.g., embassies or other diplomatic establishments) when they operate under the law of the host economy (*BPM6*, paragraph 4.93).

A4.22 To avoid misleading understanding of government expenditures, a special approach is applied in treating transactions and positions of such government entities because, unlike in the private sector, such nonresident entities undertake functions at the request of general government for public policy purposes in another economy and not for commercial purposes. The special treatment refers to the borrowing by such entities on behalf of the government that results in entries under the DI category that are presented in Table A4.1.

A4.23 Due to their specific features and activity, the best data sources on transactions of fiscal entities are government administrative records (in economy of residence of government) or enterprise surveys (in economy of residence of fiscal entity).

Special Purpose Entities³

A4.24 Although there is no internationally agreed definition of special purpose entities (SPE), it is generally agreed that they display the following characteristics: their owners are not residents of the territory of incorporation, main parts of their balance sheets are claims on or liabilities to nonresidents, they are companies with little or no physical presence in their host economy, little or no employment, little or no significant production, and few (if any) nonfinancial assets, and many SPEs have bank accounts in the host economy (although they may be of a temporary nature). SPEs are often used to channel funds to and borrow funds from third economies; these funds may include equity investments where the SPE is used to route an ownership change through another economy. SPEs may offer taxation, regulatory, or confidentiality benefits due to the regulatory regime in the host economy. SPEs are often associated with offshore financial centers but may be located elsewhere. Examples of SPEs (and alternative terminology used for SPEs) include financing subsidiaries, conduits, holding companies, shell companies, shelf companies, and brass-plate companies.

³ See the *BPM6*, paragraphs 4.50–4.52.

Table A4.1 Treatment of Borrowing on Behalf of the Government of Another Economy

Economy of direct investor (government)	
<i>At the time of borrowing (transactions equal to the amount of the borrowing)</i>	
Increase: Direct investment—equity—assets (direct investor in direct investment enterprise)	Increase: Direct investment—debt instruments—liabilities (direct investment enterprise in direct investor)
<i>At the time the borrowed funds are passed to the government (transactions equal to the amount of the fund passed to the government)</i>	
Increase: Reserve assets or other investment—assets—currency and deposits—general government	Decrease: Direct investment—equity—assets (direct investor in direct investment enterprise)
<i>If funds are not passed to the government: At the time the borrowed funds are spent or provided by the borrowing entity to a third party (transactions equal to the amount of the funds spent or provided)</i>	
Secondary income—general government—debit or capital account—capital transfers—general government—other capital transfers—debit	Decrease: Direct investment—equity—assets (direct investor in direct investment enterprise)

A4.25 As companies incorporated within their host economy, SPEs are recognized as separate institutional units. SPEs are recorded as DIENTs and direct investors, where appropriate.

A4.26 For some analytical purposes, it may be desirable to “look through” SPEs in the DI ownership change to the first “non-SPE” and to allocate positions and transactions to the economy of the first non-SPE. There is no agreed method of looking through SPEs to the first non-SPE.

A4.27 By their very nature, the compiler might find it difficult to obtain data from SPEs. Nonetheless nearly all their assets and liabilities are likely to be with nonresidents (apart from any deposits or loans they may have with resident banks); it is important that such corporate structures are identified and that their data be collected for international accounts statistics.

A4.28 Data can be collected through different sources; the compiler should assess which data sources are available, and also which of them possess the most comprehensive information. Also, the legal regulation in place guiding the activity of SPEs should allow for collection of data for statistical purposes. The data sources that should be considered by the compiler for collecting data on SPEs activity are presented ahead.

A4.29 Surveys of SPEs could be an efficient approach to data collection; however, some SPEs have no offices in the host economy and act through representatives such as law firms and/or accounting firms. In these cases, the compiler should request

the legal representatives, if resident in the host economy, to provide from their principals’ accounts the necessary information for the compilation of the balance of payments and IIP. The compiler should consider the size of the SPEs’ assets; sometimes a very small number of SPEs cover a high percentage of total DI. In this manner, a small sample could provide a very good basis for providing estimates for the total.

A4.30 Financial statements—in some cases, SPEs are required to report annual financial statements to government agencies and the compiler may obtain SPEs’ data from those agencies.

A4.31 Tax records could be an alternative avenue for the collection of data; however, by their nature many SPEs are exempted of taxes. When such tax records are collected by the tax agency, the compiler should correspond with the tax agency to obtain the information required for balance of payments and IIP purposes as part of the tax filing requirements.

A4.32 Other data sources such as an ITRS, approvals of foreign investments, and the financial press could be used to identify SPEs and to verify collected information. The compiler should be aware of the limitations and coverage of each of these listed sources. For instance, because the SPEs by their nature and regulatory acts guiding their activity are meant to deal mainly with nonresidents, if not totally, they may not have financial transactions conducted through domestic banks that would be captured by an ITRS.

Specific Direct Investment Flows and Positions

*Pass-through capital*⁴

A4.33 As with SPEs, there is no internationally agreed definition of pass-through capital. The term is used to refer to funds that pass through a company (usually an SPE) in an economy to a third economy with little or no impact on the economy through which the capital passes.

A4.34 Pass-through capital is to be recorded in direct investment as assets and liabilities of the economy through which the funds pass.

A4.35 Pass-through capital has the impact of increasing the gross direct investment flows and positions into and out of an economy. Some analyses use the gross flows as a scaling factor for the size of certain types of transactions or positions, and the inclusion of pass-through capital in the gross flows may distort these analyses. On the other hand, the inflow and outflow of pass-through capital often involve different economies, or the inflow has a number of different attributes than the outflow (e.g., debt vis-à-vis equity, domestic currency vis-à-vis foreign currency, fixed vis-à-vis floating interest rate on debt, short-term vis-à-vis long-term debt). For these reasons, it is important to keep track of the gross flows and positions for compiling the balance of payments and IIP accounts, and for financial surveillance purposes.

A4.36 The recording of these funds are connected with the activities of SPEs. Therefore, the same main data sources as noted earlier (see paragraphs A4.29–A4.33) can be used to capture information on pass-through capital.

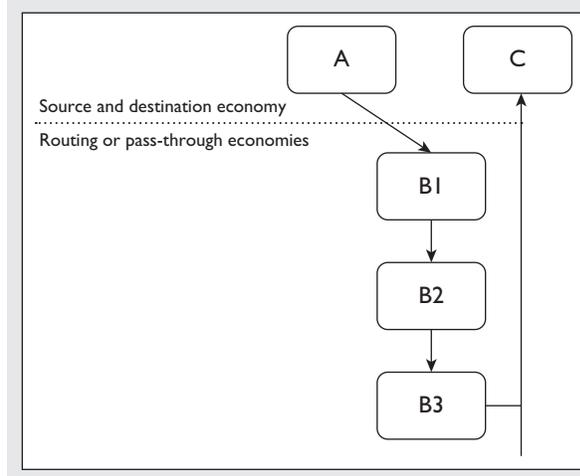
*Round tripping*⁵

A4.37 Round tripping is a specific case of pass-through funds where funds invested in a SPE in a second economy are to be invested back into the source economy. Round tripping is usually associated with source economies where there are incentives (tax or otherwise) for outward or inward DI. Round tripping can pass through more than one link and more than one economy before it returns to the source economy.

⁴ See the *BPM6*, paragraphs 6.33–6.34.

⁵ See the *BPM6*, paragraph 6.46.

Figure A4.1 A Case of Round-Tripping with Many Companies in Routing Economies



A4.38 Round tripping is to be recorded in DI in the accounts of each of the economies through which the pass-through funds transit. Figure A.4.1 shows an example of round tripping where a company A in the reporting economy provides DI funds through three nonresident related companies (B1, B2, and B3) for investment ultimately in another company (C) in the reporting economy. In the simple case, there may be only one company B.

A4.39 If a resident company with a foreign direct investor identifies a resident as the ultimate investor (defined ahead), then this is an example of round tripping. Round tripping is more easily identified in the source/destination economy. The compilation of supplementary data on funds in transit (pass-through funds and round tripping) is recommended in the *BPM6* for economies with large values of such transactions.

Voting Power

A4.40 The basis for identifying DI and for classifying ownership links within DI relationships is voting power (see *BPM6*, paragraph 6.19). Although equity is often used as a proxy for voting power, voting power is not the equivalent of equity. Circumstances including the issue of various classes of shares with higher weight, nonvoting shares, and “golden shares” (shares usually held by government that provide a controlling interest) can cause equity percentages to vary from

the voting power in a company. Indeed, some forms of equity are recorded as debt in the IIP and balance of payments accounts. The compiler should be alert to these situations and treat them appropriately in the accounts.

A4.41 Derivative instruments can be constructed in a manner that provides access to voting power without delivering ownership of the underlying equity. Voting power accessed through these instruments is not recognized in determining whether a DI relationship exists.

A4.42 In some economies, regulations disallow foreign investors from owning more than 49 percent of the voting power. Voting power of 49 percent in these economies should be recognized as substantial influence and not control.

Valuation

Unlisted Equity

A4.43 The underlying principle for the valuation of equity is the market value of that equity. Listing on an organized market provides a good basis for valuing listed equity. However, it can be more difficult to determine a market value for unlisted equity and illiquid listed equity.

A4.44 Six methods for approximating market value for unlisted equity are considered acceptable proxies (see *BPM6*, paragraph 7.16):

- Recent transaction price
- Own funds at book value (OFBV)
- Net asset value
 - Including goodwill and intangibles
 - Excluding goodwill and intangibles
- Market capitalization method
- Present value
- Apportioning global value

A4.45 The choice of method depends primarily on having information available to support the application of the method. In practice, one or more of these methods could be ruled out because of a lack of information available to support the application of the method. Among the methods that could be implemented, the primary consideration should be how well the method approximates market value. A further

consideration is the stringency of the requirement for symmetric recording by debtors and creditors.

A4.46 Each method is described in more detail ahead, giving information on what is needed to apply the method and caveats on its use. If there is a material change in a company's financial position since the date to which the valuation applies (but before the reference date), an adjustment may need to be made. Examples of such material events include an unexpected decision in a lawsuit, credit downgrade or upgrade, major new invention or mineral find, or bankruptcy.

Recent transaction price

A4.47 Unlisted equity may trade from time to time, and recent prices at which the equity exchanged hands may be used. The transaction price must represent an "arm's length" price between an independent buyer and seller, where neither party is under compulsion or duress to engage in the transaction. More recent transactions are preferable, and it is desirable that the transaction should have occurred within the past year. If the most recent transaction is more than one year old, the compiler may wish to consider an alternate method.

Usage: A recent, arm's length transaction price is required.

Caveats: Not often available due to the low frequency of trades in unlisted equity. When a transaction price has been used in the past to value the equity, but the information is becoming dated, a strategy to splice the valuation with a valuation calculated from another method may be useful.

Own funds at book value

A4.48 OFBV involves valuing a company at the value appearing in its books following International Accounting Standards (IAS). OFBV is based on the books of the DIENT and can be seen on its balance sheet as shareholder's equity. The definition of OFBV contains paid-up capital. IAS require most financial assets to be revalued on, at least, an annual basis and for plant and equipment to be depreciated.

A4.49 OFBV is the method recommended for the CDIS and described in the *CDIS Guide*.

Usage: This method may be used where books are kept on the basis of IAS, and data are available from the books of the DIENT.

Caveats: In some cases, IAS may prohibit the recognition of certain intangible assets produced by a company for itself (e.g., brands, mastheads, publishing titles, customer lists). Goodwill can only be bought; it cannot be internally generated. Assets in some asset classes (assets held to maturity) may be valued at nominal or historic cost. These will all cause distortion from the market valuation.

Net asset value, including goodwill and identified intangibles

A4.50 Net asset value (NAV) is total assets at current/market value less total liabilities (excluding equity) at market value. Under this valuation method, all financial and nonfinancial assets and liabilities of the company, including intangible assets, are stated in terms of current period prices. The valuations should be based on very recent appraisals—certainly they must be within the prior year. Appraisals may be conducted by knowledgeable management or directors of the firm, and/or provided by independent appraisers. A capitalization ratio may be calculated and applied (with or without liquidity adjustments) if sufficient information is available (see market capitalization method).

Usage: At a minimum, this method requires an asset and liability valuation to be undertaken by the company.

Caveats: NAV provided by a company may exclude some classes of assets (e.g., intangibles), while other assets may be valued using a method that results in a distortion from the current market value (e.g., historic cost or nominal value). To the extent that valuations are poor or assets are excluded from the NAV, this method can be a weak approximation of market value and other methods may be more appropriate. Calculation of capitalization ratios requires a reasonably broad stock market with high trading volume.

Net asset value, excluding goodwill and identified intangibles

A4.51 Under this valuation method, all financial and nonfinancial assets and liabilities of the company, excluding intangible assets, are stated in terms of current period prices. The valuations should be based on very recent appraisals—certainly they must be

within the prior year. Appraisals may be conducted by knowledgeable management or directors of the firm, and/or provided by independent appraisers.

A4.52 Note that the difference between this method, and the one immediately preceding, is that this method excludes goodwill and identified intangibles. However, it is often very difficult to estimate the value of these assets. If the compiler can develop relatively accurate estimates of unquoted equity that include goodwill and identified intangibles he/she is encouraged to do so. Doing so promotes consistency between the estimates for quoted shares (these shares trade at prices that reflect the value of intangible assets) and the estimates for unquoted shares.

Usage: The compiler who cannot accurately provide estimates that include goodwill and identified intangibles may use this method.

Caveat: Goodwill and intangible assets may account for much or most of the current value of many DIENTs. This valuation might not be representative of market value.

Market capitalization method

A4.53 This method proposes the use of a capitalization ratio as the ratio of the stock exchange market capitalization to OFBV calculated from a set of listed companies. In constructing the capitalization ratio under this method, stock market data for an individual economy may be used when the stock market in that economy is broad and trading volume is relatively high, and broad regional indexes should be used when these circumstances do not exist. The estimate of market values of direct investment equity in unlisted companies is calculated by multiplying own funds at book value (owners' equity) of unlisted DIENTs by the capitalization ratio [that is, by the stock exchange market capitalization (numerator) to the own funds at book value of listed companies (denominator)]. Capitalization ratios developed from broad stock exchange data should be adjusted, or individual ratios should be developed for separate industry groups, if the industries represented in the broad stock exchange for a given economy are not representative of the industry mix of DIENTs located in the same economy.

Usage: Useful exercise if the overall companies listed in the stock exchange are good representatives of the national industry. Compared to some

of the other valuation methods (including OFBV), this method more fully includes intangible assets such as goodwill in the valuation.

Caveats: Some very large local foreign direct investment unlisted companies might represent almost the entire industry. Another strategy is then required to better reflect the market valuation of that company. Apart from this, some other considerations could be seen as caveats of this method—for example, some specialists question the assumption that quoted and non-quoted companies should use the same ratio to own funds. Being quoted in a public market means that a company has to comply with more strict rules, provide more detail information to market participants, and so forth. Also, because the equity is liquid, it may trade at a premium over unlisted equity. On the other hand, most unlisted DIENTs are controlled by their direct investors, and controlling interests generally trade at premiums over noncontrolling interests.

Present value/price to earnings ratio

A4.54 The value of unlisted equity can be estimated as the present value of the forecast stream of future earnings. This method has at its heart the issue of choosing an appropriate discount rate, which can be inferred from the implicit discount rate obtained for listed equity, and forecasting the future profits. At its simplest, this method can be approximated by applying a market or industry price-to-earnings ratio to the (smoothed) recent past earnings of the unlisted company to calculate a price. In this case, the recent past earnings are used as the basis to forecast the future earnings, and the market price-to-earnings ratio implies the discount rate.

Usage: This method is most appropriate where there is a paucity of balance sheet information but earnings data are more readily available. It also requires an appropriate discount rate or reasonably broad-based price-to-earnings ratio to be calculated.

Caveats: Earnings for an individual company can have a highly irregular component and can be negative (leading to negative equity valuations). As a result, if earnings information over a longer period of time is available, the earnings of the company should be smoothed. If earnings for

only one period are available or discount rates or price-to-earnings ratios are based on a narrow market, other methods are preferable.

Apportioning global value

A4.55 If the equity in a particular DIENT is unlisted, but the company belongs to a global enterprise group whose equity is listed, the current market value of the global enterprise group can be calculated and apportioned to the operations in each economic territory. The current market value of the global enterprise group should be based on its market price on the exchange on which it is traded, and the apportionment of this value to each economic territory should be based on an appropriate indicator (e.g., sales, net income, assets, or employment). Where possible, compilers in partner economies may wish to consider using the same indicator.

Usage: Current market capitalization of the global enterprise group is required. An indicator that is well correlated with market value and readily available is also necessary. This may be more likely to occur in enterprise groups that are horizontally integrated.

Caveats: Weaknesses in the correlation between market value of equity and the variable used for apportioning the global value will lead to distortions—sensitivity to the distortion is greatest when the proportion allocated to an economic territory is small or when the global enterprise group undertakes different types of activities in different economic territories. In this case, other methods may be preferable.

Treatment of Transfer Pricing

A4.56 When a transaction in goods or services occurs between two companies, this transaction should be recorded at market prices. The *BPM6* defines market prices as “amounts of money that willing buyers pay to acquire something from willing sellers . . . on commercial considerations only—sometimes called ‘at arm’s length’” (*BPM6*, paragraph 3.68).

A4.57 Due to the nature of the relationship between companies related under the DI relationship, the transaction value for a good or service between related companies may not always reflect market values. “Transfer pricing” refers to this distortion between transaction values and market values. It can be motivated by in-

come distribution or equity injections. In the unusual case where the distortion is significant and data are available to do so, the *BPM6* suggests that adjustments be made to remove the impact of transfer pricing.

A4.58 Identification of instances of transfer pricing and selection of the best market value equivalents to replace reported transaction values is an exercise calling for cautious and informed judgment. In most cases, sample surveys, contacts with companies and government agencies engaging in international transactions on a large scale, exchanges of information between compilers in partner economies, or similar statistical research will be necessary to provide the basis for such judgment. Adjustments for transfer pricing have implications for the data of the counterpart economy; therefore it is useful to exchange information with compilers in counterpart economies (to the extent possible) to avoid asymmetries. More details on treatment of transfer pricing are presented in Chapter 11 of this *Guide*.

Hidden dividends

A4.59 Where a DIENT is overinvoiced on a good or service provided by the direct investor, the difference in payment between the market value and the invoice price is effectively a distribution by the DIENT to the direct investor (a “hidden dividend”). Distributed earnings and total earnings of the DIENT should be adjusted upwards by the difference (in the balance of payments, this would be balanced by a downwards adjustment to the value of trade in goods or services).

A4.60 Where a direct investor is underinvoiced on a good or service provided by the DIENT, the difference in payment between the market value and the invoice price is effectively a return of assets by the DIENT to the direct investor or a rundown of the assets of the DIENT by the direct investor. This is treated as a hidden dividend; the earnings of the DIENT should be adjusted upwards, and the value of

the good or service should be adjusted upwards, by the difference, as in the previous case.

A4.61 The compiler should recall that dividends and remitted earnings are required to be paid out of the accrued profits. If the accumulated profits do not cover the dividends and distributed earnings, then the additional payment should be treated as a withdrawal of equity.

Hidden injections of equity

A4.62 Where a DIENT is underinvoiced on a good or service provided by the direct investor, or a direct investor is overinvoiced on a good or service provided by the DIENT, the difference between the market value and the invoice price is effectively an injection of equity into the DIENT by the direct investor. This injection takes the form of provision of additional assets (underinvoiced goods) or cash (overinvoiced). Equity transactions should be adjusted to remove the impact of the transfer pricing. Also, the earnings of the DIENT should be adjusted downwards by the same amount.

Ultimate Controlling Parent

A4.63 This part of the *Guide* focuses on defining relationships between companies that are important for analytical purposes—either through identifying the economy in which ultimate control over an inward investment is located; and through applying the directional principle to DI data for fellow enterprises and reverse investment.

A4.64 The ultimate controlling parent (UCP) of a resident company in a direct investment relationship is important to identify for the purposes of correctly applying the directional principle in compiling partner economy statistics (the directional principle is described in Chapter 7, along with the asset/liability presentation; see also Table A4.2). The economy of residence of the UCP determines the treatment of positions between fellow enterprises (see Figure A4.2).

Figure A4.2 Linkages Between UCP’s Residence and Treatment of Fellow Enterprises

If the UCP is <i>resident</i>	⇒	Positions and transactions between <i>fellow enterprises</i> are recorded as <i>outward</i>
If the UCP is <i>nonresident</i>	⇒	Positions and transactions between <i>fellow enterprises</i> are recorded as <i>inward</i>
If there is <i>no UCP</i> or if UCP is <i>unknown</i>	⇒	<i>Asset</i> positions and transactions between <i>fellow enterprises</i> are recorded as <i>outward</i> , and <i>liability</i> positions and transactions between <i>fellow enterprises</i> are recorded as <i>inward</i>

Table A4.2 Treatment of Direct Investment under the Assets/Liabilities Presentation and Directional Principle

Assets/liabilities presentation	Directional principle
<p>Assets:</p> <p>Investments by resident direct investors in their direct investment enterprises abroad <i>plus</i></p> <p>Reverse investments by resident direct investment enterprises in their direct investors abroad <i>plus</i></p> <p>Investments by resident fellow enterprises in other fellow enterprises abroad</p>	<p>Outward investment:</p> <p>Investments by resident direct investors in their direct investment enterprises abroad <i>minus</i></p> <p>Reverse investments by direct investment enterprises abroad in their resident direct investors <i>plus</i></p> <p>Investments by resident fellow enterprises in other fellow enterprises abroad where the ultimate controlling parent is a resident <i>minus</i></p> <p>Investments by fellow enterprises abroad in resident fellow enterprises where the ultimate controlling parent is a resident</p>
<p>Liabilities:</p> <p>Investments by direct investors abroad in their resident direct investment enterprises <i>plus</i></p> <p>Reverse investments by direct investment enterprises abroad in their resident direct investors <i>plus</i></p> <p>Investments by fellow enterprises abroad in resident fellow enterprises</p>	<p>Inward:</p> <p>Investments in resident direct investment enterprises by direct investors abroad <i>minus</i></p> <p>Reverse investments by resident direct investment enterprises in their direct investors abroad <i>plus</i></p> <p>Investments in resident fellow enterprises by fellow enterprises abroad where the ultimate controlling parent is a nonresident <i>minus</i></p> <p>Investments by resident fellow enterprises in fellow enterprises abroad where the ultimate controlling parent is a nonresident</p>

A4.65 The UCP of a fellow enterprise is identified by proceeding up the ownership chain from the resident fellow enterprise through the controlling links (ownership of more than 50 percent of the voting power) until an individual, household, or company that is not controlled by another company is reached. If there is no company, individual, or household that controls the resident company, then the resident company may be considered to be its own UCP.

A4.66 Model form 18 in Appendix 8 requests information on whether the UCP is a resident or nonresident.

Reverse Investment

A4.67 Reverse investment refers to asset positions held by DIENTs in their direct investors. In the case of equity positions, the ownership of the equity by the DIENT is such that it does not provide voting power of 10 percent or more (otherwise, mutual DI occurs, where each company is a direct investor in the other).

A4.68 Reverse investment is treated differently under the directional principle when compared with its treatment under the asset/liability presen-

tation. Under the asset/liability presentation, reverse investment is recorded on a gross asset and liability basis. Under the directional principle, reverse investment is considered a (negative) inward investment position for the DIENT and as a (negative) outward position for the direct investor (see Table A4.3).

Presentational Method of Direct Investment

A4.69 The standard components on the balance of payments and on the IIP use the assets/liabilities presentation of DI, which is organized according to whether an investment relates to an asset or liability. The directional principle, which is organized according to the direction of the DI relationship (inward, DI in the reporting economy, and outward, DI abroad), is the principle used in the CDIS. It can be applied to IIP, balance of payments financial account, and investment income.⁶ When the CDIS is

⁶ The rearrangement of standard components for direct investment positions and transactions is shown in Box 6.4 of the *BPM6*.

Table A4.3 Assets/Liabilities Presentation Compiled from Foreign Direct Investment Survey (model survey form 18 in Appendix 8)

IIP standard components	Foreign direct investment survey form positions
Direct investment assets	
<i>Equity and investment fund shares</i>	
Direct investor in direct investment enterprise (DIENT)	Equity claims on DIENT (outward +)
Direct investment enterprise in direct investor (DI) (reverse investment)	Equity claims on DI (inward -)
Between fellow enterprises	
if ultimate controlling parent is resident	Equity claims on fellows if ultimate controlling parent is resident (outward +)
if ultimate controlling parent is nonresident	Equity claims on fellows if ultimate controlling parent is nonresident (inward -)
if ultimate controlling parent is unknown	Equity claims on fellows if ultimate controlling parent is unknown (outward +)
<i>Debt instruments</i>	
Direct investor in direct investment enterprise	Debt claims on DIENT (outward +)
Direct investment enterprise in direct investor (reverse investment)	Debt claims on DI (inward -)
Between fellow enterprises	
if ultimate controlling parent is resident	Debt claims on fellows if ultimate controlling parent is resident (outward +)
if ultimate controlling parent is nonresident	Debt claims on fellows if ultimate controlling parent is nonresident (inward -)
if ultimate controlling parent is unknown	Debt claims on fellows if ultimate controlling parent is unknown (outward +)
Direct investment liabilities	
<i>Equity and investment fund shares</i>	
Direct investor in direct investment enterprises	Equity liabilities to DI (inward +)
Direct investment enterprises in direct investor (reverse investment)	Equity liabilities to DIENT (outward -)
Between fellow enterprises	
if ultimate controlling parent is resident	Equity liabilities to fellows if ultimate controlling parent is resident (outward -)
if ultimate controlling parent is nonresident	Equity liabilities to fellows if ultimate controlling parent is nonresident (inward +)
if ultimate controlling parent is unknown	Equity liabilities to fellows if ultimate controlling parent is unknown (inward +)
<i>Debt instruments</i>	
Direct investor in direct investment enterprises	Debt liabilities to DI (inward +)
Direct investment enterprises in direct investor (reverse investment)	Debt liabilities to DIENT (outward -)
Between fellow enterprises	
if ultimate controlling parent is resident	Debt liabilities to fellows if ultimate controlling parent is resident (outward -)
if ultimate controlling parent is nonresident	Debt liabilities to fellows if ultimate controlling parent is nonresident (inward +)
if ultimate controlling parent is unknown	Debt liabilities to fellows if ultimate controlling parent is unknown (inward +)

**Table A4.3 Assets/Liabilities Presentation Compiled from Foreign Direct Investment Survey
(model survey form 18 in Appendix 8) (continued)**

Balance of payments standard components	Foreign direct investment survey form transactions (increases-decreases)
Direct investment assets	
<i>Equity and investment fund shares</i>	
Equity other than reinvestment of earnings	
Direct investor in direct investment enterprises	Equity claims on DIENT (outward +)
Direct investment enterprises in direct investor (reverse investment)	Equity claims on DI (inward -)
Between fellow enterprises	
if ultimate controlling parent is resident	Equity claims on fellows if ultimate controlling parent is resident (outward +)
if ultimate controlling parent is nonresident	Equity claims on fellows if ultimate controlling parent is nonresident (inward -)
if ultimate controlling parent is unknown	Equity claims on fellows if ultimate controlling parent is unknown (outward +)
Reinvestment of earnings	(Net income of the DIENT —realized and unrealized holding gains or losses included in net income) * percentage held in the nonresident DIENT (outward +)
<i>Debt instruments</i>	
Direct investor in direct investment enterprise	Debt claims on DIENT (outward +)
Direct investment enterprise in direct investor (reverse investment)	Debt claims on DI (inward -)
Between fellow enterprises	
if ultimate controlling parent is resident	Debt claims on fellows if ultimate controlling parent is resident (outward +)
if ultimate controlling parent is nonresident	Debt claims on fellows if ultimate controlling parent is nonresident (inward -)
if ultimate controlling parent is unknown	Debt claims on fellows if ultimate controlling parent is unknown (outward +)
Direct investment liabilities	
<i>Equity and investment fund shares</i>	
Equity other than reinvestment of earnings	
Direct investor in direct investment enterprise	Equity liabilities to DI (inward +)
Direct investment enterprise in direct investor (reverse investment)	Equity liabilities to DIENT (outward -)
Between fellow enterprises	
if ultimate controlling parent is resident	Equity liabilities to fellows if ultimate controlling parent is resident (outward -)
if ultimate controlling parent is nonresident	Equity liabilities to fellows if ultimate controlling parent is nonresident (inward +)
if ultimate controlling parent is unknown	Equity liabilities to fellows if ultimate controlling parent is unknown (inward +)
Reinvestment of earnings	(Net income of the DIENT—realized and unrealized holding gains or losses included in net income) * percentage held in the resident DIENT (inward +)

Table A4.3 Assets/Liabilities Presentation Compiled from Foreign Direct Investment Survey (model survey form 18 in Appendix 8) (concluded)

<i>Debt instruments</i>	
Direct investor in direct investment enterprise	Debt liabilities to DI (inward +)
Direct investment enterprise in direct investor (reverse investment)	Debt liabilities to DIENT (outward -)
Between fellow enterprises	
if ultimate controlling parent is resident	Debt liabilities to fellows if ultimate controlling parent is resident (outward -)
if ultimate controlling parent is nonresident	Debt liabilities to fellows if ultimate controlling parent is nonresident (inward +)
if ultimate controlling parent is unknown	Debt liabilities to fellows if ultimate controlling parent is unknown (inward +)

used as the data source for compiling DI data, the compiler should rearrange the CDIS data reported under directional principle to the assets/liabilities presentation.

A4.70 Chapter 7 of this *Guide* as well as Tables A4.2 and A4.3 describe two presentations of DI information—under the asset/liability presentation and under the directional principle. The identification of fellows is important for the appropriate classification of positions and flows under the directional principle.

Compilation

Calculating DI Earnings

A4.71 DI earnings measure earnings from current operations. Therefore, this amount should be calculated before recognition of holding gains and losses and extraordinary items. Operational earnings of the DIENT should be reported after deducting provisions for depreciation and for corporate taxes charged on these earnings by the government in the host economy. Depreciation should, in principle, be measured at current replacement cost, particularly if market values are available for position figures. If data on depreciable assets and on depreciation are available only on a book value or historical cost basis, those values should be adjusted wherever possible to a current replacement cost basis. The compiler should base the estimates of DI earnings, and of DI positions, on a current market value basis. If market values are un-

available, DI data at book value should be adjusted to estimates of market value.

A4.72 The earnings of DIENTs reported using the Current Operating Performance Concept (COPC) should exclude the following:

- Any gains or losses arising from valuation changes, such as inventory write-offs, write-downs, or write-ups
- Gains or losses on plant and equipment from the closure of part or all of a business
- Writing-off of intangible assets, including goodwill, due to unusual events (the standard amortization of intangible assets is, however, included as an expense under the COPC)
- Extraordinary gains or losses (e.g., losses by an insurer due to a catastrophic event)
- Writing-off of research and development expenditures capitalized in a prior period
- Provisions for losses on long-term contracts
- Exchange rate gains and losses incurred by the DIENT both from its trading activities and from its holdings of foreign currency assets and liabilities
- Unrealized gains or losses from the revaluation of fixed assets, investments, and liabilities
- Realized gains or losses made by the company from the disposal of assets (other than inventory) or liabilities

A4.73 The exclusion of realized and unrealized holding gains and losses is applicable to all DIENTs, including those such as banks and securities dealers for whom the making of such gains is an important or even the main part of their business. This promotes consistency with the calculation and treatment of earnings in the national economic accounts, as prepared pursuant to SNA guidelines.

A4.74 Earnings of a DIENT under COPC include the full profit accruing to that DIENT from any further companies in which the DIENT is, itself, a direct investor—the earnings of the DIENT include accrued reinvested earnings from DI by the company, not just any remitted earnings.

A4.75 In line with the FDIR, the reinvested earnings of each company down the ownership chain should be attributed to each of the immediate direct investors up the chain. Table A4.4 illustrates this point. If A (Level 1) is owned 100 percent by B (Level 2), B is owned 50.01 percent by C (Level 3), and C is 40 percent owned by D (Level 4), then A's reinvested earnings represent part of the net investment income of B, and, as a result, they are part of the sources of revenue that form part of the reinvested earnings that are deemed distributed to C by B, and then as part of C's reinvested earnings that are deemed distributed to D. Where ownership is less than 100 percent, the

proportional ownership should be applied, even when there is more than one direct investor. This principle applies whether A, B, and C are each in separate economies from D, or are in the same economy, but separate from D.

A4.76 In the situation where company C owns 50 percent or less of B, then companies A and B are not in a DI relationship with company D under the FDIR. As company D is not considered to have significant influence over company B, company D cannot be considered to have significant influence over the earnings distribution and savings decisions of company B. As a result, the reinvested earnings that accrue to company C from company B are not considered part of company C's current operating profit that accrues to company D. The calculation in Table A4.4 would show 16 in reinvested earnings accruing to company D from company C (rather than 60) with 16 being reinvested by company D in company C.

A4.77 Normally, when companies perform the consolidation of transactions for a group, they use data on the total profits, including holding gains and losses, foreign exchange gains and losses, write-offs and write-downs, and dividends. It is, therefore, important that clear instructions be provided to respondents to enable them to report on the required basis.

Table A4.4 Calculation of Reinvested Earnings along a Direct Investment Ownership Chain

	Level 1	Level 2	Level 3	Level 4
	A	B	C	D
Ownership by next level	100 percent	50.01 percent	40 percent	
Net operational surplus	200	250	300	350
<i>Minus</i> Corporate taxes payable	-50	-60	-70	-90
<i>Plus</i> Dividends receivable from direct investment enterprise (DIENT)		+50	+60	+100
<i>Minus</i> Dividends payable to all shareholders	-50	-120	-250	
<i>Plus</i> Reinvested earnings receivable from DIENT		+100	+110	+60
<i>Minus</i> Reinvested earnings payable to direct investors	-100	-110	-60	
<i>Equals</i> Net saving	0	110	90	420
In direct investment transactions and positions account				
Direct investment liabilities reinvestment of earnings	+100	+110	+60	
Direct investment assets reinvestment of earnings	0	+100	+110	+60

Model Forms

A4.78 Model form 17 in Appendix 8 requests information on DI in the context of a comprehensive collection of information on external financial assets and liabilities. Model form 18 in Appendix 8 focuses specifically on DI. Both forms collect sufficient

information for the application of the directional principle as well as the asset/liability presentation.

A4.79 Box A4.1 presents Mauritius' practice in collecting and compiling data on special purpose entities. The questionnaire used for collecting data is presented in Annex 1 of this appendix.

Box A4.1 Compiling Data on Special Purpose Entities in Mauritius

Background

This example covers the collection and compilation of offshore banking data in Mauritius. The effective integration of the offshore and onshore banking business in July 2005 in balance of payments statistics of Mauritius contributed to significant net errors and omissions. An "external financing" data gap had emerged as banks' foreign assets continued to grow, reflecting the increase foreign currency deposits of the offshore vehicles, while no data were available on the latter's liabilities to nonresidents. For this reason, in 2007 the Bank of Mauritius (BOM)—the institution responsible for the compilation of the balance of payments and IIP statistics in Mauritius—started to implement a survey covering the offshore business sector.

There are two different types of global business corporations (GBC) in Mauritius: Type 1 GBCs (GBC1) are considered tax residents of Mauritius, and Type 2 GBCs (GBC2) are considered nonresidents for Mauritius tax purposes. The legislation requires that management companies (MC) administer GBC1s and act as registered agents for GBC2s. Both GBCs and MCs are supervised by the Financial Services Commission (FSC) responsible for all non-deposit-taking financial institutions in Mauritius.¹

Approach applied in conducting the survey

The survey was carried out by the BOM and the FSC. As the regulator of the MCs and GBCs, the FSC has the power to ensure compliance, and therefore it was decided that the FSC would act as a facilitator and undertake the survey on BOM's behalf. The key issue in launching the survey was how to minimize the reporting burden and costs for the MCs, which would be the ones doing the painstaking work of collecting the required information from individual balance sheets. It was decided to adopt a phased approach where only information on GBC1's activities and positions should be collected until such time that the authorities amend the statutory requirements for GBC2s. Given the magnitude of the task, the option of having a census survey was ruled out and a sample survey was chosen.

An analysis of information on the total assets of all GBC1s showed that a relatively small number of units would provide robust data. The FSC decided that the survey frame will include twelve MCs administering 70 percent of the GBC1's total assets. MCs that had the financial information in electronic spreadsheets would report the data for the whole population. The MCs that did not have the information available in electronic spreadsheets would report data for at least 75 percent of the total balance sheet value of the GBC1s they administer. Additionally, the latter group had to report at the same time the total balance sheet value of all the GBC1s under their administration, so that their sample value could be grossed up to the total value.

The questionnaire was designed in a simple way, which reflected elements of a typical balance sheet requesting transactions separately from positions data between resident and nonresident companies. To measure the extent of integration of GBC1s' economic activity with the domestic economy, selected transactions and positions data between residents were also collected. The BOM questionnaire for collecting data on offshore activity is presented in the annex of this appendix. The questionnaire was supplemented by the CDIS and Coordinated Portfolio Investment Survey forms.

Incorporation of survey results in balance of payments and IIP statistics

For the incorporation of survey's results, a three-tier approach was implemented:

- 1) For the MCs that did not have an electronic spreadsheets (that reported on a sample basis), their estimates were grossed up to the total assets of all GBC1s under their administration.

Box A4.1 Compiling Data on Special Purpose Entities in Mauritius (*concluded*)

- 2) The total assets of 12 surveyed MCs were grossed up to the universe estimate using the information provided by the FSC on the total assets of all GBC1s under the administration of the MC's population.
- 3) The survey collection and the balance of payments statistics compilation had different frequency—the former collected annual data while the latter statistics were published on a quarterly basis. To overcome this problem, an indicator series based on the cross border transactions' settlement data for all GBCs reported by banks on a monthly basis was used for apportioning the annual data into four quarters.

Difficulties encountered in conducting the survey

- During the sensitization meetings, the BOM had difficulties in convincing the MCs to report their offshore transactions and positions with nonresidents. The MCs' arguments were that other competitive offshore jurisdictions were not reporting those data. Also, they viewed the new survey as an additional reporting burden as they were already collecting CPIS data and providing them to the regulator.
- The FSC was sensitive to the high probability of the exercise of collecting offshore data doing damage to the industry that generally thrived on confidentiality. A high risk that GBCs investors would leave the Mauritian jurisdiction to move to other jurisdictions without such collections was predicted by the MCs. The GBCs needed to be convinced about the advantages of collecting the data and given assurances about the confidentiality policy.
- During the first survey exercise, BOM was not granted access to the individual survey returns and therefore was unable to validate the aggregated data. Because BOM could not interact directly with the MCs and the communication with reporters was done through the FSC, the data validation was difficult. This changed for the second survey exercise. The direct interaction of the balance of payments compiler with the responding MCs at all stages of the survey increased the quality of survey results.
- Because the Type 2 GBCs were not required to manage and control their business from Mauritius nor to prepare and audit their financial accounts in Mauritius, the balance of payments compiler considered inappropriate their inclusion in the survey. The alternative course of action would be to amend the financial summary requirements to collect the balance of payments and IIP data and as a substitute to use appropriate estimation methods. The BOM plans to extend the survey coverage to GBC2s; however, no decision has been taken yet.

Lessons learned

- The support and commitment of the regulator was crucial. In conducting such a survey, all parties involved have to take ownership of the project with a clear demarcation of responsibilities. In the case of Mauritius, the fact that the government had committed to subscribe to the IMF Special Data Dissemination Standard provided the motivation to all parties.
- The compiler should understand the difficulties of the task and be well prepared to accommodate the respondents' needs, as well as the concerns of the regulator and the regulatees regarding the reporting burden and costs by adopting a phased approach.
- The survey is aimed at facilitating the compiler's task to compile the balance of payments and IIP statistics. In the same time, the MCs have to be motivated by the benefits of the collection of offshore data, so that the survey exercise is seen as a win-win exercise for all groups affected.
- The compiler should be sensitive to the reporting burden and cost. The survey design should be reviewed over time to attain this objective, and respondents have to be informed about that changes are made with the goal to reduce the reporting burden for the MCs.
- Sensitization and follow-up meeting before, during, and after the survey exercise are equally essential. Such interactions with the respondents help the compiler to understand the offshore sector and improve the questionnaire design.
- The reporting burden could be eased to a large extent by the use of IT. In the near future, the BOM plans to design a Web-based questionnaire and to incorporate the editing of checks electronically into the survey form. Respondents will then be able to see for themselves where data inconsistency may arise.

¹ As of the end of 2012, there were 10,728 GBC1s, 15,208 GBC2s, and 164 MCs in Mauritius.

Annex to Appendix 4

Balance of Payments Survey of Category 1 Global Business Companies (GBC1s)



Statistics Division
Bank of Mauritius

Ref:

GBC 10

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CONFIDENTIAL

1 Purpose of Collection

The purpose of this survey is to collect information from the financial statements and supporting details of GBC1s to facilitate compilation of their transactions and positions vis-a-vis nonresidents for compiling the balance of payments accounts and the external assets and liabilities position of Mauritius. Balance of payments statistics are published in the Bank's *Monthly Statistical Bulletin* and in the *Annual Report* and are also posted on the Bank of Mauritius website <http://bom.intnet.mu>.

2 Role of Management Companies in Filling the Questionnaire

The intention is that management companies (MC) set up a template for Tables A, B, and C in the questionnaire that is linked to the spreadsheets on which the financial accounts of GBC1 are maintained. The accounting period should be for the accounting year followed by the GBC1 in reporting to its shareholders. Each MC will provide an aggregated return to the Financial Services Commission. Two approaches are recommended. For those MCs that have the financial information in spreadsheets (or some other easily aggregated software) for GBC1s that they manage, the information should be provided as an aggregate for all such GBC1s. This approach will not require any decision on what GBC1 should be included, thereby reducing the burden on the MCs. For those MCs that do not have the information available in spreadsheets (or some other easily aggregated software), it is recommended to report transactions and positions data that account for at least 75 percent of the total balance sheet value of the GBC1s they manage.

3 Collection Authority

By virtue of the section 51A(1) of the Bank of Mauritius Act 2004, the responsibility for the preparation of the balance of payment accounts and the external assets and liabilities position of Mauritius is vested on the Bank of Mauritius. In this regard, section 51A(2) states that the Bank may, by notice in writing, require any person to furnish, within such time and in such form and manner as the Bank may determine, such information and data as the Bank may require for the preparation of the balance of payments accounts and the external assets and liabilities position of Mauritius.

4 Confidentiality

Information provided in the questionnaire by individual enterprises shall not be published without the written consent of the enterprise. The information supplied will be published only in aggregated form.

5 Offence

Any person who fails to comply with a requirement under section 51A(2) of the Bank of Mauritius Act 2004 shall commit an offence and shall, on conviction, be liable to a fine not exceeding 50,000 rupees for each day on which the offence occurs or continues.

6 Queries

Technical concepts in the questionnaire will be familiar to the director, finance manager, or accountant of your enterprise. Queries or assistance regarding the completion of this form may be addressed to:

Name: Mr. Vikram Punchoo
 Title: Head, Statistics Division
 Tel: 202-3949
 E-mail: vikram.punchoo@bom.mu

Name: Mrs. Padma Hurree Gobin
 Title: Chief, Statistics Division
 Tel: 202-3981
 E-mail: padma.hurreegobin@bom.mu

Explanatory Notes for Filling the Questionnaire

7 Residents and Nonresidents

An institutional unit (which may be an individual, an enterprise, or any other entity) is a resident of the Mauritian economy, regardless of its nationality, if it exists, within Mauritius, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time—exceeding one year—in economic activities and transactions on a significant scale. Corporations and nonprofit organizations normally may be expected to have a center of economic interest in the economy in which they are legally incorporated and registered. Representation of foreign governments and international organizations are excluded.

Nonresidents are institutional units, regardless of their nationality, living or operating outside the economic territory of Mauritius for one year or more and include the following:

- (1) Individuals having their principal residence outside the economic territory of Mauritius or enterprises operating abroad for a year or more
- (2) Foreign governments
- (3) Bilateral development assistance organizations (e.g., Commonwealth Development Corporation (UK)) or international organizations with shareholders who are governments of more than one economy (e.g., International Finance Corporation; World Bank; African Development Bank, etc.)

If you are not sure of the residency status of any organization, please give its name.

8 The Reporting Year: 20XX

This questionnaire asks for opening position as of 1 January 20XX (\equiv C.O.B. 31 December 20XX-1), transactions as well as revaluation and other changes during the year 20XX, and closing position as of end-December 20XX. If the financial accounts are for some other period, please provide the information on the basis of the accounting year as reported in question 1.8.

9 Valuation Principles

Please provide all data in U.S. dollars.

10 Shareholders Funds

Please report on a fair value basis for collective investment funds, and on a book value basis for other entities, if fair value is not available.

11 Loans and Trade Credit (assets and liabilities)

Please report on a nominal value basis (after allowing for any changes that may result from changes in exchange rates).

12 Debt Securities on Issue

Please report the market value of the securities on issue, at the balance sheet date (for positions) and the actual proceeds (or retirement values), for transactions, with both positions and transactions inclusive of accrued interest.

13 Debt and Equity Securities Held

Please report the market value of the securities held at the balance sheet date (for positions) and the actual purchase/sale price, for transactions.

13a Exceptions to the Rule of Foreign Direct Investment

- (1) Debt positions between affiliated financial intermediaries except insurance companies and pension funds (a subset of financial corporations) are excluded from direct investment.

The financial corporations covered by the financial intermediary exclusion are deposit-taking corporations, money market funds (MMF), non-MMF investment funds, and other financial intermediaries except insurance companies and pension funds. (In other words, the usual direct investment definitions apply for insurance corporations, pension funds, other financial institutions, and financial auxiliaries.) All debt positions between these selected types of affiliated financial corporations are excluded from direct investment (but equity positions between all types of affiliated financial corporations should be included in direct investment). For example, deposits and other amounts lent by a parent bank or other financial intermediary to its direct investment enterprise located abroad that is also a financial intermediary, and deposits and other borrowings taken from such offices, should not be classified as direct investment.

- (2) Equity in international organizations is excluded from direct investment, even in cases in which voting power is 10 percent or more. These equity contributions are included in portfolio investment (if in the form of securities) or other investment—equity (if not in the form of securities).
- (3) Financial derivatives and one-off guarantees are excluded from direct investment. Financial derivatives are excluded largely on practical grounds. One-off guarantees represent loans or securities that are guaranteed with such particular circumstances that it is not possible for the degree of risk associated with them to be calculated with any degree of precision. They are recognized as financial assets or liabilities only at activation—that is, when the event occurs that makes the guarantor responsible for the liability.
- (4) Direct investment also includes investment in real estate, properties, vacation homes, and lease of land for long periods, provided the property is located in an economy other than that of the direct investor.

14 Affiliated Enterprises

These refer to enterprises that hold 10 percent or more of the GBC1 shares or equivalent or are owned by another enterprise which has such a holding in the GBC1. Affiliates include parent companies, branches, and associate companies.

Section B. Aggregated Balance Sheet of GBC1s Managed by Your Company

Please report the opening and closing balances, as well as the transactions, other changes in volume and revaluation changes, for the assets, liabilities, and shareholders' funds, of the population of GBC1s managed by your company.

Reporting Currency: U.S. dollars (millions)

	Assets	Opening balance as of 01.01.20XX	Transactions		Other changes in volume	Revaluation changes	Closing balance as of 31.12.20XX
			(+)	(-)			
1.1	Shares in unaffiliated nonresident enterprises						
1.2	Shares in affiliated nonresident enterprises						
1.2.1	<i>of which:</i>						
	(1) <i>Shares held in affiliated investment funds</i>						
1.2.2	(2) <i>Direct investor in direct investment enterprises</i>						
1.2.3	(3) <i>Reverse investment</i>						
1.2.4	(4) <i>Between fellow enterprises</i>						
1.3	Loans to unaffiliated nonresident enterprises						
1.3.1	<i>of which:</i>						
	(1) <i>Short-term on an original maturity basis</i>						
1.3.2	(2) <i>Long-term due for receipt within one year or less</i>						
1.3.3	(3) <i>Long-term due for receipt in more than one year</i>						
1.4	Loans to affiliated nonresident enterprises						
1.4.1	<i>of which:</i>						
	(1) <i>Loans to affiliated investment funds</i>						
1.4.2	(2) <i>Direct investor in direct investment enterprises</i>						
1.4.3	(3) <i>Reverse investment</i>						
1.4.4	(4) <i>Between fellow enterprises</i>						
1.5	Debt securities issued by affiliated nonresident entities						
1.5.1	<i>of which:</i>						
	(1) <i>held on affiliated investment funds</i>						
1.5.2	(2) <i>Direct investor in direct investment enterprises</i>						
1.5.3	(3) <i>Reverse investment</i>						
1.5.4	(4) <i>Between fellow enterprises</i>						
1.6	Debt securities issued by unaffiliated nonresident entities						
1.6.1	<i>of which:</i>						
	(1) <i>Short-term on an original maturity basis</i>						
1.6.2	(2) <i>Long-term due for receipt within one year or less</i>						
1.6.3	(3) <i>Long-term due for receipt in more than one year</i>						
1.7	Deposits held at nonresident banks						

Section B. Aggregated Balance Sheet of GBC1s Managed by Your Company (continued)

Reporting Currency: U.S. dollars (millions)							
	Assets	Opening balance as of 01.01.20XX	Transactions		Other changes in volume	Revaluation changes	Closing balance as of 31.12.20XX
			(+)	(-)			
1.8	Cash, and deposits held at resident banks						
1.9	Nonfinancial assets owned in Mauritius						
1.9.1	<i>of which:</i>						
	(1) Buildings						
1.9.2	(2) Machinery and equipment						
	(3) IT inclusive of expenses to develop databases						
1.9.3	(4) Inventories of goods and other						
1.10	Shares in affiliated resident enterprises (other than GBCs)						
1.11	Nonfinancial assets owned abroad (such as property, equipment, inventories of goods, etc.)						
1.12	Interest income (net of tax) receivable from						
1.12.1	(1) Affiliated nonresidents						
1.12.2	(2) Unaffiliated nonresidents						
1.12.3	(3) Residents						
1.13	Dividend income (net of tax) receivable from						
1.13.1	(1) Affiliated nonresidents						
1.13.2	(2) Unaffiliated nonresidents						
1.13.3	(3) Residents						
1.14	Any other assets—other than shares, loans, and debt securities and not classified elsewhere—held with affiliated nonresidents (please specify) ¹						
1.14.1	-----						
1.14.2	-----						
1.14.3	-----						
1.15	Any other assets—other than shares, loans, and debt securities and not classified elsewhere—held with unaffiliated nonresidents (please specify) ¹						
1.15.1	-----						
1.15.2	-----						
1.15.3	-----						
1.16	Other assets held with residents						
1.17	Total assets (1.1+1.2+1.3+1.4+1.5+1.6+1.7 +1.8+1.9+1.10+1.11+1.12+1.13+1.14+1.15 +1.16)						

Section B. Aggregated Balance Sheet of GBC1s Managed by Your Company (continued)							
	Liabilities	Opening balance as of 01.01.20XX	Transactions		Other changes in volume	Revaluation changes	Closing balance as of 31.12.20XX
			(+)	(-)			
2.1	Borrowing from affiliated nonresident enterprises						
2.1.1	of which:						
	(1) Borrowings from affiliated investment funds						
2.1.2	(2) Direct investor in direct investment enterprises						
2.1.3	(3) Reverse investment						
2.1.4	(4) Between fellow enterprises						
2.2	Borrowing from unaffiliated nonresident enterprises						
2.2.1	of which:						
	(1) Short-term on an original maturity basis						
2.2.2	(2) Long-term due for payment within one year or less						
2.2.3	(3) Long-term due for payment in more than one year						
2.3	Debt securities placed with affiliated nonresident entities						
2.3.1	of which:						
	(1) Placed with affiliated investment funds						
2.3.2	(2) Direct investor in direct investment enterprises						
2.3.3	(3) Reverse investment						
2.3.4	(4) Between fellow enterprises						
2.4	Debt securities placed with unaffiliated nonresident entities						
2.4.1	of which:						
	(1) Short-term on an original maturity basis						
2.4.2	(2) Long-term due for payment within one year or less						
2.4.3	(3) Long-term due for payment in more than one year						
2.5	Interest income (net of tax) payable to						
2.5.1	of which:						
	(1) Affiliated nonresidents						
2.5.2	(2) Unaffiliated nonresidents						
2.5.3	(3) Residents						
2.6	Dividend income (net of tax) payable to						
2.6.1	of which:						
	(1) Affiliated nonresidents						
2.6.2	(2) Unaffiliated nonresidents						
2.6.3	(3) Residents						
2.7	Tax payable to foreign governments						

Section B. Aggregated Balance Sheet of GBC1s Managed by Your Company (concluded)

	Liabilities	Opening balance as of 01.01.20XX	Transactions		Other changes in volume	Revaluation changes	Closing balance as of 31.12.20XX
			(+)	(-)			
2.8	Any other liabilities— <i>other than shares, loans, and debt securities and not classified elsewhere</i> —to affiliated nonresidents (please specify) ²						
2.8.1	-----						
2.8.2	-----						
2.8.3	-----						
2.9	Any other liabilities— <i>other than shares, loans, and debt securities and not classified elsewhere</i> —to unaffiliated nonresidents (please specify) ²						
2.9.1	-----						
2.9.2	-----						
2.9.3	-----						
2.10	Other liabilities to residents						
2.11	Total liabilities: (2.1+2.2+2.3+2.4+2.5+2.6+2.7+2.8+2.9+2.10)						
Shareholders' funds							
2.12	Shares/units held by affiliated nonresidents						
2.12.1	<i>of which held by</i>						
2.12.2	(1) <i>Affiliated investment funds</i>						
2.12.3	(2) <i>Direct investor in direct investment enterprises</i>						
2.12.4	(3) <i>Reverse investment</i>						
2.12.4	(4) <i>Between fellow enterprises</i>						
2.13	Shares/units held by unaffiliated nonresidents						
2.14	Shares/units held by residents						
2.14.1	<i>held by non-GBCs</i>						
2.14.2	<i>held by GBCs</i>						
2.15	Retained earnings						
2.15.1	<i>otherwise due to nonresidents</i>						
2.15.1.a	<i>Affiliates</i>						
2.15.1.b	<i>Unaffiliates</i>						
2.15.2	<i>otherwise due to residents</i>						
2.16	Reserves provisions						
2.17	All other shareholders' funds						
2.18	Total shareholders' funds (2.12+2.13+2.14+2.15+2.16+2.17)						
2.19	Total liabilities and shareholders' funds (2.11+2.18)						

¹ Please note that items 1.14 and 1.15 are residual categories and to help us with any reclassification at our end, please specify the nature of the position or transaction. Please also note that unaffiliated nonresidents include banks.

² Please note that items 2.8 and 2.9 are residual categories and to help us with any reclassification at our end, please specify the nature of the position or transaction. Please also note that unaffiliated nonresidents include banks.

Section C. Income and Expenditure

Please report Income and expenses during the year 20XX.

1. Income from services provided to:

U.S. Dollars				
	Residents ¹		Nonresidents	Total
	GBC1s	Other than GBC1s		
Total				
<i>of which (please list main services)</i>				
(1) Gains on foreign exchange / foreign currency translation				
(2) Net change in fair value of available –for sale investments				

2. Recurrent expenses on goods and services paid to:

U.S. Dollars				
	Residents ¹		Nonresidents	Total
	GBC1s	Other than GBC1s		
Total				
<i>of which:</i>				
(1) Fees paid to management companies				
(2) Management fees paid to CIS manager				
(3) Fund administration fees				
(4) Other administration expenses				
(5) Legal fees				
(6) Accounting fees				
(7) Auditing fees				
(8) Director fees				
(9) Secretarial fees				
(10) Consultancy fees				
(11) Advisory fees				
(12) Professional fees				
(13) Tax fees				
(14) Custody fees				
(15) Rental of premises				
(16) Rental of equipment				
(17) Bank charges				
(18) Bank interest				
(19) Insurance premium				
(20) Income tax				
(21) Rates and other taxes				
(22) License fees				
(23) Depreciation				
(24) Other expenses (please specify)				

Section C. Income and Expenditure (*concluded*)

3. Other transactions

U.S. Dollars

A. For goods which have not transited through Mauritius				
(1) Value of goods sold			
(2) Cost of sales			
B. Compensation of employees		Paid in Mauritius	Paid outside Mauritius	Total
(1) Wages and salaries including bonus
(2) Other ²

4. Number of employees as of June 20XX

	Residents	Nonresidents
Male		
Female		
Total		

¹ Receipt from and payment to GBC1s in Mauritius are considered to be with residents.

² Includes overtime, payment in kind, travelling allowances, other allowances, retirement pension, employer's contribution to pension fund and life insurance scheme, fringe benefits, and so forth.

Compiling Balance of Payments and IIP by Partner Economy

Introduction

A5.1 The body of the *Guide* is concerned with the compilation of global balance of payments statistics—that is, economic transactions of an economy in respect of all other economies. Similar statistics can be compiled on a regional basis to show an economy’s transactions with residents of a selected foreign economy (e.g., main trade partners) or group of economies. In the *Guide*, these economies are referred to as partner economies, and this appendix examines methods by which the compiler may compile balance of payments statements by partner economy.

Economy Classification

A5.2 Compilation of balance of payments statistics on a regional basis provides many analytical and compilation benefits. Partner economy statistics provide information that enables users to develop greater insight into balance of payments aggregates. Governments use partner economy statistics as a basis for policy formulation and bilateral negotiations. Use of partner economy statistics facilitates bilateral reconciliations and, therefore, enhances the quality of balance of payments statistics.

A5.3 In compiling partner economy statistics, the compiler must decide on the principle of classification and the list of economies or economy groupings to be shown.

A5.4 The principle of classification used in balance of payments regional statistics is based on change of ownership. Application of this concept to regional balance of payments statistics means that, for transactions in goods, the economy classification should be based on the economies of residence of the former owners of imports and of the new owners of exports; for transactions in services, on the economy of residence of the provider and the recipient of the ser-

vice; for income, on the economy of residence of the company earning or paying the income; and for transfers, on the economy to which the offset transaction is recorded. For the IIP, liabilities should be classified by the economy of residence of the holder of the claim; and assets should be classified by the economy of the issuer of the liability.

A5.5 The *BPM6* indicates that for financial transactions in many cases the transactor principle is applied (*BPM6*, paragraph 4.148) (noting that the *BPM5* allowed the use of either the transactor principle or the debtor/creditor principle) partly because it may represent the only information available.¹ Under the transactor principle, transactions are classified by the economy of the nonresident counterparty to the transaction. However, as noted earlier, acquisition of securities should be recorded according to the issuer of the liability.

A5.6 Table A5.1 shows the treatment of a secondary market transaction in a security under the transactor principle. In the example it is assumed that a resident of economy B has issued a security that is initially held by a resident of economy A. The resident of economy A sells the security to a resident of economy C.

A5.7 In data sources available to the compiler, the classification by economy may not be based on a strict change-of-ownership concept. For example, transactions in goods may be classified by economy of origin or consumption. The balance of payments compiler may wish to publish supplementary statistics based on alternative classifications. For example, publication of information on securities classified on both a transactor principle basis and on a debtor/creditor principle basis could help an analyst gain a better understanding of international capital markets and the impact of these markets on the balance of payments.

¹The compiler should make the economy attribution clear for users.

Table A5.1 Treatment of Transactions and Other Changes in Securities under the Transactor Principle

	Partner economy		
	A	B	C
Economy A records			Net acquisition of financial assets—securities [decrease]
Economy B records	Other change in financial assets and liabilities—securities—volume change [decrease]		Other change in financial assets and liabilities—securities—volume change [increase]
Economy C records	Net acquisition of financial assets—securities [increase]		

Table A5.2 Balance of Payments Transactions of Economy A with Partner Economies

	Economy A's recording of transactions with				Total	
	Economy B		Economy C		Credit	Debit
	Credit	Debit	Credit	Debit		
Goods	...	100	...	...	...	100
Net errors and omissions	...	...	...	2	...	2
	Net acquisition of financial assets (debit)	Net incurrence of liabilities (credit)	Net acquisition of financial assets (debit)	Net incurrence of liabilities (credit)	Net acquisition of financial assets (debit)	Net incurrence of liabilities (credit)
Bank external assets	...	...	-102	...	-102	...
Multilateral settlements		100	100		100	100

Multilateral Settlements

A5.8 Multilateral settlements arise when an company in one economy undertakes a transaction with a resident of a second economy and the payment for that transaction involves a claim on a resident of a third economy. This practice requires the compiler to record offsetting entries in regional balance of payments accounts in order to balance them for particular economies or regions (assuming that balanced accounts at the regional level are required). In practice, those entries will typically be combined with net error and omission items as it is generally not possible to measure a pure multilateral settlement item.

A5.9 An example illustrates these points. Economy A imports a good, valued at 100, from economy B and uses a bank account in economy C to make the

settlement. However, as a result of measurement errors, the payment is recorded by economy A as 102. In compiling a partner economy balance of payments statement, economy A would classify imports from economy B, but the transaction in foreign currency assets would be attributed to economy C. To balance the various accounts, the compiler would have to record multilateral settlements items for economies B and C. Table A5.2 shows the entries that would be recorded in a partner economy classification of balance of payments transactions for economy A. The table demonstrates the necessity for creating the multilateral settlement item to balance the accounts and also shows that these entries cancel each other when accounts are consolidated.

Data Sources and Specific Treatments

Data Sources

Use of international merchandise trade statistics

A5.10 International merchandise trade statistics (IMTS) are described in Chapter 5, which includes a discussion of the international guidelines, concepts, and definitions that the IMTS compiler is expected to follow. According to the change-of-ownership principle, imports would be classified by economy of purchase—the economy where the importer’s contractor is domiciled or has its business—and exports would be classified by economy of sale—the economy where the exporter’s contractor is domiciled or has its business. However, the IMTS guidelines reject this concept as it essentially measures the movement of goods rather than the change of ownership of goods. The guidelines illustrate the inconsistency by using an example, shown in Table A5.3, in which a resident of economy A buys goods produced in economy B and sells the goods to a resident in economy C, but ships the goods directly from economy B to economy C (this is an example of merchanting, which should be recorded in the balance of payments accounts as negative exports when the goods are acquired, and as positive exports when resold (see Merchanting in Chapter 11).

A5.11 Table A5.3 uses the purchase/sale (change of ownership) concept and shows transactions of economies B and C with economy A, which would not record the transaction in merchandise trade statistics as there is no physical movement of the good into or out of economy A. If goods were shipped by economy A, the shipment would be treated as direct

transit trade (unless the goods were cleared through customs into economy A—an unlikely event) and thus would not be recorded. Another problem with the use of the purchase/sale concept with IMTS is that agents often act on behalf of principals and, according to the guidelines, identification of principals can consume considerable time and resources.

A5.12 Another concept used to classify partner economy data for IMTS is economy of origin and consumption. The economy of origin is the economy in which the goods are produced or manufactured, whereas the economy of consumption is the economy known at the time of dispatch as the economy in which the merchandise is intended to be consumed, utilized, or further processed. As the guidelines point out, determinations of economy of origin are usually straightforward, but determinations of economy of consumption are much more difficult.

A5.13 Still another classification is economy of consignment/economy of destination. For imports, the economy of consignment is the economy from which goods were initially dispatched, without any commercial transactions taking place in intermediate economies, to the importing economy. For exports, the economy of destination is the economy known at the time of dispatch to be the final economy where goods are to be delivered.

A5.14 The *International Merchandise Trade Statistics Manual (IMTS 2010)* recommends in the case of imports the origin and in the case of exports the destination concept to be the most suitable for IMTS. However, the *IMTS 2010* recognizes that the partner economy data compiled on this concept are very often

Table A5.3 Comparison of Merchandise Trade and Trade in Goods for Merchanting

	IMTS (movement of goods)			Balance of payments—trade in goods (change of ownership)		
	Partner economy			Partner economy		
	A	B	C	A	B	C
Economy A records	Negative export	Export
Economy B records	Export	Export	...	...
Economy C records	...	Import	...	Import	...	...

not comparable (*IMTS 2010*, paragraphs 6.25 and 6.26) and recommends that economy of consignment be recorded for imports as the second partner economy attribution, and that economy of consignment be an encouraged item for exports.²

A5.15 Table A5.4 provides examples of transactions recorded by using the consignment/ destination and the origin/consumption concept. In the example, petroleum is produced and refined in economy B and purchased by a resident of economy A, who imports the petroleum and stores it in economy A. Subsequently, the petroleum is exported to economy C.

A5.16 Table A5.4 shows that, if the concept of origin/consumption approach is used, economy A shows an export to economy C while the latter shows an import from economy B. Further, economy A shows an export to economy C while economy C registers an import from economy B. If the consignment/destination approach is used, economy B shows an export as destined for economy A; economy A shows an import consigned from economy B and destined for economy C; and economy C shows an import consigned from economy A. In other words, the consignment/destination

approach produces a symmetrical treatment not achieved by the origin/consumption approach.

A5.17 Apart from transactions that involve merchanting and are recorded in goods, the concept of consignment/destination is the same as the change-of-ownership principle required for use in the balance of payments. This *Guide* recommends that the IMTS compiler produce IMTS on a consignment/destination basis and that the balance of payments compiler use these data to compile partner economy statistics on goods. Transactions in goods could be adjusted to a complete change-of-ownership basis if the balance of payments compiler collects data on gross purchases and sales of goods classified by economy from companies involved in merchanting—a subject that is discussed in Chapter 3. Suitable questions in respect of merchanting are contained in model form 5 in Appendix 8.

Use of international transactions reporting system (ITRS)

A5.18 There are no international standards for the content, reporting thresholds, or degree of detail collected in an ITRS, and the method of economy

Table A5.4 Use of Origin/Consumption and Consignment/Destination to Record Goods Trade

	Merchandise trade origin/consumption			Merchandise trade consignment/destination		
	Partner economy			Partner economy		
	A	B	C	A	B	C
Economy A records	...	Import	Export	...	Import	Export
Economy B records	Export	...	...	Export	...	...
Economy C records	...	Import	...	Import	...	...

²*IMTS 2010* states:

Paragraph 6.25: Although no single method of attributing partner country is ideal, attribution by origin for imports meets what is considered to be a priority application of international merchandise trade statistics, namely, matters of trade policy and related economic analysis. Consequently, **it is recommended** that:

- (a) In the case of imports, the country of origin be recorded;
- (b) In the case of exports, the country of last known destination be recorded.

Paragraph 6.26: *Country of consignment*. Since the partner data compiled on the basis of the country of origin (for imports) and the country of last known destination (for exports) are very often not comparable and in view of the needs for internationally comparable partner data for analytical purposes as well as for trade data reconciliation studies, **it is recommended** that country of consignment be recorded for imports as the second partner country attribution, alongside country of origin. Considering, in the case of exports, that countries often do not differentiate the country of last known destination and the country of consignment and that their separate recording could create a significant additional data-reporting and data-processing burden, the compilation of export statistics on the country of consignment basis is only **encouraged**, depending on a country's needs and circumstances. It is recognized that the compilation of country of consignment for exports may be considered by some countries as a longer-term objective.

classification varies from economy to economy. Generally, the classification is based on the economy of residence of the nonresident transactor and, in most cases, this is appropriate for balance of payments purposes. For the recording of financial transactions, an ITRS generally supports the transactor principle.

A5.19 A particular problem in using an ITRS to compile partner economy statistics is that the nonresident principal to a transaction may use an agent who is a resident of a different economy. For example, a resident of economy A may use a security broker in economy B to purchase securities from a resident in economy C. It is unlikely that two principals (in economies A and C) will know each other's identities, and the ITRS in each of these economies will probably reflect transactions with economy B. This classification is inconsistent with the change-of-ownership principle. A similar problem will occur when nominees are used to undertake transactions for nonresident principals. In practice, relatively little can be done to overcome these problems, other than analyzing information that may be available from international financial centers on these types of transactions.

Use of securities databases

A5.20 Chapters 3 and 10 describe the use of securities databases in conjunction with security-by-security collections for the compilation of portfolio securities information. The information included in securities databases can allow for the identification of the economy of the issuer and the economy of the holder.

Use of external sources of information

A5.21 There are a number of external sources that provide information by partner economy to which the compiler will have access. These sources include bilateral data compiled by compilers in other economies that represent the counterparts to transactions of residents of the compiling economy. In addition, the IMF conducts two surveys that can be used as the basis for compilation of bilateral data for components of the financial account and IIP: the Coordinated Direct Investment Survey (CDIS) collects information on direct investment liabilities and can be used in the compilation of direct investment assets and transactions in assets; and the Coordinated Portfolio Investment Survey (CPIS) collects information on portfolio investment assets and can be used in the compilation

of portfolio investment liabilities and transactions in liabilities. More details on the use of CDIS and CPIS in the compilation of balance of payments and IIP statements are presented in Chapter 7.

Use of business surveys

A5.22 If business surveys are used to compile balance of payments statistics, the compiler should ensure that information is classified by partner economy in accordance with the change-of-ownership principle. With regard to financial transactions, business surveys generally support the debtor/creditor principle rather than the transactor principle, and model forms 17 and 18 in Appendix 8 are consistent with the debtor/creditor principle. However, there could be problems with identifying the economies of residence of purchasers of bearer securities issued by companies of the compiling economy. In such cases, sometimes the compiler classifies the transactions to a category called international capital markets. While this solution is practical, it is not optimal, and it reduces the usefulness of information for bilateral comparisons. Securities issued by the compiling economy and held by nonresident nominees located in economies other than the economy of the nonresident principal are likely to be misclassified in business surveys. In practice, apart from the use of partner economy sources, little can be done to overcome this problem.

Issues common to all sources

A5.23 When other balance of payments sources are used, the compiler should make every effort to ensure that partner economy information is classified correctly. If it is not possible to obtain correctly classified data from the source, the compiler should, at least in significant cases, investigate alternative sources to obtain supplementary information. For example, partner economy estimates for trade credits could be derived from an analysis of partner economy shares for imports and exports. Care should be taken to ensure that the supplementary source exhibits a partner economy pattern similar to that of the item that the source is being used to measure.

Presentations of Direct Investment by Partner Economy

A5.24 There are two presentations that are available for use when compiling direct investment (DI)

information, including income flows, transactions, and positions—DI according to the asset/liability principle, and DI according to the directional principle. These presentations serve different analytical purposes. The standard presentation for global balance of payments is according to the asset/liability principle; however, for partner economy data, the directional principle could be more preferred by economies. The CDIS requires data to be reported on the basis of the directional principle, and the *OECD Benchmark Definition of Foreign Direct Investment*, 4th edition, recommends the directional principle to be used for bilateral statistics.

The asset/liability principle

A5.25 DI aggregates as a part of national macro-economic statistics are based on the asset/liability principle. They are consistent with balance of payments statistics and IIPs as well as the components of national accounts statistics. These data provide for an economy the aggregate totals of direct investment positions in assets and liabilities; net acquisition of direct investment assets and net incurrence of direct investment liabilities; and income receivable on assets and income payable on liabilities.

The directional principle

A5.26 DI statistics compiled according to the directional principle show outward investments and inward investments taking into account reverse investments (e.g., investment of DIENTs of the reporting economy into direct investors abroad are recorded as negative inward investment) as well as investment

into fellow enterprises—the direction in the latter case depending on whether the ultimate controlling parent of the resident fellow enterprise is a resident or a nonresident of the compiling economy.

A5.27 Note that the use of the ultimate controlling parent of the resident can lead to asymmetries in treatment where compilers in the economies of both fellow enterprises may both recognize the investment as outward (for example, where the common direct investor does not have a controlling stake in either fellow) or as inward (for example, where the common direct investor has a controlling stake in both fellows, and is resident in a third economy). In both cases, the position should be recognized as a positive inward investment for one economy and a negative inward investment in the other economy; both positions should be valued the same (e.g., at market price).³

A5.28 The identification of the ultimate controlling parent is discussed in Appendix 4, where Tables A4.2 and A4.3 show the different treatment of direct investment aggregates under the asset/liability principle and under the directional principle. These treatments are presented also in Chapter 7 of the *Guide*, Table 7.1.

Specific Treatment of Direct Investment Income

A5.29 Table A5.5 shows the investment income flows among three entities in a direct investment relationship. A company in economy A has a wholly owned subsidiary in economy B, which, in turn, has a wholly owned subsidiary in economy C.

Table A5.5 Income Accounts of Companies in Economies A, B, and C

	Economy A	Economy B	Economy C
Operating profit	60	20	100
Other current income ¹	89 ²	50	–35 ²
Net earnings before tax	149	70	65
Taxes	49	16	15
Dividends	50	25	20
Reinvested earnings	50	29	30

¹Other current income includes interest, dividends, and reinvested earnings on direct investment receivable, less interest payable.

²Income earned by the company in economy A includes accrued interest of 35 from the company in economy C on a loan made by the company in economy A to the company in economy C.

³See the *BPM6*, paragraphs 3.67–3.91, for more details on valuation in balance of payments and IIP.

Table A5.6 Partner Economy Direct Investment Income Statistics for Economies A, B, and C

Economy A's accounts with	Economy B		Economy C		Total	
	Credit	Debit	Credit	Debit	Credit	Debit
Reinvested earnings	29	...	...	...	29	...
Dividends	25	...	...	...	25	...
Interest	...	...	35	...	35	...
Economy B's accounts with	Economy A		Economy C		Total	
	Credit	Debit	Credit	Debit	Credit	Debit
Reinvested earnings	...	29	30	...	30	29
Dividends	...	25	20	...	20	25
Interest	...	...	...	...	...	...
Economy C's accounts with	Economy A		Economy B		Total	
	Credit	Debit	Credit	Debit	Credit	Debit
Reinvested earnings	...	...	...	30	...	30
Dividends	...	...	...	20	...	20
Interest	...	35	...	...	...	35

A5.30 Table A5.6 shows relevant income entries recorded in the regional balance of payments statements of economies A, B, and C. There are no reinvested earnings and dividend transactions between the company in economy A and the company in economy C because reinvested earnings and dividends payable by the company in economy C are solely attributable to the company in economy B. However, income payable by the company in economy C for a loan made by the company in economy A should be shown as an income payment between economies A and C.

Attribution of Data on Merchanting of Goods by Partner Economies

A5.31 Merchanting of goods involves two partner economies for one transaction. Therefore, the compiler needs to be aware of the right allocation of partner

economies. For the economy of the merchant goods are recorded as gross values: negative export (negative credit) for the acquisition and export (positive credit) for the sale. The economy that sold the goods to the economy of the merchant and the economy that purchased the goods from the economy of the merchant (economy A in Table A5.3) record their merchandise trade in the usual way—that is, as exports and imports of general merchandise, respectively, and not as merchanting transactions. Table A5.3 gives an overview about the recording.

A5.32 As the goods involved do not cross the customs boundary of the economy of residence of the merchant, these data need to be collected directly via enterprise surveys by all involving economies (see Appendix 8, model form 5). Details on compiling data on merchanting are presented in Chapters 3 and 11.

6

Linkages with Other Macroeconomic Datasets

Linkages of the International Accounts with the National Accounts

Introduction

A6.1 Information from the international accounts is essential to a full implementation of the *System of National Accounts 2008 (2008 SNA)*. The addition of the balance on primary income converts GDP, a measure of the income arising in an economy from production by units resident in that economy, to gross national income (GNI), a measure of the income arising from production anywhere in the world attributable to the residents of the particular economy. This is further converted to gross disposable income by the balance on secondary income. The difference between domestic saving and capital formation (investment) equal to the current account balance is reflected in the capital account balance and net lending or borrowing in the international accounts. Further, the financial account information and the international investment position (IIP) make it possible to see to what extent an economy has claims on non-residents or liabilities to nonresidents.

A6.2 This integration of the two systems is made possible because the underlying accounting systems are identical, although different terminology and forms of presentation are sometimes used. Appendix 7 of the *BPM6* provides a summary account of the complete concordance between the *2008 SNA* and the *BPM6* in respect to residence, valuation, time of recording, conversion procedures, and coverage of flows and positions.

A6.3 In addition to measuring activity within the domestic economy, the SNA records the exchanges between the domestic economy and the rest of the world as if the nonresident units engaged in transactions with units resident in the domestic

economy formed a distinct institutional sector of the economy. The exchanges (flows) of all resident units with nonresident units (and claims of one set of units on the other) are recorded in the rest of the world sector of the *2008 SNA* from the perspective of the rest of the world. Thus, for example, imports are a resource to the domestic economy and exports are used by the rest of the world, reversing the *BPM6* convention that imports are a debit and exports a credit.

A6.4 Chapter 2 of the *BPM6* includes a separate annex (Annex 2.2) illustrating with a numeric example (1) an overview of the integrated economic accounts as presented in the *2008 SNA*, and (2) the links between the financial instruments and the functional categories used in the *BPM6*, including the conversion of data from instrument to functional category. Furthermore, standard components (*BPM6*, Appendix 9) include the *2008 SNA* codes, where appropriate, which facilitates comparison between the international accounts and the *2008 SNA*.

A6.5 This appendix complements the text in the *BPM6* with a presentation in parallel of the recording of various flows and positions in the *2008 SNA* vis-à-vis the *BPM6* along the lines of the accounting structure of the two systems. The intention here is to illustrate the correspondence of indicators and the consistency between the two datasets. It also serves the need for validation of the two datasets by their respective compilers, in particular when different source data are used for some of the indicators. It is worth noting the practice common in many economies whereby the balance of payments and IIP data are compiled first and subsequently incorporated as the relevant components of the *2008 SNA* rest of the world accounts.

Classification

A6.6 The classification systems of the 2008 SNA and BPM6 mainly employ consistent coverage and terminology. There is, however, a major presentational difference regarding the grouping of the financial assets and liabilities by functional categories—the primary level of classification in the BPM6 with impacts on the financial account, the IIP, and the categories of investment income—as compared with the categories used by the 2008 SNA in the same accounts. These differences are illustrated in the presentation of the sequence of accounts at the end of this appendix.

A6.7 Other differences between the BPM6 and the 2008 SNA concern the breakdown of the institutional sectors and their groupings. While consistent in coverage, the aggregation of institutional sectors differs according to the importance given to sectors and sub-sectors in the two datasets. Table A6.1 illustrates the correspondence between the classification of institutional sectors in the two systems.

Comparison/Correspondence between the International Accounts and the SNA

A6.8 As in the 2008 SNA, the international accounts (BPM6) cover current and accumulation accounts (flows), as well as positions in the balance sheet (IIP). In the international accounts, transactions (flows) are gathered together under the balance of payments. In the balance of payments the current accounts comprise the goods and services account, the primary income account, and the secondary income account while the accumulation accounts include the capital account and the financial account. In addition, flows that are not transactions but affect the position of assets and liabilities are incorporated in a further account, the other changes in financial assets and liabilities. The IIP covers that part of the national balance sheet that represents the cross border element—that is, the position of financial claims (assets) and liabilities where one party is nonresident, and gold bullion held as reserves.

A6.9 The presentation ahead highlights the similarities and differences in the accounting presentation

Table A6.1 Conversion of the Sector Breakdown: System of National Accounts (SNA)—Balance of Payments

<i>Domestic sectors as they appear in the 2008 SNA and BPM6</i>	
2008 SNA	BPM6
Nonfinancial corporations	Central bank
Financial corporations	Deposit-taking corporations except the central bank
Central bank	General government
Deposit-taking corporations except the central bank	Other sectors
	Other financial corporations
Money market funds	Money market funds
Non-MMF investment funds	Non-MMF investment funds
Other financial intermediaries except insurance corporations and pension funds	Other financial intermediaries except insurance corporations and pension funds
Financial auxiliaries	Financial auxiliaries
Captive financial institutions and money lenders	Captive financial institutions and money lenders
Insurance corporations	Insurance corporations
Pension funds	Pension funds
General government	Nonfinancial corporations, households, and NPISHs
	Nonfinancial corporations
Households	Households
Nonprofit institutions serving households	Nonprofit institutions serving households

of the 2008 SNA and BPM6. This presentation is account by account and emphasizes the balancing items, as applicable. In the BPM6, the entries in the current accounts are described as credits and debits. In the 2008 SNA, they are described as resources and uses, but, as noted in paragraph A6.3, a credit for the national economy in the BPM6 is treated as a use by the rest of the world in the 2008 SNA and a BPM6 debit as a resource in the 2008 SNA. In the BPM6, there is a balancing item for each account showing the excess of credits over debits (or a net balance of the financial account). In addition, the BPM6 shows the cumulative value of balancing items up to and including the account under consideration. This is done for comparison with the 2008 SNA, where only the cumulative balance is shown because the 2008 SNA records the balancing item on the use side of the previous account as the first entry on the resource side of the subsequent account.

A6.10 To aid the exposition, Table A6.2 at the end of this appendix shows the main entries for the domestic economy as well as those for the rest of the world from the 2008 SNA perspective, as well as the main entries for the international accounts. The numeric values are those given in the annex to Chapter 2 of the BPM6.

Current Accounts

A6.11 As well as accounts showing transactions between different units in the economy, or between a resident and a nonresident unit, the 2008 SNA also contains an account called the goods and services account. It shows how all goods and services made available in the economy through domestic production or imports are used domestically or are exported. It contains all items that do not have counterpart items elsewhere in the sequence of accounts in the SNA and is the source of deriving GDP.

A6.12 There is no equivalent in the international accounts for the SNA's production account that shows how goods and services are made available to the domestic economy via production. Thus, the recording of imports and exports in the balance of payments is taken as parallel to part of the goods and services account.

A6.13 The balance of payments emphasizes the distinction between goods and services. Goods are

presented at an aggregated level while services are covered in detail. The classification of services in the 2008 SNA is strictly consistent with the Central Product Classification (CPC); in the BPM6, it differs from the CPC for a few products—that is, travel, construction, and government goods and services n.i.e., which are transactor-based (relating to the provider/acquirer rather than the product itself). These distinctions reflect policy interests as well as source data issues (see Chapter 10, BPM6). In summary tables of the SNA, imports and exports are usually shown in total or broken down into goods and services separately only.

A6.14 The external balance on goods and services for the rest of the world, which is part of the goods and services account, is mirrored by the balance on goods and services in the international accounts.

A6.15 There are no matching accounts in the international accounts to the SNA's production account, showing the value of goods and services produced by resident units, or generation of income account, which shows how value added arising from production accrues to government and to the other resident units participating directly in the production process.

A6.16 The primary income account entries in the balance of payments are largely concerned with compensation of employees and property income, exactly as in the allocation of primary income account in the 2008 SNA. Also recorded in the primary income account are the payments of taxes on production payable by a resident to another government, as well as any subsidy receivable by a resident from another government.

A6.17 Property income in the 2008 SNA is equal to investment income in the balance of payments plus rent. Rent rarely arises in cross border situations because all land is deemed to be owned by residents, if necessary by creating a notional resident unit. An example where rent may be recorded in the international accounts may be short-term fishing rights in territorial waters provided to foreign fishing fleets. Also, production sharing agreements in exploration of natural resources may include rent transactions (see Chapter 10, Box 10.1). Investment income in relation to cross border transactions reflects the return to the financial capital invested abroad and vice

versa. Interest flows are measured on exactly the same basis in both the *BPM6* and the *2008 SNA*. With effect from the *BPM6*, interest is adjusted for the implicit service charge (known as financial intermediation services indirectly measured (FISIM)) levied by deposit-taking corporations and treated by them as part of interest. FISIM is treated as an import/export of financial services.

A6.18 In order to make the reconciliation between investment income in the international accounts and in the *2008 SNA*, subcomponents below the level of the functional categories of investment income need to be used. For example, the figures for interest payments to and from the rest of the world as shown in the *2008 SNA* are the sum of interest payments under each functional category heading, as indicated by the supplementary table to the right of these headings.

A6.19 The balance on primary income, the balancing item of the primary income account in the balance of payments, shows how GDP is converted to the GNI by payments of primary income to and from abroad. The cumulative balancing item for this sequence of the international accounts is the balance on goods, services, and primary income.

A6.20 The entries in the secondary income account of the balance of payments are mainly current transfers. These entries correspond exactly to those in the secondary distribution of income account in the *SNA*. Several of these are particularly important in the balance of payments, in particular current international cooperation and personal transfers (remittances) sent by households in one economy to households in another economy (see *BPM6*, Chapter 12 and Appendix 5). Insurance flows related to reinsurance can be of significant importance internationally. The balance of payments records these flows in the same way as the *SNA*, both as regards the separation of a financial service charge and the treatment of direct insurance and reinsurance flows separately and not on a consolidated basis (more details in Chapter 10, *BPM6*). The balance of payments also includes in the secondary income account an item known as the adjustment for the change in pension entitlements. This appears in the use of income account in the

SNA, but this account does not exist in the balance of payments.

A6.21 The balancing item recorded at this point for the international accounts is the balance on secondary income. The cumulative balance is the current account balance. The *SNA* records disposable income as the cumulative balancing item on the secondary distribution account. There is then another *SNA* account, the use of income account, for which there is no corresponding account in the international accounts. The cumulative balancing item on the use of income account is saving for the domestic economy and the current external balance for the rest of the world. This item corresponds exactly to the current account balance from the international accounts.

The Capital Account

A6.22 The elements of the capital account subject to international transactions contain fewer items than those covered in the *SNA*. There are no transactions recording capital formation of produced assets because the international accounts are not concerned with the final use of products imported/exported. There are entries to cover acquisitions and disposals of nonproduced nonfinancial assets and capital transfers, although these are infrequent and for many economies may not appear. The account also records capital transfers receivable by and payable by the domestic economy, leading to a capital account balance.

The Financial Account

A6.23 Of major importance for the international accounts is the financial account, which, together with the IIP, plays an important role in understanding the international financing, as well as the international liquidity and vulnerability of a given domestic economy. In particular it indicates how a current account deficit was funded and how a surplus was used.

A6.24 As mentioned earlier, the major difference in presentation in the *2008 SNA* and *BPM6* concerns the grouping of the financial assets and liabilities by functional categories as the primary level of classification in the *BPM6* and the use of the instruments

and sectors by the 2008 SNA for the same categories. However, data by functional category are further subdivided by instrument and institutional sector, which makes it possible to link them to the corresponding 2008 SNA and monetary and financial statistics items.

A6.25 It must always be the case that the sum of transactions in financial assets must be equal to the sum of the transactions in liabilities in the matching instruments. Thus the sum of the transactions within the domestic economy and between residents and nonresidents in one financial instrument must be equal for both asset holders and liability holders. For example, Table A6.2 shows that in the financial account the change in assets of currency and deposits held by residents was 89 and by residents in the rest of the world was 11. The matching liability was 102 for residents and -2 for nonresidents, making total assets and liabilities equal to 100.

A6.26 As in the 2008 SNA, the balance of payments has exactly the same balancing item—net lending or net borrowing, which represents the balancing item for the sum of the current and capital accounts, as well as for their counterpart—the financial account. In both systems, net lending or borrowing covers transactions in all instruments used for providing or acquiring funding, without consolidating matching asset and liability transactions. Conceptually, it has the same value as the national accounts item for the total economy, and the same as the national accounts item for the rest of the world but with the sign reversed.

Balance Sheet—IIP

A6.27 The balance sheet in the 2008 SNA measures the positions of assets, both nonfinancial and financial, and liabilities for each institutional sector so as to derive at the end the net worth by the total economy. It also shows how the transactions and other flows occurring during the course of a year explain the changes in positions between the opening and closing balance sheet. The part of the balance sheet covered in the international accounts is called the IIP and matches the rest of the world sector in the 2008 SNA for financial assets and liabilities. Nonfinancial assets do not appear in the international

accounts as they do not have a counterpart liability or other international aspect. (If an item previously classified as a capital item is sold abroad, it appears as part of trade in goods.) In the case of financial claims, the cross border element arises when one party is resident and the other party is nonresident. In addition, while gold bullion is an asset that has no counterpart liability, it is included in the IIP when held as a reserve asset, because of its role as a means of international payments.

A6.28 There is also a balancing item for the balance sheet called net worth, reflecting the difference between the total value of assets and liabilities. Changes in net worth due to different transactions and other flows may also be derived.

A6.29 Figure 2.1 in the *BPM6*, which shows an overview of the SNA as a macroeconomic framework including international accounts, illustrates the sequence of accounts in the 2008 SNA including the balance sheet framework. This is the framework illustrated in the following table showing the relationship between the national and international accounts.

A6.30 Table A6.2 gives you a comparative overview of the SNA—Balance of Payments accounts. For the financial account and financial assets and liabilities in the accumulation account part, as well as for the financial assets and liabilities in the balance sheet part, an additional breakdown is presented of the financial instruments by functional category.

Linkages of the International Accounts with Monetary and Financial Statistics

Introduction

A6.31 The most recent methodology for compiling monetary and financial statistics is contained in the draft *Monetary and Financial Statistics Manual and Compilation Guide (MFSM-CG)* of 2013. The *MFSM-CG* is broadly consistent with the 2008 SNA and *BPM6*, and take account of financial developments since the *Monetary and Financial Statistics Manual (MFSM) 2000* was published. The MFS focus on the compilation and reporting of balance-

Table A6.2 A Comparative Overview of SNA—International Accounts (*continued*)

Current accounts	SNA						Balance of Payments	
	Domestic economy		Rest of the world ¹		Goods and services account ²		Credits	Debits
	Uses	Resources	Uses	Resources	Uses	Resources		
Secondary distribution of income account								
<i>Balance of primary income, net</i>		1642						
Current taxes on income, wealth etc.	212	213	1	0			1	0
Net social contributions	333	333	0	0			0	0
Social benefits other than social benefits in kind	384	384	0	0			0	0
Other current transfers	283	244	16	55			16	55
Net nonlife insurance premiums	56	47	2	11			2	11
Net nonlife insurance claims	48	57	12	3			12	3
Current transfers within general government	96	96						
Current international cooperation	31	1	1	31			1	31
Miscellaneous current transfers	52	43	1	10			1	10
Current transfers between resident and non-resident households	7	1	1	7			1	7
							17	55
							-38	
<i>Disposable income</i>	1604							
Use of income account								
<i>Disposable income</i>		1604						
Household consumption expenditure	1015					1015		
General government consumption expenditure	352					352		
NPISH consumption expenditure	32					32		
Adjustment for the change in pension entitlements	11	11	0	0			0	0
<i>Saving</i>	205							
<i>Current external balance</i>			-13				13	

	Secondary income account	
	Current taxes on income, wealth etc.	
	Net social contributions	
	Social benefits other than social benefits in kind	
	Other current transfers	
	Net nonlife insurance premiums	
	Net nonlife insurance claims	
	Current international cooperation	
	Miscellaneous current transfers	
	Current transfers between resident and non-resident households	
	<i>Total current transfers</i>	
	<i>Balance on secondary income</i>	
	<i>This account does not exist in balance of payments (but note the adjustment item and also current account balance shown below other items in the secondary income account)</i>	
	Adjustment for the change in pension entitlements	
	<i>Current account balance</i>	

Current account balance

Acquisitions less disposals of non-produced non-financial assets

Capital transfers

*Capital account balance**Net lending (+) / net borrowing (-)**Net lending (+) / net borrowing (-)*

Direct investment

Portfolio investment

Financial derivatives

Other investment

Reserve assets

Monetary gold and SDRs¹

Currency and deposits

Debt securities

Loans

Equity and investment fund shares

Insurance, pension and standardized guarantee schemes

Financial derivatives and employee stock options

Other accounts payable/receivable

Net acquisition of financial assets

Net incurrence of liabilities

*

2/4

*

10/3

*

-4/4

8

11

14/5

4/9

18

14

3/0

3

0

/1

-5/11

35/4

*

*

-10/6

20

22

*

3/

5/

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8

Table A6.2 A Comparative Overview of SNA—International Accounts (*continued*)

Accumulation accounts	SNA						Other changes in financial assets and liabilities account	
	Domestic economy		Rest of the world		Goods and services account		Net changes in financial assets	Net changes in liabilities
	Changes in assets	Changes in liabilities and net worth	Changes in assets	Changes in liabilities and net worth	Changes in assets	Changes in liabilities and net worth		
Accumulation accounts, continued								
<i>Other changes in the volume of assets</i>								
Non-financial assets	10							
Financial assets and liabilities	3	3						
Monetary gold and SDRs ⁴								
Currency and deposits								
Debt securities								
Loans								
Equity and investment fund shares	2	2						
Insurance, pension and standardized guarantee schemes	1	1						
Financial derivatives and employee stock options								
Other accounts payable/receivable								
<i>Revaluation account</i>								
Non-financial assets	280							
Financial assets and liabilities	84	76	7	15			15	7
Monetary gold and SDRs ⁴	12			12			12	
Currency and deposits	0							
Debt securities	40	42	4	2			2	4
Loans	0							
Equity and investment fund shares	32	34	3	1			1	3
Insurance, pension and standardized guarantee schemes	0							
Financial derivatives and employee stock options	0							
Other accounts payable/receivable	0							

Table A6.2 A Comparative Overview of SNA—International Accounts (*concluded*)

Balance sheets	SNA					IIP	
	Domestic economy		Rest of the world		Goods and services account	Assets	Liabilities
	Assets	Liabilities	Assets	Liabilities			
<i>Opening balance sheet</i>							
Non-financial assets	4621						
Financial assets and liabilities	8231	7762	805	1274		1274	805
Monetary gold and SDRs ⁴	770	0	0	770		770	
Currency and deposits	1482	1471	105	116		116	105
Debt securities	1263	1311	125	77		77	125
Loans	1384	1437	70	17		17	70
Equity and investment fund shares	2614	2756	345	203		203	345
Insurance, pension and standardized guarantee schemes	470	471	26	25		25	26
Financial derivatives and employee stock options	21	14	0	7		7	0
Other accounts payable/receivable	227	302	134	59		59	134
Total changes in assets/liabilities							
Non-financial assets	482						
Financial assets and liabilities	523	505	54	72		72	54
Monetary gold and SDRs ⁴	11	0	1	12		12	1
Currency and deposits	89	102	11	-2		-2	11
Debt securities	126	116	13	23		23	13
Loans	78	47	4	35		35	4
Equity and investment fund shares	141	141	15	15		15	15
Insurance, pension and standardized guarantee schemes	49	49	0	0		0	0
Financial derivatives and employee stock options	14	11	0	3		3	0
Other accounts payable/receivable	15	39	10	-14		-14	10
<i>Closing balance sheet</i>							
Non-financial assets	5103						
Financial assets and liabilities	8754	8267	859	1346		1346	859
Monetary gold and SDRs ⁴	781	0	1	782		782	1
Currency and deposits	1571	1573	116	114		114	116
Debt securities	1389	1427	138	100		100	138
Loans	1462	1484	74	52		52	74
Equity and investment fund shares	2755	2897	360	218		218	360
Insurance, pension and standardized guarantee schemes	519	520	26	25		25	
Financial derivatives and employee stock options	35	25	0	10		10	0
Other accounts payable/receivable	242	341	144	45		45	144

Note: SNA = system of national accounts; IIP = international investment position. An entry of * indicates an entry is possible but in the example given the value is either unknown or zero. Where two values are given separated by /, the first figure relates to assets, the second to liabilities.

¹ Rest of the world, as a pseudo sector in the SNA, records flows reaching/leaving the national economy from/to the rest of the world

² The goods and services account (SNA), shows the balance between the total goods and services supplied as resources to the economy and the use of the same goods and services

³ Balance of payments is part of the goods and services account (SNA)

⁴ In this table, "monetary gold and SDRs" are shown at equivalent values on the asset and liability sides of the balance sheet. Because monetary gold bullion has no counterpart liability, this table implicitly assumes that holdings of monetary gold bullion are zero.

	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets
Financial assets and liabilities					
Monetary gold and SDRs ⁴					770/
Currency and deposits	0/0			80/105	36/
Debt securities	10/15	40/110			27/
Loans	*			17/70	*
Equity and investment fund shares	53/155	150/190		*	*
Insurance, pension and standardized guarantee schemes	*			25/26	
Financial derivatives and employee stock options			7/0		*
Other accounts payable/receivable	15/40			44/94	
Financial assets and liabilities					
Monetary gold and SDRs ⁴				/1	12/
Currency and deposits	*			-5/11	3/
Debt securities	3/5	15/8			5/
Loans	*			35/4	*
Equity and investment fund shares	10/4	5/11		*	*
Insurance, pension and standardized guarantee schemes	*			*	
Financial derivatives and employee stock options			3/0		*
Other accounts payable/receivable	-4/4			-10/6	
Financial assets and liabilities					
Monetary gold and SDRs ⁴				/1	782/
Currency and deposits	*			75/116	39/
Debt securities	13/20	55/118			32/
Loans	*			52/74	*
Equity and investment fund shares	63/159	155/201		*	*
Insurance, pension and standardized guarantee schemes	*			25/26	
Financial derivatives and employee stock options			10/0		*
Other accounts payable/receivable	11/44			34/100	

sheet data (end-of-period positions) for the central bank and other depository corporations. However, the new draft *MFSM-CG* provides more detailed coverage of the other financial corporations sector. A major step in the implementation of the methodology in the *MFSM* has been the introduction of standardized report forms (SRFs) for economies' transmittal of monetary data for publication in *IFS* and for operational purposes of the IMF. The SRFs are designed for reporting of position data only. An overview of the monetary statistics framework supporting the SRFs is presented in Annex 1 of this appendix.

Common Principles and Differences in Classifications

A6.32 Monetary statistics share many principles and concepts with the *BPM6* and the *SNA*.¹ The *MFSM-CG* and the *BPM6* are consistent on such issues as the definition and delineation of resident and nonresident entities, time of recording of transactions and other flows, financial asset and liability valuation, and data aggregation and consolidation. However, there are some differences in sectoring of the institutional units and in the classification of the various categories of financial assets and liabilities.

A6.33 As regards the delineation of institutional units and sectors, a special case is the definition of other depository corporations (ODC). In the monetary statistics methodology, all financial corporations that issue liabilities included in broad money are designated as depository corporations. These include the central bank subsector, the other deposit-taking corporations (ODC) subsector, and, in many economies, money market fund shares. The latter two form the ODC subsector in *MFSM-CG*. In the *BPM6*, money market funds are not consolidated with deposit-taking corporations but with other financial corporations. In summary in the *BPM6* the financial corporations sector is divided into central bank, deposit-taking corporations,

except the central bank, and other financial corporations, while the *MFSM-CG* defines the following subsectors: central bank, ODCs, and other financial corporations (OFC). Therefore if the balance of payments compiler uses monetary statistics the compiler should request separate data on money market funds balance of payments transactions and IIP in order to classify financial transactions and positions correctly within the OFC subsector. The balance of payments compiler should also confirm the institutional coverage of the deposit-taking corporations subsector, as some deposit-takers may be excluded; for instance, offshore banks that do not accept deposits from residents are still considered deposit-taking institutions in the *BPM6* but classified as other financial corporations in the monetary statistics.

A6.34 The major categories for financial assets and liabilities in the monetary statistics follow the classification in the 2008 *SNA* and *BPM6* financial instruments classification. Regarding the classification of financial assets, the differences with the *BPM6* are as follows:

- Classification by maturity—In the *BPM6*, most of debt instruments are divided into separate categories for short-term instruments (original maturity of one year or less) and long-term instruments. The standard components in the *MFSM-CG* do not include loans and debt securities classified by maturity, although the SRFs include a maturity breakdown for central bank liabilities with nonresidents.
- Classification by currency of denomination—The *BPM6* recommends a breakdown of all debt assets and all debt liabilities by major currency. *MFSM-CG* requires a breakdown of all instruments, financial assets and liabilities, except equity liabilities, into (1) national currency and (2) foreign currency.

Limitations in Using Monetary Statistics in Compiling an IIP, and How to Overcome Them

A6.35 For the compilation of the IIP using the monetary statistics as source data, the following types of limitations can be identified: valuation, coverage,

¹ The annex to the Linkages of the International Accounts with Monetary and Financial Statistics contains an overview of the monetary statistics framework.

sector classification, functional categories, and maturity breakdown. These limitations also affect the compilation of other external sector statistics—such as the financial account of the balance of payments and the external debt statistics—that use monetary statistics.

Valuation

A6.36 The valuation principles and other accounting rules in the *MFSM-CG* are in general agreement with those in the *BPM6*. However, a major exception for the monetary statistics is the valuation of equity on the liability side of the sectoral balance sheets of financial corporations. For the monetary statistics, liabilities in the form of equity are measured at book value. In the *BPM6*, equity securities (for both assets and liabilities) should be valued at the market or fair value of the shares.

A6.37 Valuing equity at book value, particularly on the SRFs, has important implications. The equity liability account in the sectoral balance sheet, instead of being subclassified by counterpart sector, as in the rest of the accounts, is classified by types of equity resources (i.e., funds contributed by owners; retained earnings; general and special reserves; and valuation adjustments). Therefore, the value of the equity issued by the domestic financial system and held by nonresidents is not identified.

A6.38 To cover for the compilation needs of the financial statistics, including the financial account of the *SNA*, the SRFs contain a memorandum item requesting the market or fair value of shares and other equity by counterpart sector, thus allowing for the recognition of equity owned by nonresidents. However, the great majority of economies do not report this memorandum item, implying that this information is not currently compiled by the monetary statisticians. To solve this situation, the IIP compiler (who often does possess data on equity liabilities to nonresidents) should be encouraged to coordinate with their monetary statistics counterparts to promote the compilation of the referred SRF memorandum items, thus avoiding duplication of efforts or excessive reporting burden on financial institutions. Furthermore, foreign liabilities in the monetary statistics are often underestimated because of the lack of liabilities to nonresidents in the form of equity.

Coverage

A6.39 One significant difference between the *BPM6* and *MFSM-CG* regards the treatment of money market funds, which in the *BPM6* are part of the other financial corporations sector and in the *MFSM-CG* are part of the other depository corporations sector. This and other possible deviations from the *BPM6* definition of other deposit-takers is discussed in paragraph A6.33.

A6.40 For OFCs in many economies the major reporting challenges arise from the large number and diversity of OFCs, as well as from multiple channels of existing data reporting. The OFCs might well outnumber ODCs owing to the prevalence of insurance corporations, pension funds, and other financial intermediaries and auxiliaries such as financial asset dealers and brokers. In some economies, OFC data reporting is incomplete or is not performed on a timely basis (or both); reporting by some categories of OFCs may not even exist.

A6.41 Ideally, all OFCs should report the monetary data on a timely basis directly to the data compiler. However, such reporting presently exists in relatively few economies. Instead, OFCs report to government agencies responsible for supervision of particular segments of the financial services industry—for example, national agencies for supervision of securities trading or the operation of organized exchanges, and national or state supervisors of insurance corporations or pension funds. Data reporting sometimes is channeled through trade associations or other nongovernment entities that represent the interests of specific groups of OFCs.

A6.42 Establishment of data reporting from OFCs directly to the monetary statistics compiler should result in improved data quality and timelier reporting, with the possibility of sharing these data with the IIP compiler, if efforts to define and gather the data are coordinated. However, national policy may dictate that data reporting to the monetary statistics compiler be channeled through supervisory agencies to which OFCs already report. In any case, if the central bank gathers data on OFCs for monetary or financial sector analysis, and provided *BPM6* recording principles are followed, these data should be used for balance of payments purposes too, thus avoiding duplication of efforts.

A6.43 The ODCs subsector may include corporations operating under the control of receivers or regulators or that are no longer dealing with the public. Technically, bankrupt institutions that continue to operate may retain the legal status of operating banks, or a special status may be imposed. In the *BPM6*, bankrupt deposit-taking corporations that continue to operate remain classified in the deposit-taking corporations institutional sector.

Functional categories

A6.44 Monetary statistics do not use functional categories to classify financial assets and liabilities. This can pose compilation challenges where monetary statistics are used to estimate balance of payments/IIP data on direct investment equity transactions and positions for deposit-takers. For OFCs, as a subsector, there are compilation challenges for direct investment data when monetary data are used in balance of payments / IIP.

A6.45 The emphasis on group consolidated supervision of the financial sector made the relationship between parent, subsidiary, and associate financial corporations broadly available as subaccounts within the accounting chart of accounts used by financial corporations. Nonetheless, the balance of payments compiler faces the difficulty of reconciling the definition of control and significant influence between financial accounting and macroeconomic statistics. In other words, these definitions in the *BPM6* do not entirely correspond to the definitions found, for example, in the international financial reporting standards (IFRS). Nevertheless, the closeness of the definitions may encourage some economies to use banking supervisor data or data based on IFRS (without adjustment) for compiling the international accounts.

Maturity breakdown

A6.46 The SRFs contain maturity breakdown only for central bank liabilities with nonresidents, but not for financial assets or for assets and liabilities in other financial subsectors. While traditional monetary analysis does not focus on maturity of financial assets, supervisory data often used to compile the monetary sta-

tistics present the short and long-term breakdowns required by the *BPM6* for selected financial instruments. These breakdowns are often available to the monetary statistics compiler.

A6.47 New requirements for financial sector data focused on financial stability analysis, particularly on liquidity, are putting emphasis on the availability of maturity breakdowns useful for the compilation of the IIP.²

Reconciliation Exercise between Monetary Statistics and IIP

A6.48 This section presents tables reconciling monetary statistics and IIP components. It shows the use and limitations of the monetary statistics in details—that is, component by component.

A6.49 As mentioned in Chapter 9, the *Sectoral Balance Sheet for ODC*,³ can be used for the deposit-taking corporations, except the central bank sector of the IIP. *The Sectoral Balance Sheet for the Central Bank* can be used to compile data for the central bank sector in the IIP. If economies complete the *Sectoral Balance Sheet for OFC*,⁴ it can be used to compile IIP data for other sectors—other financial corporations.

A6.50 The *Sectoral Balance Sheet for ODC*, which can be used by the compiler to identify and select the external assets and liabilities of deposit-taking corporations, except the central bank, is reported to the IMF through the SRFs for reporting monetary and financial data. Table A6.3 presents the reconciliation of positions of depository corporations, except the central bank vis-à-vis nonresidents, with the corresponding IIP components.⁵

A6.51 Table A6.3 shows that, although the sectoral balance sheet data can largely correspond with IIP components, the differences in the classification do not allow a full reconciliation of the two frameworks.

² An IMF project to expand the SRFs called the Supplementary Data Report Forms (SDRFs) is under consideration. The SDRFs include maturity breakdowns.

³ See footnote 3, Chapter 9.

⁴ See footnote 4, Chapter 9.

⁵ The reconciliation of OFC vis-à-vis nonresidents with the corresponding IIP components is very similar to the one for ODC and is, therefore, not included in this annex.

A6.52 Table A6.4 presents the reconciliation of positions of the central bank vis-à-vis nonresidents with the relevant corresponding IIP components.

A6.53 Tables A6.3 and A6.4 demonstrate that there may be a number of limitations when using monetary statistics to derive the IIP. In many instances,

Table A6.3 Reconciliation of Other Depository Corporations' Balance Sheet Items with International Investment Position (IIP) Components	
Monetary statistics: Sectoral Balance Sheet Other Depository Corporations	IIP: Deposit-taking corporations, except central bank
Assets: Claims on nonresidents¹	
Foreign currency	4.2.2 Other investment, currency and deposits
Deposits (transferable and other, in national and foreign currency)	4.2.2.1 Short-term 4.2.2.2 Long-term
Debt securities	2.2.2 Portfolio investment, debt securities 2.2.2.1 Short-term 2.2.2.2 Long-term
Loans	4.3.2 Other investment, loans 4.3.2.1 Short-term 4.3.2.2 Long-term
Equity and investment fund shares	1.1 Direct investment assets, equity and investment funds shares 1.1.1 Direct investor in direct investment enterprise 1.1.2 Direct investment enterprise in direct investor (reverse investment) 1.1.3 Between fellow enterprises 2.1.2 Portfolio investment, equity and investment fund shares 4.1 Other investment, other equity
Insurance, pension, and standardized guarantee schemes	4.4.2 Other investment, insurance, pension, and standardized guarantee schemes
Financial derivatives and employee stock options	3.2 Financial derivatives and employee stock options (other than reserves)
Other accounts receivable	
Trade credit and advances	4.5.3 Other investment, trade credit and advances 4.5.3.1 Short-term 4.5.3.2 Long-term
Other	4.6.2 Other investment, other accounts receivable—other 4.6.2.1 Short-term 4.6.2.2 Long-term
Liabilities to nonresidents	
Deposits (excluded from broad money, transferable and other, in national and foreign currency)	4.2.2 Other investment, currency, and deposits 4.2.2.1 Short-term 4.2.2.2 Long-term
Debt securities (excluded from broad money, in national and foreign currency)	2.2.2 Portfolio investment, debt securities 2.2.2.1 Short-term 2.2.2.2 Long-term
Loans	4.3.2 Other investment, loans 4.3.2.1 Short-term 4.3.2.2 Long-term
Insurance, pension, and standardized guarantee schemes	4.4.2 Other investment, insurance, pension, and standardized guarantee schemes
Financial derivatives and employee stock options	3.2 Financial derivatives and employee stock options (other than reserves)

Table A6.3 Reconciliation of Other Depository Corporations' Balance Sheet Items with International Investment Position (IIP) Components (concluded)

Monetary statistics: Sectoral Balance Sheet Other Depository Corporations	IIP: Deposit-taking corporations, except central bank
Other accounts payable	
Trade credit and advances	4.5.3 Other investment, trade credit and advances 4.5.3.1 Short-term 4.5.3.2 Long-term
Other	4.6.2 Other investment, other accounts payable—other 4.6.2.1 Short-term 4.6.2.2 Long-term
Equity and investment fund shares: Market value, by holding sector (<i>memorandum item</i>)	1.1 Direct investment liabilities, equity and investment funds shares 1.1.1 Direct investor in direct investment enterprise 1.1.2 Direct investment enterprise in direct investor (reverse investment) 1.1.3 Between fellow enterprises 2.1.2 Portfolio investment, equity and investment fund shares 4.1 Other investment, other equity

Note: Numbers shown in the table follow the numbering sequence in the standard components of the IIP in the *BPM6*.

¹ Reserve assets are excluded from this table, because reserves are not commonly held by deposit-taking corporations, except the central bank.

Table A6.4 Reconciliation of Sectoral Balance Sheet Items for the Central Bank with International Investment Position (IIP) Components

Monetary statistics: Sectoral Balance Sheet Central Bank	IIP: Central bank
Assets: Claims on nonresidents	
Monetary gold	Reserve assets 5.1 Monetary gold 5.1.1 Gold bullion 5.1.2 Unallocated gold accounts
Holdings of SDRs	Reserve assets 5.2 Special drawing rights (SDRs)—Holdings
Foreign currency included in official reserve assets	Reserve assets 5.4.1 Currency and deposits 5.4.1.1 Claims on monetary authorities 5.4.1.2 Claims on other entities
Foreign currency other	Other investment 4.2.1 Currency and deposits 4.2.1.0.1 Short-term 4.2.1.0.2 Long-term
Deposits in national currency (transferable and other)	Other investment 4.2.1 Currency and deposits 4.2.1.0.1 Short-term 4.2.1.0.2 Long-term
Deposits in foreign currency (transferable and other) Included in official reserve assets	Reserve assets 5.4.1 Currency and deposits 5.4.1.1 Claims on monetary authorities

Table A6.4 Reconciliation of Sectoral Balance Sheet Items for the Central Bank with International Investment Position (IIP) Components (continued)

Monetary statistics: Sectoral Balance Sheet Central Bank	IIP: Central bank
Other	5.4.1.2 Claims on other entities Other investment 4.2.1 Currency and deposits 4.2.1.0.1 Short-term 4.2.1.0.2 Long-term
Debt securities Included in official reserve assets	Reserve assets 5.4.2.1 Debt securities 5.4.2.1.1 Short-term 5.4.2.1.2 Long-term
Other	Portfolio investment 2.2.1 Debt securities 2.2.1.1 Short-term 2.2.2.1 Long-term
Loans Loans to IMF Repurchase agreements Included in official reserve assets Other Other loans Included in official reserve assets Other	Reserve assets 5.3 Reserve position in the IMF 5.4.4 Other claims Other investment 4.3.1 Loans 4.3.1.1 Credit and loans with the IMF (other than reserves) 4.3.1.2 Other short-term 4.3.1.3 Other long-term
Equity and investment fund shares Included in official reserve assets	Reserve assets 5.4.2.2 Equity and investment fund shares Portfolio investment 2.1.1 Equity and investment fund shares
Other	Other Investment 4.1 Other equity
Insurance, pension, and standardized guarantee schemes	Other investment 4.4.1 Insurance, pension, and standardized guarantee schemes
Financial derivatives and employee stock options Included in official reserve assets Other	3.1 Financial derivatives (other than reserves) and employee stock options Reserve assets 5.4.3 Financial derivatives (net)
Other accounts receivable Trade credit and advances	Other investment 4.5.1 Trade credit and advances 4.5.1.1 Short-term 4.5.1.2 Long-term
Other	4.6.1 Other accounts receivable—other 4.6.1.1 Short-term 4.6.1.2 Long-term
Liabilities to nonresidents¹	
Currency in circulation (nonresidents' holdings, not separately identified in balance sheet)	Other investment 4.2.1 Currency and deposits 4.2.1.0.1 Short-term 4.2.1.0.2 Long-term
Deposits excluded from broad money (transferable and other, in national and foreign currency) ² Short-term Long-term	
Debt securities excluded from broad money Short-term Long-term	Portfolio investment 2.2.1 Debt securities 2.2.1.1 Short-term 2.2.1.2 Long-term

Table A6.4 Reconciliation of Sectoral Balance Sheet Items for the Central Bank with International Investment Position (IIP) Components (concluded)

Monetary statistics: Sectoral Balance Sheet Central Bank	IIP: Central bank
Loans	Other investment
Loans from IMF	4.3.1 Loans
Repurchase agreements	4.3.1.1 Credit and loans with the IMF
Short-term	4.3.1.2 Other short-term
Long-term	4.3.1.3 Other long-term
Other Loans	
Short-term	
Long-term	
Financial derivatives and employee stock options	3.1 Financial derivatives (other than reserves) and employee stock options
Short-term	
Long-term	
Other accounts payable	Other investment
Trade credit and advances	4.5.1 Trade credit and advances
	4.5.1.1 Short-term
	4.5.1.2 Long-term
Other	4.6.1 Other accounts payable—other
	4.6.1.1 Short-term
	4.6.1.2 Long-term
SDR Allocations	4.7 SDRs (Allocations)

Note: Numbers shown in the table follow the numbering sequence in the standard components of the IIP in the *BPM6*.

¹In the "Monetary statistics: Sectoral Balance Sheet Central Bank" column, the short-term and long-term breakdown is provided only for liabilities in foreign currency.

²It includes IMF accounts and use of Fund credit.

monetary statistics do not provide enough detail to compile the full breakdown of standard components in the IIP. But both systems have enough in common to consider pursuing a coordinated effort to use the same source data with the necessary details to compile both types of statistics. When properly designed and implemented, this approach would avoid duplication of effort and improve consistency between these related datasets.

Linkages of the International Accounts with the Government Finance Statistics

Introduction

A6.54 The *Government Finance Statistics Manual 2014 (GFSM 2014)* describes an integrated macroeconomic statistical framework (the government finance statistics (GFS)) designed specifically to support fiscal

analysis. The manual provides the economic and statistical principles to be used in compiling the statistics and guidelines for the presentation of fiscal statistics within an integrated analytic framework that includes appropriate balancing items.⁶

A6.55 As a result of the conceptual interlinkages between these two datasets, the compiler of the international accounts and GFS may be able to usefully consult with one another to ensure consistency in definitions, coverage, concepts, and accounting rules. The compiler may also be able to share source data,⁷ and to reconcile these estimates where they overlap.

⁶ Balancing items summarize the net value of the activities covered by a set of accounting entries, such as the net operating balances, which is the value of total revenue less total expense.

⁷ For the selection of data sources for the compilation of GFS, see the *Government Finance Statistics-Compilation Guide for Developing Countries* (IMF, 2011) at <http://www.imf.org/external/data.htm#guide>.

A6.56 This appendix summarizes important similarities and differences between GFS and the balance of payments and IIP statistics. It also indicates how the data compiled for general government in the balance of payments and IIP could be reconciled with GFS. It does not list, however, all similarities and differences between the two datasets and should not be considered a comprehensive guide.

Coverage and Accounting Rules

A6.57 Since the *GFSM 2014* is harmonized with the *2008 SNA*, it is also harmonized with other macroeconomic systems, including the *BPM6*. In GFS total economy is divided into five mutually exclusive sectors (general government, financial corporations,⁸ nonfinancial corporations, households, and nonprofit institutions serving households). The units in each sector have similar objectives, and these objectives are, in turn, different from those of units in other sectors. The international accounts use the same sectors and subsectors as the *2008 SNA* and the GFS framework but with a different presentation to allow continuity with previous international classifications (such as the *Balance of Payments Manual*, fifth edition). The international accounts have a shorter list of sectors and include only four main sectors: general government, central bank, deposit-taking corporations, except the central bank, and other sectors⁹ (see Table 4.2 in the *BPM6* for the detailed classification of the institutional sectors) for economies in which it is not practical to implement the full classification. The general government sector¹⁰ follows the definitions of the *SNA* in GFS and the international accounts. The compiler of both

⁸ Financial corporations include subsectors for the central bank, deposit-taking corporations, except the central bank, and other financial corporations, while the GFS framework also recommends that subsectors for public corporations be identified both in the financial and nonfinancial corporate sectors.

⁹ The “other sector” category in the international accounts includes both financial and nonfinancial sectors, so it is recommended that the other financial corporations be identified separately. The full institutional sector detail is required for international accounts to be fully integrated with monetary, flow of funds, and other financial data. Public corporations may be identified separately on a supplementary basis.

¹⁰ The general government sector consists of entities that fulfill the functions of government as their primary activity. Depending on the administrative and legal arrangements, there may be more than one level of government within an economy, and statistics should be compiled for each level. In GFS, provision is made for three levels of government: central, state/provincial/regional, and local. Social security funds are permitted to either be included in one of

datasets should ensure that the actual coverage of the general government used in their statistics is identical.

A6.58 Both frameworks can be described as the systematic recording and presentation of positions and flows, with flows comprising transactions and other economic flows. The accrual basis of recording is used, and the valuation principle is the current market value for recording positions and flows. Both use the double-entry accounting system (i.e., each transaction is recorded as consisting of a debit and credit entry of equal value), and the sum of credit entries and the sum of the debit entries are the same.

A6.59 Both GFS and the international accounts record, respectively, revenue and expense and current and capital transactions on a gross basis; and both record transactions and other changes in financial assets and liabilities on net bases for each category of assets or liabilities. For dissemination purposes, GFS presents revenue (credits) and expense (debits) separately (i.e., in two different detailed tables), while in the international accounts, credits and debits are presented under the same respective categories. Positions of financial assets and liabilities are recorded on a gross basis in both datasets.

A6.60 Consolidation is a method of presenting statistics for a set of units as if they constituted a single unit. Because the international accounts reflect transactions involving residents and nonresidents and external financial assets and liabilities, including other flows associated with them, consolidation is not relevant for international accounts of an individual economy. In GFS, consolidation is relevant and used for the preparation of statistics for the general government and its subsectors (central, regional, and local governments). General government units by definition are resident units; therefore GFS consolidation principles would not affect the consistency in data between the two datasets.

Comparison of the Structures of GFS and the Balance of Payments and the IIP

A6.61 The structure of the GFS framework is similar to the structure used in the balance of payments and IIP frameworks, and comprises: (1) the statement

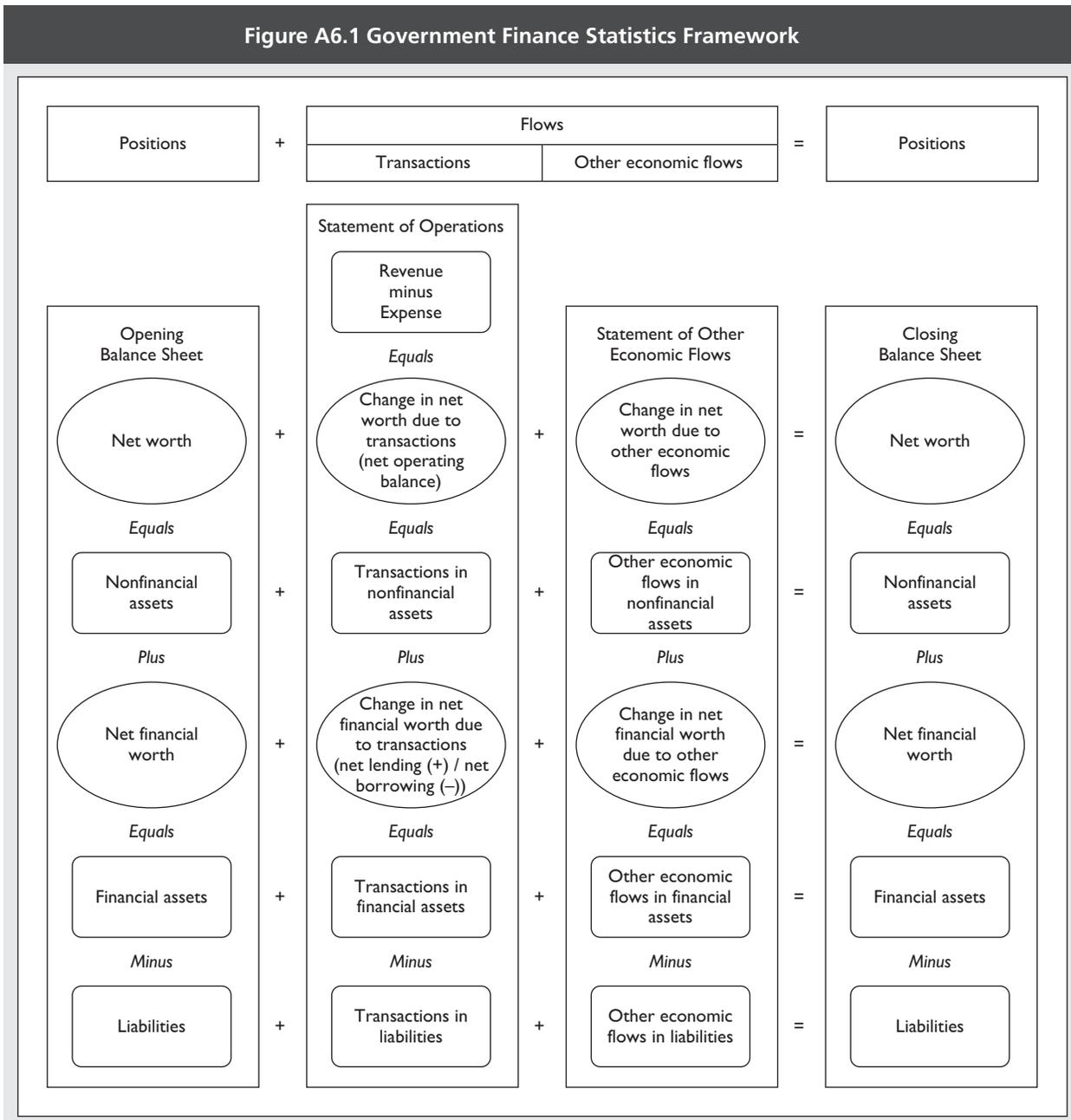
these levels or constitute a separate level of government. Not all the economies will have all the levels of government. The international accounts identify general government, but they do not present data for the subsectors of the general government, as is the case in GFS.

of operations, which records the results of all transactions during an accounting period; (2) the statement of other economic flows, which summarizes changes in assets, liabilities, and net worth that have not been generated by transactions; and (3) the balance sheet, which shows positions of financial and nonfinancial assets owned, positions of liabilities owed, and net worth, which is equal to the total value of all assets less the total value of all liabilities. As illustrated in Figure A6.1, the comprehensive treatment of transactions and other economic flows in GFS enables the opening

and closing balance sheets to be fully integrated. That is, the position of a given type of asset or liability at the beginning of an accounting period *plus* the changes in that position indicated by transactions and other economic flows equal the stock position at the end of the period.

A6.62 The GFS framework generates a set of statistical statements, which if combined, demonstrate that all changes in the positions result from flows. This is similar to the accounting identity in the IIP that requires all changes in investment positions to result

Figure A6.1 Government Finance Statistics Framework



from transactions and other flows. In addition, the GFS framework includes a statement of sources and uses of cash to provide key information on liquidity. A similar statement is not prepared in the international accounts.

The Statement of Operations

A6.63 The statement of operations is a summary of transactions of the general government sector in a given accounting period. This statement presents three main categories of transactions (see Table A6.5): (1) transactions affecting net worth that include details of transactions on revenue and expense; (2) transactions in nonfinancial assets (net acquisition of nonfinancial assets);¹¹ and (3) transactions in financial assets and liabilities (net acquisition of financial assets, and the net incurrence of liabilities). The statement of operations has similarities with the balance of payments, because both statements summarize transactions during a period. In the balance of payments, transactions are presented in a sequence of three accounts, the current, capital, and financial account.

A6.64 The transactions presented in the first two categories of the GFS framework—namely, revenue and expense—are similar to the transactions in the current account of the balance of payments with one exception: capital transfers included in respectively revenue (credit) and expense (debit) of GFS, because these transactions affect net worth, are presented in the capital account of the balance of payments. Gross acquisitions (debit)/disposals (credit) of nonproduced assets included in the net investment of nonfinancial assets of GFS are presented in the capital account of the balance of payments. The GFS transactions in financial assets and liabilities of the statement of operations are fully consistent with those shown in the financial account of the balance of payments.

A6.65 The statement of operations in GFS has a linkage to the accounts in the balance of payments to the extent that general government sector units are involved in transactions with nonresidents. For grants, interest, and transactions in financial assets and liabilities, GFS separately identifies transactions with nonresidents. However, for other transactions with nonresidents GFS will usually not separately identify

these transactions, which limit opportunities for reconciliation between the international accounts and GFS. However, in some cases, supplementary information in the general government sector accounting system may identify such transactions—particularly

Table A6.5 Statement of Operations

Transactions Affecting Net Worth	
1	Revenue
11	Taxes
12	Social contributions [GFS]
13	Grants
14	Other revenue
2	Expense
21	Compensation of employees [GFS]
22	Use of goods and services
23	Consumption of fixed capital
24	Interest
25	Subsidies
26	Grants
27	Social benefits [GFS]
28	Other expense
<i>NOB/GOB</i>	<i>Net/gross operating balance (1–2)¹</i>
Transactions in nonfinancial assets:	
31	Net/gross investment in nonfinancial assets ²
311	Fixed assets
312	Inventories
313	Valuables
314	Nonproduced assets
2M	Expenditure (2+31)
<i>NLB</i>	<i>Net Lending (+)/borrowing (-)[GFS] (1–2–31=1–2M=32–33)</i>
Transactions in financial assets	
32	Net acquisition of financial assets
321	Domestic ³
322	External ³
Transactions in liabilities	
33	Net incurrence of liabilities
331	Domestic ³
332	External ³

¹ The net operating balance equals revenue minus expense. The gross operating balance equals revenue minus expense other than consumptions of fixed capital.

² The net investment in nonfinancial assets equals acquisitions minus disposals minus consumption of fixed capital. The gross investment in nonfinancial assets equals acquisitions minus disposals.

³ Classified by instrument and/or sector of the counterparty (see Table 9.1 and 9.2, *GFSM 2014*).

¹¹ Expenditure is the sum of expense and the net acquisition of nonfinancial assets.

where these are of an unusual nature, large volume, or large value.

A6.66 In GFS, revenue is defined as an increase in net worth resulting from a transaction, and expense as a decrease in net worth resulting from a transaction. The net investment in nonfinancial assets equals gross fixed capital formation less consumption of fixed capital, plus changes in inventories, transactions in valuables, and nonproduced assets. The net acquisition of financial assets and the net incurrence of liabilities represent financial transactions that change a government's holdings of financial assets and/or liabilities.

A6.67 Two important analytical balances are derived in GFS in the statement of operations. Revenue less expense equals the net operating balance (change in the net worth due to transactions). The subsequent deduction of the net investment in nonfinancial assets results in net lending (+)/net borrowing (-) (change in the net financial worth), which is also equal to the net result of transactions in financial assets and liabilities—that is, equal to the net acquisition of financial assets minus the net incurrence of liabilities. The net operating balance is a summary measure of the ongoing sustainability of government operations, and the net lending (+)/net borrowing (-) is a summary measure indicating the extent to which the government is either putting financial resources at the disposal of other sectors in the economy or to abroad, or utilizing the financial resources generated by other sectors or from abroad. In addition, the gross operating balance is a balance that differs from the net operating balance in that it does not include consumption of fixed capital as an expense.¹²

A6.68 There are more balancing items in the balance of payments than in GFS, partly because there are more transaction accounts than categories in the statement of operations. In GFS, as indicated in the previous paragraph, the balancing items are: the net operating balance and the net lending/net borrowing, while in the balance of payments the balancing items are: current account balance; balance on goods

and services; balance on goods; balance on services; balance on primary income; balance on secondary income; capital account balance; net lending/borrowing (i.e., balance from current and capital accounts); and net lending/net borrowing (i.e., balance from financial account). In both datasets, the net lending/net borrowing is equal to the financial account balance.

Revenue

A6.69 Governments receive four major types of revenue from their fiscal operations: compulsory levies in the form of taxes and certain types of social contributions, property income derived from the ownership of assets,¹³ sales of goods and services,¹⁴ and transfers receivable from other units. Of these, compulsory levies and transfers are the main sources of revenue for most general government units. Revenue is composed of heterogeneous elements classified according to different characteristics depending on the type of revenue. The four types of revenue are classified in four categories: (1) taxes; (2) social contributions; (3) grants; and (4) other revenue.

Taxes

A6.70 Taxes are compulsory, unrequited amounts receivable by government units from institutional units.¹⁵ The coverage, timing, and valuation of tax revenue in the balance of payments and GFS are identical, but the classifications differ. The balance of payments has provisions for compilation of (1) taxes on production and imports; (2) current taxes on income, wealth, and so forth; and (3) capital taxes, while the approach adopted in GFS is to classify taxes mainly by the basis on which the tax is levied. Taxes are grouped in six major categories in GFS: (1) taxes on income, profits, and capital gains; (2) taxes on payroll and workforce; (3) taxes on property; (4) taxes on goods and services;

¹² Consumption of fixed capital can be difficult to measure in practice, and a satisfactory estimate may not be possible. If so, the gross operating balance may be more practical for analysis than the operating balance. The net operating balance is, however, preferred because it captures all current costs of government operations.

¹³ Financial assets and natural resources put at the disposal of another institutional unit.

¹⁴ In GFS, sales of goods and services consist of sales by market establishments, administrative fees, incidental sales by nonmarket establishments, and imputed sales of goods and services.

¹⁵ Tax revenue is considered to be unrequited because the government provides nothing directly to the individual unit in exchange for the payment. Certain compulsory receivables, such as fines, penalties, and most social security contributions, are excluded from taxes. These transfers have, under certain conditions, an element of exchange and are therefore not classified as taxes.

(5) taxes on international trade and transactions; and (6) other taxes (see Table A.6.6 for additional details).¹⁶

A6.71 While certain taxes may be levied on non-residents (such as some taxes on international trade and on international transactions), the portion attributable to nonresidents may be difficult to identify in GFS and may vary from one tax category to the next and from one year to another.

A6.72 Taxes on products and production reported in the balance of payments primary income account comprise the same tax categories as in the SNA. Some examples of these taxes¹⁷ are value added taxes (GFS 11411);¹⁸ sales taxes (GFS 11412); excise (GFS 1142); taxes on specific services (GFS 1144); customs and other import duties (GFS 1151); taxes on exports (GFS 1152); and profits of export or import monopolies (GFS 1153). Exceptionally, some taxes and duties may be payable on goods that physically enter the economy but where there is no change of ownership, so they are not treated as imports. Nevertheless, any such

taxes and duties are still included in the heading of taxes and duties on imports in the GFS.

A6.73 Current taxes on income, wealth, and so forth reported in the balance of payments secondary income account are the sum of several detailed tax categories as reported in the GFS, and comprise taxes on income, profits and capital gains (GFS 111) and several other tax categories mainly payable by final consumers (such as taxes on use of goods and on permission to use goods or perform activities (GFS 1145), and other taxes on international trade and transactions (GFS 1156).

A6.74 Capital taxes included in the balance of payments capital account consist of taxes levied at irregular and infrequent intervals on the values of the assets or net worth owned by institutional units or on the value of assets transferred between institutional units as a result of legacies, gifts inter vivos, or other transfers. Capital taxes¹⁹ are the sum of estate, inheritance, and gift taxes (GFS 1133), and capital levies (GFS 1135).

Table A6.6 Taxes in Government Finance Statistics (GFS) and Balance of Payments

GFS: Taxes		Balance of payments: Taxes	
1	Revenue	I.B	Primary income
11	Taxes	I.B.3.1	<i>Taxes on production and on imports</i>
111	Taxes on income, profits and capital gains		
1111	Payable by individuals	I.C	Secondary income
1112	Payable by corporations and other enterprises	I.C.I	General government
1113	Other taxes on income, profits, and capital gains	I.C.1.1	<i>Current taxes on income, wealth, etc.</i>
112	Taxes on payroll and workforce	IC.2	Financial corporations, nonfinancial corporations, households, and nonprofi
113	Taxes on property	LC.2.2	Other current transfers
1131	Recurrent taxes on immovable property	I.C.2.0.1	<i>Current taxes on income, wealth, etc.</i>
1132	Recurrent taxes on net wealth		
1133	Estate, inheritance, and gift taxes	2	Capital account
1135	Capital levies	2.2	Capital transfers
1136	Other recurrent taxes on property	2.2.1	General government
114	Taxes on goods and services	2.-2.1.2	Other capital transfers

¹⁶ The classification of taxes in the *GFSM 2014* is quite similar to the classification employed in Revenue Statistics by the Organization for Economic Cooperation and Development (OECD).

¹⁷ For a complete list of taxes, see Chapter 5, *GFSM 2014*.

¹⁸ Here and further the numbers in parentheses next to GFS refer to classification codes in the *GFSM 2014*.

¹⁹ GFS does not have a category of capital taxes.

Table A6.6 Taxes in Government Finance Statistics (GFS) and Balance of Payments (*concluded*)

GFS: Taxes		Balance of payments: Taxes	
1141	General taxes on goods and services	2.2.1.2.1	<i>of which: Capital taxes</i>
11411	Value-added taxes	2.2.2	Financial corporations, nonfinancial corporations, households, and NPISHs
11412	Sales taxes	2.2.2.2	Other capital transfers
11413	Turnover and other general taxes on goods and services	2.2.2.2.1	<i>of which: Capital taxes</i>
11414	Taxes on financial and capital transactions		
1142	Excise		
1143	Profits of fiscal monopolies		
1144	Taxes on specific services		
1145	Taxes on use of goods and on permission to use goods or		
11451	Motor vehicle taxes		
11452	Other taxes on use of goods and on permission to use goods		
1146	Other taxes on goods and services		
115	Taxes on international trade and transactions		
1151	Customs and other import duties		
1152	Taxes on exports		
1153	Profits of export or import monopolies		
1154	Exchange profits		
1155	Exchange taxes		
1156	Other taxes on international trade and transactions		
116	Other taxes		
1161	Payable solely by business		
1162	Payable by other than business or unidentifiable		

Note: To maintain consistency with codes used in *GFSM 2001*, the 11414 code does not follow directly the code of the previous category of taxes- taxes on capital and financial transactions (GFS 1134 in *GFSM 2001*) are now classified in taxes on goods and services (GFS 114) to enhance consistency with *2008 SNA*.

Social contributions

A6.75 In GFS, social contributions are actual or imputed revenues receivable by social insurance schemes to make provision for social insurance benefits payable. Social contributions may be from either employers on behalf of their employees or from employees, self-employed, or nonemployed persons on their own behalf. These contributions secure entitlement to social benefits (GFS 27) that are payable to the contributors, the dependents, or their survivors. The contributions may be compulsory or voluntary. Social contributions are classified as social security contributions (GFS 121) or other social contributions

(GFS 122) depending on the type of scheme receiving them. Additional breakdowns are included to classify this information by employees, employers, and self-employed or nonemployed persons. In GFS, social contributions are not divided between residents and nonresidents.

A6.76 The coverage of social contributions in GFS is more restricted than in the 2008 SNA and BPM6. In GFS, only contributions that constitute revenue are included in social contributions (GFS 12)—that is, only transactions that increase the net worth are included. In GFS, social contributions exclude contributions to autonomous and nonautonomous pension funds and

to unfunded employment related pension schemes that provide pension and other retirement benefits. Social contributions to autonomous and nonautonomous pension funds and to unfunded employer social insurance schemes that provide retirement benefits are recorded as incurrence of liabilities by the government.²⁰ The 2008 SNA and BPM6²¹ record all social contributions and incurrence of liabilities, with the accounting being neutralized by recording an adjustment for the change in pension entitlements. Social contributions receivable from nonresidents by general government sector units are included in the secondary income account in the balance of payments,

and, when identified, they should be consistent with the corresponding GFS categories.

Grants

A6.77 Grants are transfers receivable by government units from other resident or nonresident government units or international organizations, and that do not meet the definition of a tax, subsidy or a social contribution. Three sources of grants are recognized in GFS: grants from foreign governments (GFS 131), grants from international organizations (GFS 132), and grants from other general government units (GFS 133). Each of these categories distinguishes current and capital grants.

Table A6.7 Other Revenue Categories in Government Finance Statistics (GFS) and Balance of Payments

GFS: Other revenue categories		Balance of payments: Other revenue categories	
12	Social contributions [GFS]	I	Current account
121	Social security contributions	I.A	Good and services
1211	Employee contributions	I.B	Primary income
1212	Employer contributions	I.B.2	Investment income
1213	Self-employed or nonemployed contributions	I.B.2.1	Direct investment
1214	Unallocable contributions	I.B.2.1.1	Income on equity and investment fund shares
122	Other social contributions	I.B.2.1.1.1	Dividends and withdrawals from income of quasi-corporations
1221	Employee contributions	I B 2 1 1 2	Reinvested earnings
1222	Employer contributions		<i>Investment income attributable to policy holders in insurance, pension schemes, and standardized guarantee schemes and to investment funds</i>
1223	Imputed contributions	I.B.2.1.2	Interest
13	Grants	I.B.2.2	Portfolio investment
131	From foreign governments	I.B.2.2.1	Investment income on equity and investment fund shares
1311	Current	I.B.2.2.1.1	Dividends
1312	Capital	I.B.2.2.1.2	Investment income attributable to investment fund shareholders
132	From international organizations	I.B.2.2.1.2.1	Dividends on equity excluding investment fund shares
1321	Current	I.B.2.2.1.2.2	Reinvested earnings
1322	Capital	I.B.2.2.2	Interest
133	From other general government units	I.B.2.3	Other investment
1331	Current	I.B.2.3.1	Withdrawals from income of quasi-corporations
1332	Capital	I.B.2.3.2	Interest

²⁰ For additional information about autonomous and nonautonomous pension funds and funded and unfunded employer social insurance schemes, see Appendix 2 in the *GFSM 2014*.

²¹ See the *BPM6*, paragraph 12.38, for additional information about the adjustment (“adjustment for change in pension entitlements”).

Table A6.7 Other Revenue Categories in Government Finance Statistics (GFS) and Balance of Payments (*concluded*)

GFS: Other revenue categories		Balance of payments: Other revenue categories	
14	Other revenue	I.B.2.3.3	<i>Investment income attributable to policy holders in insurance, pension schemes, and standardized guarantee schemes</i>
141	Property income [GFS]	I.B.2.4	Reserve assets
1411	Interest [GFS]	I.B.2.4.1	Income on equity and investment fund shares
1412	Dividends	I.B.2.4.2	Interest
1413	Withdrawals from income of quasi-corporations	IB.3	Other primary income
1414	Property income from investment income disbursements	I.B.3.3	<i>Rent</i>
1415	Rent		
1416	Reinvested earnings on foreign direct investment	I.C	Secondary income
142	Sales of goods and services	I.C.I	General government
1421	Sales by market establishments	I.C.I.I	<i>Social contributions</i>
1422	Administrative fees	I.C.I.4	<i>Current international cooperation</i>
1423	Incidental sales by nonmarket establishments	I.C.I.5	<i>Miscellaneous current transfers of general government</i>
1424	Imputed sales of goods and services		<i>Net nonlife insurance premiums</i>
143	Fines, penalties, and forfeits	2	Capital account
144	Transfers not elsewhere classified	2.2	Capital transfers
1441	Current transfers not elsewhere classified	2.2.1	General government
14411	Subsidies	2.2.1.1	Debt forgiveness
14412	Other current transfers		
1442	Capital transfers not elsewhere classified		
145	Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes		
1451	Premiums, fees, and current claims		
1452	Capital claims		

A6.78 Current grants receivable from foreign general governments and international organizations (GFS 1311 and 1321, respectively) are often the most important linkage between the GFS and the balance of payments secondary income account. Capital grants receivable from foreign general governments and international organizations (GFS 1312 and 1322, respectively) are linked to the capital transfer category of the general government in the balance of payments capital account. Current (GFS 1331) and capital grants (GFS 1332) receivable from other general government units are transactions between residents—that is, units within the general government of any particular economy, and they do not impact the balance of payments.

A6.79 The following is the treatment of some capital transfers in the GFS and balance of payments accounts:

- Debt forgiveness²² received from nonresidents will be reflected in the GFS as revenue in capital grants received either from foreign governments (GFS 1312), or international organizations (GFS 1322), or as capital transfers not elsewhere classified (GFS 1442), when received from other nonresident entities. A corresponding reduction

²² Debt forgiveness is defined as the voluntary cancellation by mutual agreement of all or part of a debt obligation within a contractual arrangement between a creditor and a debtor.

in the appropriate external debt instrument will be recorded. In the balance of payments, debt forgiveness is recorded as a capital transfer (see *BPM6*, paragraph 13.23) in the capital account from the creditor economy to the debtor economy, offset by a reduction in the liability of the debtor (reduction in the asset of the creditor) under the appropriate debt instrument in the financial account.

- Investment transfer consists of capital transfers in cash²³ or in kind made by foreign governments or international organizations to other institutional units to finance all or part of the cost of their acquiring fixed assets. These transfers will be recorded in the same categories of revenue and expense as for debt forgiveness as described earlier in GFS. However, in this case, a corresponding increase in cash will be recorded if the investment grant was received in cash, while the appropriate nonfinancial asset will increase in the case of a grant in kind. In the balance of payments, investment grants are recorded as other capital transfer (see *BPM6*, paragraph 13.25) in the capital account from the donor economy to the recipient economy, and the counterentry is in the relevant financial instrument, if the transfer was received in cash, or in import of goods and services, if received in kind.
- Calls on one-off guarantees and other debt assumption are capital transfers that occur when a one-off guarantee is activated and the guarantor acquires no claim on the debtor or a claim worth less than the value of the guarantee, or in other cases of debt assumption. When general government sector units and nonresidents are involved in these transactions, they should be consistently treated in the capital account and GFS. For treatment in balance of payments see the *BPM6*, paragraph 13.27.

A6.80 Other capital transfers consist of major non-recurring payments in compensation for extensive damage or serious injuries not covered by insurance policies. When general government sector units are the recipients of this type of transfer from nonresidents, they will be recorded as part of capital grants receivable either from foreign governments (GFS 1312),

or international organizations (GFS 1322), or as capital transfers n.e.c. (GFS 1442), when receivable from other nonresident entities. In balance of payments, such payments are recorded as other capital transfers in capital account (see *BPM6*, paragraph 13.29). When statistics are compiled for the general government sector, grants from other domestic government units would be eliminated in consolidation²⁴ so that only grants from foreign governments and international organizations would have nonzero values in the general government accounts.

Other revenue

A6.81 In GFS, other revenue includes property income, sales of goods and services, fines, penalties, and forfeits, transfers not elsewhere classified, and premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes.

A6.82 The contribution of the general government sector to investment income in the primary income account is mainly derived from the portion receivable from nonresidents of the GFS categories interest (GFS 1411), dividends (GFS 1412), withdrawals from income of quasi-corporations (GFS 1413), property income from investment income disbursements (GFS 1414),²⁵ rent (GFS 1415), and reinvested earnings on foreign direct investment (GFS 1416). In the balance of payments, the primary income account groups these items by functional category (direct investment, portfolio investment, other investment, and reserve assets). GFS does not present a functional classification²⁶ similar to that in the international accounts.

²⁴ See paragraph A6.60 for consolidation.

²⁵ Insurance enterprises hold technical reserves in the form of prepayments of premiums, reserves against outstanding claims, and actuarial reserves against outstanding risks with respect to life insurance policies. These reserves are considered to be assets of the insurance company with matching liabilities towards the beneficiaries, including any government units that are policyholders. Any income receivable from the investment of insurance technical reserves is also considered to be the property of the policy holders or beneficiaries and is described as property income from investment income disbursements (GFS 1414). In the *BPM6*, the account title used is Investment income attributable to policyholders in insurance, standardized guarantees, and pension funds.

²⁶ The GFS framework also uses a functional classification for expenses, based on the OECD/UN classification of the functions of government (COFOG). It is a detailed classification of the functions (socioeconomic objectives) that general government units aim to achieve through various kinds of expenditure (see *GFSM 2014*, paragraph A6.1 for additional information).

²³ Cash is used in a broader sense since it includes all types of financial instruments.

A6.83 The contribution of the general government sector to the goods and services accounts of the balance of payments comprises the sales of goods and services to nonresidents. These sales are classified in the corresponding categories of the goods and services accounts. In the services account, a separate disclosure of government goods and services n.i.e. is included and covers the following:

- Goods and services supplied by enclaves, such as embassies, military bases, and international organizations
- Goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad, and their dependents but excluding revenue/expense of workers who are residents of the local economy
- Services supplied by governments and not included in other categories of services

A6.84 As foreign government and international organization enclaves are not residents of the territory in which they are physically located, their transactions with residents of the territory of location are international transactions. Government revenue from licenses and permits sold to nonresidents is also included in this category if it is not instead treated as taxes, as well as some activities related to technical assistance provided by one economy to another (see *BPM6*, Box 10.6).

A6.85 The GFS framework does not specifically require the identification of transactions with nonresidents in goods and services, or produced nonfinancial assets owned by the government. However, where these transactions can be identified and classifications are built into the underlying public sector accounting system, the information could be supplied to the balance of payments compiler for estimating credits from the sales of goods and services category of GFS (GFS 142), as well as the net investment in nonfinancial assets, other than nonproduced assets (GFS 31).

A6.86 The secondary income and the capital accounts of the balance of payments have linkages to several GFS other revenue categories, including fines, penalties, and forfeits (GFS 143), current transfers not elsewhere classified (GFS 1441) and premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes (GFS 145) in the secondary income account, and capital grants (GFS 131 and 132)

and capital transfers n.e.c. (GFS 1442) in the capital account.

Expenses

A6.87 Sometimes governments supply goods and services to the community. In doing so, a government may produce the goods and services itself and distribute them, purchase them from a third party, or transfer cash to households so they can purchase the goods and services directly. The types of expenses that relate to the costs of production undertaken by government itself incurred for these activities are: compensation of employees, use of goods and services, and consumption of fixed capital. Expenses also include subsidies, grants, social benefits, and other expense related to transfers in cash or in kind, and purchases of goods and services from third parties for delivery to other units. In addition, expenses include interest that is payable by units that incur certain kinds of liabilities—namely, deposits, debt securities, loans, and other accounts payable (see Table A6.8 for additional details).

A6.88 The linkages that exist between the international accounts and GFS are presented ahead.

Compensation of employees

A6.89 Compensation of employees is the total remuneration, in cash or in kind, payable to an individual in an employer-employee relationship in return for work done by the latter during the accounting period. Compensation of employees (GFS 21) excludes amounts connected with own-account capital formation. In GFS, compensation of employees payable to employees engaged in own-account capital formation, which is the production of nonfinancial assets for own use, is directly recorded as a component of the cost of the acquisition of nonfinancial assets. It includes both wages and salaries (GFS 211) and employers' social contributions (GFS 212). Wages and salaries are payments in cash or in kind to employees in return for services rendered, before deduction of withholding taxes and employees' contributions to social insurance schemes. In the balance of payments, the definition of compensation of employees is the same.

A6.90 Because government employment usually has some residency criteria as preconditions, international payments of employee compensation by government are often not very large. However, in the case of territorial enclaves, all compensation of employees

Table A6.8 Expense in Government Finance Statistics (GFS) and Balance of Payments

2	Expense	I	Current account
21	Compensation of employees [GFS]	I.A	Good and services
211	Wages and salaries [GFS]	I.B	Primary income
2111	Wages and salaries in cash [GFS]	I.B.1	Compensation of employees
2112	Wages and salaries in kind [GFS]	I.B.2.1	Direct Investment
212	Employers' social contributions [GFS]	I.B.2.1.1	Income on equity and investment fund shares
2121	Actual social contributions [GFS]	I.B.2.1.1.1	Dividends and withdrawals from income of quasi-corporations
2122	Imputed social contributions [GFS]	I.B.2.1.1.2	Reinvested earnings
22	Use of goods and services		<i>Investment income attributable to policy holders in insurance, pension schemes, and standardized guarantee schemes and to investment funds</i>
23	Consumption of fixed capital [GFS]	I.B.2.1.2	Interest
24	Interest [GFS]	I.B.2.2	Portfolio Investment
241	To nonresidents	I.B.2.2.1	Investment Income on equity and investment fund shares
242	To residents other than general government	I.B.2.2.1.1	Dividends
243	To general government units	I.B.2.2.1.2	Investment income attributable to investment fund shareholders
25	Subsidies	I.B.2.2.1.2.1	Dividends
251	To public corporations	I.B.2.2.1.2.2	Reinvested earnings
2511	Public nonfinancial corporations	I.B.2.2.2	Interest
2512	Public financial corporations	I.B.2.3	Other investment
252	To private enterprises	I.B.2.3.1	Withdrawals from income of quasi-corporations
2521	Private nonfinancial enterprises	I.B.2.3.2	Interest
2522	Private financial enterprises	I.B.2.3.3	<i>Investment income attributable to policy holders in insurance, pension schemes, and standardized guarantee schemes</i>
253	To other sectors	I.B.2.4	Reserve assets
26	Grants	I.B.2.4.1	Income on equity and investment fund shares
261	To foreign governments	I.B.2.4.2	Interest
2611	Current	I.B.3	Other primary income
2612	Capital	I.B.3.3	Rent
262	To international organizations		
2621	Current	I.C	Secondary income
2622	Capital	I.C.1	General government
263	To other general government units	I.C.1.1	<i>Social contributions</i>
2631	Current	I.C.1.3	<i>Social benefits</i>
2632	Capital	I.C.1.4	<i>Current international cooperation</i>
		I.C.1.5	<i>Miscellaneous current transfers of general government</i>
27	Social benefits [GFS]		<i>Net nonlife insurance premiums</i>
271	Social security benefits	2	Capital account
2711	Social security benefits in cash	2.2	Capital transfers

Table A6.8 Expense in Government Finance Statistics (GFS) and Balance of Payments (concluded)

2	Expense	I	Current account
2712	Social security benefits in kind	2.2.1	General government
272	Social assistance benefits	2.2.1.1	Debt forgiveness
2721	Social assistance benefits in cash		
2722	Social assistance benefits in kind [GFS]		
273	Employment-related social benefits		
2731	Employment-related social benefits in cash		
2732	Employment-related social benefits in kind		
28	Other expense		
281	Property expense other than interest		
2811	Dividends		
28111	To nonresidents		
28112	To residents		
2812	Withdrawals from income of quasi-corporations		
2813	Property expense attributed to insurance policy holders, pension		
2814	Rent		
2815	Reinvested earnings on foreign direct investment		
282	Transfers not elsewhere classified		
2821	Current not elsewhere classified		
2822	Capital not elsewhere classified		
283	Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes		
2831	Premiums, fees, and current claims		
2832	Capital claims		

(GFS 21) payable by government to residents of the host economy should be included in the primary income account. The GFS classifications do not specifically require the identification of compensation of employees to nonresidents. However, when such payments are identified in the underlying source system, the information should be reported consistently in the GFS and primary income account debits in the balance of payments.

Uses of goods and services

A6.91 This category consists of goods and services used for the production of market and nonmarket goods and services. Excluded are the consumption of

fixed capital (GFS 23), the use of goods and services in own-account capital formation that are recorded as the acquisition of nonfinancial assets, and goods purchased by government and distributed without transformation that are recorded as some type of transfer in kind.²⁷

A6.92 The use of goods and services of the general government sector from nonresidents is reflected in the corresponding categories of the goods and services accounts in the balance of payments where goods and services accounts contain a separate category for

²⁷ See paragraphs 6.25–6.30 in the *GFSM 2014*.

government goods and services n.i.e. (see paragraph A6.83). The GFS system does not specifically require the identification of transactions in goods and services of the government with nonresidents. However, where these transactions can be identified and classifications are built into the underlying public sector accounting system, the information could be supplied to the balance of payments compiler for estimating debits from the uses of goods and services (GFS 22) category of the GFS.

Consumption of fixed capital

A6.93 Consumption of fixed capital is the decline during an accounting period in the current value of fixed assets owned and used by a general government unit as a result of physical deterioration, normal obsolescence, or normal accidental damage. It is valued in the average prices of the period. This is an internal transaction where government act in two capacities, and would therefore not have any impact on the balance of payments.

Interest

A6.94 Interest is the expense that the general government unit (the debtor) incurs for the use of certain kinds of financial assets, for putting these financial and other resources at the disposal of another institutional unit. In the GFS framework, the interest category is not compiled using an international account functional classification. The interest expense (GFS 24) category in the GFS framework is broken down in three subcategories: to nonresidents (GFS 241), to residents other than general government (GFS 242), and to general government units (GFS 243). As opposed to other categories in GFS, the nonresident portion of interest (GFS 241) is separately identified and it should be linked with the corresponding categories in the balance of payments accounts. The compiler should also be aware that, as opposed to general government interest receipts and payments recorded in the balance of payments, interest in the GFS framework is not adjusted for FISIM.

Subsidies

A6.95 Subsidies are current unrequited payments that government units make to companies on the basis of the level of their production activities or the quantities or values of the goods or services they

produce, sell, export, or import. Subsidies may be designed to influence the level of production and the prices at which outputs are sold, or the profits or losses of the companies involved.

A6.96 In calculating other primary income in the balance of payments, linkages with the GFS data arise from the transactions with nonresidents related to subsidies (GFS 25). Where the identification of such payments to nonresidents is provided in the underlying public sector accounting system, the information should be consistent with the primary income account.

Grants

A6.97 Grants are transfers payable by a government unit to other resident or nonresident government unit, or international organizations, that do not meet the definition of a tax, subsidy, or social contribution. These three recipients of grants are recognized in GFS. For reconciliation with the international accounts, the following grants are relevant: current grants payable to foreign governments (GFS 2611) and to international organizations (GFS 2621) are linked to the secondary income account in the balance of payments, and capital grants payable to foreign governments (GFS 2612) and to international organizations (GFS 2622) are linked to the capital account in the balance of payments.

A6.98 When the government sector unit is the grantor of debt relief to a nonresident, an expense will be reflected in grants, to foreign governments, capital (GFS 2612); or, grants, international organizations, capital (GFS 2622); or capital transfers not elsewhere classified (GFS 2822), when provided to other entities different from foreign government and international organizations. A corresponding reduction in the appropriate foreign financial asset will be recorded. The GFS framework does not identify a separate category for debt forgiveness. Exceptionally large nonlife insurance claims—where these claims are payable by government sector units—may be recorded as capital claims (GFS category 2832) in the premium, fees, and claims related to nonlife insurance and standardized guarantee schemes (GFS 283) category.

A6.99 Governments are often involved in grant transfers, which should be reported in a consistent way in GFS and the secondary income or capital

account of the balance of payments. Governments undertake transfers to convey a benefit to another party, or benefit from transfers receivable. These capital transfers consist of compulsory transfers to governments, transfers under court orders, and voluntary transfers. There may also be imputed capital transfers as a result of governments' use of entities resident in other economies, for fiscal purposes (see *GFSM 2014*, paragraph 2.124, and *BPM6*, paragraphs 8.24–8.26).

Social benefits

A6.100 Social benefits are current transfers receivable by households intended to provide for the needs that arise from certain events or circumstances—for example, sickness, unemployment, retirement, housing, education, or family circumstances.²⁸ In GFS, not all social benefits are treated as expense. The payment of pension and other retirement benefits through employer social insurance schemes is treated as reductions in liabilities (see also paragraph A6.76). Social benefits (GFS 27) payable to nonresidents should feed into those corresponding categories in the secondary income account. In the international accounts, social benefits are divided in two subcategories—that is, those related to the general government and those to the financial corporations, nonfinancial corporations, households, and NPISHs. In the GFS framework, social benefits are compiled with a different disaggregation, social security benefits (GFS 271), social assistance benefits (GFS 272), and employment-related social benefits (GFS 273).

Other expense

A6.101 The GFS framework, in addition to compensation of employees, use of goods and services, consumption of fixed capital, interest, subsidies, grants, and social benefits, identifies other expense. Other expense comprises property expense other than interest, transfers not elsewhere classified, and premium, fees, and claims related to nonlife insurance and standardized guarantees.

A6.102 The contribution of the general government to the primary income account of the balance of payments is often largely derived from the nonresident portion of all the subcategories of property expense

other than interest (GFS 281): dividends (GFS 2811), withdrawals from income of quasi-corporations (GFS 2812), property expense for investment income disbursements (GFS 2813), rent (GFS 2814), and reinvested earnings on foreign direct investment (GFS 2815). In GFS, detailed classification of dividends presents breakdowns to nonresidents (GFS 28111) and to residents (GFS 28112).

A6.103 In calculating secondary income and capital account categories of the balance of payments, linkages with the GFS other expense categories arise from the transactions with nonresidents related to current transfers not elsewhere classified (GFS 2821) and premiums, fees, and claims related to nonlife insurance and standardized guarantees (GFS 283) in the secondary income account, and capital transfers not elsewhere classified (GFS 2822) in the capital account.

Transactions in Nonfinancial Assets

A6.104 In GFS, transactions in nonfinancial assets include all categories of produced and nonproduced assets. It should be noted that, contrary to GFS, the capital account in the balance of payments does not include produced nonfinancial assets; it instead records only transactions in nonproduced nonfinancial assets. Transactions in produced nonfinancial assets are included in the respective balance of payments categories—for example, goods as recorded in the goods and services account. The goods and services account does not distinguish whether those goods or services are of a capital or current nature.

A6.105 Nonproduced nonfinancial assets consist of natural resources; contracts, leases, and licenses; and marketing assets and goodwill in the balance of payments, which are identified in the GFS framework. There is full consistency in the macroeconomic statistical framework with regards to the categories of nonproduced, nonfinancial assets that exist. Where general government sector units acquire or dispose of these assets in transactions with nonresidents, supplementary information would be helpful from the GFS transactions to feed into the international accounts.

Transactions in Financial Assets and Liabilities

A6.106 The functional categories in the international accounts take into consideration some aspects

²⁸ A social risk is an event or circumstance that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or by reducing their incomes.

of the relationship between the parties and the motivation for investment (see *BPM6*, Chapter 6). In addition, data in the financial account are also presented according to the financial instrument employed, and the sector of the resident counterpart to the transaction.

A6.107 Although the classification of financial assets and liabilities as presented in the GFS does not follow the same functional categories of the international accounts, it is fully consistent with the financial instrument and sector classification as used in the international accounts. The guidelines of the GFS framework suggest that transactions in financial assets and liabilities with residents and nonresidents be separately disclosed. GFS follows the same criteria for determining residence as the international accounts. Conceptually it therefore allows international financial transactions that are included in GFS to be compared to the data for general government as presented in the financial account of the international accounts.²⁹

The Statement of Other Economic Flows

A6.108 In the GFS framework, the other economic flows in the financial assets and liabilities account shows changes in positions that arise for reasons other than transactions between residents and nonresidents. These changes are also called other flows, and, as with the international accounts, they include holding gains and losses, reclassifications, and other changes in volume of financial assets and liabilities.³⁰ The classification of financial instruments for assets and liabilities is conceptually fully consistent in GFS and international accounts, which should promote consistency in the data reported for other flows in the two datasets.

The Balance Sheet

A6.109 In addition to classifying financial assets and liabilities by the characteristics of the financial instrument, categories of the general government balance sheet are also classified according to the residence of the other party to the instrument (the debt-

ors for financial assets and the creditors for liabilities). Because there has been a growing recognition of the role of balance sheet analysis in understanding sustainability and vulnerability, currency composition and maturity analysis of the balance sheet are encouraged as additional information. In the IIP, the highest level of classification used is the functional categories. However, in addition, the IIP is disaggregated by financial instrument, and most of these instruments are further disaggregated according to the counterpart institutional sector (which is the lender for assets and the borrower for liabilities) and maturity. The currency composition of the IIP debt assets and liabilities is a memorandum item.

A6.110 General governments' financial asset/liability position with nonresidents as reported in the GFS balance sheet follows the same classification of instruments and accounting rules as the IIP. The maturity and currency breakdowns, as suggested in the *Public Sector Debt Statistics: Guide for Compilers and Users* and the *GFSM 2014*, are also fully consistent with the IIP.

Annex to Appendix 6

Overview of the Monetary Statistics Framework

A6.111 This annex describes the framework for the compilation of monetary statistics in accordance with the methodology recommended in the *MFSM-CG*. The monetary statistics cover position and flow data on the assets and liabilities of the financial corporations sector and its subsectors.

A6.112 The monetary statistics include data for all institutional units in the financial corporations sector, as described in Chapter 3 of the *MFSM-CG*. For compiling the monetary statistics, the financial corporations sector is divided into central bank subsector, other depository corporations subsector, and other financial corporations subsector. Taken together, the central bank and other depository corporations constitute the depository corporations subsector.

A6.113 The framework for the monetary statistics recommended in the *MFSM-CG* embodies two levels of data compilation and presentation. At the first level, position and flow data reported by individual institutional units are aggregated into sectoral balance

²⁹ The international accounts identify general government, but, contrary to GFS, they do not present data for the subsectors of the general government.

³⁰ Because of the importance of different currencies in the IIP, revaluations (holding gains and losses) are separately shown for those arising from exchange rate changes and those arising from other price changes.

Table A6.9 Financial Assets and Liabilities in Government Finance Statistics (GFS) and Balance of Payments		GFS: Financial assets and liabilities		Balance of payments: Financial assets and liabilities	
	Financial assets	63	Liabilities	3.1	Direct investment
6201	Monetary gold and special drawing rights (SDRs)	6301	Special drawing rights (SDRs)	3.1.1	Equity and investment fund shares
62011	Monetary gold			3.1.1.1	Equity other than reinvestment of earnings
62012	Special drawing rights (SDRs)			3.1.1.2	Reinvestment earnings
6202	Currency and deposits	6302	Currency and deposits	3.1.2	Debt instruments
6203	Debt securities	6303	Debt securities	3.2	Portfolio investment
6204	Loans	6304	Loans	3.2.1	Equity and investment fund shares
6205	Equity and investment fund shares	6305	Equity and investment fund shares	3.2.2	Debt instruments
62051	Equity	63051	Equity	3.3	Financial derivatives
62052	Investment fund shares or units	63052	Investment fund shares or units	3.4	Other investment
6206	Insurance, pension, and standardized guarantee schemes [GFS]	6306	Insurance, pension, and standardized guarantee schemes [GFS]	3.4.1	Other equity
62061	Nonlife insurance technical reserves	63061	Nonlife insurance technical reserves	3.4.2	Currency and deposits
62062	Life insurance and annuities entitlements	63062	Life insurance and annuities entitlements	3.4.3	Loans
				3.4.4	Insurance, pension, and standardized guarantee schemes
62063	Pension entitlements [GFS]	63063	Pension entitlements [GFS]	3.4.5	Trade credit and advances
62064	Claims of pension funds on pension manager	63064	Claims of pension funds on pension manager	3.4.6	Other accounts receivable/payable—other
62065	Provisions for calls under standardized guarantee schemes	63065	Provisions for calls under standardized guarantee schemes	3.4.7	Special drawing rights
6207	Financial derivatives and employee stock options	6307	Financial derivatives and employee stock options	3.5	Reserve assets
62071	Financial derivatives	63071	Financial derivatives		
62072	Employee stock options	63072	Employee stock options		
6208	Other accounts receivable	6308	Other accounts payable		
62081	Trade credit and advances	63081	Trade credit and advances		
62082	Miscellaneous other accounts receivable	63082	Miscellaneous other accounts receivable		
621	Domestic	631	Domestic		
6212-	Same instrument breakdown as above, but	6312-	Same instrument breakdown as above,		
6218	excluding monetary gold and SDRs	6318	but excluding monetary gold and SDRs		
622	External	632	External		
6221-	Same instrument breakdown as above	6321-	Same instrument breakdown as above		
6228		6328			

sheets, which contain comprehensive data for the individual financial corporations subsectors—that is, the central bank, other depository corporations, and other financial corporations. At the second level, the data in the sectoral balance sheets are consolidated into surveys.

A6.114 Surveys are compiled for financial corporations subsectors and for the entire financial corporations sector. The depository corporations survey (DCS) and its component surveys—the central bank survey (CBS) and the other depository corporations survey (ODCS)—are the major focus of the monetary statistics and constitute a core set of data for macroeconomic analysis. The DCS contains position and flow data on the depository corporations' liabilities that are components of broad money, as nationally defined, and data on the depository corporations' assets that are claims on (i.e., credit to) other sectors of the economy. The DCS also contains data on the depository corporations' claims on and liabilities to nonresidents. The CBS and ODCS show the data that are consolidated to obtain the DCS and other data that are used in monetary and credit analysis at the separate levels of the central bank and other depository corporations.

A6.115 The monetary statistics framework also includes the financial corporations survey (FCS), which extends the coverage beyond the depository corporations covered in the DCS. In the FCS, the position and flow data from the DCS are consolidated with the data from the other financial corporations survey (OFCS), which contains position and flow data consolidated for insurance corporations and pension funds, other financial intermediaries, and financial auxiliaries. The FCS thereby provides the position and flow data for analyzing claims on and liabilities to all other sectors of the economy and nonresidents, at the level of the entire financial corporations sector. In particular, the FCS shows a comprehensive measure of credit extended by financial corporations.

A6.116 The purpose of the sectoral balance sheets is to provide a framework for the collection and presentation of data in a format that facilitates the compilation of surveys, as described in the preceding paragraphs. The data for a sectoral balance sheet are obtained from the individual institutional units

within a financial corporations subsector and are classified into standard components, in accordance with the sectorization, instrument classification, and accounting principles in the *MFSM-CG*. In addition, sectoral balance sheets are directly useful for analyses requiring subsector data that are more highly disaggregated than the asset and liability categories shown in the corresponding financial subsector surveys.

A6.117 The surveys contain position and flow data³¹ encompassing all assets and liabilities for the units covered by the respective survey. Each is based on data for all institutional units within the subsector. Thus, the term survey refers to comprehensive data for all units in a subsector, rather than to sample survey data that would cover only a subset of units or only a subset of the asset and liability accounts.

A6.118 The DCS covers the accounts of the depository corporations and is a consolidation of the CBS and the ODCS. The FCS is a consolidation of the DCS and the OFCS.

A6.119 For many economies, the DCS will constitute the principal set of monetary statistics for macroeconomic policy. The DCS is a consolidated statement of positions and flows for the accounts of all financial sector corporations that incur liabilities included in the national definition of broad money. The framework of the DCS is designed to facilitate analysis of broad money and its components, credit aggregates and their components, and depository corporations' foreign assets and liabilities and other assets and liabilities.

A6.120 By maintaining the balance-sheet identity in the DCS, the broad money liabilities of depository corporations are linked to their claims on (i.e., credit to) nonresidents and sectors of the domestic economy, and to their other assets and liabilities. This balance sheet identity is reflected in the position and flow data in the DCS.

A6.121 The DCS is structured to facilitate macroeconomic analysis that makes use of the linkages between the monetary statistics and other macroeconomic statistics. The balance sheet presentation of the DCS links depository corporations' broad money liabilities to their foreign assets and liabilities and to

³¹ Through the SRFs, the IMF collects only stock data.

their claims on and liabilities to central government, thereby linking the monetary statistics to the IIP and GFS, respectively.

A6.122 The DCS can be rearranged to show that broad-money liabilities (BML) equal the sum of net foreign assets (NFA), domestic credit (DC), and other items (net) (OIN). That is, the opening or closing positions in the DCS can be shown as

$$BML = NFA + DC - OIN$$

where DC comprises credits to resident sectors (domestic credit). OIN denotes a residual category for other liabilities less other assets, when other liabilities includes all liabilities not included in broad money.

A6.123 Total flows (closing positions less opening positions) for the DCS are shown as

$$\Delta BML = \Delta NFA + \Delta DC - \Delta OIN$$

where Δ denotes a total flow (period-to-period change). The flow data in each category in the DCS are decomposed into separate flows for transactions, valuation changes, and other changes in volume.

A6.124 Changes in broad money liabilities can arise from changes in the foreign assets and foreign liabilities of the depository corporations, as can be seen from the identity that links ΔBML to ΔNFA , shown in the preceding paragraph.

7

Balance of Payments Coding System

Introduction

A7.1 This appendix is aimed at discussing the balance of payments and international investment position (IIP) coding system. The second section of the appendix discusses the balance of payments and IIP coding structure, and the third section covers the steps taken by the international statistical community to implement a common coding system and data reporting structures for external sector statistics based on the Statistical Data and Metadata Exchange (SDMX) standards.

The IMF's Coding Structure for Balance of Payments and IIP

A7.2 The principal goals and objectives of the IMF's balance of payments and IIP coding system are completeness of coverage, brevity, simplicity, adaptability to automation, stability over time, and, where appropriate, extensibility. The scope of the codes is narrow. It includes the standard components for balance of payments and IIP data as defined in the *BPM6*, data items associated with the

International Reserves and Foreign Currency Liquidity Template (IRFCL), and trade-in-services items from the *Manual on Statistics of International Trade in Services*.

A7.3 The coding scheme does not attempt to address dates or periodicity, currency, economy or partner economy, economic activity, or a number of other related topics. These items are the concern of a much broader audience and would therefore involve a different design and consultation process.

A7.4 This coding system consists of five parts: (1) a two-digit aggregate code, (2) a four-digit balance of payments item code, (3) a single-digit accounting code, (4) a single-digit resident sector code, and (5) a single-digit maturity code. All parts of the code are required to fully identify a data item.

A7.5 These codes were formed with the goal of facilitating the navigation of data within the database. A basic hierarchical structure was instilled where possible. As mentioned earlier, the code consists of five components or sections as follows:

<Aggregate>	Two digits provide a reference that allows for broad categorization of the data: the first digit is a numeric key that identifies the account that the series falls under (e.g., current account, capital account, financial account, or international investment position). The second digit is an alphanumeric indicator, which identifies the section within the account where the concept falls.
<BOP Item>	Four digits define the concept within this category: identifies all the balance of payments standard components, trade in services, and selected supplementary information components.
<Accounting Entry>	One digit identifies the accounting unit associated with the measurement of value for the concept.
<Resident Sector>	One digit identifies the domestic sector associated with the concept.
<Maturity>	One digit identifies the length of maturity for the concept, where applicable.

A7.6 Table A7.1 presents an example of the code for other investment components of the balance of payments. It follows the structure described earlier, which is: <Aggregate><BOP Item><Accounting Entry><Resident Sector><Maturity>.

A7.7 In the example presented in Table A7.1, the coding for “Other investment” begins with the aggregate “3D,” which indicates that “Other investment” is part of the financial account (3) and is the fourth component (D). The balance of payments item also has a hierarchical structure, with 9999 indicating the total; the subcomponents A000 and B000 indicate the first child “Other equity” and the second child “Currency and deposits,” respectively. Furthermore, the accounting item in the example determines the accounting unit that is associated with the concept (e.g., N = net, A = assets, and L = liabilities), the resident sector item indicates the sector involved (e.g., C = central bank and *M* = *monetary authorities*), and the maturity item stands for the maturity of the instrument (e.g., A = all maturities, S = short-term, and L = long-term).

A7.8 The list of values of the first component “Aggregate” of the code is presented in Table A7.2. It describes the position in the balance of payments and IIP accounts.

Balance of payments item	Code
Other investment	3D9999NAA
Net acquisition of financial assets	3D9999AAA
Net incurrence of liabilities	3D9999LAA
Other equity	3DA000NAA
Net acquisition of financial assets	3DA000AAA
Net incurrence of liabilities	3DA000LAA
Currency and deposits	3DB000NAA
Net acquisition of financial assets	3DB000AAA
Central banks	3DB000ACA
Short-term	3DB000ACS
Long-term	3DB000ACL
<i>Monetary authorities (where relevant)</i>	3DB000AMA
<i>Short-term</i>	3DB000AMS
<i>Long-term</i>	3DB000AML

A7.9 For the purposes of publication, the IMF conducts two main alterations to the reported by member economies’ figures: (1) reported figures for SDR holdings, SDR allocations, reserve position in the IMF, and credit and loans with the IMF are substituted by the IMF Finance Department (FIN) data, and (2) for constructing the analytical presentation of balance of payments, the exceptional financing transactions are removed from the standard components and included below the line reported figures.¹ In order to differentiate between reported figures and those affected by these alterations, the last digit of the affected balance of payments items is attributed the value “S” or “F,” which indicates substitution of accounts and removal of exceptional financing, respectively. The affected codes are listed in Table A7.3.

Value	Balance of payments and IIP component
10	Current account
1Z	Goods and services
1A	Goods
1B	Services
1C	Primary income
1D	Secondary income
20	Capital account
30	Financial account
3A	Direct investment
3B	Portfolio investment
3C	Financial derivatives
3D	Other investment
3E	Reserve assets
40	Net errors and omissions
60	Supplementary items
80	Position
8A	Direct investment
8B	Portfolio investment
8C	Financial derivatives
8D	Other investment
8E	Reserve assets

¹ For more details on the analytical presentation of balance of payments see Chapter 14 of the *BPM6*.

Table A7.3 List of Altered Balance of Payments Codes

Code	Balance of payments component
30999S	Financial account (with FIN data)
3D999S	Other investment liabilities (with FIN data)
3D999S	Other investment net (with FIN data)
3DC0ZS	Credit and loans with the IMF (other than reserves) (with FIN data)
3DG00S	SDR allocations (with FIN data)
3DY00S	Other debt instruments
3DY00S	Other debt instruments, central bank
3E999S	Reserve assets (with FIN data)
3EB00S	SDR holdings (with FIN data)
3EC00S	Reserve position in the IMF (with FIN data)
40999S	Errors and omissions (with FIN data)
4Z999S	Reserves and related items
80999S	IIP assets (with FIN data)
80999S	IIP liabilities (with FIN data)
80999S	Net IIP (with FIN data)
8D999S	Other investment liabilities (with FIN data)
8DG00S	SDR allocations (with FIN data)
8DY00S	Other debt instruments
8DY00S	Central bank
8E999S	Reserve assets (with FIN data)
8EB00S	SDR holdings (with FIN data)
8EC00S	Reserve position in the IMF (with FIN data)
10999F	Current account
1D999F	Secondary income, credit
20999F	Capital account
20999F	Capital account, credit
30999F	Financial account
3A999F	Direct investment, liabilities
3AA00F	Direct investment: equity and investment fund shares, liabilities
3AB00F	Direct investment: debt securities, liabilities
3B999F	Portfolio investment, liabilities
3BA00F	Equity and investment fund shares
3BB00F	Debt securities
3D999F	Other investment, liabilities
3DA00F	Other investment, other equity, liabilities
3DZ00F	Debt instruments
4Y999F	Total, current <i>plus</i> capital <i>minus</i> financial account

The SDMX Coding Structure for Balance of Payments

Introduction

A7.10 Official data compiling agencies report statistics to many international organizations (IO), but with reporting formats and coding structures that may vary from one IO to another. Four international organizations that collect data on external sector statistics have agreed to jointly develop a common reporting framework using the SDMX standards. These organizations, the European Central Bank (ECB), Eurostat, the IMF, and the Organisation for Economic Co-operation and Development that formed the Technical Group,² have completed the development of the SDMX reporting framework that will support the specification of common coding structures or data structure definitions (DSD) for balance of payments, IIP, direct investment, and other external sector statistics.

A7.11 It is expected that official data compiling agencies would see significant benefits in adopting the SDMX standards and the common coding structures that were developed for the reporting and dissemination of *BPM6*-basis statistics. The adoption of the common formats and codes provided by the SDMX standards and the DSD for external sector statistics would enhance access to these statistics for the users' community, while supporting the automation of the provision of these data to IOs.

A7.12 The DSD provides the various concepts and associated code lists for the SDMX transmission of these data—namely, by compiling agencies to IOs, as well as their dissemination to the public. It provides a unique reporting format, simplifies the process of mapping data from internal production systems of national agencies to the reporting requirements of IOs, and facilitates data sharing across IOs, with the key objective of reducing the reporting burden of economies.

A7.13 The SDMX data exchange standards and the DSD for external sector statistics will be used by the European Union member economies and the Euro

² The BIS is also participating in the technical group responsible for developing the DSD, as it has been involved in SDMX standards and data exchanges for many years and has a long-standing involvement in external sector statistics.

Area economies in their data provision to Eurostat and ECB, respectively. Consequently, it will be one of the modes for economies' data submission to the IMF for redissemination in the IMF *International Financial Statistics* and *Balance of Payments Statistics Yearbook* publications.

The Balance of Payments DSD

A7.14 The balance of payments DSD includes 16 dimensions and 12 attributes. Dimensions are used to uniquely identify a time series, and, when joined together, they provide the “time series keys” that are the unique identifier for a time series. When defining a time series key using SDMX, a valid code must be assigned to each dimension of the DSD. Attributes are used to further describe the data. Attributes can be attached at different levels of the data file: (1) at the level of the data file (or dataset in SDMX terminology); (2) at the level of the sibling series (that is the time series keys for all applicable frequencies); (3) at the group level (a group of dimensions); or (4) at the level of the observations. Attributes are either mandatory or conditional (i.e., reporting is not mandatory). Their level of attachment and status are defined in the DSD.

A7.15 In addition to the dimensions and attributes explicitly defined in the DSD, the balance of payments DSD includes the concept of observation value, where the observed value can be found. The DSD also includes the time dimension, which is a specialized dimension. It represents the point in time at which the phenomenon was observed or measured.

A7.16 All dimensions provided in this DSD are coded concepts which are associated with a code list and a descriptor for the coded item, whether they are dimensions or attributes. For some dimensions, the same code list is reused when relevant. For example, the same code list is used for identifying items of the reference area and the counterpart area, as they both refer to the same list of countries, territories, and regional groupings. Items listed are provided in a non-hierarchical presentation (flat list). However, in the Excel version of the DSD, integrity rules are provided for selected items to help users identify the relationships that exist within a code list as well as to describe the composition of an item.

A7.17 The technical group defined the list of concepts necessary to codify the reporting requirements of four international agencies involved in the SDMX development for data collection of external sector statistics compiled based on the *BPM6* methodology. The reporting requirements for direct investment statistics are covered by a separate DSD, which reuses several dimensions from the balance of payments DSD and adds a few complementary dimensions to address the specificities of direct investment.

A7.18 Some of the concepts used to identify external sector statistics are overlapping with those used in national accounts statistics. The items lists, codes, and descriptors for these common concepts have, therefore, been harmonized, to the extent possible, across the DSDs for balance of payments and national accounts. As a result, the code lists of harmonized concepts are exhaustive and may include items that are required for national accounts but not used for reporting balance of payments statistics. These longer code lists that are shared across statistical domains promote consistency of coded information, as well as sharing of data. In addition, shared code lists contribute to consistency across statistical domains.

A7.19 The generic codes for common concepts are used when applicable. They are included in a very large number of DSDs because they cover very general and frequently used concepts. The main purpose of a set of generic code lists is to propose standardized identifiers that can be shared. The generic codes are provided in Table A7.4. The leading underscore is used to visually mark the codes as “reserved,” which is in line with established programming practice.

Table A7.4 List of Generic Codes for the Balance of Payments Data Structure Definitions (DSD)

Recommended code value	Recommended code description
_X	Not allocated/unspecified
_Z	Not applicable
_T	Total ¹

¹ In a specific context, the code value _T might also be part of a code value to identify a total within a breakdown, and its description might be more specific depending on the concept to which it relates.

A7.20 In the Excel representation of the DSD, filters are provided to preselect items relevant to specific reporting requirements. The filters should facilitate navigating the items list by preselecting items that are applicable for balance of payments reporting to IMF, or reporting of Extended Balance of Payments Services (EBOPS) classification, for example.

Guidelines for Using the Balance of Payments DSD

A7.21 This subsection provides general guidelines for using the 16 dimensions and 12 attributes of the balance of payments DSD for the construction of the time series keys for data exchange and to report external sector statistics. The list of dimensions and attributes used in balance of payments DSD is presented in Tables A7.5 and A7.6.

Position in key	Dimension's mnemonic	Dimension's name
1	FREQ	Frequency
2	REF_AREA	Reference country or area
3	ADJUSTMENT	Adjustment indicator
4	FLOW_STOCK_ENTRY	Flows and stocks indicator
5	INT_ACC_ITEM	International accounts item
6	ACCOUNTING_ENTRY	Accounting entries
7	COUNTERPART_AREA	Counterpart Area
8	REF_SECTOR	Reference sector
9	FUNCTIONAL_CATEGORY	Functional category
10	INSTR_ASSET	Instrument and assets classification
11	MATURITY	Maturity
12	COUNTERPART_SECTOR	Counterpart sector
13	CURRENCY_DENOMINATION	Currency of denomination
14	VALUATION	Valuation
15	COMP_METHODODOLOGY	Compilation methodology
16	UNIT_MEASURE	Unit of measure

Dimensions

Frequency

A7.22 This concept refers to the periodicity of the reported data. A single data file (or a dataset in SDMX terminology) could include multiple frequencies. The most commonly used frequencies are annual, quarterly, and monthly. For example, if the frequency of the time series is quarterly, the “frequency” dimension for that time series should be coded as “Q.”

Reference economy or area

A7.23 This concept identifies the reference area for the time series encoded using the relevant code list of the DSD. The reference area is an economic territory, economy, or region about which external sector statistics are provided. External sector statistics disseminated by IOs would likely include many reference countries, as well as regional economy groupings (areas), of which the composition is provided by IOs.

Attachment level	Attribute's mnemonic	Attribute's name
Series	TIME FORMAT	Time format
Observation	OBS STATUS	Observation status
Observation	CONF STATUS	Confidentiality status
Observation	COMMENT OBS	Comments to the observation value
Observation	PRE BREAK VALUE	Pre-break value
Sibling	UNIT MULT	Unit multiplier
Sibling	COMMENT SBG	Detailed description of the group of series
Sibling	DECIMALS	Decimals
Series	TIME PER COLLECT	Time period collection
Sibling	COMPILING ORG	Compiling organisation
Sibling	TITLE	Title
Series	REF PERIOD DTL	Reference period detail

A7.24 The economy code list follows the ISO 3166–1 alpha-2³ classification and is a cross domain code list, according to the recommendation of the SDMX initiative. The codes used for various regional groupings were harmonized across international agencies that use the balance of payments DSD, wherever possible.

Adjustment indicator

A7.25 This concept identifies the type of adjustment made to the time series that refers to seasonal, trading day, and trend cycle adjustments. In practice, the adjustments usually apply only to intra-annual series, while annual time series data would usually be coded as neither seasonally or working day adjusted (code N). In the data exchange agreements, the data collection agency would usually specify which types of adjusted time series (if any) they are seeking. For example, if the time series is not subject to any adjustment, the “adjustment indicator” dimension for that time series should be coded as “N.”

Flows and positions indicator

A7.26 This concept identifies whether the time series is a transaction (flow), a position, or a change in position not due to transactions (e.g., revaluations). It also includes additional items to identify specific external sector transactions required for the *IRFCL*. For example, if the time series refers to financial instruments, the “flows and positions indicator” dimension for this time series could be coded as “T” when the instruments are transacted (included in balance of payments reporting), or as “LE” when the time series refer to positions (included in the IIP).

International accounts item

A7.27 This concept identifies the detailed items that are outcomes of production activities (goods and services, including the detailed list for the EBOPS classification), types of primary and secondary income, and capital accounts items, and provides a single item for the financial account. The concept provides memorandum items to record specific types of transactions, such as the exceptional financing trans-

actions. The concept also provides items for specific international accounts data required for the *IRFCL*.

A7.28 While other concepts used in the balance of payments DSD are designed to cover a unique methodological aspect of external sector statistics (e.g., maturity or institutional sector), this concept has a broader scope. It covers many differing concepts, such as the functional classification of services, classification of primary and secondary income, balancing items, including net errors and omissions, and memorandum items. The items provided in this concept are closely aligned with the standard components of the balance of payments and, as such, provide a classification of concepts that is familiar to the compiler.

A7.29 The “financial account” is provided as a single concept in the international accounts item; however, it is further defined by other DSD dimensions, which support identifying the financial instrument, reference sector, functional category, maturity, currency of denomination, and so forth. This approach provides flexibility in the definition of time series keys, supporting the definition of a very large number of time series.

A7.30 In spite of the fact that “financial account” is part of the balance of payments but not of the IIP, a pragmatic approach was adopted under which for reporting IIP statistics the present dimension “international accounts item” should include “financial account” (as one would select for balance of payments statistics).

Accounting entries

A7.31 This concept identifies the type of accounting entry: (1) for transactions on current and capital account components, whether the time series is a credit, a debit, or the balance of credit minus debit (credit and debit series are reported as positive numbers; thus the balance is expected to correspond to credit minus debit);⁴ and (2) for positions and

³ ISO 3166-1 alpha-2 codes are two-letter economy codes defined in ISO 3166-1, part of the ISO 3166 standard published by the International Organization for Standardization (ISO), to represent economies, dependent territories, and special areas of geographical interest.

⁴ There are very few instances when credits and debits may be recorded as a negative number. Such instances include the refund of taxes to taxpayers, the recording of negative reinvestment of earnings by direct investment enterprises, which also implies the recording of negative income receivable and/or payable (depending if the data are about the economy of the direct investor or of the direct investment enterprise). The balance is reported as credit minus debit.

transactions data in the financial account, whether the time series refers to assets (or the net acquisition of), liabilities (or the net incurrence of), or a net position (defined as assets minus liabilities). In the *BPM6* standard components, time series for transactions related to the “financial account” are usually recorded as net acquisition of financial assets and net incurrence of liabilities. However, there are instances when time series for the underlying gross increases and decreases in assets and liabilities could be required (e.g., exceptional financing transactions). As such, the “accounting entries” concept also provides additional items to further identify transactions in financial assets as gross increases and gross decreases of assets, and transactions in financial liabilities as gross increases and gross decreases of liabilities. Gross increases and decreases are reported as positive numbers, while the net acquisition and the net incurrence correspond to increases minus decreases.⁵

A7.32 For example, for time series that refer to gross acquisitions of equity shares assets, the “accounting entries” dimension will be coded as “AI,” while the net result of acquisitions (AI) minus sales (AD) will be coded as “A.”⁶

Counterpart area

A7.33 This concept identifies the counterpart area for transactions and positions. All time series for external sector statistics make reference to transactions between residents and nonresidents during a period (transactions) or at a specific point in time (position). The counterpart area concept is used to identify the territory of the nonresident entity of individual time series. For most time series in global balance of payments or IIP data, the counterpart area will be defined as the rest of the world.

A7.34 External statistics can also be compiled with a geographical breakdown for partner economies. Reporting of balance of payments to the ECB and to Eurostat, as well as detailed (EBOPS) trade in

services, requires geographical breakdown for partner economies. Detailed information on counterpart areas is also required for the time series provided in the context of the Coordinated Portfolio Investment Survey and Coordinated Direct Investment Survey. The economy code list follows the ISO classification and is a “cross domain” code list harmonized across international agencies that use the balance of payments DSD, wherever possible.

Reference sector

A7.35 This concept identifies the reference (institutional) sector, which is the corresponding resident sector within the compiling economy for the balance of payments and IIP items. Traditionally, time series for the goods and services account of the balance of payments refer to the relations of all institutional sectors of the reference area with the rest of the world. This concept is also used in national accounts statistics; therefore the items and codes included under this concept accommodate the needs of external sector and national accounts statistics (the sector classification in external sector statistics is generally much more aggregated than in national accounts).

A7.36 This concept identifies functional categories applicable to financial accounts. It applies to all time series for which the “international accounts items” are coded as “financial account” and as types of “investment income.” For other time series, this item is coded as “not applicable.”

Instruments and assets classification

A7.37 This concept identifies the type of financial instrument that is reported in the external sector time series as well as in national accounts. Therefore, the items and codes included under this concept accommodate the needs of external sector and national accounts statistics.

A7.38 The list of financial instruments provided under the subheading “memorandum item” reflects in part the structure of the *BPM6* presentation, where, for selected functional categories, financial instruments are grouped in clusters rather than the standard classification of these instruments. Similarly, to the functional category concept, the financial instruments concept applies to all time series for which the “international accounts item” is coded as “financial

⁵ Additional net concepts are provided to support the needs of direct investment reporting.

⁶ For balance of payments reporting of transactions in financial assets and liabilities, only the net result is usually requested: “A” for net acquisition of assets, and “L” for net incurrence of liabilities.

account” and to selected items coded as “investment income.”⁷ For other time series, this item is coded as “not applicable.”

Maturity

A7.39 This concept identifies the types of maturity of the financial instrument of the external sector statistics time series. For most time series for which the “international accounts items” are subcomponents of the current account or the capital account, the maturity concept will be coded as “not applicable.” For most “international accounts item” coded as “financial account” and for selected items coded as “investment income,” the time series are usually coded with reference to the maturity of the coded financial instrument. For financial instruments that are classified as equity securities, other securities, and investment fund shares, the maturity is “not applicable,” as they do not have a specified redemption or repayment date.

Counterpart sector

A7.40 This concept identifies the counterpart (institutional) sector of the external sector time series and is also used in national accounts. Consequently, the items and codes included under this concept accommodate the needs for both statistics

A7.41 Traditionally, time series for the external sector statistics are vis-à-vis a counterpart area defined as the “rest of the world” and a counterpart sector defined as “total economy” (which covers all counterpart sectors). However, Eurostat and ECB require, for selected financial transactions, a breakdown for the counterpart sector. When used together with the “reference sector,” this level of detail allows establishing what is often referred to as from-whom-to-whom statistics. The “counterpart sector” concept is also used for transactions and positions data on reserve assets to separately identify currency and deposit claims on monetary authorities and on other entities.

A7.42 For most current and capital account transactions, this concept is “not applicable.” However,

for secondary income and for capital transfers, this dimension should be used to codify transactions with specific counterpart sectors.

Currency of denomination

A7.43 This concept identifies the currency of denomination of the financial instrument or of the invoice of goods and services. For balance of payments and IIP data, the concept is usually recorded as “all currency of denomination.” However, there are a number of instances when more detailed information is needed on the currency of denomination to accommodate the additional analytical position data required by the *BPM6*.

Valuation

A7.44 This concept identifies the method of valuation for selected transactions and positions data. For balance of payments and IIP data, a “not applicable” will be used, even though market prices are the recommended basis for valuation of international accounts. Nevertheless, more detailed information on the valuation method is sought for additional analytical position data required by the *BPM6*. The concept is applicable to both external sector and national accounts statistics.

Compilation methodology

A7.45 The concept is used to distinguish between external sector time series compiled at the national level and similar external sector time series compiled using the methodology applied for economic or currency union statistics.

Unit of measure

A7.46 This concept identifies the unit of measure in which the time series is recorded. Most frequently, but not always, it refers to a currency unit, but it could also refer to fine troy ounces used for the *IRFCL* reporting.

Attributes

A7.47 Table A7.7 presents the description of attributes used in balance of payments DSD.

A7.48 Some examples of the codes for selected balance of payments series are presented in Table A7.8.

⁷ The DSD provides for a detailed identification of investment income by instruments, although this is not part of the standard components of the *BPM6*.

Attribute	Description	Linkage	Status
Time format	Provides coded information about the type of time references used in the data	Attached at the data file level	Conditional
Observation status	Provides coded information about the "status" of an observation—i.e., the ranking based on its characteristics, as described in the code list	Attached at the observation level	Mandatory
Confidentiality status	Provides coded information with respect to the sensitivity (for dissemination) and confidentiality status of the data	Attached at the observation level	Mandatory
Comments to the observation value	Provides information in a free text format on selected aspect of the data or metadata—e.g., for explaining breaks in series or unusual behavior	Attached at the observation level	Conditional
Prebreak value	Allows transmitting a second value for a specific observation where the time series breaks owing to changes such as methodological changes, change of the reporting population, inclusion of new instruments, etc.; the prebreak value allows users to reconstruct a time series without break in series.	Attached at the observation level	Conditional
Unit multiplier	Provides code values for indicating the magnitude in the units of measurements	Attached at the sibling series level	Mandatory
Detailed description of the group of series	Provides for a description of series keys in free text format	Attached at the sibling series level	Conditional
Decimals	Provides a list of values showing the number of decimal points used in the data	Attached at the sibling series level	Mandatory
Time period collection	Provides coded information on when the observation values are collected	Attached at the data file level	Mandatory
Compiling organization	Provides codes to indicate the data compiling agency responsible for the compilation of the time series	Attached at the sibling series level	Conditional
Title	Provides, in free text format, a short name describing the statistical object identified by the series key; could be used, for example, as heading in a chart or a table	Attached at the sibling series level	Conditional
Reference period detail	Gives information about the reference period if different from the calendar year—for example, the start of the fiscal year for data reported on a fiscal year basis; while the information is reported in free text format, rules are provided in the Excel version of the balance of payments DSD on how to report this information.	Attached at the data file level	Conditional

Table A7.8 Statistical Data and Metadata Exchange (SDMX) Coded Example for Selected Balance of Payments Series

Title complement	Time series key	Frequency	Reference country or area	Adjustment indicator	Flows and stocks indicator	International accounts item	Accounting entries	Counterpart Area	Reference sector	Functional category	Instrument Assets Classification	Maturity	Counterpart sector	Currency Denomination	Valuation	Completion Methodology	Unit of Measure
Current account	Q .N.T.CA.B.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	CA	B	W1	S1	Z	Z	Z	Z	T	Z	N	
Credit	Q .N.T.CA.C.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	CA	C	W1	S1	Z	Z	Z	Z	T	Z	N	
Debit	Q .N.T.CA.D.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	CA	D	W1	S1	Z	Z	Z	Z	T	Z	N	
Goods and services	Q .N.T.GS.B.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	GS	B	W1	S1	Z	Z	Z	Z	T	Z	N	
Credit	Q .N.T.GS.C.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	GS	C	W1	S1	Z	Z	Z	Z	T	Z	N	
Debit	Q .N.T.GS.D.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	GS	D	W1	S1	Z	Z	Z	Z	T	Z	N	
Goods	Q .N.T.G.B.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	G	B	W1	S1	Z	Z	Z	Z	T	Z	N	
Credit	Q .N.T.G.C.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	G	C	W1	S1	Z	Z	Z	Z	T	Z	N	
Debit	Q .N.T.G.D.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	G	D	W1	S1	Z	Z	Z	Z	T	Z	N	
General merchandise on a balance of payments basis	Q .N.T.G1.B.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	G1	B	W1	S1	Z	Z	Z	Z	T	Z	N	
Credit	Q .N.T.G1.C.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	G1	C	W1	S1	Z	Z	Z	Z	T	Z	N	
Debit	Q .N.T.G1.D.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	G1	D	W1	S1	Z	Z	Z	Z	T	Z	N	
Nonmonetary gold	Q .N.T.G3.B.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	G3	B	W1	S1	Z	Z	Z	Z	T	Z	N	
Credit	Q .N.T.G3.C.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	G3	C	W1	S1	Z	Z	Z	Z	T	Z	N	
Debit	Q .N.T.G3.D.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	G3	D	W1	S1	Z	Z	Z	Z	T	Z	N	
Services	Q .N.T.S.B.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	S	B	W1	S1	Z	Z	Z	Z	T	Z	N	
Credit	Q .N.T.S.C.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	S	C	W1	S1	Z	Z	Z	Z	T	Z	N	
Debit	Q .N.T.S.D.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	S	D	W1	S1	Z	Z	Z	Z	T	Z	N	
Manufacturing services on physical inputs owned by others	Q .N.T.SA.B.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	SA	B	W1	S1	Z	Z	Z	Z	T	Z	N	
Credit	Q .N.T.SA.C.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	SA	C	W1	S1	Z	Z	Z	Z	T	Z	N	
Debit	Q .N.T.SA.D.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	SA	D	W1	S1	Z	Z	Z	Z	T	Z	N	
Maintenance and repair services n.i.e.	Q .N.T.SB.B.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	SB	B	W1	S1	Z	Z	Z	Z	T	Z	N	
Credit	Q .N.T.SB.C.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	SB	C	W1	S1	Z	Z	Z	Z	T	Z	N	
Debit	Q .N.T.SB.D.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	SB	D	W1	S1	Z	Z	Z	Z	T	Z	N	
Primary income	Q .N.T.IN1.B.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	IN1	B	W1	S1	Z	Z	Z	Z	T	Z	N	
Credit	Q .N.T.IN1.C.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	IN1	C	W1	S1	Z	Z	Z	Z	T	Z	N	
Debit	Q .N.T.IN1.D.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	IN1	D	W1	S1	Z	Z	Z	Z	T	Z	N	
Compensation of employees	Q .N.T.D1.B.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	D1	B	W1	S1	Z	Z	Z	Z	T	Z	N	
Credit	Q .N.T.D1.C.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	D1	C	W1	S1	Z	Z	Z	Z	T	Z	N	
Debit	Q .N.T.D1.D.W1.S1.Z.Z.Z.Z.Z.Z.T.Z.	Q		N	T	D1	D	W1	S1	Z	Z	Z	Z	T	Z	N	

(continued)

Table A7.8 Statistical Data and Metadata Exchange (SDMX) Coded Example for Selected Balance of Payments Series (Concluded)

Title complement	Time series key	Frequency	Reference country or area	Adjustment indicator	Flows and stocks indicator	International accounts item	Accounting entries	Counterpart Area	Reference sector	Functional category	Instrument Assets Classification	Maturity	Counterpart sector	Currency Denomination	Valuation	Completion Methodology	Unit of Measure
Financial account - Net lending (+) / net borrowing (-)	Q. .N.T.FA.N.W1.S1. .Z.F. Z. Z. T. Z. Z.	Q		N	T	FA	N	W1	S1	Z	F	Z	Z	T	Z	N	
Portfolio investment	Q. .N.T.FA.N.W1.S1.PF. Z. Z. T. Z. Z.	Q		N	T	FA	N	W1	S1	P	F	Z	Z	T	Z	N	
Net acquisition of financial assets	Q. .N.T.FA.A.W1.S1.PF. Z. Z. T. Z. Z.	Q		N	T	FA	A	W1	S1	P	F	Z	Z	T	Z	N	
Equity and investment fund shares	Q. .N.T.FA.A.W1.S1.PF5. Z. Z. T. Z. Z.	Q		N	T	FA	A	W1	S1	P	F5	Z	Z	T	Z	N	
Equity securities other than investment fund shares	Q. .N.T.FA.A.W1.S1.PF51. Z. Z. T. Z. Z.	Q		N	T	FA	A	W1	S1	P	F51	Z	Z	T	Z	N	
Listed	Q. .N.T.FA.A.W1.S1.PF511. Z. Z. T. Z. Z.	Q		N	T	FA	A	W1	S1	P	F511	Z	Z	T	Z	N	
Unlisted	Q. .N.T.FA.A.W1.S1.PF512. Z. Z. T. Z. Z.	Q		N	T	FA	A	W1	S1	P	F512	Z	Z	T	Z	N	
Investment fund shares or units	Q. .N.T.FA.A.W1.S1.PF52. Z. Z. T. Z. Z.	Q		N	T	FA	A	W1	S1	P	F52	Z	Z	T	Z	N	
Reinvestment of earnings	Q. .N.T.FA.A.W1.S1.PF52B. Z. Z. T. Z. Z.	Q		N	T	FA	A	W1	S1	P	F52B	Z	Z	T	Z	N	
Money market fund shares or units	Q. .N.T.FA.A.W1.S1.PF521. Z. Z. T. Z. Z.	Q		N	T	FA	A	W1	S1	P	F521	Z	Z	T	Z	N	
Debt securities	Q. .N.T.FA.A.W1.S1.PF3. T. Z. T. Z. Z.	Q		N	T	FA	A	W1	S1	P	F3	T	Z	T	Z	N	
Central bank	Q. .N.T.FA.A.W1.S121.PF3. T. Z. T. Z. Z.	Q		N	T	FA	A	W1	S121	P	F3	T	Z	T	Z	N	
Short-term	Q. .N.T.FA.A.W1.S121.PF3.S. Z. T. Z. Z.	Q		N	T	FA	A	W1	S121	P	F3	S	Z	T	Z	N	
Long-term	Q. .N.T.FA.A.W1.S121.PF3.L. Z. T. Z. Z.	Q		N	T	FA	A	W1	S121	P	F3	L	Z	T	Z	N	
Monetary authorities (where relevant)	Q. .N.T.FA.A.W1.S1X.PF3. T. Z. T. Z. Z.	Q		N	T	FA	A	W1	S1X	P	F3	T	Z	T	Z	N	
Short-term	Q. .N.T.FA.A.W1.S1X.PF3.S. Z. T. Z. Z.	Q		N	T	FA	A	W1	S1X	P	F3	S	Z	T	Z	N	
Long-term	Q. .N.T.FA.A.W1.S1X.PF3.L. Z. T. Z. Z.	Q		N	T	FA	A	W1	S1X	P	F3	L	Z	T	Z	N	
General government	Q. .N.T.FA.A.W1.S13.PF3. T. Z. T. Z. Z.	Q		N	T	FA	A	W1	S13	P	F3	T	Z	T	Z	N	
Short-term	Q. .N.T.FA.A.W1.S13.PF3.S. Z. T. Z. Z.	Q		N	T	FA	A	W1	S13	P	F3	S	Z	T	Z	N	
Long-term	Q. .N.T.FA.A.W1.S13.PF3.L. Z. T. Z. Z.	Q		N	T	FA	A	W1	S13	P	F3	L	Z	T	Z	N	
Net incurrence of liabilities	Q. .N.T.FA.L.W1.S1.PF. Z. Z. T. Z. Z.	Q		N	T	FA	L	W1	S1	P	F	Z	Z	T	Z	N	
Equity and investment fund shares	Q. .N.T.FA.L.W1.S1.PF5. Z. Z. T. Z. Z.	Q		N	T	FA	L	W1	S1	P	F5	Z	Z	T	Z	N	
Equity securities other than investment fund shares	Q. .N.T.FA.L.W1.S1.PF51. Z. Z. T. Z. Z.	Q		N	T	FA	L	W1	S1	P	F51	Z	Z	T	Z	N	
Listed	Q. .N.T.FA.L.W1.S1.PF511. Z. Z. T. Z. Z.	Q		N	T	FA	L	W1	S1	P	F511	Z	Z	T	Z	N	
Unlisted	Q. .N.T.FA.L.W1.S1.PF512. Z. Z. T. Z. Z.	Q		N	T	FA	L	W1	S1	P	F512	Z	Z	T	Z	N	
Investment fund shares or units	Q. .N.T.FA.L.W1.S1.PF52. Z. Z. T. Z. Z.	Q		N	T	FA	L	W1	S1	P	F52	Z	Z	T	Z	N	
Reinvestment of earnings	Q. .N.T.FA.L.W1.S1.PF52B. Z. Z. T. Z. Z.	Q		N	T	FA	L	W1	S1	P	F52B	Z	Z	T	Z	N	
Money market fund shares or units	Q. .N.T.FA.L.W1.S1.PF521. Z. Z. T. Z. Z.	Q		N	T	FA	L	W1	S1	P	F521	Z	Z	T	Z	N	
Debt securities	Q. .N.T.FA.L.W1.S1.PF3. T. Z. T. Z. Z.	Q		N	T	FA	L	W1	S1	P	F3	T	Z	T	Z	N	
Central bank	Q. .N.T.FA.L.W1.S121.PF3. T. Z. T. Z. Z.	Q		N	T	FA	L	W1	S121	P	F3	T	Z	T	Z	N	
Short-term	Q. .N.T.FA.L.W1.S121.PF3.S. Z. T. Z. Z.	Q		N	T	FA	L	W1	S121	P	F3	S	Z	T	Z	N	
Long-term	Q. .N.T.FA.L.W1.S121.PF3.L. Z. T. Z. Z.	Q		N	T	FA	L	W1	S121	P	F3	L	Z	T	Z	N	

8

Model Survey Forms

Table A8.1 Summary of the Model Survey Forms

Forms number and title	Scope and purpose	Other comments
1. Exploratory Survey	This form collects information on the type and size of balance of payments and IIP activity undertaken by enterprise groups. It provides information for maintaining and developing a balance of payments and IIP company register.	This form may be regarded as a benchmark collection form. It uses mark boxes to encourage a quick response. It may be modified to establish an ITRS register.
2. Company Register Form	This form records details of enterprise groups and the type and size of their balance of payments and IIP activity. It provides data essential for the balance of payments and IIP collection designs and maintenance.	This is an office form.
3-1. ITRS—Payments and Receipts	This form collects single transactions reported to the banking system by banks' clients or by banks on behalf of their clients.	
3-2. ITRS—Imports and Exports	This form shows how an ITRS could be used to capture data on goods transactions.	It is not recommended to compile goods statistics based on ITRS due to limitations described in Chapter 11.
3-3. ITRS—Companies	This form is for FDR reporters and covers transactions passing through company foreign currency accounts at domestic banks, bank accounts at nonresident banks, noncash transactions, and external asset and liability positions and for PDR reporters. It includes transactions passing through company bank accounts at nonresident banks, including positions.	
3-4. ITRS—Banks	This form collects details of banks' positions.	
3-5. ITRS—Bank's Records of Transactions	This form collects details of banks' flows.	
Annex to Forms 3-1– 3-5 for ITRS— Classifications	The annex presents sample list of transaction and other codes used in ITRS.	
4. Goods	The form collects across-the-board data and selected data on exports and imports of goods and the receipts and payments for repairs and manufacturing services.	The form illustrates methods for collecting various data—including manufacturing services and repairs—on goods.

(Continued)

Table A8.1 Summary of the Model Survey Forms (Continued)

Forms number and title	Scope and purpose	Other comments
5. Goods for Merchating	This form collects data required for recording merchating transactions in the balance of payments. Data should be collected on a gross basis, by commodity, and by partner economy, wherever possible.	
6. International Trade in Services	The form collects data on services not covered by forms 7–13 and 21–22 for compilation of various services items.	Separate forms could be created to collect information on specific aspects of services (for example, provision of financial services).
7. Manufacturing Services	This form contains a sample questionnaire on manufacturing services on physical inputs owned by others.	
8. Resident Transport Operators	The form collects data on resident transport operator earnings and expenses for compilation of transportation and certain goods items.	The form could be tailored for different modes of transport. Several more specialized forms could be created from the model form.
9. Transactions with Nonresident Transport Operators	The form collects, from residents, data on nonresident transport operators' earnings and expenses for compilation of transportation and certain goods items.	The form could be tailored for different modes of transport. Several more specialized forms could be created from the model form.
10. International Travel	The form collects data on the means used to pay for travel and related services for compilation of the travel item.	Several specialized forms could be created from this form.
11. Construction Services	This form collects information on construction abroad, construction in the compiling economy, as well as data on both short-term and long-term construction projects.	
12. International Insurance Transactions	The form collects information on the insurance and reinsurance activities of resident companies. The data are used in the compilation of services, current and capital transfers, and the IIP.	The form illustrates methods for collecting various data specifically associated with the insurance industry.
13. International Pension Services	The form collects information on the pension activities of resident pension funds. The data are used in the compilation of services, current transfers, financial transactions, and the IIP.	The form illustrates methods for collecting various data specifically associated with the operations of pension funds.
14. Foreign Embassies and International Institutions	The form collects data on wages and salaries paid to local workers, other embassy expenditures, foreign aid, and official finance. These data are used to compile compensation of employee, government services, current transfer, financial account, IIP, and investment income items.	While the reporters to this form, who will be nonresidents, cannot be compelled to complete it, a number of countries have successfully collected information by using forms similar to the model form.

Table A8.1 Summary of the Model Survey Forms (Continued)

Forms number and title	Scope and purpose	Other comments
15. Private Aid and Charitable Organizations	The form collects data on the income, compensation of employees, and current and capital transfers of private aid and other charitable organizations.	The form illustrates methods for collecting various data specifically associated with the operations of private aid and charitable organizations, including their relationship with nonresident entities.
16. Current Transfers, Grants, and Technical Assistance	This form collects information on current transfers, grants, and technical assistance. Part A of the form seeks information on transfers in cash and in kind received by the government and the private sector, including nongovernment organizations (NGO). Part B of the form pertains to technical assistance of project work / staffed missions received by the economy.	The information can be used for the compilation of current transfers in the secondary income account and capital transfers in the capital account.
17. Financial Claims on and Liabilities to Nonresidents	The form collects data on financial flows, positions, reconciliation items, income, certain financial services, and withholding taxes. The data are used to compile financial account, IIP, investment income, financial services, and current transfer items.	In practice, several forms may be created from this form, or more simplified versions of the form could be developed. An example, associated specifically with foreign direct investment, is provided as form 18.
18. Foreign Direct Investment	The form collects data specifically on foreign direct investment items of form 17.	This form is a narrower version of form 17, collecting data specifically on foreign direct investment.
19. International Securities	This form collects data on financial transactions, positions, income, financial services, and withholding taxes associated with international securities from financial intermediaries. The data are used to compile financial account, IIP, investment income, financial services, and current transfer items.	The form can be used in either an enterprise survey or an ITRS. The form is based on the assumption that comprehensive data are available from a single source; when this is not the case, the form should be modified. For enterprise surveys, the compiler should ensure that the delineation of reporting between form 17 (or its equivalent) and form 19 is clear and that double counting is avoided.
20. Holdings of and Transactions in Financial Derivatives Contracts with Nonresidents	This form collects collect information on holdings of and transactions in financial derivatives contracts with nonresidents.	The data are collected by types of derivative instruments (options, futures and forwards, and swaps). The reporting instructions explain how the forms are to be accomplished.
21. Travel: Returning Residents	The form collects data from returning residents on their expenditure on goods and services and on income and other amounts received while abroad. The data are used mainly to compile travel and compensation of employee items.	The model form is designed to be completed by returning residents shortly after they arrive back in the compiling economy. Alternatively, the questions could be included in regular household surveys for completion sometime after returning.

(Continued)

Table A8.1 Summary of the Model Survey Forms (Concluded)

Forms number and title	Scope and purpose	Other comments
22. Travel: Departing Nonresidents	The form collects data from nonresidents departing the economy on their expenditure on goods and services and on income and other amounts received while in the compiling economy. The data are used mainly to compile travel and compensation of employee items.	The model form is designed to be completed by departing nonresidents shortly before they depart from the compiling economy. Alternatively, the form could be used as the basis for an interview survey of these nonresidents.
23. International Transactions and Positions of Households	This form requests data that would be of specific interest for households.	



Balance of Payments Survey Form 1—Exploratory Survey

Please correct any errors in this label

□□□□□□□□□□
Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

OFFICE USE ONLY

Rec. _____
Edit _____
Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information for the purpose of determining companies that should be included in the balance of payments or international investment position surveys, which in turn are used to compile Newland's balance of payments and international investment position statistics. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Instructions: Information required by this form should be supplied for the company to which the form is addressed and for any subsidiaries located in Newland.

Due date: Please return the completed form in the postage-paid envelope by MM DD, YYYY.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments and IIP statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____
Area code

Title: _____

Facsimile number: (_____) _____
Area code

Form 1—Exploratory Survey

General Notes

1. This form should be completed for the company named on page 1 and any of its subsidiaries in Newland. If there are any errors in the address label, please make corrections before returning the form.
2. A **nonresident** is an individual, company, or other organization ordinarily domiciled in an economy other than Newland. Newland subsidiaries of nonresident companies are regarded as **residents** of Newland. Similarly, subsidiaries of Newland companies are regarded as nonresidents.
3. All values are expressed in Newland dollars.

Part A. Introductory Questions

1. Is this company a subsidiary¹ of another company in Newland? Yes [] No []
If the answer is *yes*, go to question 13 and do not answer intervening questions.
2. Does this company have subsidiary companies in Newland? Yes [] No []
If the answer is *yes*, the following questions should be completed in respect of the company and its subsidiaries in Newland.

Part B. Nonresident Owners

3. Did this company have nonresident owners as of December 31, 20XX?
(A company has **nonresident owners** if it is a branch or subsidiary of a nonresident company or has nonresident shareholders.) Yes [] No []
If the answer is *no*, go to question 4.
 - 3A. Is this company a subsidiary of a foreign company? Yes [] No []
 - 3B. Does a single nonresident shareholder (or a group of related nonresident shareholders) hold between 10 and 50 percent of the voting equity in this company or any of its subsidiaries in Newland? Yes [] No []
If the answer to question 3A or 3B is *yes*, please list the names of the owners, their equity interest, and the name of the company in which the equity is held. _____

4. Did any resident company that is a subsidiary or branch of a nonresident company own between 10 and 50 percent of the voting equity in this company or its subsidiaries as of December 31, 20XX? Yes [] No []
If the answer is *yes*, please give details. _____

¹A subsidiary is a company over which its owner can exercise control—that is, it owns more than 50 percent of the voting securities.

Part C. Ownership of Nonresident Branches and Companies

5. Did this company or its subsidiaries have any nonresident subsidiaries or own 10 percent or more of voting equity in a nonresident company as of December 31, 20XX? Yes No

Part D. International Trade in Goods in 2011

6. Did this company or its subsidiaries export goods to or import goods from abroad during 20XX? Yes No

If the answer is *no*, go to question 7.

- 6A. Please record the approximate value of goods exported and goods imported in 2011 by this company and its subsidiaries combined:

<i>Goods Exported</i>		<i>Goods Imported</i>	
Nil	<input type="checkbox"/>	Nil	<input type="checkbox"/>
ND1 to less than ND10,000	<input type="checkbox"/>	ND1 to less than ND10,000	<input type="checkbox"/>
ND10,000 to less than ND100,000	<input type="checkbox"/>	ND10,000 to less than ND100,000	<input type="checkbox"/>
ND100,000 to less than ND1 million	<input type="checkbox"/>	ND100,000 to less than ND1 million	<input type="checkbox"/>
ND1 million and more	<input type="checkbox"/>	ND1 million and more	<input type="checkbox"/>

- 6B. Please mark the categories for which the values of goods exported or imported exceeded ND100,000.

	<i>Exports</i>	<i>Imports</i>
Food, live animals, beverages, and tobacco	<input type="checkbox"/>	<input type="checkbox"/>
Minerals, fuels, and lubricants	<input type="checkbox"/>	<input type="checkbox"/>
Chemical, plastic, medical, pharmaceutical, and rubber products, and fertilizers	<input type="checkbox"/>	<input type="checkbox"/>
Wood, paper, and products thereof	<input type="checkbox"/>	<input type="checkbox"/>
Textiles, clothing, and footwear	<input type="checkbox"/>	<input type="checkbox"/>
Machinery, office and communication equipment, and other electrical goods, including spares	<input type="checkbox"/>	<input type="checkbox"/>
Vehicles and transport equipment, including spares	<input type="checkbox"/>	<input type="checkbox"/>
Metal and metal products not in other categories	<input type="checkbox"/>	<input type="checkbox"/>
All other goods	<input type="checkbox"/>	<input type="checkbox"/>

7. Did this company engage in *merchandising*—that is, buy and resell goods, including gold, abroad without the goods entering Newland? Yes No

Part E. International Trade in Services in 20XX

8. Did this company or its subsidiaries sell services to or purchase services from nonresidents during 20XX? Yes No
(including transactions with related nonresident companies)

If the answer is *no*, go to question 9.

- 8A. Please record the approximate value of:

<i>Services Exported</i>		<i>Services Imported</i>	
Nil	<input type="checkbox"/>	Nil	<input type="checkbox"/>
ND1 to less than ND10,000	<input type="checkbox"/>	ND1 to less than ND10,000	<input type="checkbox"/>
ND10,000 to less than ND100,000	<input type="checkbox"/>	ND10,000 to less than ND100,000	<input type="checkbox"/>
ND100,000 to less than ND1 million	<input type="checkbox"/>	ND100,000 to less than ND1 million	<input type="checkbox"/>
ND1 million and more	<input type="checkbox"/>	ND1 million and more	<input type="checkbox"/>

- 8B. Please mark the categories for which the values of services exported or imported exceeded ND100,000.

	<i>Exports</i>	<i>Imports</i>
Manufacturing (processing) services	<input type="checkbox"/>	<input type="checkbox"/>
Maintenance and repair services	<input type="checkbox"/>	<input type="checkbox"/>
Transportation services for passenger and freight	<input type="checkbox"/>	<input type="checkbox"/>
Operational leasing or rental without operators	<input type="checkbox"/>	<input type="checkbox"/>
Other transport services	<input type="checkbox"/>	<input type="checkbox"/>
Construction	<input type="checkbox"/>	<input type="checkbox"/>
Insurance	<input type="checkbox"/>	<input type="checkbox"/>
Pension services	<input type="checkbox"/>	<input type="checkbox"/>
Financial services	<input type="checkbox"/>	<input type="checkbox"/>
Charges for the use of intellectual property	<input type="checkbox"/>	<input type="checkbox"/>
Telecommunications, computer, and information services	<input type="checkbox"/>	<input type="checkbox"/>
Trade-related services	<input type="checkbox"/>	<input type="checkbox"/>
Other business services (specify)	<input type="checkbox"/>	<input type="checkbox"/>
<hr/>		
Personal, recreational, and cultural services	<input type="checkbox"/>	<input type="checkbox"/>

If you are uncertain about the appropriate category, please describe the service _____

Part F. Employment of Nonresident Workers in 20XX

9. Did this company or its subsidiaries employ any foreign workers in 20XX? Yes No
 (Foreign workers include persons residing in Newland for less than 12 months.)

If the answer is *no*, go to question 10.

- 9A. What were the approximate wages and salaries (in thousands of Newland dollars) paid to all such persons combined in 20XX? ND_____,000

Part G. External Financial Assets and Liabilities as of December 31, 20XX

10. Please record the approximate market value of shares and other liabilities of this company (and its subsidiaries) held by nonresidents as of December 31, 20XX and financial claims of this company (and its subsidiaries) on nonresidents at that date.

10A. Please record the approximate value of:

<i>Shares Held by, and Other Liabilities to, Nonresidents</i>		<i>Claims on Nonresidents</i>	
Nil	<input type="checkbox"/>	Nil	<input type="checkbox"/>
ND1 to less than ND10,000	<input type="checkbox"/>	ND1 to less than ND10,000	<input type="checkbox"/>
ND10,000 to less than ND100,000	<input type="checkbox"/>	ND10,000 to less than ND100,000	<input type="checkbox"/>
ND100,000 to less than ND1 million	<input type="checkbox"/>	ND100,000 to less than ND1 million	<input type="checkbox"/>
ND1 million and more	<input type="checkbox"/>	ND1 million and more	<input type="checkbox"/>

10B. Please mark the categories for which the values of liabilities or assets exceeded ND100,000.

	<i>Liabilities</i>	<i>Assets</i>
Stocks (shares)	<input type="checkbox"/>	<input type="checkbox"/>
Investment fund shares or units	<input type="checkbox"/>	<input type="checkbox"/>
Other equity	<input type="checkbox"/>	<input type="checkbox"/>
Other (debt) securities	<input type="checkbox"/>	<input type="checkbox"/>
Loans	<input type="checkbox"/>	<input type="checkbox"/>
Accounts receivable and payable	<input type="checkbox"/>	<input type="checkbox"/>
Deposits	<input type="checkbox"/>	<input type="checkbox"/>
Notes and coin	<input type="checkbox"/>	<input type="checkbox"/>
Insurance and pension technical reserves and entitlements	<input type="checkbox"/>	<input type="checkbox"/>
Financial derivatives	<input type="checkbox"/>	<input type="checkbox"/>
Other (specify) _____	<input type="checkbox"/>	<input type="checkbox"/>

Part H. Other Interactions with Nonresidents in 20XX

11. Did this company or its subsidiaries have any other interactions or positions with nonresidents in 20XX?
- Ownership of land abroad Yes [] No []
- Payment of rent for offices abroad Yes [] No []
- Payment for licenses to explore or exploit natural resources abroad Yes [] No []
- If you are uncertain about the appropriate category, please describe the interaction _____

If the answer is *yes*, please give details.

Part I. Details of Subsidiary Companies in Newland

12. Please complete the following table if the answer to question 2 is *yes*.

	Name of Subsidiary	Name of Parent Company	% Owned by Parent Company	Main Activity of Company	Office Use Only
A					
B					
C					
D					

Part J. Final Questions

13. Please verify that the form has been completed correctly; indicate that you have done so by marking the following boxes.
- [] The name and address shown on page 1 are correct or have been corrected.
- [] The name and telephone number of the person who should be contacted regarding this form are entered on page 1. The person who completed this form has signed his or her name on this page.
- [] The answer to question 1 is yes, and the name and address of the primary parent company in the group are _____

Therefore, questions 2 through 12 have not been completed.

- [] The answer to question 1 is no, and questions 2 through 11 have been completed.
- [] The answer to question 2 is yes and question 12 has been completed.
- [] I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____



Balance of Payments Survey Form 2—Company Register Form

Please
correct any
errors in
this label

<div style="border: 1px dashed black; display: inline-block; padding: 2px;"> <input type="text"/> </div> <p>Reference Number</p>
--

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

OFFICE USE ONLY
Rec. _____
Edit _____
Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This company register form is used to record information about members (companies) of the population of Newland, which in turn are used to compile Newland's balance of payments and international investment position statistics. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Instructions: Information required by this form should be supplied for the company to which the form is addressed and for any subsidiaries located in Newland.

Due date: Please return the completed form by MM DD, YYYY.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments and IIP statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____
Area code

Title: _____

Facsimile number: (_____) _____
Area code

Instructions for Form 2—Company Register Form

The company register form is used to record information about members (companies) of the population.

The information is subsequently used to conduct balance of payments and IIP surveys.

In **part A**, the reference number, the name of the top company in the group, and the address; the name and title of the contact officer in the company (e.g., the person who completed the exploratory form or the person who completes other collection forms); and the contact's telephone and facsimile numbers are recorded.

In **part B**, information on the enterprise group is entered. This section allows for both descriptive coding and an alphanumeric code. The type of information that may be stored here includes:

Type of Unit

This section shows whether the statistical unit is:

1. A single company unit
2. A multi enterprise group
3. A split enterprise group—that is, one that has been split according to sector.

Sector

1. General government
2. Central bank
3. Other deposit-taking corporation
4. Other financial corporation
 - 4a. Money market fund (MMF)
 - 4b. Non-MMF investment fund
 - 4c. Other financial intermediary (except insurance corporations and pension funds)
 - 4d. Financial auxiliary
 - 4e. Captive financial institution or money lender
 - 4f. Insurance corporation
 - 4g. Pension fund
5. Nonfinancial corporation, household or nonprofit institution serving households (NPISH)
 - 5a. Nonfinancial corporation
 - 5b. Household
 - 5c. NPISH

Public/private

1. Publicly owned company
2. Privately owned company

(The first category could be subdivided to distinguish among companies owned by central, state, or local governments.)

Types of Companies

1. Direct investment enterprise, branch or subsidiary
2. Direct investment enterprise, associate
3. Direct investor
4. Both a direct investment enterprise and a direct investor
5. Neither a direct investment enterprise nor a direct investor

Direct investor is an entity resident in Newland that has acquired at least 10 percent of voting power of a company resident in another economy.

Direct investment enterprise is a company resident in Newland in which a foreign direct investor owns 10 percent or more of its voting power.

Immediate direct investment is when a direct investor directly owns 10 percent or more of voting power in a direct investment enterprise.

Indirect direct investment is when a direct investor owns 10 percent or more of voting power in a direct investment enterprise through a chain of ownership.

A direct investor has control over a direct investment enterprise when it owns more than 50 percent of voting power in that direct investment enterprise.

A direct investor has a significant degree of influence over a direct investment enterprise when it owns from 10 to 50 percent of voting power in that direct investment enterprise.

Industry

(This section contains whatever coding system is considered appropriate.)

In **part C**, the activities of the group (which are collected in the exploratory survey) are recorded. The **size categories** (consistent with the exploratory questionnaire) are:

- 0 Nil
- 1 ND1 to less than ND10,000
- 2 ND10,000 to less than ND100,000
- 3 ND100,000 to less than ND1 million
- 4 ND1 million and more

Reporters are asked, on the exploratory form, to mark boxes for activities exceeding certain thresholds. The categories marked should be recorded on the line labeled *categories*. These data are used to identify the target populations and the sizes of population members for collection design purposes.

The categories for **exports of goods** and **imports of goods** are:

- A Food, live animals, beverages, and tobacco
- B Minerals, fuels, and lubricants
- C Chemical, plastic, medical, pharmaceutical, and rubber products, and fertilizers
- D Wood, paper, and products thereof
- E Textiles, clothing, and footwear
- F Machinery, office and communication equipment, and other electrical goods, including spares
- G Vehicles and transport equipment, including spares
- H Metal and metal products not included elsewhere
- I All other goods

For **exports of services** and **imports of services**, the categories are:

- A Manufacturing services on physical inputs owned by others
- B Maintenance and repair services
- C Passenger and freight services
- D Operational leasing or rental without operators
- E Other transport services
- F Travel
- G Construction
- H Insurance
- I Pension services
- J Financial
- K Charges for use of intellectual property
- L Telecommunication services
- M Computer and information services
- N Merchanting and other trade-related services
- O Miscellaneous business, professional, and technical services
- P Personal, cultural, and recreational services

For **external financial assets** and **external financial liabilities**, the categories are:

- A Positions and shares
- B Investment fund shares and units
- C Land
- D Other equity
- E Debt securities
- F Loans
- G Accounts receivable and payable
- H Deposits
- I Notes and coin
- J Insurance and pension reserves and entitlements
- K Financial derivatives
- L Other

For **other income and transfers**, the categories are:

- A Rent
- B Donations
- C Debt forgiveness
- D Licenses to explore or exploit natural resources

In **part C**, an additional line is included for *other activities*. This is a useful place for identifying activities (which may require special targeting) such as merchanting and imports and exports of goods for processing or repair.

In **part D**, data are recorded on the source used to identify this unit and on the most recent exploratory survey in which this unit was included.

In **part E**, details of subsidiary companies and any direct investment enterprises abroad are recorded. Including the name of the immediate parent company makes it possible to identify the complete company structure when companies in the group are subsidiaries of subsidiaries.

In **part F**, major shareholders are identified. Reference numbers should be allocated to these major shareholders, and a separate record created for them, even if they are nonresident entities.

Form 2—Company Register Form**Part A. Identification of Enterprise Group**

Reference Number and Name	Address	Contact Name and Title	Telephone and Facsimile Numbers

Comments: _____

Part B. Description of Enterprise Group

	Type of Unit	Sector	Public/Private	Type of Company	Industry
Description					
Code					

Comments: _____

Part C. Activities of the Group

	Exports Goods	Imports Goods	Exports Services	Imports Services	Employs Foreign Workers	Foreign Assets	Foreign Liabilities	Other Income and Transfers
Yes/No								
Size								
Categories					//////////			

Other activities: _____

Part D. Population Maintenance Information

Company identified from (source): _____

Most recent exploratory survey in which the company was included: _____

Part E. Details of Direct Investment Enterprises Abroad (subsidiaries and associates)

Name of Direct Investment Enterprise	Reference Number	Economy	Sector Code	Industry Code	Reference Number of Parent Company	Percent of Voting Shares Held

Part F. Major Shareholders

Record details of any shareholder with an equity holding of 10 percent or more in the top enterprise of the group or any subsidiary.

Name of Company	Reference Number	Shareholder's Name and Economy	Shareholder's Reference Number	% of Shares Held

Section G. Officer Completing This Form

Name: _____ Date: ____/____/20____

Balance of Payments Survey

Form 3-1—ITRS—Payments and Receipts

Reference Number
 Bank
 Date: (day & month)
 Transactor code:



For more information, please contact:

Balance of Payments Division
 Newland Ministry of Statistics
 Archadia

Telephone (XXX) XXX-XXXX
 Facsimile (XXX) XXX-XXXX
 E-mail: bop@stat.com

General Notes on Form 3-1—ITRS—Payments and Receipts

1. Under the *Statistics Act of Newland*, residents are required to complete form 3-1 for any payment to a nonresident in excess of ND 5,000; however, transactions involving a bank account with a nonresident bank are excluded. (The excluded transactions are measured on Form 3-3—ITRS Companies.) Each person or company making payments to nonresidents in excess of ND 5,000 is required to have a **transactor code**, which should be reported on Form 3-1.
2. A **nonresident** is any individual, company, or other organization ordinarily resident in an economy other than Newland. Newland branches and subsidiaries of nonresident companies are **residents** of Newland. Similarly, foreign branches and subsidiaries of Newland companies are nonresidents.
3. The information reported on this form is used to compile balance of payments statistics for Newland and is treated **confidentially**.
4. Completion of this form requires a copy of the Annex to Forms 3-1–3-5 for ITRS—Classifications. Copies may be obtained from the bank that provided Form 3-1.
5. Responses to questions on form 3-1 should be **printed clearly** and a **copy should be kept** by the individual or company representative completing the form.
6. ITRS Form 3-2—ITRS—Imports and Exports must also be completed if transactions reported on Form 3-1 are payments for goods imported / receipts for goods exported into/from Newland. A copy of Form 3-2 is available from the bank that provided Form 3-1.

Completing Form 3-1—ITRS—Payments and Receipts

Codes: The **reference number** and **bank code** will be entered by the bank that provided Form 3-1. Individuals or company representatives completing Form 3-1 should enter the month and day as a four-digit number (e.g., 0403 for April 3) and the **transactor code**, if such a code has been assigned by the Newland Ministry of Statistics.

Question 1: To report the character of the transaction that is payment or receipt.

Question 2: Currency codes are included on the Annex to Forms 3-1–3-5 for ITRS—Classifications. All amounts should be reported in thousands of foreign currency units, or Newland dollars, for which entries should be left blank.

Question 3: To report the equivalent Newland dollar value (expressed in thousands), convert from the foreign currency by using the **midpoint** of the buy and sell rates applicable on the date of the transaction.

Question 4: Consult the Annex to Forms 3-1–3-5 for ITRS—Classifications for the appropriate transaction code and describe the transaction. If a number of codes are applicable to the transaction, provide the appropriate information in this item. Multiple codes may be connected to a single settlement payment when: (1) more than one transaction code is applicable to the payment (e.g., a loan repayment combined with interest); (2) partial netting exists (e.g., the actual payment is the difference between financing provided and fees charged); (3) or a settlement transaction occurs (i.e., the payment settles a number of transactions). In each case, the underlying transactions should be recorded; use an attachment if space is insufficient. When individual underlying transactions are less than the equivalent of ND 5,000, entries may be amalgamated and the most appropriate transaction code applied.

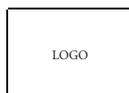
Question 5: Refer to the Annex to Forms 3-1–3-5 for ITRS—Classifications for a list of **other party codes** and **economy codes**.

Question 6: Please add any comments necessary to clarify answers to questions on Form 3-1 and/or note any difficulties encountered in completing the form.

Balance of Payments Survey

Form 3-2—ITRS—Imports and Exports

Reference Number
 Bank
 Date: (day & month)
 Transactor code:



For more information, please contact:

Balance of Payments Division
 Newland Ministry of Statistics
 Archadia

Telephone (XXX) XXX-XXXX

Facsimile (XXX) XXX-XXXX

E-mail: bop@stat.com

Instructions for Completing Form 3-2—ITRS—Imports and Exports

1. Please enter, in the table provided, information on payments, which are recorded on form 3-2, for goods imported/exported into/from Newland. Each shipment valued at ND 5,000 or more should be reported on a separate line. Smaller amounts may be combined and reported on one line.
2. In columns A, please describe the import/export and, in column B, apply the appropriate code, which is to be found in the Annex to Forms 3-1–3-5 for ITRS—Classifications.
3. In columns C, please enter the relevant code for the economy from/to which the goods were shipped. The codes can be found in the Annex to Forms 3-1–3-5 for ITRS—Classifications.
4. In columns D, please enter the month and year in which the goods arrived/left. The date should be entered as a four-digit number (e.g., 0412 for April 2012).
5. In part A, in column E, the recorded value of goods should be consistent with that reported in response to question 3 on Form 3-1. In column F, please record the type of valuation of the goods: on board the carrier at the port of entry to Newland—that is, the c.i.f. (cost, insurance, and freight)—or on board ship at the point of departure from the exporting economy—that is, the f.o.b. (free-on-board) value.
6. In part B, in column E, the recorded value of goods should be consistent with that reported in response to question 3 on Form 3-1. In column F, please record the type of valuation of the goods—that is, the c.i.f. (cost, insurance, and freight) or the f.o.b. (free-on-board) value.

Form 3-2—ITRS—Imports and Exports

Part A. Supplementary Details of Goods Imported into Newland

(Report in thousands of Newland dollars)

Description of Import A	Import Code B	Economy of Consignment C	Month and Year of Shipment D	Value of Goods (as reported on Form 3-1) E	Type of valuation (c.i.f. or f.o.b.) F

Part B. Supplementary Details of Goods Exported from Newland

(Report in thousands of Newland dollars)

Description of Export A	Export Code B	Economy of Destination C	Month and Year of Shipment D	Value of Goods (as Reported on Form 3-1) E	Type of Valuation (c.i.f. or f.o.b.) F

Please verify that codes in the top left-hand corner are identical to those on Form 3-2.

Please add any additional information that may clarify your answers.

Person completing this form: _____

Telephone number: _____

Company (if applicable): _____

Facsimile number: _____



Balance of Payments Survey Form 3-3—ITRS—Companies

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this label

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--

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

OFFICE USE ONLY
Rec. _____
Edit _____
Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that, each month, a representative of the company to which this form is addressed must complete and return Form 3-3—ITRS—Companies to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information from companies to be used in compiling Newland's balance of payments and international investment position statistics. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry Statistics.

Due date: Please return the completed form by MM DD, YYYY.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____
Area code

Title: _____

Facsimile number: (_____) _____
Area code

General Notes and Instructions for Form 3.3—ITRS—Companies

1. The international transactions reporting system (ITRS) collects data from companies via several forms. The main form is the Form 3-3—ITRS—Companies, which companies are required to complete and return to the Newland Ministry of Statistics each month. The Annex to Forms 3-1–3-5 for ITRS—Classifications contains the codes and descriptions necessary to complete Form 3-3.
2. A **nonresident** is an individual, company, or other organization ordinarily domiciled in an economy other than Newland. Newland branches and subsidiaries of nonresident companies are regarded as **residents** of Newland. Similarly, foreign branches and subsidiaries of Newland companies are regarded as nonresidents.
3. Form 3-3—ITRS—Companies collects monthly data on balance of payments transactions from companies that conduct considerable transactions with nonresidents through accounts at **resident** banks and/or with accounts at **nonresident** banks. In addition, Form 3-3 collects data on other claims on, or liabilities to, **nonresidents**.
4. A separate Form 3-3 should be completed for **each foreign currency account** that your company has at a **resident** bank and **each account** at a **nonresident** bank—unless other arrangements have been made with the Newland Ministry of Statistics.
5. Form 3-4 collects data on payments and receipts passing through particular bank accounts of your company. Separate entries should be recorded for each transaction of ND 5,000 or more; smaller transactions may be combined. When several transaction codes apply to a receipt or a payment or result from payments being partly offset against receipts (or vice versa), the underlying gross transactions should be recorded. (See the Annex to Forms 3-1–3-5 for ITRS—Classifications for more information on **multipayment transactions**.) Similarly, **offset transactions** (also described in the Annex) that do not result in bank account entries but otherwise affect your company's external asset or liability positions should also be recorded. Should your company conduct offset transactions denominated in currencies (including Newland dollars) for which a Form 3.4 is not already being completed, you should record such transactions on a separate Form 3-3.
6. Form 3-3 can be used as a pro forma for supplying relevant data in computer readable format, or information may be entered on the form itself. If space to record all transactions is insufficient, please be sure to attach the additional details.

Completing Form 3.3—ITRS—Companies

Part A

7. The **company reference number** is listed on page 1 of this form. The **currency code** classification is included in the Annex to Forms 3-1–3-5 for ITRS—Classifications. Month and year should be entered as a four-digit number (e.g., 0412 for April 2012).

Part B

8. **Day** should be recorded as a two-digit number (e.g., 02 for the second day of the month). The **number** of the first transaction recorded each day should be 001; successive three-digit numbers should be used for subsequent transactions. The **transaction code**, the **transaction type**, the **other party code**, and the **economy code** should be taken from the Annex to Forms 3-1–3-5 for ITRS—Classifications.
9. To limit the reporting burden and processing costs, data should be reported in thousands or millions of currency units and small transactions should be combined. For certain types of transactions (namely, multipayment and offset transactions), it is necessary to identify the underlying transactions and report them on a gross basis (see note 5).
10. In columns G and I where values should be expressed in Newland dollars, transactions should be converted at the **midpoint** of the buy and sell rates applicable on the date of the transaction.

Parts C and D

11. Parts C and D facilitate reconciliation and verification of data supplied in part B. Any significant reconciliation amounts or unusual exchange rates should be explained.

Part E

12. The **asset/liability code** should be selected from codes 710 through 790 for assets and 810 through 890 for liabilities from the **transaction codes** in the Annex to Forms 3-1–3-5 for ITRS—Classification. The **economy code** should be taken from the relevant listing from the Annex [to be provided by the compiler]. The **currency code** should be taken from the relevant listing from the Annex [to be provided by the compiler]. One line should be used for each asset/liability, economy, and currency combination. For example, if your company held a portfolio of equity securities in a nonbank company in the United States and had long-term U.S. dollar loans from banks in the United States in U.S. dollars and United Kingdom in pounds, these three entries should be made:

A	B	C
710	001	USD
850	001	USD
850	002	GBP

13. In column A, 710 represents shares in nonresident companies, and 850 represents long-term loan liabilities to nonresidents. In column B, 001 represents the United States and 002 represents the United Kingdom. In column C, USD represents the U.S. dollar and GBP represents the Great Britain pound.
14. Not all of your company's payments to, and receipts from, nonresidents will be reported in part B as some payments may have been made through foreign exchange orders with domestic banks. These transactions should be reported on Form 3-1—ITRS—Payments and Receipts, which will be provided to you by your bank. However, for purposes of reconciliation, any effect that these payments and receipts have on the external assets and liabilities of your company must be reported in columns H and I.

Part F

15. This section of the form collects, for payments made through accounts covered by Form 3-3, information on goods imported and exported during the month and on payments made during the month. As delivery and payments may occur in different months, goods reported in columns D, E, and F may not correspond with those recorded in column G. As the value in your books may differ from the cost insurance and freight (c.i.f.) and the free on board (f.o.b.) values required for balance of payments purposes, you are requested to provide these bases of valuation, even if some degree of estimation is required. Economy of consignment is the economy from which your imports were initially dispatched. Economy of destination is the economy to which you expect to make final delivery of your exports. The relevant **economy codes** from the Annex should be used [to be provided by the compiler]. Please note that all amounts in foreign currencies should be converted at the **midpoint** of the buy and sell rates applicable on the date of the transaction.

Part G

16. This section is included to assist you in checking the form before you return it.

Form 3-3—ITRS—Companies

Part A. Reference Information

Company Name	Company Reference Number	Account Number	Economy in Which Account Is Held	Currency Code	Month and Year

Part B. Payments and Receipts

1. All amounts reported in columns F, G, H, and I should be in thousands.
2. Small transactions—that is, transactions of less than the equivalent of ND 5,000—should be combined and reported as single transactions. These should be coded with the most appropriate transaction code.
3. In the case of multipayment and offset transactions (see note 5 of the instructions for Form 3-3), underlying gross amounts should be recorded.

Day	Number	Transaction Code	Transaction Description	Transaction Type	Payment (foreign currency)	Payment (Newland dollars)	Receipt (foreign currency)	Receipt (Newland dollars)	Other Party Code	Other Party Economy Code
A	B	C	D	E	F	G	H	I	J	K
	001									
Total	////////	////////	////////	////////					////////	////////

Part C. Reconciliation with Bank Balance

(Report in thousands of currency units)

Closing Account Balance for This Month (in foreign currency) A	Closing Account Balance for Previous Month (in foreign currency) B	Total Payments (as recorded in column F of part B) C	Total Receipts (as recorded in column H of part B) D	Reconciliation (A - B + C - D) E

Please explain any significant reconciliation items _____

Part D. Exchange Rate Check

Please record the average implied exchange rates used in part B:

For payments _____ (Total in column F/Total in column G)

For receipts _____ (Total in column H/Total in column I)

Please explain any unusual exchange rate conversions. _____

Part E. Other External Assets and Liabilities Position

1. Report details of claims (other than accounts at nonresident banks) on, and liabilities to, nonresidents.
2. Report in thousands of currency units.
3. A separate line should be used to record each asset/liability code, nonresident party code, and economy code combination (see note 12 of the instructions for Form 3-3).

Asset/ Liability Code A	Economy Code B	Currency Code C	Closing Position for This Month D	Closing Position for Previous Month E	Payments Recorded in Part B F	Receipts Recorded in Part B G	Payments Made Elsewhere H	Receipts from Elsewhere I	Reconciliation (a) J

(a) For assets, $J = D - E + F - G + H - I$. For liabilities, $J = D - E - F + G - H + I$.

Please explain any significant reconciliation items. _____

Part F. Supplementary Data on Trade Transactions
(Report in thousands of Newland dollars)

Description of Goods A	Import/Export Code B	Economy of Consignment or Destination C	Value of Goods Shipped			Payments Made During Month G
			Book Value (a) D	C.i.f. Value E	F.o.b. Value F	
Imports of Goods						
Exports of Goods						
				////////////////////		
				////////////////////		
				////////////////////		

(a) As recorded in your books.

Please verify that the totals of payments and receipts, which are recorded in column G, are equal to the total of the corresponding amounts for goods recorded in columns G and I in part B.

Part G. Final Questions

Please verify that the form has been completed correctly and mark the following boxes.

- The information in part A of the form is correct.
- Part B of the form has been completed in accordance with instructions; in particular, multipayment and offset transactions have been reported on a gross basis. The totals for columns F, G, H, and I have been entered.
- Part C has been completed in accordance with instructions, and any significant reconciliation items have been explained.
- Exchange rates have been calculated in part D, and the average exchange rates derived show that each transaction has been converted correctly. Any unusual exchange rates have been explained.
- Part E has been completed in accordance with instructions, and any large reconciliations have been explained.
- Part F has been completed, and the total of import and export payments, which are recorded in column G, agree with the values of goods reported in columns G and I in part B of the form.
- I have made a copy of this form for my records.

Person completing this form: _____

Telephone number: _____

Signature: _____

Facsimile number: _____



Balance of Payments Survey Form 3-4—ITRS—Banks

Please
correct any
errors in
this label

□□□□□□□□□□

Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX

Facsimile (XXX) XXX-XXXX

E-mail: bop@stat.com

OFFICE USE ONLY

Rec. _____

Edit _____

Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that, each month, a representative of the bank to which this form is addressed must return Form 3-1—ITRS—Payments and Receipts (or records thereof) completed by clients. Form 3-4—ITRS—Banks and Form 3-5—ITRS—Bank's Record of Transactions to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information to be used in compiling Newland's balance of payments and international investment position statistics. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Balance of Payments Division of the Newland Ministry of Statistics.

Instructions: Detailed instructions for the completion of ITRS forms appear on following pages.

Due date: Please return the completed form by **MM DD, YYYY**.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____

Area code

Title: _____

Facsimile number: (_____) _____

Area code

Notes and Instructions for Form 3-4 and Form 3-5

1. The international transactions reporting system (ITRS) collects information from banks via a number of forms.

Definitions of Residents and Nonresidents

2. A **nonresident** is an individual, company, or other organization ordinarily domiciled in an economy other than Newland. Newland branches and subsidiaries of nonresident companies are regarded as **residents** of Newland. Similarly, foreign branches and subsidiaries of Newland companies are regarded as nonresidents.

Form 3 Series

3. The basic form is the Form 3-1—ITRS—Payments and Receipts. These should be completed by **residents** of Newland who make payments to, or receive payments from, **nonresidents**, in any currency. Supplementary Form 3-2—ITRS—Imports and Exports is required for transactions involving goods arriving in or departing from Newland. To reduce reporting burdens and processing costs associated with the Form 3 series, a number of **exemptions** are permitted. These include:
 - (a) Transactions in the amount less than the equivalent of ND 5,000. However, transactions below this level are the subject of small sample surveys (see note 8).
 - (b) Purchases and sales of travelers' checks. These should be reported by your bank on Form 3-4—ITRS—Banks, part B, at the time the traveler's checks are settled with nonresident banks.
4. In accordance with ITRS collection arrangements, your bank is responsible for making **resident bank customers** aware of their obligations to complete Form 3-1. In most cases, Form 3-1 should be completed when customers enter your bank to undertake the relevant transactions. (Some banks have combined the ITRS forms with bank forms on which payment instructions are specified.) Persons or companies engaging in transactions valued at the equivalent of ND 100,000 or more per year should register with the Newland Ministry of Statistics to obtain a **transactor code**.
5. Tracking the occurrence of payments made, in Newland dollars, by residents to nonresidents is more difficult; resident transactors may engage in such transactions without approaching a bank. When particular persons or companies regularly conduct such transactions, the Newland Ministry of Statistics will make special arrangements for resident principals to report the transactions directly to the ministry.
6. The staff of your bank should be familiar with Form 3-1 and with the Annex to Forms 3-1–3-5 for ITRS—Classifications, which is used by transactors to complete other forms. An **ITRS training package** is available from the Newland Ministry of Statistics, or your bank may telephone for assistance at the numbers shown on page 1 (upper right-hand corner) of this form.
7. Your bank should maintain a sufficient supply of forms and should also, if customers complete forms regularly, encourage them to maintain supplies of forms for their use. Your bank may order forms by contacting the Newland Ministry of Statistics at the address shown on page 1 of this form.

ITRS Form 3-4—Banks

8. Form 3-4 primarily collects data on payments and receipts for your bank's own accounts with **nonresidents**. Separate entries should be recorded for each transaction of ND 5,000 or more; smaller transactions may be combined. When several transaction codes apply to a receipt or a payment or result from payments being partly offset against receipts (or vice versa), the underlying gross transactions should be recorded. (See Annex to Forms 3-1–3-5 for ITRS—Classifications for further information on **multipayment transactions** and **offset transactions** [to be provided by the compiler]) that do not result in bank account entries but otherwise affect the banks' external asset and liability position should also be recorded.
9. Form 3-4 can be used as a pro forma for supplying relevant data in computer-readable form, or information may be entered on the form itself. If space to record all transactions is insufficient, please be sure to attach the additional details.

Completing ITRS Form 3-4—Banks

Part A

10. The **bank reference number** is listed on page 1 of this form. The **currency code** classification is shown in the Annex to Forms 3-1–3-5 for ITRS—Classification [to be provided by the compiler]. Month and year should be entered as a four-digit number (e.g., 0494 for April 1994).

Part B

11. The **day** should be recorded as a two-digit number (e.g., 02 would represent the second day of the month). **Number** is a three-digit code. The number 001 should be the first number used each day. Subsequent numbers should be used for subsequent transactions. The **transaction code**, the **transaction type**, the **other party code**, and the **economy code** should be taken from Form 3-1.
12. To reduce the reporting burden and limit processing costs, data should be reported in thousands or millions of currency units; and small transactions should be combined. For multipayment and offset transactions, it is necessary to identify the underlying transactions, and these should be reported on a gross basis.
13. In columns G and I where values should be expressed in Newland dollars, transactions should be converted at the **midpoint** of the buy and sell rates applicable on the date of the transaction.

Part C

14. Part C facilitates checking of the conversion rates used in part B. Any unusual conversion rates should be explained.

Parts D, E, and F

15. Parts D, E, and F facilitate reconciliation of positions and flow data supplied in various forms. Data in part D represent a summary of Form 3-5, which is described subsequently. Any significant reconciliation amounts reported in column E of parts E or F should be explained. For transactions in Newland dollars, closing balances in part E, columns A and B should be recorded as zero—unless the bank holds Newland dollar accounts with nonresident banks, in which case the balance of these accounts should be recorded. See Form 3-1 for a list of **economy codes**.

Part G

16. The **asset/liability code** should be selected from codes 710 through 790 for assets and 810 through 890 for liabilities from the **transaction code** classification shown on Form 3-1. The **economy code** should be selected from the **economy** classifications shown in the Annex [to be provided by the compiler]. One line should be used for each asset/liability, economy, and currency combination. For example, if your company held a portfolio of equity securities in a nonbank company in the United States and had long-term U.S. dollar loans from banks in the United States in U.S. dollars and United Kingdom in pounds, these three entries should be made:

A	B	C
710	001	USD
850	001	USD
850	002	GBP

17. In column A, 710 represents shares in nonresident companies, and 850 represents long-term loan liabilities to nonresidents. In column B, 001 represents the United States and 002 represents the United Kingdom. In column C, USD represents the U.S. dollar and GBP represents the Great Britain pound.

Part H

18. This section is included to assist you in checking the form before you return it.

Other ITRS Forms

20. Your bank may encounter other special purpose ITRS collection forms requesting information on transactions that cannot readily be collected by using Forms 3-1 to 3-5.

Form 3-4—ITRS—Banks

Part A. Reference Information

Bank Name	Bank Reference Number	Currency Code	Month and Year

Part B. Bank's Own Account Payments and Receipts

(Including transfer of funds between accounts and the purchase and sale of foreign currency)

1. All amounts should be reported in thousands in columns F, G, H, and I.
2. Small transactions—that is, transactions of less than the value of ND 5,000—should be combined and included as a single transaction. These should be given the most appropriate transaction codes.
3. In the case of multipayment and offset transactions (see instruction 8), the underlying gross amounts should be recorded.

Day	Number	Transaction Code	Transaction Description	Transaction Type	Payment (foreign currency)	Payment (Newland dollars)	Receipt (foreign currency)	Receipt (Newland dollars)	Other Party Code	Other Party Economy Code
A	B	C	D	E	F	G	H	I	J	K
	001									
Total	////////	////////	////////	////////					////////	////////

Part C. Exchange Rate Check

Please record the average implied exchange rates used in part B:

For payments _____ (Total in column F / Total in column G)

For receipts _____ (Total in column H / Total in column I)

Please explain any unusual exchange rates. _____

Part D. Transaction Summary
(Report in millions of currency units)

Description of Transaction	Payments A	Receipts B
1. Bank's own account (column A = column F in part B and column B = column H in part B)		
2. Resident transactions—ND 5,000 or greater		
3. Resident transactions—less than ND 5,000		
4. Nonresident accounts—banks		
5. Nonresident accounts—nonbanks		
6. Total		

Part E. Reconciliation with Nostro Balances
(Report in millions of currency units)

Currency Code A	Closing Account Balance for This Month (in foreign currency) B	Closing Account Balance for Previous Month (in foreign currency) C	Total Payments (as recorded in column A, row 6 of part D) D	Total Receipts (as recorded in column B, row 6 of part D) E	Reconciliation (B - C + D - E) F

Please explain the reconciliation item if it is significant. _____

Please specify the amounts reported in columns B and C by economy.

Economy code					
Value in column B					
Value in column C					

Part F. Reconciliation of Accounts of Nonresidents
(Report in millions of units of currency)

Currency Code A	Closing Account Balance for This Month B	Closing Account Balance for Previous Month C	Total Payments from Nonresident Accounts (as recorded in column A, rows 4 and 5, of part D) D	Total Receipts for Nonresident Accounts (as recorded in column A, rows 4 and 5, of part D) E	Reconciliation (B - C + D - E) F

Please explain the reconciliation item if it is significant. _____

For the amounts reported in columns A and B, please indicate whether the account is held by a nonresident bank or nonbank and record the relevant economy codes and amounts involved.

Bank/nonbank					
Economy code					
Value in column A					
Value in column B					

Part G. Other External Asset and Liability Positions

1. Report details of claims (other than nostro accounts) on and liabilities (other than vostro accounts and other deposits) to nonresidents.
2. Report in thousands of currency units.
3. A separate line should be used to record each asset/liability code, economy code, and currency code.

Asset/ Liability Code A	Economy Code B	Currency Code C	Closing Position for This Month D	Closing Position for Previous Month E	Payments Recorded in Part B F	Receipts Recorded in Part B G	Reconciliation (a) H

(a) For assets, $H = D - E + F - G$. For liabilities, $H = D - E - F + G$.

Please explain the reconciliation item if it is significant. _____

Part H. Final Questions

Please verify that the form has been completed correctly and mark the following boxes.

- The information in part A of the form is correct.
- Part B of the form has been completed in accordance with instructions. In particular, multipayment and offset transactions have been reported on a gross basis. The totals for columns F, G, H, and I have been entered.
- The exchange rates in part C have been calculated, and the average exchange rates derived show that each transaction has been converted correctly. Any unusual conversion rates have been explained.
- Parts D, E, and F have been completed in accordance with instructions, and any significant reconciliation items have been explained.
- Part G has been completed in accordance with instructions, and any significant reconciliations have been explained.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Telephone number: _____

Signature: _____

Facsimile number: _____



**Balance of Payments Survey
Form 3-5—ITRS—Bank’s Record of Transactions**

Please correct any errors in this label

Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

OFFICE USE ONLY

Rec. _____

Edit _____

Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that, each month, a representative of the bank to which this form is addressed must return Form 3-1—ITRS—Payments and Receipts (or records thereof) completed by clients, Form 3-4—ITRS—Banks, and Form 3-5—ITRS—Bank’s Record of Transactions to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information to be used in compiling Newland’s balance of payments and international investment position statistics. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Balance of Payments Division of the Newland Ministry of Statistics.

Instructions: Detailed instructions for the completion of ITRS forms appear on following pages.

Due date: Please return the completed form by **MM DD, YYYY**.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____

Title: _____

Area code

Facsimile number: (_____) _____

Area code

Notes and Instructions for Form 3-5—ITRS—Bank's Record of Transactions

In accordance with ITRS collection arrangements, your bank should, for transactions that pass through the bank, maintain a record of all transactions with **nonresidents**. A copy of these records should be sent to the Newland Ministry of Statistics, within six days of the end of the reference month, on Form 3-5—ITRS—Bank's Record of Transactions. Entries in some table cells are not required (note /// marks). For example, in columns E, F, and G, only currency code, payments and receipts, and value are required. For column A (bank's own transactions), greater detail is required on the Form 3-4—ITRS—Banks; this column is included in the table on Form 3-5 to show the coverage provided by Form 3-4. Form 3-5 can be regarded as a pro forma for supplying data in computer readable form.

Form 3-5—ITRS—Bank’s Record of Transactions

Bank Name	Bank Reference Number	Month and Year

	Own Account Transactions of Bank A	Large Transactions of Residents (a) B	Small Transactions of Residents (b) C	Nonresident Accounts—Banks D	Nonresident Accounts—Nonbanks E
Currency code					
Payments					
Receipts					
Day and month			////////	////////	////////
Reference number of transaction			////////	////////	////////
Resident transactor code	////////		////////	////////	////////
Value					

- (a) Transaction of ND 10,000 or larger.
- (b) Transaction of less than ND 10,000.

Annex to Forms 3-1–3-5 for ITRS—Classifications

Transaction Codes

<p>1. Goods exported and imported</p> <p>110 Goods arriving in or leaving Newland 120 Merchanting 130 Nonmonetary gold 140 Goods supplied to ships in port</p> <p>2. Transport and travel services <i>Freight services</i> 211 Sea transport 212 Air transport 213 Other transport <i>Passenger services</i> (international routes) 221 Sea transport 222 Air transport 223 Other transport <i>Other transport services</i> 231 Sea transport 232 Air transport 233 Other transport 240 Postal and courier services <i>Travel services</i> 251 Business travel 252 Personal travel</p> <p>3. Other services 310 Manufacturing services 320 Maintenance and repair services 330 Construction 341 Insurance premiums 342 Insurance claims 343 Financial services 350 Charges for use of intellectual property (royalties and fees) 361 Telecommunication 362 Computer services 363 Information service 371 Research and development services 372 Professional and management consulting services 373 Technical, trade-related, and other business services 374 Audiovisual and related services 375 Personal, cultural, and recreational services 380 Services to foreign governments, n.i.e.</p>	<p>4. Income 410 Dividends 420 Distribution of profits 430 Interest 440 Taxes, subsidies, rent</p> <p>5. Remittances 510 Compensation of employees 520 Workers' remittances 530 Other personal transfers 540 Transfers through money transfer operators not included above</p> <p>6. Transfers 610 Development assistance 620 Technical assistance 630 Other grants 640 Other current transfers</p> <p>7. Transactions in claims on nonresidents 710 Equity 711 Purchase of real estate abroad 720 Debt instruments between affiliated companies 731 Long-term debt securities (bonds, notes) 732 Short-term debt securities 740 Options, futures, warrants, swaps, etc. 751 Loans, long-term 752 Loans, short-term 760 Deposits 770 Other equities 780 Other</p> <p>8. Transactions in liabilities to nonresidents 810 Equity 811 Sale of real estate to nonresidents 820 Debt instruments between affiliated companies 831 Long-term debt securities (bonds, notes) 832 Short-term debt securities 840 Options, futures, warrants, swaps, etc. 851 Loans, long-term 852 Loans, short-term 860 Deposits 870 Other equities 880 Other</p> <p>9. Transfer of funds between accounts 900 Transfer of funds between accounts</p>
---	---

Transaction Type

(Required to complete Forms 3-3, 3-4, and 3-5)

<p>1. Single payment transaction: The payment is applicable to only one transaction code, and no netting or settlement is involved.</p> <p>2. Multipayment transaction: Payments apply to <i>more than one transaction code</i> (e.g., a loan repayment is combined with interest), result from <i>partial netting</i> (e.g., actual payment is the difference between financing acquired and fees paid), or are <i>settlement transactions</i>, in which a payment settles a number of transactions. In each case, underlying transactions should be recorded.</p>	<p>3. Offset transactions: These transactions do not result in cash payments through bank accounts and should be recorded so that all gross transactions are measured. Offset entries could result from, for example, the acquisition of financing to pay for goods and services; the provision of goods, services, and financial assets in lieu of interest and dividends; debt to equity swaps; or the issue of shares to pay for goods. In each case, both a payment and a receipt entry should be recorded. If several transaction categories are involved, several payment and receipt entries may have to be recorded.</p> <p>4. Transfer of funds between accounts: The other currency involved should be recorded in column D.</p>
---	--

Other Party Codes

<p>1. Nonresident head office, nonresident parent company, major shareholder, or companies related to or associated with these</p> <p>2. Nonresident branch or subsidiary of transactor or an company in which this company (or a subsidiary or associate company) has a major shareholding</p> <p>3. Foreign government</p>	<p>4. An international institution</p> <p>5. A nonresident central bank</p> <p>6. A nonresident bank</p> <p>7. Another nonresident company or person</p> <p>8. A resident company or person</p> <p>Note: In items 1 and 2, a major shareholder is one with 10 percent or more equity interest.</p>
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Economy Codes

To be provided by the compiler

Currency Codes

To be provided by the compiler

Export/Import Codes

(Required to complete Form 3-2 and part F of Form 3-3)

<p>A. Food, live animals, beverages, and tobacco</p> <p>B. Minerals, fuels, and lubricants</p> <p>C. Chemical, plastic, medical, pharmaceutical, and rubber products, and fertilizers</p> <p>D. Wood, paper, and products thereof</p> <p>E. Textiles, clothing, and footwear</p>	<p>F. Machinery, office and communication equipment, and other electrical goods, including spares</p> <p>G. Vehicles and transport equipment, including spares</p> <p>H. Metal and metal products not included elsewhere</p> <p>I. All other goods</p>
--	--



Balance of Payments Survey Form 4—Goods

Please
correct any
errors in
this label

□□□□□□□□□□
Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

OFFICE USE ONLY

Rec. _____
Edit _____
Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information that will be used in compiling Newland's balance of payments statistics on exports and imports of goods. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Due date: Please return the completed form by MM DD, YYYY

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Estimates: Some of the data requested may not be readily available from your records. In these cases, **careful estimates** will suffice.

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments and international investment position statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____
Area code

Title: _____

Facsimile number: (_____) _____
Area code

Instructions for Completing Form 4—Goods

Reporting Instructions

Form 4 should be completed for the company (and any subsidiaries in Newland) listed on page 1 of the form—unless different arrangements have been made with the Newland Ministry of Statistics.

Residents and Nonresidents

A *nonresident* is any individual, company, or other organization domiciled in an economy other than Newland. Newland subsidiaries of nonresident companies are *residents* of Newland. Similarly, foreign subsidiaries of Newland companies are nonresidents.

Conversion to Newland Dollars

All values should be reported in thousands of Newland dollars. Foreign currencies should be converted to Newland dollars at the **midpoint** of the buy and sell rates applicable on the date of the transaction.

Structure of Form 4

Form 4 collects information on the goods transactions of this company and its Newland subsidiaries with **nonresidents**.

Parts A and B collect data on exports and imports—that is, goods sold to nonresidents (exports) and goods purchased from nonresidents (imports).

Part C covers repairs by nonresidents to goods owned by your company.

Parts D (exports) and E (imports) measure significant differences between date of sale and date of shipment.

Parts F (imports) and J (exports) are concerned with the financing of trade.

Completing Part A (Exports of Goods)

In column A, enter a description of the commodity exported by your company (and its subsidiaries), and in columns E to I the countries in which final delivery of the goods is expected. One row should be completed for each commodity. Please note that the sum of columns E through I should equal column D. The free on board (f.o.b.) value is the value of goods at the point of departure from the exporting economy (in this case, Newland), and the f.o.b. value includes the cost of loading the goods prior to transportation. If the response to item 6 is ND 500 or less, record a dash (—).

Completing Part B (Imports of Goods)

Record the free on board (f.o.b.) value and the cost, insurance, and freight (c.i.f.) values for each commodity group that your company (and its subsidiaries) imports. The f.o.b. value is the value of goods when they leave the exporting economy; the f.o.b. value includes also the cost of loading the goods prior to transportation. The c.i.f. value is the value of goods delivered to the border of the importing economy (in this case, Newland). If you are in doubt about the commodity group for a particular import, please contact the Newland Ministry of Statistics or describe details in the space provided on the form. The economy from which the goods were initially dispatched (consigned) should be entered in the heading for columns C through G, and the sum of the values recorded in those columns should equal column B. If the answer to question 11 or 12 is ND 500 or less, record a dash (—).

Completing Part C (Repairs to Goods)

A separate line should be completed for each commodity and economy. In column D, any associated transportation and insurance costs should be reported separately.

Completing Parts D and E (Consignment Trade)

A separate line should be completed for each commodity and economy combination. In part D, please report details about goods sent abroad on consignment, including value of goods sent abroad during the period, value of goods sold, value of goods destroyed or wasted, value of goods returned and values of goods held. Please verify that the total value of goods held at the end of the period (column D) equals the beginning value (column C) plus the value of goods sent (column E), less the value of goods sold (column G), less goods returned (column F), less goods wasted or destroyed (column H). Details of commissions paid to nonresident agents should also be reported. Similarly, in part E, please report details about goods held domestically on consignment and commissions received from nonresidents for the sale of consignment goods.

Completing Parts F and G (Trade Payables and Receivables)

A separate line should be completed for each economy. In part F, please report any advances paid on goods yet to be imported, payments made on goods imported in previous periods, and goods imported where payment was made in a previous period or is yet to be made. In part G, please report any advances received on goods yet to be exported, payments received on goods exported in previous periods, and goods exported where payment was received in a previous period or is yet to be received.

Form 4—Goods

Part A. Goods Sold to Nonresidents and Exported from Newland during the Quarter

(Report in thousands of Newland dollars and, where appropriate, specify quantity)

Commodity Description	Volume		F.o.b. Value					
	Amount	Units (specify)	Total	Economy of Final Delivery				
A	B	C	D	E	F	G	H	I
1.								
2.								
3.								
4.								
5.								

6. Please report, for the quarter, the value of any goods exported from Newland but lost before delivery. ND '000 _____

Part B. Goods Purchased from Nonresidents and Imported to Newland during the Quarter

(Report in thousands of Newland dollars)

Commodity Group	C.i.f. Value	F.o.b. Value					
		Total	Economy of Initial Dispatch (specify)				
	A	B	C	D	E	F	G
1. Food, live animals, beverages, and tobacco							
2. Mineral, fuels, and lubricants							
3. Chemical, plastic, medical, pharmaceutical, and rubber products, and fertilizers							
4. Wood, paper, and products thereof							
5. Textiles, clothing, and footwear							
6. Machinery, office and communications equipment, and other electrical goods, including spare parts							
7. Vehicles and transport equipment, including spare parts							
8. Metal and metal products not included elsewhere							
9. All other goods							
Total			////////	////////	////////	////////	////////

If you are unable to assign goods to a particular commodity, please provide details.

10. Of the amount reported in row Total, column A, how much was for insurance premiums? ND '000 _____

11. How much was received in respect of insurance claims for goods purchased abroad and lost before arrival in Newland? ND '000 _____

Part C. Value of Fees for Repairs to Goods Paid to Nonresidents during the Quarter
(Report in thousands of Newland dollars)

Commodity Description	Economy in Which Goods Were Repaired	Value of Repairs	Transportation Costs Paid to Nonresidents
A	B	C	D
1.			
2.			
3.			

Part D. Consignment Trade—Goods Consigned Abroad during the Quarter
(Report in thousands of Newland dollars)

Commodity Description	Economy of Consignment	Value of Goods Held Abroad		Goods Shipped during the Period		Value of Goods Sold Abroad	Value of Goods Wasted or Destroyed during the Period	Commissions Paid to Nonresident Agents
		Opening Position	Closing Position	Sent Abroad c.i.f.	Returned f.o.b.			
A	B	C	D	E	F	G	H	I
1.								
2.								
Total	///////							

Part E: Consignment Trade—Goods Held Domestically on Consignment during the Quarter
(Report in thousands of Newland dollars)

Commodity Description	Economy of Origin	Value of Goods Held		Goods Shipped during the Period		Value of Goods Sold Domestically	Value of Goods Wasted or Destroyed during the Period	Commissions Received
		Opening Position	Closing Position	Received from Abroad c.i.f.	Returned f.o.b.			
A	B	C	D	E	F	G	H	I
1.								
2.								
Total	///////							

Part F. Trade Finance—Imports

(Report value in thousands of Newland dollars)

Economy (specify)	Finance Extended		Finance Extinguished	
	Imports Received— Payment to Be Made	Advances Paid— Goods Yet to Be Received	Imports Received— Payment Made in Previous Period	Payments Made— Goods Received in Previous Period
A	B	C	D	E
1.				
2.				
Total				

Part G. Trade Finance—Exports

(Report value in thousands of Newland dollars)

Economy (specify)	Finance Extended		Finance Extinguished	
	Exports Sent— Payment to Be Made	Advances Received— Goods Yet to Be Sent	Exports Sent— Payment Received in Previous Period	Payments Received— Goods Sent in Previous Period
A	B	C	D	E
1.				
2.				
Total				

Part H. Revisions to Previously Reported Data

Please provide details of any significant revisions to data previously reported incorrectly.

Part I. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out the inappropriate phrases.

- The name of the company shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- Responses cover all transactions in goods of the company named on page 1 and its subsidiaries in Newland. / The following activities have not been included:
- The information in part A of the form has been completed in accordance with instructions.
- The information in part B of the form has been completed in accordance with instructions.
- The information in part C of the form has been completed in accordance with instructions.
- The information in parts D and E of the form has been completed in accordance with instructions.
- The information in parts F and G of the form has been completed in accordance with instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part H.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____



Balance of Payments Survey Form 5—Goods for Merchanting

Please correct any errors in this label

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Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

OFFICE USE ONLY

Rec. _____

Edit _____

Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information on purchases and resales of goods under merchanting, which will be used in compiling Newland’s balance of payments statistics. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Description of activity: Merchanting transactions consist of the purchase of goods by a resident (your company) from nonresidents combined with the subsequent resale of the **same goods** to another nonresident without the goods entering Newland. Part A covers the merchanting activity undertaken by your company. In the case where the physical form of the goods purchased from abroad is changed during the period they are owned by your company (e.g., as a result of processing, assembly, labeling, and packaging), then the activity should be reported as manufacturing services (see Form 7). Manufacturing services include the processing, assembly, labeling, and packing of goods that are owned by a resident of another economy. The value of the manufacturing service is the fee charged for manufacturing—it does not take into account the value of the goods or the change in their value due to the manufacturing. Part B requests details on significant revisions to data for previous periods (if any), and part C includes questions for verifying the comprehensiveness of the completed data.

Due date: Please return the completed form by **MM DD, YYYY**.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Estimates: Some of the data requested may not be readily available from your records. In these cases, **careful estimates** will suffice.

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments and international investment position statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____
Area code

Title: _____

Facsimile number: (_____) _____
Area code

Form 5—Goods for Merchenting**Part A. Goods for Merchenting**

Is your company undertaking merchenting activity abroad?

Yes

No

If the response to the above question is “yes,” please complete the tables below with information regarding the goods acquired and resold under merchenting.

Goods Acquired from Abroad under Merchenting

(Report in thousands of Newland dollars)

Commodity Description	Economy From Which Goods Were Purchased	Value of Goods Purchased Abroad during the Period
A	B	C
1.		
2.		
3.		
4.		
Total	////////////////////	

Goods Sold Abroad under Merchenting

(Report in thousands of Newland dollars)

Commodity Description	Economy to Which Goods Were Sold	Value of Goods Sold during the Period (including goods purchased in previous periods)	
		Margin on Purchase and Resale of Goods (i.e., merchenting)	Selling Price
A	B	C	D
1.			
2.			
3.			
4.			
Total	////////////////////		

Part B. Revisions to Previously Reported Data

Please provide details of any significant revisions to data previously reported incorrectly.

Part C. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the company shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- The information in part A has been completed in accordance with the instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part B.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____



Balance of Payments Survey Form 6—International Trade in Services

Please
correct any
errors in
this label

□□□□□□□□□□
Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

OFFICE USE ONLY

Rec. _____
Edit _____
Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information that will be used in compiling Newland's balance of payment statistics on international transportation transactions. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Due date: Please return the completed form by MM DD, YYYY.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Estimates: Some of the data requested may not be readily available from your records. In these cases, **careful estimates** will suffice.

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments and international investment position statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (____) _____
Area code

Title: _____

Facsimile number: (____) _____
Area code

Instructions for Completing Form 6—International Trade in Services

Reporting Instructions

Form 6 should be completed for the company (and any subsidiaries in Newland) listed on page 1 of the form—unless different arrangements have been made with the Newland Ministry of Statistics.

Residents and Nonresidents

A *nonresident* is any individual, company, or other organization ordinarily domiciled in an economy other than Newland. Newland subsidiaries of nonresident companies are *residents* of Newland. Similarly, foreign subsidiaries of Newland companies are nonresidents.

Conversion to Newland Dollars

All values should be reported in thousands of Newland dollars. Foreign currencies should be converted to Newland dollars at the **midpoint** of the buy and sell rates applicable on the date of the transaction.

Structure of Form 6

Form 6 collects quarterly information on selected international service transactions of this company and its subsidiaries.

Parts A and B cover services (except insurance, pension, transportation, and travel services) provided to and received from nonresidents. International insurance transactions should be reported in part C, and international pension payments should be reported in part D. Details of transportation and travel transactions are collected through other survey forms. The activities of resident insurance companies and pension funds are collected through other survey forms.

Economy

Each question seeks information on the economy of transaction. Record the economy of residence of the nonresident transactor.

Services Included

Services, which are products other than tangible goods, include communications, advertising, accounting, and management consulting. Services do not include wages, profits, dividends, or interest. Transportation and travel services should not be included as information on these items is collected through other survey forms.

Services provided to nonresidents include those for which payment is made directly to your company by a nonresident entity (including a foreign affiliate of your company). Record services provided by your company, its employees abroad, or some other resident entity on whose behalf your company receives payment. Exclude services that are provided to nonresidents by your company and paid for through other unrelated resident entities; however, report the names and addresses of these entities in your response to question 39.

Services received from nonresidents include all services provided by nonresidents and paid for directly by your company, its subsidiaries, or its employees. Exclude services that are provided by nonresidents to your company or its subsidiaries and paid for, on your behalf, by other unrelated resident entities; however, record the names and addresses of these entities in your response to question 39.

Because form 6 seeks information on transactions between residents and nonresidents, you should not report services provided to nonresidents by nonresident companies owned by your company. However, you should report services provided by your company to related companies abroad and services provided by related companies abroad to your company. If determinations between branch activities and head office activities prove difficult, or if you are uncertain about whether a particular transaction should be included, please call (XXX) XXX-XXXX for assistance.

Individual Service Categories

Maintenance and Repair Services: These services include fees charged for the maintenance and repair and the value of any parts or material included in the repair fee. Where parts or materials are separately charged, they are excluded from the value of the service.

Postal and Courier Services: These services include the pickup, transport, and delivery of letters, newspapers, periodicals, brochures, other printed matter, parcels, and packages. They also include post office counter services, such as sales of stamps and mailbox rental services.

Financial Services: These services include fees for intermediation services such as lending, financial leasing, letters of credit, bankers' acceptances, lines of credit, foreign exchange transactions, and traveler's check transactions; commissions and fees associated with security brokerage, placements of issues, underwriting, redemptions, swaps, options, and commodity futures; and portfolio and other financial management fees.

Charges for the Use of Intellectual Property: These include fees associated with the use of patents, copyrights, trademarks, industrial processes, franchises, and so forth, and licensing agreements associated with manuscripts, paintings, sculptures, and so forth, as well as other outcomes of research and development. Included are also charges for licenses to reproduce and/or distribute (e.g., copyright on books and manuscripts, computer software, cinematographic work, and sound recordings and related rights, such as for recording of live performances, television, cable or satellite). However, outright purchases/sales of such marketing assets (e.g., franchises and trademarks) are recorded as transactions in assets (see Part E).

Telecommunications Services: These services include broadcast or transmission of sound, images, data, or other information by telephone, telex, telegram, radio and television cable transmission, radio and television satellite, electronic mail and networking, teleconferencing, and similar services.

Computer Services: These services include data base development, storage, and online time series facilities; data processing, tabulation, processing services (on a time-share or specific basis), and processing management services; hardware consultancy; software design, development, and customized implementation and programming; maintenance and repair of computers and peripheral equipment; and computer-related online downloads.

Information Services: This category includes news agency services, database services, and Web search portals. Also included are direct nonbulk subscriptions to newspapers and periodicals, whether by mail, electronic transmission, or other means; other online content provision services (except for software or audio, e-books, and video); and library and archive services.

Research and Development: These activities cover those services that are associated with basic research, applied research, and experimental development of new products and processes (e.g., research associated with the physical and social sciences, humanities, etc.).

Professional and Management Consulting Services: These services include legal advice, representation, and documentation; accounting, auditing, bookkeeping, and tax-related services; planning, organization, cost projecting, and human resource management; and public relations. They also include advertising services; trade fair exhibition services; market research; and public opinion polling services.

Architecture, Engineering, and Other Technical Services: These services include architectural design of urban and other development projects; planning, project design, and supervision of dams, bridges, airports, turnkey projects, and so forth; and surveying, product testing and certification, and technical inspection services.

Waste Treatment and Depollution, Agricultural, and Mining Services: This category includes services associated with the treatment of radioactive and other waste and cleanup of pollution and spills and restoring the environment; services associated with agricultural crops—for example, protection against insects and disease, increasing of harvest yields, and so forth; forestry and fishing services; mining, oil and gas-related services—for example, analysis of ores and so forth.

Operating Leasing: Operating leasing includes leasing of buildings, machinery and equipment—other than transportation equipment with crew—and excludes items under financial lease.

Trade-Related Services: These services include commissions on goods and services associated with commodity brokerage, auction sales, sales of ships and aircraft, and so forth.

Other Business Services: These services include distribution services related to water, steam, gas, and other petroleum products and air-conditioning supply (where identified separately from transmission services); security and investigative services, translation and interpretation, photographic services, building cleaning, placement of personnel, real estate services, and so forth.

Personal, Cultural, and Recreational Services: These services include fees received by actors, directors, and producers associated with the production of motion picture and television films; downloading of mass-produced audiovisual products (movies and music, including recordings of live performances); health services, education services, heritage and other cultural services, and sporting and other recreational services.

Note: Services, including education and health services, provided to nonresidents visiting Newland are considered to be travel services and should not be reported on this form.

Insurance Transactions to Be Reported in Part C

Details of insurance premiums and claims for insurance placed directly abroad by Newland residents (other than insurance companies) and by Newland insurance agents and brokers on behalf of Newland residents should be recorded. Insurance companies, unless such companies also act as brokers or agents, should not complete this part of the form. Companies that use a resident agent or broker to place insurance abroad should not report these transactions as the transactions will be reported by the broker or agent.

Pension Transactions to Be Reported in Part D

Details of pension contributions on behalf of resident employees into nonresident pension funds and on behalf of nonresident employees should be recorded.

Form 6—International Trade in Services

Part A. Selected Services Provided to Nonresidents

(Report in thousands of Newland dollars)

	Total	Transactions by Economy (specify)				
	A	B	C	D	E	F
1. Maintenance and repair services						
2. Postal and courier services						
3. Financial services						
4. Charges for the use of intellectual property						
5. Telecommunications services						
6. Computer services						
7. Information services						
8. Research and development						
9. Professional and management consulting services						
10. Architecture, engineering, and other technical services						
11. Waste treatment and depollution, agricultural and mining services						
12. Operating leasing						
13. Trade-related services						
14. Other business services						
15. Personal, cultural, and recreational services						
16. Other (specify _____)						

Part B. Selected Services Received from Nonresidents

(Report in thousands of Newland dollars)

	Total	Transactions by Economy (specify)				
	A	B	C	D	E	F
17. Maintenance and repair services						
18. Postal and courier services						
19. Financial services						
20. Charges for the use of intellectual property						
21. Telecommunications services						
22. Computer services						
23. Information services						
24. Research and development						
25. Professional and management consulting services						
26. Architecture, engineering, and other technical services						
27. Waste treatment and depollution, agricultural, and mining services						
28. Operating leasing						
29. Trade-related services						
30. Other business services						
31. Personal, cultural, and recreational services						
32. Other (specify _____)						

Part C. Insurance Transactions of Newland Companies, Brokers, and Agents with Nonresidents

(Report in thousands of Newland dollars)

This section should NOT be completed by insurance companies.

	Total	Transactions by Economy (specify)				
	A	B	C	D	E	F
33. Insurance of goods	Premiums paid					
	Claims received					
34. Other casualty insurance	Premiums paid					
	Claims received					
35. Life insurance	Premiums paid					
	Claims received					

Part D. Pension Contributions on Behalf of Resident and Nonresident Employees by Brokers and Agents

36. Does this company, or its subsidiaries in Newland, pay pension contributions:
- a. on behalf of resident employees into nonresident pension funds? Yes No
 - b. on behalf of nonresident employees into resident pension funds? Yes No
- If *yes*, please give the name and address of the resident pension fund receiving payments.
-

- c. on behalf of nonresident employees into nonresident pension funds? Yes No
- If the answer to question 36 (a), (b), and (c) is *no*, please go to question 38.

(Report in thousands of Newland dollars)

	On behalf of resident employees			On behalf of nonresident employees		
	Economy of fund			Economy of fund		
	A	B	C	D	E	F
37. Contributions made						

Part E. Purchase and Sale of Marketing Assets

38. Did the company buy or sell brand names, mastheads, trademarks, logos or domain names (without buying or selling the company that owned the marketing assets)? Yes No
- a. value of marketing assets purchased from nonresidents? ND _____
 - b. value of marketing assets sold to nonresidents? ND _____

Part F. Payments for Services Settled through Other Resident Organizations and Long-Term Construction Activity

39. Does this company, its subsidiaries in Newland, or its employees working abroad:
- a. provide services to nonresidents that are paid for on your behalf by another resident entity? Yes No
 - b. receive services from nonresidents for which payment is received on your behalf by another resident entity? Yes No
 - c. engage in long-term construction activity abroad? Yes No
 - d. engage a nonresident company for long-term construction activity in Newland? Yes No

If the answer to question 39 (a) or (b) is *yes*, please give the name and address of the resident company making or receiving payments.

Part G. Revisions to Previously Reported Data

Please provide details of any significant revisions to data previously reported incorrectly.

Part H. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the company shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- The information in parts A through F has been completed in accordance with the instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part G.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____

Form 7—Manufacturing Services

Part A. Manufacturing Services Undertaken by Your Company

In the period covered by this survey, did your company perform manufacturing (processing) services on goods belonging to foreign owners?

Yes No

If your response to the above question is “yes,” please

- a. Provide a short description of i) the goods received for manufacturing and ii) the manufactured (finished) goods;
- b. Complete the table below with information regarding the manufacturing of these goods.

Information on Manufacturing Services Sold by Your Company

(Report in foreign currency or Newland dollars)

Economy of Origin	Currency	Value of Goods Received/Dispatched During the Quarter		Value of Manufacturing Services During the Quarter		Value of Goods Sold in Newland on Behalf of the Foreign Owner
		Goods Received from Nonresidents for Manufacturing	Goods Dispatched to Nonresidents after Manufacturing*	Total	of which Payment in Kind (Estimated Value of Goods)	
A	B	C-1	C-2	D-1	D-2	E
Total	X					X

*Final value of manufactured goods that takes into account any concessions granted (e.g., special taxes and custom regulations).

Part B. Manufacturing Services Undertaken by Nonresidents Abroad for Your Company

In the period covered by this study, did your company send goods for manufacturing (processing) abroad?

Yes No

If your response to the above question is “yes,” please

- c. Provide a short description of i) the goods sent abroad for manufacturing and ii) the returned manufactured (finished) goods;
- d. Complete the table below with information regarding the manufacturing abroad of these goods.

Information on Manufacturing Services Purchased Abroad

(Report in foreign currency or Newland dollars)

Economy of Manufacturing	Currency	Value of Goods Dispatched/Received during the Quarter		Value of Manufacturing Services during the Quarter		Value of Manufactured Goods Sold Abroad on Behalf of Your Company
		Goods Dispatched to Nonresidents for Manufacturing	Goods Received from Nonresidents After Manufacturing	Total	of which Payments in Kind (Estimated Value of Goods)	
A	B	C-1	C-2	D-1	D-2	E
Total	X					X

Part C. Revisions to Previously Reported Data

Please provide details of any significant revisions to data previously reported incorrectly.

Part D. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the company shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- The information in parts A through B has been completed in accordance with the instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part C.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____



Balance of Payments Survey Form 8—Resident Transport Operators

Please correct any errors in this label

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Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

OFFICE USE ONLY
Rec. _____
Edit _____
Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information that will be used in compiling Newland's balance of payments and international investment position statistics on international transportation transactions. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Due date: Please return the completed form by MM DD, YYYY.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Estimates: Some of the data requested may not be readily available from your records. In these cases, **careful estimates** will suffice.

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments and international investment position statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____
Area code

Title: _____

Facsimile number: (_____) _____
Area code

Instructions for Completing Form 8—Resident Transport Operators

Reporting Instructions

Form 8 should be completed for the company (and any subsidiaries in Newland) listed on page 1 of the form—unless different arrangements have been made with the Newland Ministry of Statistics.

Residents and Nonresidents

A *nonresident* is any individual, company, or other organization domiciled in an economy other than Newland. Newland subsidiaries of nonresident companies are *residents* of Newland. Similarly, foreign subsidiaries of Newland companies are nonresidents.

Conversion to Newland Dollars

All values should be reported in thousands of Newland dollars. Foreign currencies should be converted to Newland dollars at the **midpoint** of the buy and sell rates applicable on the date of the transaction.

Structure of Form 8

Form 8 collects information on the international transportation activities of this company and its Newland subsidiaries. Part A collects selected earning and expense data. Part B collects information on expected purchases of large equipment. Part C requests selected details of ticket sales to resident travelers on international routes.

Partner Economy

Part A of form 8 requests information on earnings and expenses by economy. The countries in which earnings or expenses were incurred should be indicated. (Transactions with residents of Newland should be recorded as such in sections 2a and 2b of part A.) Part C requests information on amounts of revenue earned by other nonresident airlines on passenger ticket sales by your company. The economy of residence of the nonresident transport operator should be recorded.

Passenger Fares (Item 1)

Amounts reported should include passenger fares earned, for the categories of persons shown in the table, by your company and its subsidiaries. Earnings from the charter of transport equipment with crew (to carry passengers) and from accompanied luggage (excess baggage) should be included. Earnings should be recorded on a gross basis—that is, before any deduction of commissions on ticket sales. Such commissions should be regarded as expenses and reported in item 11.

Freight Services (Item 2)

Amounts reported should include earnings by this company and its subsidiaries from the carriage of goods (freight) and from the charter of transport equipment with crew (to carry goods). Earnings should be recorded on a gross basis—that is, before any deduction of commissions to freight agents. Such commissions should be regarded as expenses and reported in item 12.

Charter of Equipment without Crew (Items 3b and 13)

Amounts reported should cover payments associated with charter of transport equipment without crew—except for transport equipment under a financial lease.

Agent Fees on Passenger Fares (Item 11)

Amounts reported should include fees paid to nonresidents in respect of passenger fares earned.

Passenger Fare Ticket Sales to Residents (Part C)

These data are required to estimate earnings and associated expenses of nonresident operators on passenger services provided to resident travelers. In item 17, data on ticket sales (less refunds) to resident travelers for international routes should be reported. In item 18, revenue paid to nonresident operators on tickets sold by your company should be reported. All amounts should be reported before deduction of commissions on ticket sales. Commissions earned by your company on revenue reported in item 18 should be recorded in item 19 rather than item 3.

Form 8—Resident Transport Operators

Part A. Selected Earnings and Expenses

(Report in thousands of Newland dollars)

	Total	Earnings and Expenses by Economy (specify)				
	A	B	C	D	E	F
Selected Transportation Earnings						
1. Passenger fares earned from:						
a. Nonresident travelers on international routes						
b. Nonresident travelers on domestic routes						
c. Resident travelers on international routes		////////	////////	////////	////////	////////
2. Earnings from freight services on:						
a. Imports to Newland						
b. Exports from Newland						
c. Operations in Newland for nonresidents						
d. Other foreign routes						
3. Other selected earnings from abroad:						
a. Inward mail						
b. Charter of equipment without crew (leasing)						
c. Other (specify _____)						
Selected Transportation Expenses Abroad						
4. Fuel (bunkers)						
5. Provisions (catering)						
6. Loading and unloading charges (stevedoring)						
7. Repairs and maintenance of transport equipment						
8. Cleaning charges						
9. Crew layover expenses						
10. Port charges, taxes, and landing fees						
11. Agent fees on passenger fares						
12. Other agent fees						
13. Charter of vessels without crew (leasing)						
14. Advertising abroad						
15. Other expenses abroad (specify _____)						

Part B. Expected Equipment Purchases

16. Please give details of any purchases of large equipment (e.g., aircraft, ships) that you expect to take delivery of in the next two years. Include information on the type of acquisition of equipment, whether under financial lease or other arrangements (please specify).

Part C. Passenger Fare Ticket Sales to Residents on International Routes

(Report in thousands of Newland dollars)

	Total	Economy of Residence of Nonresident Operator (specify)				
	A	B	C	D	E	F
17. Ticket sales (less refunds) made, during the quarter, to resident travelers on international routes		////////	////////	////////	////////	////////
18. Revenue earned, during the quarter, by nonresident transport operators on tickets issued by your company						
19. Commission earned by your company on amounts reported in item 18						

Part D. Revisions to Previously Reported Data

Please provide details of any significant revisions to data previously reported incorrectly.

Part E. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the company shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details of the contact person have been entered on page 1.
- The information in parts A, B, and C has been completed in accordance with the instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part D.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____

Instructions for Completing Form 9—Transactions with Nonresident Transport Operators

Reporting Instructions

Form 9 should be completed for the company (and any subsidiaries in Newland) listed on page 1 of the form—unless different arrangements have been made with the Newland Ministry of Statistics.

Residents and Nonresidents

A *nonresident* is any individual, company, or other organization domiciled in an economy other than Newland. Newland subsidiaries of nonresident companies are *residents* of Newland. Similarly, foreign subsidiaries of Newland companies are nonresidents.

Conversion to Newland Dollars

All values should be reported in thousands of Newland dollars. Foreign currencies should be converted to Newland dollars at the **midpoint** of the buy and sell rates applicable on the date of the transaction.

Structure of Form 9

Form 9 collects information on the transactions of this company with **nonresident** transport operators, including foreign airlines, ships, railways, fishing vessels, and so forth (if the company is unaffiliated with nonresident operators to whom services are provided) or on transactions of the branch offices or agencies representing the nonresident transport operators with or on behalf of its nonresident parent company.

Part A, which is divided into two subsections, collects data on goods and services provided to nonresident transport operators. In items 1 through 10, report goods and services that your company provides to nonresidents and for which your company arranges settlement directly with a nonresident transport operator or the nonresident agent thereof. Information on settlements made through other resident companies will be collected directly from them. In items 11 through 20, report goods and services that are acquired by nonresident transport operators from other residents and for which settlement is made through your company or its subsidiaries.

Part B collects data on the ticket sales on behalf of nonresident transport operators and revenue earned by nonresident transport operators. This part should be completed by branch offices or agencies representing nonresident transport operators for nonresident transport operators.

Part C collects data on selected earnings, such as those from the provision of freight services within Newland (inland freight), of nonresident transport operators and other payments to nonresident operators—apart from passenger services and freight services provided on imports and exports). This part should be completed by branch offices or agencies representing nonresident transport operators for nonresident transport operators.

Economy

The economy of residence of the nonresident transport operator should be recorded in several sections of form 9.

Passenger Fares (Items 21 and 22)

Item 21 requests data on the value of ticket sales (less refunds) made by nonresident transport operators to Newland resident travelers. Item 22 requests information on passenger revenue earned by nonresident transport operators from tickets sold (irrespective of which operator sold the ticket) to residents of Newland. (A ticket sold by one operator may be used on another operator's service and thereby generate revenue for the second operator.) If your company is a branch or agent of the first operator, the ticket sale should be reported in item 21. If your company is a branch or agent of the second operator, the ticket sale should be reported in item 22. Fares should be recorded on a gross basis—that is, before deduction of commissions. Commissions paid by nonresident transport operators on ticket sales should be recorded in part A. Revenue includes earnings from the charter of transport equipment with crew (to carry passengers) and from accompanied luggage (excess baggage).

Form 9—Transactions with Nonresident Transport Operators

Part A. Goods and Services Provided to Nonresident Transport Operators

(Report in thousands of Newland dollars)

	Total	Economy of Residence of Operator (specify)				
	A	B	C	D	E	F
Provided by Your Company and Settlements Made Directly with Nonresidents						
1. Fuel (bunkers)						
2. Provisions (catering)						
3. Loading and unloading charges (stevedoring)						
4. Port charges, taxes, and landing fees						
5. Repairs and maintenance of transport equipment						
6. Cleaning services						
7. Agent fees on passenger ticket sales						
8. Other agent fees						
9. Advertising						
10. Other (please specify _____)						
Provided by Other Resident Companies and Settlements Made through Your Company						
11. Fuel (bunkers)						
12. Provisions (catering)						
13. Loading and unloading charges (stevedoring)						
14. Repairs and maintenance of transport equipment						
15. Cleaning services						
16. Port charges, taxes, and landing fees						
17. Agent fees on passenger ticket sales						
18. Other agents' fees						
19. Advertising						
20. Other (please specify _____)						

Part B. Passenger Revenue Earned by Nonresident Transport Operators from Carriage of Resident Travelers

(Report in thousands of Newland dollars)

	Total	Economy of Residence of Operator (specify)				
	A	B	C	D	E	F
21. Passenger ticket sales (less refunds) made during the quarter on behalf of nonresident transport operators to resident travelers in the quarter						
22. Passenger fare revenue earned during the quarter by nonresident transport operators						

Part C. Selected Earnings of Nonresident Transport Operators from Residents
(Report in thousands of Newland dollars)

	Total	Economy of Residence of Operator (specify)				
	A	B	C	D	E	F
23. Inland freight—that is, the carriage of imported goods, including those carried to and from the border, within Newland						
24. Inland freight—that is, the carriage of exported goods, including those carried to and from the border, within Newland						
25. Mail						
26. Other (excluding freight, passenger, and charter services) Please specify: _____						

Part D. Revisions to Previously Reported Data

Please provide details of any significant revisions to data previously reported incorrectly.

Part E. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the company shown on the page 1 is correct. / I have corrected the name and address on page 1.
- Details of the contact person have been entered on page 1.
- The information in parts A, B, and C has been completed in accordance with the instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part D.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____

Instructions for Completing Form 10—International Travel

Reporting Instructions

Form 10 should be completed for the company (and any subsidiaries in Newland) listed on page 1 of the form—unless different arrangements have been made with the Newland Ministry of Statistics.

Residents and Nonresidents

A *nonresident* is any individual, company, or other organization ordinarily domiciled in an economy other than Newland. Newland subsidiaries of nonresident companies are *residents* of Newland. Similarly, foreign subsidiaries of Newland companies are nonresidents.

Travelers

Travelers are persons who stay, for work and other purposes (e.g., tourism, education, health), in countries other than those in which they are residents. Normally, a person staying in an economy for less than 12 months should be regarded as a traveler. Students and medical patients should, regardless of their length of stay in the host economy, be regarded as travelers. Officials of foreign governments stationed at embassies and similar institutions are not regarded as travelers.

Conversion to Newland Dollars

All values should be reported in thousands of Newland dollars. Foreign currencies should be converted to Newland dollars at the **midpoint** of the buy and sell rates applicable on the date of the transaction.

Structure of Form 10

Form 10 collects information on the international travel transactions of this company.

Part A should be completed by companies issuing credit and debit cards or by companies making settlements abroad for credit and debit card transactions.

Part B should be completed by companies issuing travelers' checks and making settlements abroad for traveler's check transactions.

Part C should be completed by tour wholesalers and companies making or receiving prepayments, advances, or travel settlements. Amounts for passenger fares for travel on international routes should be excluded.

Part D should be completed by hotels that provide lodging or other services to international travelers. Part D should include amounts received from supplementary hotel operations (such as gift shops) and amounts received from nonresident travelers and used to acquire, on behalf of these travelers, goods and services from other resident companies.

Economy

In parts A, B, and C, you are requested to classify transactions by economy of the nonresident counterparty. In part D, you should report the economy of residence of the nonresident travelers.

Credit and debit card and traveler's checks transactions

Traveler's checks and credit and debit card transactions should be recorded at the face value of the transaction. Any fees earned or paid abroad should be separately recorded.

Form 10—International Travel**Part A. Selected Credit and Debit Card Transactions**

(Report in thousands of Newland dollars)

	Total	Transactions by Economy (specify)				
	A	B	C	D	E	F
1. Expenditure by nonresident travelers in Newland during the quarter						
2. Expenditure by Newland residents traveling abroad during the quarter						
3. Earnings from abroad on credit and debit card transactions during the quarter						
4. Fees paid abroad on credit and debit card transactions during the quarter						

Part B. Selected Traveler's Check Transactions

(Report in thousands of Newland dollars)

	Total	Transactions by Economy (specify)				
	A	B	C	D	E	F
1. Traveler's checks issued abroad on behalf of your company and used in Newland by nonresidents during the quarter						
2. Traveler's checks issued in Newland by your company and presented for collection by nonresident banks during the quarter						
3. Traveler's checks issued (less refunds) in Newland on behalf of nonresident banks during the quarter						
4. Traveler's checks issued abroad by nonresident companies, purchased by your company, and sent for collection to nonresident banks during the quarter						
5. Earnings from abroad on traveler's checks transactions during the quarter						
6. Fees paid abroad for traveler's checks transactions during the quarter						

Part C. Prepaid and Advance Purchase Tours and Other Travel Settlements

(Report in thousands of Newland dollars)

Amounts in respect of international airline travel should be excluded.

	Total	Of Which, Settled with Credit/Debit Cards or Traveler's Checks	Transactions by Economy (specify)				
	A	B	C	D	E	F	G
1. Amounts received from abroad during the quarter for prepaid and advance purchase tours							
2. Amounts paid abroad during the quarter for prepaid tours and advance purchase tours							
3. Amounts received from abroad during the quarter for other travel settlements (please specify _____)							
4. Amounts paid abroad during the quarter for other travel settlements (please specify _____)							
5. Commissions received from abroad during the quarter							
6. Commissions paid abroad during quarter							

Part D. Nonresident Travelers Staying at Hotels

(Report in thousands of Newland dollars)

	Total	Economy of Residence of Traveler (specify)				
	A	B	C	D	E	F
1. Number of nonresident travelers lodging at the hotel during the quarter						
2. Number of nights that nonresident travelers lodged at the hotel during the quarter						
3. Amount paid, during the quarter, for accommodation by nonresident travelers						
4. Amount paid, during the quarter, for other goods and services provided by the hotel to nonresident travelers						
5. Amount paid, during the quarter, by the hotel to other resident companies for goods and services provided to nonresident travelers						

Part E. Revisions to Previously Reported Data

Please provide details of any significant revisions to data previously reported incorrectly (previous quarters).

Part F. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the company shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- The information in parts A through D has been completed in accordance with the instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part E.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____

Part B. Import of Construction Services (excludes construction services provided by branches and subsidiaries of foreign companies located in Newland)

Has your company commissioned construction work from a foreign company in the past quarter?

Yes No

If your response to the above question is “yes,” please

- a. Provide a short description of the type of construction work commissioned from the foreign company.
- b. Complete the table below with information regarding the construction activity. Please complete a line for each ongoing contract with your foreign provider.

Information on Construction Execution by Quarter

(Report in foreign currency or Newland dollars)

Counterpart Economy	Contract Dates		Currency in Which the Contract Was Concluded)	Value of Contract	Construction Equipment Brought to the Construction Site during the Quarter	Contract Value Executed during the Quarter	Goods Purchased in Newland for This Construction Project by the Nonresident Counterpart	Contract Balance at the End of Quarter
	Start	End						
A	B1	B2	C	D	E	F	G	H

Report this section in foreign currency or Newland dollars (please indicate using a note for each contract)

Part C. Revisions to Previously Reported Data

Please provide details of any significant revisions to data previously reported incorrectly.

Part D. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the company shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- The information in parts A through B has been completed in accordance with the instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part C.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____



Balance of Payments Survey Form 12—International Insurance Transactions

Please correct any errors in this label

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Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

OFFICE USE ONLY
Rec. _____
Edit _____
Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information, which will be used in compiling Newland's balance of payments statistics on international insurance service transactions. These statistics are published quarterly in *Newland Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Due date: Please return the completed form by MM DD, YYYY.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Estimates: Some of the data requested may not be readily available from your records. In these cases, **careful estimates** will suffice.

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (____) _____
Area code

Title: _____

Facsimile number: (____) _____
Area code

Instructions for Completing Form 12—International Insurance Transactions

Reporting Instructions

Form 12 should be completed for the company (and any subsidiaries in Newland) listed on page 1 of the form—unless different arrangements have been made with the Newland Ministry of Statistics.

Residents and Nonresidents

A **nonresident** is any individual, company, or other organization ordinarily domiciled in an economy other than Newland.

Conversion to Newland Dollars

All values should be reported in thousands of Newland dollars. Foreign currencies should be converted to Newland dollars at the **midpoint** of the buy and sell rates applicable on the date of the transaction.

Structure of Form 12

Part A collects information associated with **nonlife** insurance contracts between your resident insurance company and nonresident policyholders; reinsurance between your resident insurance company and nonresident insurance companies; and information associated with **life** insurance contracts between your resident insurance company and nonresident policyholders.

The requested information refers to the following:

Direct written premiums are the amounts charged to and physically paid by the nonresident policyholders during the accounting (“risk”) period for insurance coverage.

Important: Direct written premium amounts should not be adjusted for reinsurance premiums—that is, the part of the premiums that is ceded to reinsurers should be left included; any assumed premiums from other direct insurers should be excluded. These ceded or assumed premiums should be shown separately under cross border reinsurance transactions.

Premiums earned refer to the proportion of actual premiums that relate to the accounting period (independent of whether they were paid during current or previous quarters) and that cover the risks incurred during the **current** accounting period.

Paid claims/benefits occur when actual payments of cash have been made to nonresident claimants for insured events of the current or previous periods.

Claims/benefits due/outstanding are claims that became due, in the **current** quarter, after the eventualities that gave rise to the claims—that is, the cost of claims is assigned to the **relevant period**. It should include claims that have been reported but not yet settled, and claims that have been reported and settled but not yet paid at the end of the accounting period.

Claims due on extraordinary events are claims on catastrophic events including earthquakes, tsunamis, floods, cyclones, hurricanes, hail storms, bush fires, and so forth, where these events are not periodic and not considered part of normal business.

Ceding commission is paid by the reinsurer to reimburse the ceding company for its acquisition expenses and other costs incurred to place the business with the reinsurer.

Profit commission represents a predetermined percentage of the profit realized by the reinsurer on the contracts ceded by the primary insurance companies and the cedants’ share of such profits.

Income earned refers to income from the investment of reserves held against unearned premiums and unpaid claims (i.e., from investing policyholders’ funds) during the period.

Part B collects data on technical reserves due to nonresidents by type of insurance.

Insurance technical reserves include details of *premiums paid and not yet earned* and *claims due but not yet paid*. These amounts refer to reserves set aside on the balance sheet for future commitments that arise out of nonlife insurance contracts (including any related administration expenses, taxes, etc.).

- a. **Unearned premium reserves** are that part of premiums written that apply to the unexpired part of the policy period. Please provide the position of unearned premium reserves vis-à-vis nonresident policyholders at the beginning and at the end of the accounting period.
- b. Please provide the position of estimated **reserves for claims incurred vis-à-vis nonresident policyholders but not reported** and provisions set aside to meet the estimated costs of settling claims that have occurred up to the end of the accounting period from policies currently in force and policies written in the past, after the deduction of amounts already paid. This amount would include funds for unpaid claims, claims adjustment and handling

expenses known but not yet settled, and estimates for claims incurred but not yet notified (so called IBNR, Incurred But Not Reported) by the balance sheet date.

- c. **Insurance technical reserves for life insurances** comprise reserves for unearned premiums and against outstanding insurance claims, and, in addition, actuarial reserves for life insurance and with-profit insurance set aside for payments of benefits in future.
- d. Additional information:
Changes in life insurance actuarial reserves vis-à-vis nonresident policyholders refers to the changes in the present value of the future expected cash flows of an insurance policy.

Part B collects information on payments for insurance services settled through other resident companies (if any).

Economy

Each question seeks information on the economy of transaction. Record the economy of residence of the nonresident transactor.

Form 12—International Insurance Transactions

Part A. International Insurance Transactions of Newland Insurance Companies

(Report in thousands of Newland dollars)

	Total	Transactions by Economy (specify)				
	A	B	C	D	E	F
Nonlife Insurance Provided to Nonresidents						
1. Premiums written ¹ of which to affiliates						
Premiums earned during accounting period						
Claims paid						
Claims due during accounting period						
<i>Of which:</i> Claims due on extraordinary events						
Reinsurance Accepted from Nonresident Insurers (not included above)						
2. Premiums written of which to affiliates						
Premiums earned						
<i>Of which:</i> “Ceding commission” withhold by nonresident insurer (if applicable)						
Claims paid						
Claims due “Profit commission” ceded to nonresident insurer						
<i>Of which:</i> Claims due on extraordinary events						
Reinsurance Business Ceded to Nonresident Insurers (not included above)						
3. Premiums paid <i>of which to affiliates</i>						
<i>Of which:</i> “ceding commission” deducted prior to remitting premiums (if applicable)						
Claims received						
“Profit commission” received from nonresident reinsurer (if not included in claim receipt)						
<i>Of which:</i> Claims due on extraordinary events						
Life Insurance Provided to Nonresidents						
4. Premiums written ² Premiums earned by the end of accounting period						
Benefits paid						
Benefits due by the end of accounting period						
Investment income allocated to nonresident beneficiaries in this period						
<i>Of which: allocated to individual actuarial reserves and added directly to insurance technical reserves</i>						

1. Including premiums ceded to reinsurers, and excluding premiums assumed from other direct insurers.
2. Including premiums received for cross border beneficiaries of group insurances.

Part B. Technical Reserves Due to Nonresident Policyholders

(Report in thousands of Newland dollars)

	Opening Position	Net Changes Due to Transactions	Exchange rate and Other Changes	Closing Position	Income Earned on Investment of Reserves
	A	B	C	D	E
Insurance Provided to Nonresidents					
Premiums					
Claims					
Reinsurance Accepted from Nonresident Insurers					
Premiums					
Claims					
Life Insurance Provided to Nonresidents					
Premiums					
Claims					
Changes in life insurance reserves (actuarial reserves and reserves for with-profit insurance)					

Part C. Payments for Services Settled through Other Resident Companies

Does this company, or its subsidiaries in Newland:

- a. provide services to nonresidents that are paid for on your behalf by another resident entity? Yes No
- b. receive services from nonresidents for which payment is received on your behalf by another resident entity? Yes No

If the answer to question 10 (a) or (b) is *yes*, please give the name and address of the resident company making or receiving payments.

Part D. Revisions to Previously Reported Data

Please provide details of any significant revisions to data previously reported incorrectly.

Part E. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the company shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- The information in parts A through C has been completed in accordance with the instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part D.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____



Balance of Payments Survey Form 13—International Pension Services

Please correct any errors in this label

<div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> </div> <p>Reference Number</p>
--

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX

Facsimile (XXX) XXX-XXXX

E-mail: bop@stat.com

OFFICE USE ONLY

Rec. _____

Edit _____

Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information that will be used in compiling Newland's balance of payments statistics on international pension fund transactions. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Due date: Please return the completed form by **MM DD, YYYY**.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Estimates: Some of the data requested may not be readily available from your records. In these cases, **careful estimates** will suffice.

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXX, or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (____) _____
Area code

Title: _____

Facsimile number: (____) _____
Area code

Instructions for Completing Form 13—International Pension Services

Reporting Instructions

Form 13 should be completed for the company (and any subsidiaries in Newland) or government entity listed on page 1 of the form—unless different arrangements have been made with the Newland Ministry of Statistics.

Residents and Nonresidents

A *nonresident* is any individual ordinarily domiciled in an economy other than Newland.

Conversion to Newland Dollars

All values should be reported in thousands of Newland dollars. Foreign currencies should be converted to Newland dollars at the **midpoint** of the buy and sell rates applicable on the date of the transaction.

Structure of Form 13

Form 13 collects quarterly information on selected international pension fund transactions and positions of this company or government entity.

Part A collects quarterly and/or annual information associated with pension contributions and benefits between the resident pension fund and nonresident individuals. Information is also requested pertaining to contributions received from domestic companies on behalf of their nonresident employees (e.g., short-term nonresident employees or employees working long-term abroad on behalf of the company).

The requested information refers to the following:

Part A: Cross border transactions and positions regarding defined *contribution* schemes

Actual contributions paid into individual accounts of nonresident beneficiaries include (domestic or nonresident) companies' (i.e., employers') contributions paid on behalf of their employees, and contributions received directly from nonresident employees/beneficiaries during the accounting period.

Benefits paid refer to actual payments made in the accounting period to nonresident retirees.

Please provide the **pension entitlements in defined contribution schemes vis-à-vis nonresident beneficiaries** at the beginning and at the end of the accounting period. Factors that trigger changes in pension entitlements in the current accounting period are contributions receivable for nonresident employees/beneficiaries, benefits payable to current retirees abroad, and any holding gains and losses arising from the investment of the cumulated pension entitlements vis-à-vis nonresidents that contribute to the current market value of the pension fund's assets.

Income earned on cumulated pension entitlements attributable to nonresidents refers to actual income (i.e., interest, dividends, rents) earned on the plan assets attributable to nonresident beneficiaries during the accounting period.

Part B: Cross border transactions and positions regarding defined *benefit* schemes

Actual contributions paid into individual accounts of nonresident beneficiaries include (domestic or nonresident) companies' (i.e., employers') contributions paid on behalf of their employees, and contributions received directly from nonresident employees/beneficiaries during the accounting period.

Benefits paid refer to actual payments made in the accounting period to nonresident retirees.

Please provide the **Projected Benefit Obligations (PBO) attributable to nonresident employees/beneficiaries** at the beginning and the end of the accounting period. Factors that trigger changes in pension entitlements vis-à-vis nonresident employees/beneficiaries during the accounting period are service costs, interest costs, actuarial gains/losses, contributions to the defined benefit scheme, and payments of benefits.

Please provide information regarding the **increase of the PBO in the accounting period due to service costs** for nonresident employees/beneficiaries—that is, the additional liability the nonresident employees/beneficiaries earned during the previous accounting period.

Please provide information regarding the **increase of the PBO in the accounting period due to interest costs** for nonresident employees/beneficiaries—that is, the additional liability created during the accounting period because nonresident employees are X amount of time (e.g., one year) closer to retirement.

Please provide information regarding the **increase/decrease of the PBO in the accounting period due to actuarial gains and losses from the difference between expected estimates and actual values in nonresident employees'/beneficiaries' pension plan.**

Economy

Each question seeks information on economy of transaction. Record the economy of residence of the nonresident transactor. If this is not feasible, please provide aggregate information.

Other

Because form 12 seeks information on pension transactions between residents and nonresidents, you should not report transactions provided to nonresidents by nonresident branches and subsidiaries of your company. If distinguishing between activities of the head office and nonresident branches and subsidiaries of your company proves difficult, or if you are uncertain about whether a particular transaction should be included, please call (XXX) XXX-XXX for assistance.

Pension contributions made by companies on behalf of their employees are treated as if the contributions are made by the employees themselves.

Form 13—International Pension Services

**Part A. Cross Border Transactions and Positions Regarding
Defined *Contribution* Schemes of Newland Pension Funds**

(Report in thousands of Newland dollars)

	Total	Transactions by Economy (specify)				
	A	B	C	D	E	F
Pension Contributions Received from Nonresidents or from Resident Employers Paying on Behalf of Their Nonresident Employees						
1. Pension contributions received directly from nonresident individuals						
2. Pension contributions received from resident companies on behalf of nonresident employees						
3. Pension contributions received from nonresident companies on behalf of nonresident employees						
Pension Benefits Paid to Nonresidents						
4. Pension benefits paid to nonresident retirees						
Pension Entitlements/Liabilities in Defined <i>Contribution</i> Schemes vis-à-vis Nonresident Beneficiaries						
5. Opening position						
6. Changes in the current accounting period due to contributions receivable for nonresident employees/beneficiaries						
7. Changes in the current accounting period due to benefits payable to retirees abroad						
8. Changes in the current accounting period due to holding gains and losses earned from the investment of the cumulated pension entitlements vis-à-vis nonresidents that contribute to the current market value of the pension fund's assets						
9. Closing position						
10. Income earned from investment of cumulated pension fund entitlements attributable to nonresident employees/beneficiaries due to actual interest, dividends, and rent earned on the plan assets. Exclude holding gains and losses.						

**Part B. Cross Border Transactions and Positions regarding
Defined Benefit Schemes of Newland Pension Funds**

(Report in thousands of Newland dollars)

	Total	Transactions by Economy (specify)				
	A	B	C	D	E	F
Pension Contributions Received from Nonresidents or from Resident Employers Paying on Behalf of Their Nonresident Employees						
1. Pension contributions received directly from nonresident individuals						
2. Pension contributions received from resident companies on behalf of nonresident employees						
3. Pension contributions received from nonresident companies on behalf of nonresident employees						
Pension Benefits Paid to Nonresidents						
4. Pension benefits paid to retirees						
PBO (Projected Benefit Obligations) in Defined Benefit Schemes vis-à-vis Nonresident Beneficiaries						
5. Opening position						
6. Changes in the current accounting period due to contributions receivable for nonresident employees/beneficiaries						
6. Changes in the current accounting period due to benefits payable to retirees abroad						
7. Increase of the PBO in the accounting period due to service costs for nonresident employees/beneficiaries						
8. Increase of the PBO in the accounting period due to interest costs ¹						
9. Please provide information regarding the increase/decrease of the PBO in the accounting period due to actuarial gains and losses from the difference between expected estimates and actual values in nonresident employees'/beneficiaries' pension plan.						
9. Closing position						

Part C. Revisions to Previously Reported Data

Please provide details of any significant revisions to data previously reported incorrectly.

1. In most widely followed financial accounting rules, interest costs are calculated as interest rate multiplied by the PBO at the beginning of the accounting period. The interest rate may be an estimated discount rate reflecting the market rate currently used to settle benefits due, or a rate based on the expected return on high-quality fixed income securities (e.g., long-term government bonds).

Part D. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the company shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- The information in parts A through B has been completed in accordance with the instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part C.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____

Form 14—Foreign Embassies and International Institutions

Part A. Average Number of Staff Employed during the Quarter

1. Diplomatic, consular, and other foreign staff	
2. Locally engaged staff	

Part B. Operating and Capital Expenditure in Newland during the Quarter

(Report, except for item 4(b), in thousands of Newland dollars)

3. Local staff	
(a) Wages and salaries paid to local staff (including payments in kind and before deduction of income taxes)	
(b) Employer's contribution to social security	
4. Diplomatic, consular, and other foreign staff	
(a) Wages and salaries paid to staff (including any expenses paid on behalf of staff directly by your organization to other organizations in Newland)	
(b) Of the amount recorded in (a), what percentage do you estimate was spent in Newland?	
5. Other operating expenditure in Newland (including expenditure on office supplies and equipment, fuel and utilities—such as electricity and telephone services, rates, rents, official entertainment expenses, and rental and operation of cars)	
6. Capital expenditure in Newland	
(a) Purchase of land	
(b) Purchase of buildings and expenditure on construction and improvements to buildings	
(c) Other (please specify) _____	
7. Other (please specify) _____	

Part C. Capital Receipts in Newland during the Quarter

(Report in thousands of Newland dollars)

8. (a) Sales of land	
(b) Sales of buildings	
(c) Other (please specify) _____	

Part D. Grants and Other Assistance Provided to Newland during the Quarter

(Report in thousands of Newland dollars)

9. Official cash grants	
(a) Recurrent expenditure	
(b) Project financing	
(c) Other (specify) _____	
10. Other assistance	
(a) Goods	
(b) Technical assistance	
(c) Debt forgiven	
(d) Education scholarships	
(e) Other services	
(f) Other (please specify) _____	
11. Military assistance (please specify) _____	
12. (To be completed by embassies, if information is available) Estimated value of grants and aid provided to Newland by private institutions (such as foreign development assistance agencies, humanitarian organizations, and churches) in your economy	

Part E. Official Loans to Residents of Newland

(Report in thousands of currency units)

Name of Borrower	Currency of Loan	Position at Beginning of Quarter	Drawings during the Quarter	Repayments during the Quarter	Other Changes in Position	Position at End of the Quarter	Interest Paid by the Borrower
A	B	C	D	E	F	G	H
Loans							
Arrears							

Please note: Repayments and interest due during the quarter and not paid should be shown under **Loans** as *repayments* and *interest* and under **Arrears** as *drawings*. Debt forgiven to residents of Newland should be shown as a *repayment* (while debt written off should be shown as an *other change*); debt forgiven should also be shown at 10(c).

Please supply details of any amounts reported in column F _____

Part E. Revisions to Previously Reported Data

Please provide details of any significant revisions to data previously reported incorrectly.

Part F. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name and address shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- Parts A through D of the form have been completed.
- In part E, amounts in column G = amounts in columns C + D - E + F. / Amounts due but not paid for loan repayments and interest have been reported as per instruction in the Arrears section of Part E. / Amounts in column F have been explained.
- There are no significant revisions to data for previous periods / Details of significant revisions to data for previous periods have been included in part E.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____



Balance of Payments Survey Form 15—Private Aid and Charitable Organizations

Please
correct any
errors in
this label

Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

OFFICE USE ONLY

Rec. _____
Edit _____
Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information that will be used in compiling Newland's balance of payments and international investments position statistics on transactions associated with private aid organizations and charitable organizations. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Due date: Please return the completed form by **MM DD, YYYY**.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Estimates: Some of the data requested may not be readily available from your records. In these cases, **careful estimates** will suffice.

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments and IIP statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____
Area code

Title: _____

Facsimile number: (_____) _____
Area code

Instructions for Completing Form 15—Private Aid and Charitable Organizations

Reporting Instructions

Form 15 should be completed for the organization listed on page 1 of the form—unless different arrangements have been made with the Newland Ministry of Statistics.

Residents and Nonresidents

A *nonresident* is any individual, company, or other organization ordinarily domiciled in an economy other than Newland. Newland branches and subsidiaries of nonresident companies are *residents* of Newland. Similarly, foreign branches and subsidiaries of Newland companies are nonresidents. Foreign aid and charitable organizations associated with resident aid and charitable organizations are nonresidents.

Conversion to Newland Dollars

All values should be reported in thousands of Newland dollars. Foreign currencies should be converted to Newland dollars at the **midpoint** of the buy and sell rates applicable on the date of the transaction.

Structure of Form 15

Form 15 collects quarterly information on selected foreign activities and relationships of this organization and its related resident operations.

Part A collects information on related foreign operations of this organization and the funding between this company and the related foreign operations.

Part B collects information on the nonresidents who work for this organization in Newland and abroad.

Part C collects information on the foreign sources of income for this organization.

Part D collects information on the grants and disbursements made by this organization abroad.

Economy

Each question seeks information on the economy of transaction. Record the economy of residence of the nonresident transactor.

Form 15—Private Aid and Charitable Organizations

Part A. Related Foreign Operations

(Report in thousands of Newland dollars)

Does this organization have related operations abroad? Yes [] No []

If the answer is *no*, go to part B.

Are the foreign operations long-term (more than one year) or expected to be? Yes [] No []

	Transactions by Economy		
	A	B	C
a. Funding provided to related operations abroad			
b. Funding received from related operations abroad			

Part B. Nonresidents Working for This Organization

(Report in thousands of Newland dollars)

	Working in Newland (specify economy of residence of workers)			Working abroad (specify economy of residence of workers)		
	A	B	C	D	E	F
1. Number of foreign employees						
2. Wages and salaries paid:						
a. In cash						
b. Into accounts with resident banks						
c. Into accounts with foreign banks						
d. In kind (such as food, housing, and other noncash benefits)						
3. Employer's contribution to social security schemes						
4. Termination payments						

Part C. Investments Abroad

(Reports in thousands of Newland dollars)

Economy	Currency	Position at Beginning of Period	New Deposits, Loans and Other Investments Extended during the Period	Withdrawals of Deposits and Other Investments and Repayments on Loans during the Period	Other Changes in Position	Position at End of the Quarter	Income Received during the Period
A	B	C	D	E	F	G	H
Nonresident Bank Accounts							
Loans to Nonresidents							
Other Foreign Investments							

Please supply details of any amounts reported in column F _____

Part D. Grants and Other Assistance Provided during the Period, by Economy

(Report in thousands of Newland dollars)

	Economy A	Economy B	Economy C
1. Disbursements of aid				
(a) Cash				
(b) In kind				
(c) Other (specify) _____				
2. Capital donations				
(a) Investment grants				
(b) Technical assistance				
(c) Other (please specify) _____				

Part E. Revisions to Previously Reported Data

Please provide details of any significant revisions to data previously reported incorrectly.

Part F. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name and address shown on page 1 are correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- Parts A through D of the form have been completed.
- In part C, item 8, amounts in column G = amounts in columns C + D - E + F. / Amounts in column F have been explained.
- There are no significant revisions to data for previous periods / Details of significant revisions to data for previous periods have been included in part E.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____



Balance of Payments Survey Form 16—Current Transfers, Grants, and Technical Assistance

Please correct any errors in this label

Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

OFFICE USE ONLY

Rec. _____

Edit _____

Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information that will be used in compiling Newland's balance of payments statistics. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Due date: Please return the completed form by **MM DD, YYYY**.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments and IIP statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (____) _____
Area code

Title: _____

Facsimile number: (____) _____
Area code

Instructions for Completing Form 16—Current Transfers, Grants, and Technical Assistance

Reporting Instructions

Form 16 should be completed by government entities, nongovernmental organizations (NGO), international or local donor entities respectively, as listed on page 1 of the form—unless different arrangements have been made with the Newland Ministry of Statistics.

Residents and Nonresidents

A *nonresident* is any individual, company, or other organization ordinarily domiciled in an economy other than Newland. Newland local NGOs are *residents* of Newland. International donor agencies or international organizations are considered nonresidents of Newland.

Conversion to Newland Dollars

All values should be reported in thousands of Newland dollars. Please convert amounts in foreign currencies to Newland dollars. All amounts for transactions should be converted at the **midpoint** of the buy and sell rates applicable on the date of the transaction.

Structure and Scope of Form 16

Form 16 sets out information that should be reported quarterly/annually on transfers from nonresidents, in *cash* or in *kind*, received by the Newland government entities or by the private sector (including local companies and NGOs).

Furthermore, information is collected on foreign sponsored *technical assistance in form of staffed missions* sent to Newland for project work. The total costs for such projects and all individual components are relevant for Newland's balance of payments. The cost components include administrative expenses incurred in the nonresident donor economy, costs incurred in Newland (e.g., for transport, administrative arrangements), and the salaries paid to short-term expatriates as well as long-term personnel and local staff. A rough breakdown of the main technical assistance services provided to Newland (e.g., consulting, accounting, administration, management training, trade-related services) is appreciated.

If the reporter is the government entity, the report should include transfers in cash and in kind, and technical assistance received directly by the Government or provided to private sector under the Government's monitoring.

If the reporter is a private entity (including NGOs), the report should include transfers in cash and in kind received directly by the private entity.

In part A, you should report details on received transfers in *cash and in kind*.

In part B, you should report details on received *technical assistance* in form of project work/staffed missions.

If you are unsure what should actually be reported, please call (XXX) XXX-XXXX.

Economy codes

[An economy code list should be supplied by the compiler.]

Form 16—Current Transfers, Grants, and Technical Assistance

Part A. Transfers in Cash and in Kind Received by Newland Resident Entities

(Report in thousands of Newland dollars)

Transfers and Grants, Except Technical Assistance	Total for Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4
A	B	C	D	E	F
1. Cash grants received by the government¹					
Total transfers in form of cash grants received: ²					
a. for financing current expenditures (e.g., administrative expenses, salaries)					
b. for acquiring fixed assets (investment projects, construction, capital formation)					
2. Transfers in kind received by the government					
Total transfers in kind received:					
a. in-kind supply for current consumption (office supplies, medication, etc.)					
b. in-kind supply for gross capital formation (includes provision of computers, construction material, machinery)					
3. Cash received by the private sector, including NGOs					
Total transfers in form of cash grants received:					
a. for financing current expenditures (e.g., administrative expenses, salaries)					
b. for acquiring fixed assets (investment projects, construction, capital formation)					
4. Transfers in kind received by the private sector, including NGOs					
Total transfers in kind received:					
a. in-kind supply for current consumption (office supplies, medication, etc.)					
b. in-kind supply for gross capital formation (includes provision of computers, construction material, machinery)					

1. If the reporter is a private entity, sections 1 and 2 should be skipped.

2. If in the same period grants are aimed at financing both current expenditures and capital formation, please try to split the total accordingly.

Part B. Technical Assistance in Form of Project Work/Staffed Missions Received by Newland Resident Entities
(Report in thousands of Newland dollars)

Technical Assistance	Total for Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4
A	B	C	D	E	F
1. Technical assistance received by the government Total cost of the project (incl. planning, costs incurred in the reporting economy, salaries paid)					
<i>Of which</i>					
a. Total <i>costs incurred</i> in the reporting economy (e.g., for transport in the reporting economy, administrative arrangements, business services)					
Please provide rough breakdown of the incurred costs (<i>please add rows if needed</i>)					
•					
•					
•					
b. Funds in cash directly transferred to the projects accounts					
c. Total salaries paid within the project:					
• salaries paid to local staff (provide estimates if possible)					
• salaries paid to foreign staff resident in reporting Newland economy (residing in Newland for more than 1 year)					
• salaries paid to short-term experts (foreign experts who will reside in the reporting economy less than 1 year) ³					
2. Nature of technical assistance					
Please provide a rough (percentage) breakdown of the main technical assistance services provided to the reporting economy (e.g., consulting, teaching, administration, health management, trade-related services).					

Part C. Revisions to Previously Reported Data

Please provide details of any revisions to data previously reported incorrectly.

3. It suffices to provide an estimate for the number and average duration of short-term staff working in the reporting economy.

Part D. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the entity shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- The information in parts A and B of the form has been completed in accordance with instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part C.
- I have kept a copy of this form for my records.

Name of person completing this form: _____

Signature: _____



Balance of Payments Survey Form 17—Financial Claims on and Liabilities to Nonresidents

Please
correct any
errors in
this label

□□□□□□□□□□

Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX

Facsimile (XXX) XXX-XXXX

E-mail: bop@stat.com

OFFICE USE ONLY

Rec. _____

Edit _____

Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects quarterly information that will be used in compiling Newland's balance of payments and international investment position statistics. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Due date: Please return the completed form by **MM DD, YYYY**.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Estimates: Some of the data requested may not be readily available from your records. In these cases, **careful estimates** will suffice.

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____

Area code

Title: _____

Facsimile number: (_____) _____

Area code

Instructions for Completing Form 17—Financial Claims on and Liabilities to Nonresidents

Reporting Instructions

Form 17 should be completed for the company (and any subsidiaries in Newland) listed on page 1 of the form—unless different arrangements have been made with the Newland Ministry of Statistics.

Residents and Nonresidents

A **nonresident** is any individual, company, or other organization ordinarily domiciled in an economy other than Newland. Newland branches and subsidiaries of nonresident companies are **residents** of Newland. Similarly, foreign branches and subsidiaries of Newland companies are nonresidents.

Your foreign direct investment enterprises are:

- nonresident companies in which your company or its subsidiaries in Newland have voting equity of more than 50 percent; these are branches and subsidiaries, controlled by your company;
- nonresident companies in which your company or its Newland subsidiaries have voting equity of between 10 and 50 percent: these are associates, significantly influenced by your company;
- nonresident subsidiaries or associates of the immediate direct investment enterprises of your company, in a chain of control or influence.

A **nonresident direct investor** is a nonresident entity (or group of related nonresidents) that owns voting equity of 10 percent or more in this company. Nonresident companies that control or significantly influence the immediate nonresident direct investor are also considered nonresident direct investors in your company, in a chain of control or influence. Common examples of nonresident direct investors are foreign head offices (for branches) and foreign parent companies (for subsidiaries). An company may have more than one direct investor, and these direct investors may reside in different countries. An investor need not have the largest shareholding to be considered a direct investor.

Fellow enterprises are nonresident companies that are under the control or influence of the same immediate or indirect investor, but neither controls or influences the other (that is to say fellows have less than 10 percent (if any) equity ownership in each other).

Other nonresidents are those that are not direct investors, direct investment enterprises, or fellow enterprises.

The definitions and treatments of direct investment are complex. If you are uncertain about the application of definitions, please call (XXX) XXX-XXXX or e-mail bop@stat.com for assistance.

Structure of Form 17

Form 17 collects quarterly information regarding the financial claims of your company and its subsidiaries on nonresidents and the liabilities of your company and its subsidiaries to nonresidents. The form requests data on positions (stocks), financial transactions, reconciliation items (other changes in stocks), income, and associated financial fees and withholding taxes.

Form 17 consists of ten parts. Part A collects basic data on financial assets; part B collects information on financial assets classified by economy of the nonresident debtor. Parts C and D collect similar data for liabilities. Part E collects information on financial fees and withholding taxes; part F collects information on the valuation of direct investment; and parts G and H collect information on retained earnings and profits. Part I requests details on significant revisions to data for previous periods (if any), and part J includes questions for verifying the comprehensiveness of the completed data.

Financial Instruments

Equity and investment fund shares include stocks (shares) and other equity, such as investment in branches. Nonvoting preferred stock (preference shares) should be recorded under *long-term debt securities*.

Long-term and short-term debt securities include bonds, debentures, commercial paper, promissory notes, certificates of deposit, and other tradable nonequity securities other than financial derivatives. Long-term debt securities include instruments issued with original maturities of more than 12 months. Instruments with original maturities of 12 or fewer months are included in short-term debt securities. In parts A and C, long-term and short-term debt securities should be included in the *respective* category.

Financial derivatives (other than reserves) and employee stock options include all tradable financial derivatives or secondary market instruments such as options, futures, and forward contracts.

Loans include loans and financial leases. Long-term loans are those with original maturities of more than 12 months.

Deposits include checking accounts, savings accounts, and other time deposits.

Trade credit and advances are commercial credits extended by exporters to importers and prepayments made by importers to exporters.

Other includes all other financial assets and liabilities, not included in any of the specified instruments.

Positions, Transactions, Other Changes, and Income

Opening position refers to the value of the claims (part A and B) and liabilities (part C and D) of your company and its subsidiaries at the beginning of the quarter. The opening positions you report should agree with the closing positions you reported for the previous quarter. If this is not the case, details should be given in part I. The **closing position** refers to the value of the claims and liabilities of your company and its subsidiaries at the end of the quarter.

Financial transactions are transactions relating to the acquisition or disposal of your company's financial claims on, or liabilities to, nonresidents. Purchases of stock made by your company (and its subsidiaries) in nonresident companies, purchases of your company's shares by nonresidents, issuances and purchases of long- and short-term debt securities, increased deposits in bank accounts, and drawdowns of loans are examples of transactions that increase assets or liabilities. Sales of stock by your company (and its subsidiaries) in nonresident companies, sales of your company's shares by nonresidents, redemptions and sales of long- and short-term debt securities, withdrawals from bank accounts, and repayments of loans are examples of transactions that decrease assets or liabilities.

Income refers to: (1) income receivable by your company from its ownership of claims on nonresidents; and (2) income payable by your company as a result of its liabilities to nonresidents. Common forms of income are *dividends*, *distributions of profit*, and *interest*.

Dividends and *distributions of profit* refer to income received from the ownership of stock (shares) or equivalent equity interest in companies. These amounts should be recorded on the basis of dividend (or remittance) payments dates. *Interest* relates to income earned from the ownership of financial assets other than equity assets. Income includes discounts. A discount is the difference between the value of a financial instrument when it issued and its final redemption value. Interest should be recorded on an accrual basis. The difference between income accrued and income payable should be recorded as a financial transaction in the instrument to which the interest relates.

For direct investments (see definition provided previously), undistributed income (reinvested earnings) should be reported in parts G and H. (See the subsequent instruction for completing these parts.)

Valuation

All values should be reported in thousands of Newland dollars. Please convert amounts expressed in foreign currencies to Newland dollars.

Financial transactions and **income** denominated in foreign currencies should be converted to Newland dollars by using the **midpoint** of the appropriate buy and sell rates applicable on the date of the transaction. Financial transactions and income should be recorded on a *gross basis*—that is, before the deduction of commissions on receipts (or addition of commissions on payments), brokerage fees, and withholding taxes, which are to be recorded in part E if paid to or received from a nonresident.

Positions denominated in foreign currencies should be converted to Newland dollars at the **midpoint** of the appropriate buy and sell exchange rates applicable on the reference dates.

All valuations should be made at **market values**. For valuing equity positions at market value, one of the following methods may be used:

- the midpoint of the stock market buy and sell rates on the reference date
- a recent transaction value
- own funds at book value
- directors' value
- net asset value

Net asset value equals total assets, including intangibles, less liabilities and the paid-up value of nonvoting stock. Assets and liabilities should be recorded at current, rather than historical, values. Own funds at book value (OFBV) involves valuing a company using book values that contain major attributes of International Accounting Standards (inclusion of cumulative reinvested earnings; revaluation of most financial instruments in current period prices; and inclusion of cumulative depreciation of plant and equipment, including write-offs of worthless assets).

Relationships between Data Items

Information reported in parts A and C should reflect the following relationships:

closing position	=	opening position + change in position
change in position	=	net financial transactions + other changes
net financial transactions	=	<i>increases</i> (transactions relating to the acquisition of assets or liabilities) – <i>decreases</i> (transactions relating to the disposal of assets or liabilities)
other changes	=	valuation changes (caused by exchange rate changes, and market price changes) + residuals (caused by reclassification of items, write-downs, and arithmetical errors)

Amounts reported in parts B and D should be consistent with relevant amounts in parts A and C, respectively.

Liabilities Held by Resident Nominees and Other Financial Intermediaries on Behalf of Nonresidents

Certain liabilities (such as securities issued in Newland) of your company may be held by nonresidents through financial intermediaries in Newland, and the details of these liabilities may not be known to you. Information on these liabilities is collected by the Ministry of Statistics from the financial intermediaries.

Treatment of Transactions with Related Banks

All financial transactions involving debt or financial derivatives and positions with related banks should be included as claims on, or liabilities to, other nonresidents rather than as claims on, or liabilities to, direct investors or direct investment enterprises.

Treatment of Hedges

Financial instruments that are hedged by the use of derivatives (such as currency swaps) should be recorded according to the terms of the contract and without regard to the hedge. The details of the hedge, if it is with a nonresident, should be reported under the financial derivative instrument. For example, for a long-term loan that is the subject of a swap, information on the *unhedged* position, principal repayments, and interest should be recorded in the appropriate columns for long-term loans. The market value of the swap and the actual payments on the swap agreement (excluding underlying instrument) should be recorded under the appropriate position and transaction columns in the row for financial derivatives (other than reserves) and employee stock options.

Economy Classification

Economy refers to the economy of residence of the creditor or debtor. In parts B and C, if the opening and closing positions for particular countries are less than ND1 million, the amounts relating to these countries may be consolidated and attributed to the largest economy.

Transactions with international institutions, such as the Asian Development Bank, should be recorded as *INT*.

Retained Earnings (Parts G and H)

Parts G and H seek information on retained earnings. Part G should be completed for the foreign direct investment enterprises of your company (and its subsidiaries), and part H should be completed in respect of your company. Part H should be completed only if your company has nonresident direct investors.

Operating profit is profit from the operations of companies. When operating profit is calculated, depreciation should be determined on the basis of replacement cost. Exchange rate gains and losses, special tax provisions (such as accelerated depreciation), and any extraordinary items should be excluded from the calculation.

Net income received equals interest, dividends, and any undistributed profits from the ownership of subsidiaries and associates attributable to the company(s) concerned, less interest payable by the company(s).

Taxes on profits should be recorded when due and without penalty.

Form 17—Financial Claims on and Liabilities to Nonresidents

Part A. Claims on Nonresidents

(Report in thousands of Newland dollars)

	Opening Position	Change in Position					Closing Position	Income
		Transactions			Other Changes			
		Increases	Decreases	Net	Exchange Rate	Other		
		A	B	C	D	E			F	G	H
Claims on Direct Investment Enterprises								
1. Equity and investment fund shares								
2. Debt instruments (a)								(b)
Claims on Direct Investors								
3. Equity and investment fund shares								
4. Debt instruments (a)								(b)
Claims on Fellow Enterprises								
5. Equity and investment fund shares								
6. Debt instruments (a)								(b)
Claims on Other Nonresidents								
7. Equity and investment fund shares								
8. Long-term debt securities								
9. Short-term debt securities								
10. Long-term loans								
11. Short-term loans								
12. Deposits								
13. Financial derivatives (other than reserves) and employee stock options								///////
14. Trade credit and advances								
15. Other								
16. Total claims								

(a) For banks, debt claims on affiliated financial institutions should be reported in the appropriate item in *Claims on Other Nonresidents*. For nonbanks' claims on nonresidents and banks' claims on nonresident nonbanks, include long- and short-term debt securities, notes, financial derivatives (other than reserves) and employee stock options, loans, trade credit and advances, and other claims.

(b) Excludes financial derivatives.

Part C. Liabilities to Nonresidents
(Report in thousands of Newland dollars)

	Opening Position	Change in Position					Closing Position	Income
		Transactions			Other Changes			
		Increases	Decreases	Net	Exchange Rate	Other		
		A	B	C	D	E			F	G	H
Liabilities to Direct Investors								
1. Equity and investment fund shares								
2. Debt instruments (a)								(b)
Liabilities to Direct Investment Enterprises								
3. Equity and investment fund shares								
4. Debt instruments (a)								(b)
Liabilities to Fellow Enterprises								
5. Equity and investment fund shares								
6. Debt instruments (a)								
Liabilities to Other Nonresidents								
7. Equity and investment fund shares								
8. Long-term debt securities								
9. Short-term debt securities								
10. Long-term loans								
11. Short-term loans								
12. Deposits								
13. Financial derivatives (other than reserves) and employee stock options								///////
14. Trade credit and advances								
15. Other								
16. Total liabilities								

(a) For banks, debt liabilities on affiliated financial institutions should be reported in the appropriate item in *Liabilities to Other Nonresidents*. For nonbanks' liabilities to nonresidents and banks' liabilities to nonresident nonbanks, include long- and short-term debt securities, notes, financial derivatives, loans, trade credits, and other claims.

(b) Excludes financial derivatives.

Part F. Valuation of Direct Investment Equity

Please record the method of valuation (e.g., stock market valuation of shares, recent transactions value, own funds at book value, directors' valuations, net asset value based on current values, net asset value based on book values) used in part A, item 1G and part C, item 1G.

Part A item 1G _____

Part C item 1G _____

What were the corresponding book values on your own books?

Part A item 1G ND'000 _____

Part C item 1G ND'000 _____

Part G. Retained Earnings of immediate Foreign Direct Investment Enterprises

(For all items except 5, report in thousands of Newland dollars)

	Economy of Residence of Direct Investment Enterprises (specify)				
	Economy 1	Economy 2	Economy 3	Economy 4	Economy 5
1. Operating profit plus net income during quarter					
2. Taxes (on profits) due for payment during quarter					
3. Dividends paid or profits remitted during quarter					
4. Retained earnings (1 - 2 - 3)					
5. Percentage equity owned by reporting company at end of period (%)					
6. Retained earnings attributable to reporting company (4 * 5 / 100)					

Part H. Retained Earnings of Reporting Company

(For all items except 5, report in thousands of Newland dollars)

This section should be completed only by companies having direct investors.

	Total for All Shareholders	Foreign Direct Investors (specify economy)		
		Economy 1	Economy 2	Economy 3
1. Operating profit plus net income during quarter				
2. Taxes (on profits) due for payment during quarter				
3. Dividends paid or profits remitted during quarter				
4. Retained earnings (1 - 2 - 3)				
5. Percentage of equity owned by immediate direct investors at end of period (%)	////////			
6. Retained earnings attributable to direct investors (4 * 5 / 100)	////////			

Part I. Revisions to Previously Reported Data

Please provide details of any significant revisions to data previously reported incorrectly.

Part J. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the company shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- The questions answered cover all the external assets and liabilities of the company named on page 1 and its subsidiaries in Newland. The following activities have not been included:

- In parts A and C, row 14 has been completed and for all completed rows, the change in position (columns G – A) equals net transactions (column D = B – C) plus other changes (columns E + F).
- In part B, the total claims row has been completed, and the information reported corresponds with information reported in part A. For example, the total of column A in part B should equal the sum of items 1D, 3D, and 5D in part A.
- In part D, the total liabilities row has been completed, and the information reported corresponds with information reported in part C. For example, the total of column A in part D should equal the sum of items 1D, 3D, and 5D in part C.
- The economy columns information in part E sums to the total column.
- The information in part F has been completed.
- Parts G and H have been completed in accordance with the instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part I.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____



Balance of Payments Survey Form 18—Foreign Direct Investment

Please correct any errors in this label

□ □ □ □ □ □ □ □ □ □ □ □ □ □ □ □
Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

OFFICE USE ONLY

Rec. _____
Edit _____
Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information to provide reliable and up-to-date information on direct investment in Newland, which will be used in compiling Newland's balance of payments and international investment position (IIP) statistics on Newland's external assets and liabilities. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Due date: Please return the completed form by **MM DD, YYYY**.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments and international investment position statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____
Area code

Title: _____

Facsimile number: (_____) _____
Area code

Instructions for Completing Form 18—Foreign Direct Investment

Reporting Instructions

Form 18 should be completed for the company listed on page 1 of the form—unless different arrangements have been made with the Newland Ministry of Statistics. Please take time to review the survey questionnaire before completing it. Do not hesitate to call (XXX) XXX-XXXX if you have any difficulty understanding or completing the survey.

Conversion to Newland Dollars

All values should be reported in **thousands of Newland dollars**. Please convert amounts in foreign currencies to Newland dollars. All amounts for financial transactions, dividends, interests, and withholding taxes should be converted at the **midpoint** of the buy and sell rates applicable on the date of the transaction; all amounts for opening and closing positions should be reported at the **midpoint** of the buy and sell rates applicable on the reference dates.

Structure and Scope

Form 18 collects information about Newland's direct investment that should be reported quarterly/annually including following issues:

Part A: General information on your company

Part B: Investments between your company and your foreign direct investors (i.e., foreign companies that own 10 percent or more of the voting equity in your company) and investments with nonresident fellow enterprises (i.e., selected investments with foreign companies that have your same direct investors but less than 10 percent equity ownership (if any) in each other).

Part C: Investment between your company and your foreign direct investment enterprises (i.e., nonresident companies in which your company directly or indirectly holds 10 percent or more of the voting equity) and investment with nonresident fellow enterprises (i.e., investment with foreign companies that are owned by your same owner).

Part D: Income, financial transactions, and assets and liabilities positions between your company and your foreign direct investor(s) (i.e., the foreign company(s) that owns (own) 10 percent or more of the voting equity in your company) and with nonresident fellow enterprises (i.e., investments with foreign companies that have the same owner as your company).

Part E: Income, financial transactions, and assets and liabilities positions between your company and foreign company(s) abroad in which your company owns 10 percent or more of the voting equity, and with nonresident fellow enterprises (i.e., investments with foreign companies that have the same owner as your company).

Part F: Information on positions in financial assets and liabilities between your company and nonresidents (International Investment Positions)

If audited data are not available, unaudited estimates are acceptable.

Definitions of entities in the questionnaire:

Direct investor:

A direct investor is a company, resident in an economy that directly or indirectly holds 10 percent or more of the equity in a nonresident direct investment enterprise.

Units are viewed as **residents** of Newland if they have resided (or intend to reside) for a year or more in Newland. A direct investor's local enterprise group includes the resident company that directly owns a foreign direct investment enterprise (see below for definition), the resident companies that directly or indirectly control this company, and the resident companies that any of these companies directly or indirectly control in their own economy.

Direct investment enterprise:

A direct investment enterprise is a company, resident in one economy, in which a company, resident in another economy, holds 10 percent or more of the equity, either directly or indirectly.

Units are viewed as **residents** of Newland if they have resided (or intend to reside) for a year or more in Newland. A direct investment enterprise's local enterprise group includes the resident company that is at least 10 percent directly owned by a foreign direct investor (see above for definition), and the resident companies that it directly or indirectly controls in its own economy.

All of these companies should be included in direct investment whether you report data for them on a single report for the local enterprise group or you report data on separate reports.

Units are viewed as **nonresidents** of Newland if they have resided (or intend to reside) abroad for a year or more. If you are not sure of the residence of a company, please contact us so that we may determine its status.

A **fellow enterprise** is a nonresident that has a common (immediate or indirect) parent with your company but neither your company nor the fellow enterprises hold 10 percent or more of the equity in the other.

An **unrelated company** is one that does not meet the above criteria.

Valuation of data reported in Parts B–E:

Please provide all data in thousands of Newland dollars and according to the following guidelines:

Positions

Currency:

Report all data in thousands of Newland dollars. If the currency(ies) of denomination of any of your company's foreign assets and liabilities is (are) not in Newland dollars, please use the end-of-year foreign currency exchange rates to convert to Newland dollars.

Owners' equity:

Please report owners' equity (i.e., net worth) as the claims on your foreign direct investment enterprise's, or fellow enterprise's, net worth consisting of:

- (1) paid-up capital (excluding any shares on issue that the company holds in itself and including share premium accounts) or equivalent for unincorporated companies
- (2) all types of reserves identified as equity in the company's balance sheet (including investment grants when accounting guidelines consider them a component of owners' equity)
- (3) cumulated retained earnings (which may be negative)
- (4) holding gains and losses

Similarly, please include the above three items in calculating the value of reverse equity investment—that is, of your direct investment enterprise's, or of your fellow enterprise's, claim on your own net worth.

In determining your net worth (and therefore in determining your foreign direct investor's or fellow company's claims on your net worth), most financial assets should be reflected at an estimate of their current fair values; cumulative reinvested earnings should be included; and depreciation on items of property, plant, and equipment should be deducted. If your normal bookkeeping or accounting rules do not value these items as described above, please adjust their values before calculating the amounts to enter in Sections B–E.

Debt instruments:

Loans, trade credit and other accounts payable

Please report on a nominal value basis (after allowing for any changes that may result from changes in exchange rates).

Nominal value represents the value of funds advanced less any repayments plus any outstanding accrued interest.

Debt securities

Please report the market value of the securities, as of the balance sheet date.

Transactions

Transactions should be recorded at the value at the time of the transaction. If the transaction is in a foreign currency, please use the rate of exchange on the day of the transaction, or a weighted average rate for the reporting period if transactions (such as interest receipts and payments) occur continually over the period.

For **interest**, please report the total value of interest (payable and receivable) that accrued during 20XX, even if some payment were made during the year.

For **dividends**, please record the total value of dividends received and receivable (and paid and payable) during 20XX.

Form 18—Foreign Direct Investment

Part A. General Information on Your Company

1.1. Name of your company		
1.2. Name/position of person completing form	1.3. Name/position of alternative contact person	
1.4. Postal address		
1.5. Telephone number	1.6. Fax number	1.7. E-mail address
1.8. If the questionnaire is being completed for the company by an agent (such as its accounting firm), please provide the name, postal and e-mail addresses, and phone number.		1.9. The information provided on this form is correct. Signed (senior company officer or company agent) Date

1.10. If your company is part of a local group (see definition in Section B), please list the other companies in the group that operate in Newland and indicate if the data in Section C include these companies (please tick the columns below accordingly).

Name of other resident companies in your local enterprise group (Please indicate if data for these companies are included in section C)	Not included	Included

1.11. Indicate the principal area of activity of the reporting company or local enterprise group, based on turnover (tick one):

A. Agriculture, forestry, and fishing	K2. Finance and insurance, except financial intermediary
B. Mining and quarrying	L. Real estate activities
C. Manufacturing	M. Professional, scientific, and technical
D. Electricity, gas, steam and air-conditioning supply	N. Administrative and support services
E. Water supply, sewerage, waste management and remediation activities	O. Public administration
F. Construction	P. Education
G. Wholesale and retail	Q. Human health and social work
H. Transport and storage	R. Arts, entertainment, and recreation
I. Accommodation and food service	S. Other services activities
J. Information and communication	T. Activities of households as employers of domestic personnel; undifferentiated goods and services-producing activities of private households for own use
K1. Financial intermediary	U. Activities of extraterritorial organizations and bodies

Part B. Asset and liability positions of the direct investment enterprise with its foreign direct investor (Section B.1), and of the resident fellow enterprise with its fellow enterprises abroad (Section B.2), by economy of the foreign units with whom the accounts are held.

Please report in thousands of Newland dollars, using the valuation guidelines described above, the opening balances, any transactions during the period, any other changes on the balance sheet that are not the result of transactions, and the closing balances, between your company and your direct investment enterprise(s) and fellow enterprises abroad. If none, please report "N/A," as appropriate.

Section B.1. Direct investment enterprise's positions with its foreign direct investors (immediate and indirect)

Positions as of _____ (insert date to which the information refers)

Economy of location of foreign direct investor	Equity and debt liabilities to foreign direct investor		Equity and debt claims on foreign direct investor (so-called "reverse investment")	
	Equity owned by direct investor—report the value of your direct investor's claims on your net worth	Debt liabilities to direct investor	Debt claims on direct investor	Equity claims on direct investor—report your claims on your direct investor's net worth

If your company has no such assets or liabilities, please indicate N/A and continue.

Section B.2. Your company's positions with fellow enterprises abroad

If your company has no positions with nonresident fellow enterprises, please indicate N/A and do not complete the section below.

If you are a fellow enterprise, please indicate below the residence of the ultimate controlling parent of your company—that is, the company at the top of the control chain:

Residence of ultimate controlling parent of your company (please tick one case and see note below)	
Resident of your own economy	
Nonresident of your own economy	
Do not know	

Note:

If you are a resident fellow enterprise, and your ultimate controlling parent is a nonresident of your own economy, asset and liability positions with fellow enterprises abroad are regarded as inward direct investment. If your ultimate controlling parent is a resident of your own economy, asset and liability positions with fellow enterprises abroad are regarded as outward direct investment. If it is unknown whether your ultimate controlling parent is a resident or a nonresident of your own economy, then asset positions with fellow enterprises abroad are regarded as outward direct investment, and liability positions with fellow enterprises abroad are regarded as inward direct investment. For convenience, all positions with fellow enterprises abroad may be reported either in part B (inward direct investment), or in part C (outward direct investment), but please do not report such positions in both part B and C.

Positions as of _____ (insert date to which the information refers)

Economy of location of fellow enterprise abroad	Equity and debt liabilities to fellow enterprise abroad		Equity and debt claims on fellow enterprise abroad	
	Equity owned by fellow enterprise abroad—report the value of your fellow enterprise abroad claims on your company’s net worth	Debt liabilities to fellow enterprise abroad	Debt claims on fellow enterprise abroad	Equity claims on fellow enterprise abroad—report your company’s claims on the net worth of your fellow enterprise abroad

Part C. Asset and liability positions of the direct investor with its foreign direct investment enterprises abroad by economy of the foreign units with whom the accounts are held

Please report in thousands of Newland dollars, using the valuation guidelines described above, the opening balances, any transactions during the period, any other changes on the balance sheet that are not the result of transactions, and the closing balances, between your company and your direct investment enterprise(s) and fellow enterprises abroad. If none, please report “N/A,” as appropriate.

Direct investor’s positions with its direct investment enterprises abroad (immediate and indirect)

Positions as of _____ (insert date to which the information refers)

Economy of location of direct investment enterprise	Equity and debt claims of direct investor		Liabilities of direct investors (so-called “reverse investment”)	
	Equity claims (assets) on direct investment enterprise (for directly owned direct investment enterprises only)—report your company’s claims on the net worth of your direct investment enterprise	Debt claims (assets) on direct investment enterprise	Debt liabilities to direct investment enterprise	Equity liabilities to direct investment enterprise

If your company has no such assets or liabilities, please indicate N/A and continue.

Part D. Inward Direct Investment Positions, Transactions, and Other Changes

Section D.1. Equity and Debt Outstanding Balances, Financial Transactions, and Other Changes in Assets and Liabilities between Your Company and Your Direct Investor(s) and Fellow Enterprise(s) Abroad (see Note at Part B2)

Please report in thousands of Newland dollars, using the valuation guidelines described above, the opening balances, any transactions during the period, any other changes on the balance sheet that are not the result of transactions, and the closing balances, between your company and your direct investment enterprise(s) and fellow enterprises abroad. If none, please report "N/A," as appropriate.

Equity

Counterpart economy (list separately)	Equity claims of your company on related companies abroad					Equity liabilities of your company to related companies abroad				
	Opening balance (1)	Financial transactions during period		Other changes during period (4)	Closing balance (5)	Opening balance (6)	Financial transactions during period		Other changes during period (9)	Closing balance (10)
		Increases (2)	Decreases (3)				Increases (7)	Decreases (8)		
Direct investor(s)										
Fellow company(/ies)										

Percent of your company's equity held by your direct investor(s)

Economy of direct investor	Percentage held at the beginning of period (see Section B) (11)	Percentage held at the end of the period (see Section B) (12)

Debt

Counterpart economy (list separately)	Short- and long-term debt claims of your company on related companies abroad				Short- and long-term debt liabilities of your company to related companies abroad			
	Opening balance (13)	Financial transactions (net) during period (14)	Other changes during period (15)	Closing balance (16)	Opening balance (17)	Financial transactions (net) during period (18)	Other changes during period (19)	Closing balance (20)
Direct investor(s)								
Fellow enterprise(s)								

Section D.2. Income Payable and Receivable between Your Company and Your Direct Investor(s) and Fellow Enterprise(s) Abroad and Withholding Taxes Payable

Please report in thousands of Newland dollars, using the valuation guidelines described in Section B. If none, please report "N/A," as appropriate.

Counterpart economy (list separately)	Interest receipts from related nonresident company during period (21)	Withholding taxes on (21), if any, during period (22)	Interest payments to related nonresident company, during period (23)	Withholding taxes on (23), if any, during period (24)	Gross dividends, or gross distribution of earnings, payable to related nonresident company, during period (25)	Withholding taxes on (25), if any, during period (26)	Gross dividends, or gross distribution of earnings, receivable from related nonresident company, during period (27)	Withholding taxes on (27), if any, during period (28)
Direct investor(s)								
Fellow enterprise(s)								

Net income, realized and unrealized holding gains (losses) of your company, and other changes in equity investment position

"Other changes" during period

Please specify the amount of changes in equity (items 4 and 9) intercompany debt assets and liabilities (item 15 and 19) in Section D.1 above that did not arise from transactions. A transaction is an interaction between two units that occurs by mutual agreement. The following are common examples of changes in balances arising from valuation adjustments: changes in foreign currency exchange rates; and write-ups, write-downs, or write-offs of assets (financial and nonfinancial) and debt liabilities.

Section E.3. Net income, realized and unrealized holding gains (losses) of your direct investment enterprise or fellow enterprise abroad, and other changes in equity investment position

“Other changes” during period

Please specify the amount of changes in equity (items 4 and 9) intercompany debt assets and liabilities (item 15 and 19) in Section C.1 below that did not arise from transactions. A transaction is an interaction between two units that occurs by mutual agreement. The following are common examples of changes in balances arising from valuation adjustments: changes in foreign currency exchange rates; and write-ups, write-downs, or write-offs of assets (financial and nonfinancial) and debt liabilities.

Realized and unrealized holding gains (losses): Item 30

Please specify realized and unrealized holding gains (losses) included in net income resulting from the sale or disposition of financial and nonfinancial assets (such as securities, land, other property, plant, equipment); goodwill impairment; write-downs or write-offs of assets or liabilities; extraordinary, unusual, or infrequently occurring items that are material, such as losses from disasters or accidental damage; and gains and losses resulting from remeasuring foreign currency-denominated assets and liabilities due to changes in foreign exchange rates during the period.

Other changes in equity investment position: Item 31

Please specify the amount of the change in the equity investment position in your direct investment enterprise or investment or fellow enterprise abroad (item 4) or investment in your company by your direct investment enterprise or fellow enterprise abroad (item 9) that did not arise from transactions and is not reported on item 30 (certain realized and unrealized gains (losses) of a resident company excluded from net income and taken directly to the owners' equity account). A common example of a change in equity investment arising from a valuation adjustment that is not reported in item 30 is from the acquisition, or sale, of a direct investment enterprise for an amount that exceeds (or is less than) the value of the direct investment enterprise according to the books of the direct investment enterprise. Report the difference between the transaction value and the carrying amount in the equity investment position in this item.

Net income during period (29)	Certain realized and unrealized holding gains (losses) included in net income during period (30)	Other changes in equity investment during the period (31)
Direct investment enterprise(s)		

Part F. International Investment Positions

Closing balances of assets and liabilities between your company and nonresidents

Definitions of entities in Part F:

Equity comprises all instruments and records that acknowledge claims on the residual value of a corporation or quasi-corporation, after the claims of all creditors have been met. Ownership of equity in legal entities is usually evidenced by shares, positions, participations, depository receipts, or similar documents.

Other equity is equity that is not in the form of securities. Equity is treated as a liability of the issuing institutional unit (a corporation or other unit).

Debt instruments are those instruments that require the payment of principal and/or interest at some point(s) in the future. Debt instruments comprise:

Currency: Currency consists of notes and coins that are of fixed nominal values and are issued or authorized by central banks or governments.

Deposits: Deposits include all claims that are (1) on the central bank, deposit-taking corporations other than the central bank, and, in some cases, other institutional units; and (2) represented by evidence of deposit. A deposit is usually a standard contract.

Debt securities: Debt securities are negotiable instruments serving as evidence of a debt.

Loans: Loans are financial assets that (1) are created when a creditor lends funds directly to a debtor, and (2) are evidenced by documents that are not negotiable.

Insurance, pension, and standardized guarantee schemes: Insurance, pension, and standardized guarantee schemes comprise:

- (1) Nonlife insurance technical reserves
- (2) Life insurance and annuity entitlements
- (3) Pension entitlements, claims of pension funds on sponsors, and entitlements to nonpension funds
- (4) Provisions for calls under standardized guarantees

Trade credit and advances: trade credit and advances comprises (1) credit extended directly by the suppliers of goods and services to their customers and (2) advances for work that is in progress (or is yet to be undertaken) and prepayment by customers for goods and services not yet provided.

Other accounts receivable/payable: Other accounts receivable/payable include accounts receivable or payable other than those included in trade credit and advances or other instruments.

A financial derivative contract: A financial derivative contract is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (such as interest rate risk, foreign exchange risk, equity and commodity price risks, credit risk, etc.) can be traded in their own right in financial markets.

Employee stock options: Employee stock options are options to buy the equity of a company, offered to employees of the company as a form of remuneration.

Valuation of data to be reported in Part F:

Please report data according to the following guidelines:

Currency:

Report all data in [thousands of units of domestic currency]. If the currency(ies) of denomination of any of your company's foreign assets and liabilities is (are) not in [domestic currency], please use the end-of-year foreign currency exchange rates to convert to [domestic currency].

Owners' equity:

For (related and unrelated) listed entities: Market value, if available; otherwise, a proxy for market value (such as net asset value)

For (related and unrelated) unlisted companies, please report the value of outstanding owners' equity (i.e., net worth) as at year-end on the following basis.

For related entities: The sum of your foreign direct investor's or fellow enterprise's (see below for definitions) claims on your net worth, consisting of:

- (1) Paid-up capital (excluding any shares on issue that the company holds in itself and including share premium accounts) or equivalent for unincorporated companies
- (2) All types of reserves identified as equity in the company's balance sheet (including investment grants when accounting guidelines consider them a component of owners' equity)
- (3) Cumulated retained earnings (which may be negative)

Similarly, please include the above three items in calculating the value of your company's equity claim on your direct investor, direct investment enterprise, or fellow enterprise (see below for definition). Do not use the carrying value on your books.

In determining your company's net worth, most financial assets should be reflected at an estimate of their current fair values; cumulative reinvested earnings should be included; and depreciation on items of property, plant, and equipment should be included. If your normal bookkeeping or accounting rules do not value these items as described above, please adjust their values before calculating the amounts to enter in Section F.

Debt instruments:

Loans and trade credit and other accounts payable

Please report on a nominal value basis (after allowing for any changes that may result from changes in exchange rates). Nominal value represents the value of funds advanced less any repayments plus any outstanding accrued interest.

Debt securities

Part G. Revisions to Previously Reported Data

Please provide details of any revisions to data previously reported incorrectly.

Part H. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the company shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- The questions answered cover all the foreign direct investments of the company. / The following foreign direct investments have not been included:

- The information in parts A, B, C, D, E, and F of the form has been completed in accordance with instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part G.
- I have kept a copy of this form for my records.

Name of person completing this form: _____

Signature: _____



Balance of Payments Survey Form 19—International Securities

Please correct any errors in this label

Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

OFFICE USE ONLY

Rec. _____

Edit _____

Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information that will be used in compiling Newland's balance of payments statistics on Newland's external assets and liabilities. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Due date: Please return the completed form by **MM DD, YYYY**.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments and international investment position statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____
Area code

Title: _____

Facsimile number: (_____) _____
Area code

Instructions for Completing Form 19—International Securities

Reporting Instructions

Form 19 should be completed for the company (and any subsidiaries in Newland) listed on page 1 of the form—unless different arrangements have been made with the Newland Ministry of Statistics.

Residents and Nonresidents

A **nonresident** is any individual, company, or other organization ordinarily domiciled in an economy other than Newland. Newland subsidiaries of nonresident companies are **residents** of Newland. Similarly, foreign subsidiaries of Newland companies are nonresidents.

Conversion to Newland Dollars

All values should be reported in thousands of Newland dollars. Please convert amounts in foreign currencies to Newland dollars. All amounts for financial transactions, income, fees, and withholding taxes should be converted at the **midpoint** of the buy and sell rates applicable on the date of the transaction; all amounts for opening and closing positions should be reported at the **midpoint** of the buy and sell rates applicable on the reference dates.

Structure and Scope of Form 19

Form 19 sets out information that should be reported quarterly by this company in respect of international security transactions undertaken on its own account or on behalf of clients. As arranged with your company, information in respect of parts A and B should be submitted by electronic means and accompanied by completed parts C through E of form 19.

In part A, you should report details on securities issued in Newland (a) by residents and held or traded by your company on behalf of nonresident clients and (b) by nonresidents and held or traded by your company on behalf of resident clients or on your own account.

In part B, you should report details on securities issued abroad (a) by residents and held or traded by your company on behalf of nonresident clients; (b) by nonresidents and held or traded by your company on behalf of resident clients or on your own account, and (c) by residents and held or traded by your company on behalf of resident clients or on your own account. For all categories, separate details should be reported for each unique security reference number (column A) and owner code (column B) combination. If you are unsure what should actually be reported, please call (XXX) XXX-XXXX.

In part C, you should report details of your company's claims on, or liabilities to, nonresident clients in respect of accounts outstanding for security transactions, income, fees, and so forth.

Security Reference Numbers and Owner Codes

A standard security reference number should be used for each security. When such numbers do not exist—particularly for securities issued abroad—you should create your own codes and provide a list of these codes to the Newland Ministry of Statistics. The list should show, for each code, the type of security, the economy of issue, the currency of denomination, the industry (activity) of the issuer, and the sector (international institution, government, central bank, other bank, other) of the issuer. (International institutions are organizations, such as Asian Development Bank and the European Investment Bank, whose members are governments.)

The nonresident owner code should consist of four digits. The first digit of the code should describe the sector of the nonresident client (1-international institution, 2-government, 3-central bank, 4-other bank, and 5-other). The last three characters should be the economy of residence code of the nonresident client. Economy codes are provided at the conclusion of these instructions.

The resident owner code should be a four-digit alphanumeric code that is determined by your organization. A separate code should be allocated to each company (business) client. A list of these codes, showing the industry (activity) and sector (government, central bank, other bank, other financial institution, and other) of each owner should be provided to the Newland Ministry of Statistics. Clients who are individuals rather than companies should be assigned the code *HOUS*.

Positions, Transactions, Other Changes, Income, Fees, and Withholding Taxes

The information reported in parts A, B, and C should have the following relationships:

$$\text{Closing Position} = \text{Opening Position} + \text{Financial Transactions} + \text{Other Changes.}$$

Opening and closing positions should be reported via *market prices* prevailing at the reference dates.

Financial transactions are transactions relating to the acquisition (including issues) or disposal (including redemptions) of a security. Financial transactions should be recorded before the deduction of fees.

Other changes are valuation changes, such as those caused by exchange rates (in the case of securities denominated in foreign currencies) and market price changes.

Income refers to *dividends* and *interest*. Dividends should be recorded on the ex-dividend date. Interest includes discounts. A discount is the difference between the value of a financial instrument when it is issued and its final redemption value. Interest should be recorded on an accrual basis. The difference between income accrued and income payable should be recorded as a financial transaction in the instrument to which the interest relates. If you are unsure how to record these types of transactions, please call (XXX) XXX- XXXX.

Income should be recorded before the deduction of any fees and withholding taxes.

Fees are amounts payable by nonresident clients for services provided by your company.

Withholding Taxes refer to—in the case of securities issued by residents—taxes payable to the Newland government by your company on behalf of nonresident clients and—in the case of securities issued by nonresidents—taxes withheld by foreign governments on securities held by your company on behalf of resident clients or on your own account.

Economy Codes

[An economy code list should be supplied by the compiler.]

Form 19—International Securities

Part A. Securities Issued in Newland
(Report in thousands of Newland dollars)

Reference Number	Owner Code	Opening Position	Financial Transactions				Other Changes	Closing Position	Currency of Denomination	Income	Fees	Withholding Taxes
			Issues	Redemptions	Purchases	Sales						
A	B	C	D	E	F	G	H	I	J	K	L	M
(a) Securities Issued by Residents and Owned by Nonresidents												
(b) Securities Issued by Nonresidents and Owned by Residents												
											////////	
											////////	
											////////	
											////////	
											////////	

Part B. Securities Issued Abroad
(Report in thousands of Newland dollars)

Reference Number	Owner Code	Opening Position	Financial Transactions				Other Changes	Closing Position	Currency of Denomination	Income	Fees	Withholding Taxes
			Issues	Redemptions	Purchases	Sales						
A	B	C	D	E	F	G	H	I	J	K	L	M
(a) Securities Issued by Residents and Owned by Nonresidents												
(b) Securities Issued by Nonresidents and Owned by Residents												
											////////	
											////////	
											////////	
											////////	
											////////	

Supplementary item: Fees collected from nonresidents not included in parts A or B above ND'000 _____

Part C. Claims on and Liabilities to Nonresident Clients
(Report in thousands of Newland dollars)

Type of Investment	Opening Position	Transactions	Other Changes	Closing Position
A	B	C	D	E
Claims on Nonresidents				
Securities				
Fees				
Income				
Others				
Liabilities to Nonresidents				
Securities				
Fees				
Income				
Others				

Part D. Revisions to Previously Reported Data

Please provide details of any revisions to data previously reported incorrectly.

Part E. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the company shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- The questions answered cover all the security activities of the company named on page 1. / The following activities have not been included:

- The information in parts A, B, and C of the form has been completed in accordance with instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods have been included in part D.
- I have kept a copy of this form for my records.

Name of person completing this form: _____

Signature: _____

Instructions for Completing Form 20—Holdings of and Transactions in Financial Derivatives Contracts with Nonresidents

Reporting Instructions

Form 20 should be completed for all resident companies (and any subsidiaries in Newland) that have derivative contracts with nonresidents—unless different arrangements have been made with the Newland Ministry of Statistics.

Residents and Nonresidents

A nonresident is any individual, company, or other organization ordinarily domiciled in an economy other than Newland. Newland branches and subsidiaries of nonresident companies are residents of Newland. Similarly, foreign branches and subsidiaries of Newland companies are nonresidents. Transactions and positions should be reported for the economy in which the direct counterparty resides. Please do not report transactions and positions based on currency of denomination of the instrument, the economy of the parent institution of the counterparty (i.e., nationality), the economy of issuance of the instrument, or the economy of a guarantor (i.e., ultimate risk).

Conversion to Newland Dollars

All values should be reported in thousands of Newland dollars. Please convert amounts in foreign currencies to Newland dollars. All amounts for financial transactions, income, fees, and withholding taxes should be converted at the midpoint of the buy and sell rates applicable on the date of the transaction; all amounts for opening and closing positions should be reported at the midpoint of the buy and sell rates applicable on the reference dates.

Reporting of Positions

In Parts A, B and C, positions reported should be the balances outstanding at the close of business as of the last day of the calendar quarter covered by the report. Financial derivatives are valued at market prices prevailing on the balance sheet recording dates. If market price data are unavailable, other fair value methods (such as option models or present values) may be used to value them. Positions data should be reported on a gross basis. However, multiple contracts with a single counterparty may be reported on a net basis if a master netting agreement is in place and if the contracts are carried out at net values in the reporting company's accounting records and statements of financial position.

Structure and Scope of Form 20

The purpose of this form is to gather timely and reliable information on transactions in, and holdings of, derivatives contracts with foreign residents, categorized by the economy of the foreign resident. The data are collected according to the derivative instruments: options, futures and forwards, and swaps. The value of commodities, securities, other noncash and cash (for foreign exchange currency swaps) assets received or delivered to settle derivatives contracts of any type should not be included in the reporting of transactions and positions. Employee stock options (financial instruments that may have similar characteristics as call options) should not be included in the reporting of transactions and positions.

Part A—Options: For transactions (columns B and C), report premiums paid or received on options. In columns D and E, report the receipts or payments of cash upon exercise of options that are settled only in cash. End-quarter positions are to be reported in columns F (Assets) and G (Liabilities).

Part B—Futures Transactions and Forward Agreements: For transactions in futures and forwards (columns B and C), report the cumulative payments or receipts (usually daily for futures) that arise from the change in value of the futures contracts (the "variation margin"). Also include the final cash settlement of futures and forwards contracts. For forward rate agreements, report cash received or paid upon maturity or settlement of forward agreements (including foreign exchange contracts). Do not report the amount received or paid upon settlement of a forward with a security or other noncash asset. End-quarter positions are to be reported in columns D (Assets) and E (Liabilities).

Part C—Swaps: Report in columns B and C the net amount of cash received or paid upon maturity or termination of a swap; and any periodic net cash settlement payments required under the terms of the swap (net settlements refer to the netting of individual contract flows and not to the netting of like instruments). End-quarter positions are to be reported in columns D (Assets) and E (Liabilities).

Part D—Notional Value of Foreign-Currency and Foreign Currency-Linked Contracts: Report positions in notional value, classified by foreign current payments and receipts, and by instrument (forwards and options).

Specific Exclusions:

The following should not be reported: (1) spot foreign exchange contracts, (2) short sale of assets, (3) regular securities trades, (4) normal purchases and sales of an item other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold by the reporting entity over a reasonable period in the normal course of business, (5) life insurance, property and casualty contracts, and (6) financial guarantees that do not meet the definition of a derivative. For further information on financial arrangements that are not financial derivatives, see the sixth edition of the *Balance of Payments and International Investment Position Manual* (paragraph 5.83).

Form 20—Holdings of and Transactions in Financial Derivatives Contracts with Nonresidents**Part A. Options**

(Report in thousands of Newland dollars)

Economy	Transactions		Receipts/Payments of Cash upon Exercise of Options That Are Settled Only in Cash		Outstanding Positions at End-Quarter	
	Premium Receipts	Premium Payments	Receipts	Payments	Assets	Liabilities
A	B	C	D	E	F	G

Part B. Futures and Forwards

(Report in thousands of Newland dollars)

Economy	Cumulative Receipts/Payments during the Period as a Result of the Change in Value of Futures and Forwards Contracts, and from Final Cash Settlements		Outstanding Positions at End-Quarter	
	Receipts	Payments	Assets	Liabilities
A	B	C	D	E

Part C. Swaps

(Report in thousands of Newland dollars)

Economy	Net amount of cash received/paid upon maturity or termination, and any periodic net cash settlement payments		Outstanding Positions at End-Quarter	
	Receipts	Payments	Assets	Liabilities
A	B	C	D	E

**Part D. Financial Derivative Positions with Nonresidents:
Notional Value of Foreign-Currency and Foreign Currency-Linked Contracts**
(Report in thousands of Newland dollars)

Instrument	Outstanding Positions at End-Quarter
A	B
<i>To receive foreign currency:</i>	
Forwards	
Options	
<i>To pay foreign currency:</i>	
Forwards	
Options	

Part E. Revisions to Previously Reported Data

Please provide details of any revisions to data previously reported incorrectly.

Part F. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The name of the company shown on page 1 is correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- The questions answered cover all the security activities of the company named on page 1. / The following activities have not been included:

- The information in parts A, B, C, and D of the form has been completed in accordance with instructions.
- There are no significant revisions to data for previous periods. / Details of significant revisions to data for previous periods are indicated below.
- I have kept a copy of this form for my records.

Name of person completing this form: _____

Signature: _____



Balance of Payments Survey Form 21—Travel: Returning Residents

Please correct any errors in this label

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Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX

Facsimile (XXX) XXX-XXXX

E-mail: bop@stat.com

OFFICE USE ONLY

Rec. _____

Edit _____

Check _____

QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information that will be used in compiling Newland's balance of payments statistics on the expenditure of resident travelers returning to Newland.

Instructions: Please respond to all the questions on form 21. When you have completed the form, please place it in the blue bin that is labeled *Newland Ministry of Statistics—Traveler Survey* and located in the arrivals hall. A staff member from the ministry will be standing beside this bin to answer any questions you may have.

Due date: Please return the completed form by MM DD, YYYY.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Estimates: If you do not know the exact amounts requested for the form, please provide your best estimates.

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments and international investment position statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____

Area code

Title: _____

Facsimile number: (_____) _____

Area code

Form 21—Travel: Returning Residents

You have the option of reporting either in respect of yourself or in respect of a group of travelers.

Travelers who are accompanied by children (persons under the age of 18) should include the travel expenditure associated with these children.

1. Are you completing this return in respect of yourself only or in respect of a group of travelers?
 - Self only—please go to question 3.
 - Group—please go to question 2.
2. a. How many people are in your group? _____
- b. How many of these persons are under 18 years of age? _____
3. In which economy did you spend the most time abroad? _____
4. What was the purpose of your travel?
 - Business Personal
5. If the purpose of your travel was business, have you been employed abroad on:
 - a. border (commuting daily or weekly)
 - b. seasonal work
 - c. short-term contract
 - d. none of the above (paid by a resident employer)
6. a. How many nights did you stay abroad? _____
- b. How many of these nights did you spend in lodgings that were paid for? _____
7. Please record, in Newland dollars, your travel expenditure while abroad. Include amounts paid on your behalf by other residents, such as your employer.

Type of Expenditure	Amount (in Newland dollars)
(a) Expenditures incurred prior to the trip (including any amounts spent, prior to your departure, on your trip abroad)	
(b) Accommodation	
(c) Food and beverages	
(d) Entertainment	
(e) Souvenirs and other goods that you have purchased abroad	
(f) Transportation <i>inside</i> foreign countries and between foreign countries	
(g) Gifts for persons residing abroad	
(g) Other expenditure, excluding international transportation, while abroad (please specify) _____	
Total expenditure while abroad	

8. Does the amount reported in question 7(a) include an airfare?
 - Yes No

9. Please record any earnings and other amounts you *received* during [period] from residents of countries you visited while traveling abroad.

Source of Receipts	Amount (in Newland dollars)
(a) Earnings from employment by foreign companies	
(c) Gifts from foreign residents	
(d) Other (please specify) _____	
Total amounts received while abroad	



Balance of Payments Survey Form 22—Travel: Departing Nonresidents

Please correct any errors in this label

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Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX
Facsimile (XXX) XXX-XXXX
E-mail: bop@stat.com

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QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information that will be used in compiling Newland’s balance of payments statistics on the expenditure of nonresident travelers in Newland.

Instructions: Please respond to all the questions on form 22. When you have completed the form, please place it in the blue bin that is labeled *Newland Ministry of Statistics—Traveler Survey* and located in the departure hall. A staff member from the ministry will be standing beside this bin to answer any questions you may have.

Due date: Please return the completed form by MM DD, YYYY.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Estimates: If you do not know the exact amounts requested for the form, please provide your best estimates.

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments and international investment position statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (_____) _____
Area code

Title: _____

Facsimile number: (_____) _____
Area code

Form 22—Travel: Departing Nonresidents

You have the option of reporting either in respect of yourself or in respect of a group of travelers.

Travelers who are accompanied by children (persons under the age of 18) should include the travel expenditure associated with these children.

1. Are you completing this return in respect of yourself only or in respect of a group of travelers?
 - Self only—please go to question 3.
 - Group—please go to question 2.
2. a. How many people are in your group? _____
- b. How many of these persons are under 18 years of age? _____
3. In which economy do you ordinarily reside? _____
4. What was the purpose of your visit to Newland?
 - Business Personal
5. If the purpose of your travel was business, have you been employed in Newland on:
 - a. border (commuting daily or weekly)
 - b. seasonal work
 - c. short-term contract
 - d. none of the above (paid by a nonresident employer)
6. a. How many nights did you stay in Newland? _____
- b. How many of these nights did you spend in lodgings that were paid for? _____
7. Please record, in Newland dollars, your travel expenditure in Newland. Include amounts paid on your behalf by other nonresidents, such as your employer.

Type of Expenditure	Amount (in Newland dollars)
(a) Expenditures incurred prior to the trip (including any amounts spent, prior to your arrival, on your trip to Newland)	
(b) Accommodation	
(c) Food and beverages	
(d) Entertainment	
(e) Souvenirs and other goods that you are taking out of Newland	
(f) Transportation <i>within</i> Newland	
(g) Gifts for persons residing in Newland	
(g) Other expenditure, excluding international transportation, in Newland (please specify) _____	
Total expenditure in Newland	

8. Does the amount reported in question 7(a) include an airfare?
 - Yes No

9. Please record any earnings and other amounts you *received* during [period] from Newland residents while traveling in Newland.

Source of Receipts	Amount (in Newland dollars)
(a) Earnings from employment by Newland companies	
(c) Gifts from Newland residents	
(d) Other (please specify) _____	
Total amounts received while in Newland	



Balance of Payments Survey Form 23—International Transactions and Positions of Households

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Reference Number

Balance of Payments Division
Newland Ministry of Statistics
Archadia

Telephone (XXX) XXX-XXXX

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QUARTER ENDED MM DD, YYYY

Please read this first.

Collection authority: The *Statistics Act of Newland* requires that a representative of the company to which this form is addressed complete and return this form to the Newland Ministry of Statistics.

Confidentiality: The *Statistics Act of Newland* also guarantees the confidentiality of the information provided via this form.

Purpose of collection: This form collects information that will be used in compiling Newland's balance of payments statistics on international transactions and positions of households. These statistics are published quarterly in *Newland: Balance of Payments and International Investment Position*, which is available from the Newland Ministry of Statistics.

Due date: Please return the completed form by **MM DD, YYYY**.

How to file: Please submit the form by mail (address) or e-mail (bop@stat.com).

Estimates: Some of the data requested may not be readily available from your records. In these cases, **careful estimates** will suffice.

Assistance: For queries or assistance regarding this form, please call (XXX) XXX-XXXX or e-mail bop@stat.com.

Thank you: Your cooperation is greatly appreciated. Accurate balance of payments and international investment position statistics depend upon it.

After you complete this form, please retain a copy for your records.

John Smith
Newland Statistician

Person who should be contacted if any queries arise regarding this form:

Name: _____

Telephone number: (____) _____
Area code

Title: _____

Facsimile number: (____) _____
Area code

Instructions for Completing Form 23—International Transactions and Positions of Households

Reporting Instructions

Form 23 should be completed for the household listed on page 1 of the form—unless different arrangements have been made with the Newland Ministry of Statistics.

Residents and Nonresidents

A *nonresident* is any individual, company, or other organization ordinarily domiciled in an economy other than Newland. Newland subsidiaries of nonresident companies are *residents* of Newland. Similarly, foreign subsidiaries of Newland companies are nonresidents.

Conversion to Newland Dollars

All values should be reported in thousands of Newland dollars. Foreign currencies should be converted to Newland dollars at the **midpoint** of the buy and sell rates applicable on the date of the transaction. Where amounts are less than ND500, leave blank or indicate with a “—”.

Structure of Form 23

Form 23 collects quarterly information on selected international positions and transactions of this household.

Part A collects information on goods received and sent by parcel post and courier services. Do not include goods purchased abroad and sent home during the personal trip.

Part B collects information on services received from nonresidents. Legal services include conveyancing on property purchases. Education services include correspondence courses and education services purchased online. Entertainment services include purchases of online content, fee-for-use Websites, and pay-per-view television. Do not include services purchased abroad during the personal trip.

Part C collects information on foreign assets, including participation in time-share arrangements on foreign property and holdings of foreign-issued notes and coin. Equity and units in investment funds exclude positions held on your behalf by resident custodians and fund managers. Other changes include changes in the value of assets due to market price changes and exchange rate changes.

Part D collects information on foreign income received.

Part E collects information on foreign liabilities. Mortgages with foreign banks (e.g., on foreign properties) should be included with loans.

Part F collects information on payments made to nonresidents.

Economy

Each question seeks information on the economy of transaction or position. Record the economy of residence of the nonresident transactor.

Form 23—International Transactions and Positions of Households

Part A. Imports and Exports of Goods

(Report in thousands of Newland dollars)

	Total	Transactions by Economy (specify)				
	A	Economy 1	Economy 2	Economy 3	Economy 4	Economy 5
Imports of Goods						
1. Value of goods received by parcel post (other than gifts)						
2. Value of gifts received by parcel post						
3. Value of goods received by courier (other than gifts)						
4. Value of gifts received by courier						
Exports of Goods						
5. Value of goods dispatched by parcel post (other than gifts)						
6. Value of gifts dispatched by parcel post						
7. Value of goods dispatched by courier (other than gifts)						
8. Value of gifts dispatched by courier						

Part B. Services Received from Nonresidents and Provided to Nonresidents

(Report in thousands of Newland dollars)

Value of services	Total	Transactions by Economy (specify)				
	A	Economy 1	Economy 2	Economy 3	Economy 4	Economy 5
Services received from nonresidents						
9. Legal services						
10. Accounting services						
11. Brokerage services						
12. Education services						
13. Entertainment services						
14. Other (please specify: _____)						
Services provided to nonresidents						
15. Legal services						
16. Accounting services						
17. Brokerage services						
18. Education services						
19. Entertainment services						
20. Other (please specify: _____)						

Part C. Foreign Assets
(Report in thousands of Newland dollars)

Economy	Currency	Position at Beginning of Quarter	Purchases and Deposits during the Quarter	Sales and Withdrawals during the Quarter	Other Changes in Position	Position at End of the Quarter
A	B	C	D	E	F	G
21. Equity in Nonresident Companies						
22. Units in Nonresident Investment Funds						
23. Debt Securities Issued by Nonresidents						
24. Stock Options Written by Nonresidents						
25. Foreign Bank Accounts						
26. Foreign Currency						
27. Land						
28. Other Foreign Investments						

Please describe any participation in time-share arrangements, including the location of the accommodation and whether participation is by deeded ownership, on a membership basis, or on a right-to-use basis

Part D. Amounts Received from Nonresidents

(Report in thousands of Newland dollars)

	Total	Transactions by Economy (specify)				
	A	B	C	D	E	F
29. Dividends received on ownership of shares						
30. Distributions from investment funds						
31. Interest earned on debt securities						
32. Education services						
33. Interest on bank accounts						
34. Rent received from leasing foreign land						
35. Wages and salaries received from nonresident employers						
36. Social security contributions paid on your behalf by nonresident employers						
37. Remittances received from family/relatives/friends abroad						
37a. Of which for purchase of real estate						
38. Social security benefits received from nonresident pension funds						
39. Claims received from nonresident insurers						
40. Other (please specify: _____)						

Part E. Foreign Liabilities

(Report in thousands of Newland dollars)

Economy	Currency	Position at Beginning of Quarter	Borrowings during the Quarter	Payments during the Quarter	Other Changes in Position	Position at End of the Quarter
A	B	C	D	E	F	G
41. Loans						
42. Other Foreign Liabilities						

Part F. Payments to Nonresidents
(Report in thousands of Newland dollars)

	Total	Transactions by Economy (specify)				
	A	B	C	D	E	F
43. Remittances (e.g., to family abroad)						
43a. Of which for purchase of real estate						
44. Social security contributions paid to nonresident pension funds						
45. Insurance premiums paid to nonresident insurers						
46. Taxes paid to foreign governments on foreign earnings						
47. Loan repayments						
<i>Of which: interest accruing on loans</i>						
48. Fees on foreign bank accounts						
49. Fees on foreign loans						
50. Other (please specify: _____)						

Part G. Final Questions

Please verify that the form has been correctly completed; mark the following boxes and strike out inappropriate phrases.

- The contact details for the household shown on page 1 are correct. / I have corrected the name and address on page 1.
- Details about the contact person have been entered on page 1.
- The information in parts A through F has been completed in accordance with the instructions.
- I have made a copy of this form for my records.

Name of person completing this form: _____

Signature: _____