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For discussion

A Backbone Strategy for Updating *BPM6*

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BACKBONE STRATEGY FOR UPDATING *BPM6*[1]

At its 2018 meeting, the IMF's Committee on Balance of Payments Statistics (Committee) underlined the need for a strategic paper which will be the backbone describing the overarching topics around which the Committee's research agenda should be structured; and which would link the research agenda to the main policy priorities in a fast-changing global economic and financial environment.

This paper responds to the need by scoping out the key conceptual, methodological, and measurement issues in the international accounts that are pivotal to the IMF's role in providing cutting-edge analysis and policy advice for its membership. The main priorities are presented in four distinct groups: globalization, digitalization, drivers from the evolution of financial and payments systems, and other issues in the research agendas of the national and international accounts. The paper identifies areas of work in progress, including those of other international organizations; and also underscores that the aspiration of a one-statistical-standard-fits-all approach needs to be weighed against manifold (and sometimes competing) needs; the need to preserve the fundamental principles behind the core accounts; as well as practical considerations, including those of varied statistical capacity across the IMF membership. It is intended to be the backbone to designing a BPM6 *update strategy.*

I. INTRODUCTION

1. **Since its inception, the International Monetary Fund (IMF) has had a compelling interest in developing guidelines for the compilation of consistent and internationally-comparable balance of payments statistics in support of its primary role of ensuring the stability of the international monetary system.** These guidelines, embodied in successive editions of the Balance of Payments Manual, have evolved to meet changing circumstances. The sixth edition of IMF's *Balance of Payments and International Investment Position Manual (BPM6)*—now in existence for a decade—has held up well to developments, and its underlying conceptual framework remains resilient. Nonetheless, in a fast-evolving globalized economic and financial context, the IMF should continue providing cutting-edge analysis and policy advice for its membership in line with its global leadership role. Consequently, STA is in the formative stages of strategic planning for an update of *BPM6*.

2. **Accordingly, this paper aims to scope out the key conceptual, methodological, and measurement issues in the international accounts, as a basis for assessing the high-priority areas for the *BPM6* update.** The paper will provide structure—"the backbone"—to the design of a *BPM6* update strategy that: supports more informed decisions

[1] Prepared by Paul Austin, Deputy Division Chief, Balance of Payments Division, STA. The paper draws on an internal document that was prepared—with Ms. Jennifer Ribarsky as co-author in August 2019—to seek the views of other Departments in the IMF on the priority issues that should be addressed in the *BPM6* Update.

by national policymakers; addresses key Fund priorities and policy relevance; encompasses wide user consultation and research; takes account of related statistical workstreams by other international organizations; and coordinates with the upcoming update of the *2008 System of National Accounts* (*2008 SNA*).

3. **Determining whether the issues imply changes to the underlying *SNA*/*BPM*-rooted methodological principles or may be addressed by extending the current framework is key.** For issues that may touch on the core principles, a wider view on the benefits versus the costs of the potential changes as well as considering extensions to the core accounts would be required. The latter would avoid the risk of stretching too much the core accounts trying to serve competing requests and possibly putting at risk fundamental principles. Moreover, while cognizant of its mandate to provide global leadership on statistical methodologies and standards for the IMF, its member countries, and the international statistical community, STA is committed to providing guidance to a wide range of countries with varied economic structures and statistical systems and capacities. This makes the aspiration of a one-statistical-standard-fits-all particularly challenging.

4. The rest of the paper starts with an outline of the general context (background) followed by a description of the main priorities presented in three distinct groups: impact of globalization; drivers from the evolution of financial and payments systems; and other issues in the research agendas of national accounts and external sector statistics (ESS), respectively. Conclusions and observations are presented at the end.

II. Background

5. **Growing international integration in trade and finance—with multinational enterprises (MNEs) as key drivers—bring new challenges to the international accounts.** Since the launch of *BPM6* in 2009, globalization has continued to evolve, creating opportunities for production chains to span both developed and developing countries to maximize production efficiency; for firms to use digitalization to extend their customer base beyond national boundaries; and for MNEs to manage intellectual property rights, research and development, trade, and other activities as part of the group-wide financial and profit maximization strategy. This has increased the complexity of compiling cross border economic statistics, not least because of the challenges of disaggregating production activities and consolidated balance sheets on a country-by-country basis. Besides, globalization and the associated global external imbalances observed since the early 2000s have also triggered a body of analytical work, with one strand focusing on whether current statistical measures of the current and financial accounts provide an accurate view of external imbalances. This has led to renewed interest in the idea of extending the traditional residency-based cross-border positions with supplementary information based on nationality

and/or of expanding the institutional sector breakdown of the accounts to record separately transactions/positions corresponding to resident units belonging to multinational groups.[2]

6. **New policy challenges arising from the global financial crisis and its aftermath also provide an impetus for examining how ESS standards should adapt to user needs.** The global crisis arose just as work on *BPM6* and the *2008 SNA* were finalized. In retrospect, both manuals endured the challenges posed by the crisis, and their basic conceptual and structural frameworks were not undermined. However, the crisis and its aftermath have thrown up new policy challenges, notably in the field of financial stability, resulting in demand for data that would facilitate a deeper understanding of financial interconnectedness and external vulnerabilities. Increased focus on balance sheet analysis (BSA), particularly for understanding maturity and currency mismatches and counterparty exposures; and—in the context of the IMF's multilateral surveillance flagship, the External Sector Report (ESR)—there is also demand for more integrated international accounts to facilitate a better understanding of stock/flow reconciliations, including breaking down positions by currency; as well as calls for more symmetric treatment of income across functional categories and investment instruments (in particular concerning the differentiated reinvested earnings treatment of direct and portfolio investment equity). To underscore the importance of an integrated and consistent balance of payments and international investment position (IIP), the next manual would aim to give more attention to stock-flow reconciliation by strengthening guidance on (i) IIP valuation changes, including for unlisted equity; and (ii) the nexus between returns on financial assets and liabilities and their corresponding positions.

7. **Following the publication of *BPM6* and the *2008 SNA*, work has continued on addressing methodological issues.** Both the *BPM6* and the *2008 SNA* include a research agenda that remained under discussion at the time of their release. In the last decade, methodological work on the ESS front has been driven not only by these research agendas, but also by demand from Fund members for advice on the statistical treatment of new phenomena (e.g., negative interest rates, central bank swaps, crypto assets); and by the need for further clarification on existing guidelines, as well as consistency across manuals and compilation guides. In line with an agreement at its 2015 meeting to develop a compendium of work that would need to be undertaken as part of the process of updating of the *BPM6*, the Committee has since 2016 discussed and updated the ESS research agenda at its annual meetings; and has endorsed several clarification notes (see Annex 1).

8. **Issues to be addressed in the *BPM6* update would encompass those that are particularly relevant for analysis of low income and emerging market economies.** The measurement of informal cross-border flows—in both the current and financial accounts—is one key issue. Other key issues include the treatment of centralized currency unions in Africa

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[2] On the residency-based principle, corporations in an MNE setting are treated statistically as separate institutional units and as resident in their host economy. A nationality-based approach consolidates the positions of these corporations and attributes them to the nationality of the parent corporation.

and the Caribbean, as well as the impact of digital trade on these economies. The update may also build on earlier work on tailoring statistical presentations to focus on the more policy-relevant components of the international accounts.[3]

9. The remaining sections of this paper present the key issues that are likely to inform the *BPM6*, classified into three broad drivers: impact of globalization (and digitalization), the evolution of financial and payments systems, and the remaining issues in the national accounts and ESS research agendas.

III. GLOBALIZATION

Key Issues: (i) treatment of MNEs and SPEs, (ii) economic ownership and the recording of IPPs, and (iii) global value chains.

10. **Since the publication of the *BPM6* and the *2008 SNA* much guidance has been provided on the subject of globalization to assist national statistical compilers.**[4] but some issues warrant further research or user demands could be met with more detailed data. The level of detail may be classified into three groups: (i) **granular**, meaning more disaggregated data consistent with the core framework; (ii) **supplementa**l, meaning granular data that may for example, require a rearrangement of classifications to present alternative views; and (iii) **extensions**, which are data compiled outside the *BPM6* conceptual framework and may be based on alternative concepts to facilitate deeper analysis.

11. In this scoping exercise, issues for consideration should center on ensuring that the international accounts—comprising the IIP, the balance of payments, and the other changes in financial assets and liabilities accounts—provide adequate insights into the modern economy, offer an exhaustive view of economic activities, support robust analysis of global imbalances, and help Fund members detect and manage build-up of risks and external vulnerabilities. One overarching key issue in scoping the priorities for further research is whether the impact of globalization can be addressed by more granular or supplemental data in the current framework, or through extensions of the core framework that would offer alternative views—including for example: introducing the nationality concept to complement the residency-based statistics on cross border flows and positions.

A. Treatment of MNEs and SPEs

12. **Among the key issues is how MNEs impact measurement and interpretation of the international accounts.** For cross-border statistics there are a range of interwoven issues including the measurement of direct investment, special purpose entities (SPEs), pass

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[3] See BOPCOM 16/03: Strategy to Compile External Sector Statistics in Countries with Low Statistical Capacity.

[4] UNECE (2011) "The Impact of Globalization on National Accounts" http://www.unece.org/fileadmin/DAM/stats/groups/wggna/Guide_on_Impact_of_globalization_on_national_accounts_FINAL21122011.pdf; UNECE (2015) "Guide to Measuring Global Production" http://www.unece.org/index.php?id=42106

through funds, the relationship between investment income and positions, and the data granularity needed to identify MNE activities (see discussion on GVCs ahead). One concern is the current measurement of direct investment based on the first known counterpart rather than on the origin and final destination of investments. The scale of the issue was highlighted in a recent Financial Times article which cited a study by IMF/University of Copenhagen staff which suggests that "nearly 40 percent of worldwide FDI worth a total of $15 trillion passes through empty corporate shells with no real business activities". Some analysts argue that the corrections suggested—from separate treatment of SPEs, to measures of capital in transit, to the use of directional flows measures—reduce but do not eliminate the problem of current measures capturing flows through rather than to the country (Blanchard and Acalin, 2016).[5]

13. **The use of SPEs has increased in the context of multifaceted and flexible multinational enterprise (MNE) structures.** With increasing globalization, SPEs have evolved beyond those structures anticipated in the current statistical manuals. While originally set up by financial institutions, SPEs have evolved to include nonfinancial specialized entities established by MNEs to manage intellectual property rights, research and development, trade, and other activities as part of the group-wide financial and profit maximization strategy. The common denominator of these activities is often tax arbitrage among jurisdictions in the context of free capital movements.

14. **Identifying separately SPE activities is essential for market analysts and policy makers to analyze cross-border interconnectedness and understand the associated risks.** To develop further statistical guidance on SPEs, a Fund Task Force on SPEs (TFSPE), established by the Committee has proposed an international definition of SPEs in the context of cross-border statistics to facilitate the collection of cross-country comparable data (BOPCOM 18/03).[6] The definition and associated typology have been adopted by the Committee and initial data collection will begin by the end of 2021 (for reference year 2020). The update of *BPM6* is expected to incorporate these developments and would mark an important step towards improving the analytical value of cross-border statistics given that SPEs usually have limited or no impact on the domestic (host) economy.

B. Intellectual Property Products

15. **The treatment of intellectual property products (IPPs) encompasses a range of issues that are rooted in the conceptual question of whether international transactions should be recorded on an economic—as opposed to legal—ownership principle.** Parent companies may assign legal ownership of IPPs to SPEs which otherwise do not contribute to the MNE´s production activities. Currently, the guidance is to record a change in economic

[5] Olivier Blanchard and Julien Acalin (2016), "What Does FDI Actually Measure", Peterson Institute for International Economics, Washington D.C.

[6] See https://www.imf.org/external/pubs/ft/bop/2018/pdf/18-03.pdf

ownership when a financial transaction between two institutional units occurs, which corresponds to a change in legal ownership. Statistical compilers will not easily be able to deviate from such legal arrangements; and would likely use the reported earnings on IPP investment, despite the fact that these SPEs may not be considered as the economic owners according to the *2008 SNA* principles. The attribution of economic ownership of IPPs is a complex issue, with at least four options under consideration[7]—each with important consequences for both the national and international accounts; and with the potential for revisiting theoretical concepts such as what constitutes an institutional unit.

16. **Even when MNEs do not use SPEs as the legal owner of their IPPs, the principles of economic ownership of IPPs are difficult to apply inside multinational enterprises.** The intangible nature of IPPs means that once they are produced their ownership and use are not easily observed since IPPs are not physically constrained and are non-rivalrous in nature. In other words, where IPPs are produced, used, and owned, these processes do not necessarily occur in the same country. This provides significant freedom for MNEs because the use of the IPP by one part of an enterprise group does not prevent the simultaneous use by another part and the legal ownership of IPPs can be placed anywhere amongst the group.

17. **The recording of which entity is the economic owner of the IPP also has implications for how the related charges for its use are to be recorded.** Since IPPs (e.g., R&D) is often considered corporate property, payments for its use may not always be observed separately and may instead be shown as distributed or retained earnings from foreign direct investment (FDI).[8, 9] The typology of global production as discussed in the *Guide to Measuring Global Production* uses ownership of IPPs as one of the criteria in classifying certain global production arrangements. Implications on the recording, especially for factoryless goods producers (discussed ahead), needs to be considered when determining the economic ownership of IPPs. As noted earlier, STA is proposing to collect supplementary information on SPEs for a reduced number of balance of payments and IIP components beyond FDI activities. Regarding services, four distinct components of services have been included in the reporting list where SPEs can be of relevance: transport, financial services, charges for the use of intellectual property, and other business services.

C. Global Value Chains

18. **Policy demand for more statistical information on GVCs, including the role on MNEs in these processes, has grown significantly in recent years.** GVCs embody the

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[7] See Ribarsky et. al (2018) "T*he Measurement of Stocks and Flows of Intellectual Property Products*" for a discussion of these options.

[8] See http://www.unece.org/index.php?id=42106

[9] Some have even called for the payments for the use of IPPs to be recorded as income rather than payments for services; see http://www.iariw.org/copenhagen/lynch.pdf

international fragmentation of production into tasks that can be located within a global production process, rather than restricted to units located within the national territory. This fragmentation of production has created challenges in interpreting current trade related statistics as a measure of a country's integration and stake in the global economy. The nature of such fragmentation can also create a distorted view of who really trades with whom, which means that the current measures of bilateral trade balances based on gross trade data may need supplemental measures for optimal policy making.

19. **One of the core issues is the use of the residence principle to determine the boundary between international and domestic transactions concerning MNE production processes.** Wider interest in GVC analysis has triggered several data initiatives. Foreign affiliates trade statistics were developed in the 1990s;[10] and more recently, BOPCOM (2017) established a Working Group on Balance of Payments Statistics Relevant for GVC Analysis to "address options to better identify the role of firms, including MNEs in current account transactions". Discussions on the Working Group's final report (presented at the Committee's 2019 meeting)highlighted possible other components useful for highlighting MNEs activities such as retained earnings of MNE portfolio investors, intragroup transfers of IPPs and intragroup trade; and prompted calls for exploring the possibly of introducing a sub-sectorization distinguishing between domestic MNEs that have affiliates abroad, foreign controlled enterprises and other domestic enterprises.

20. **The issues related to GVCs are intertwined with the need to address how global production arrangements impact the measurement and interpretation of the current account.** These issues are also linked to the IPP. There are unresolved questions concerning the treatment of so-called factory-less goods producers. These are enterprises that buy and resell goods (and so they may look like wholesale or retail traders), but they also design the goods (e.g., athletic shoes), and so the margin on their sales is much higher than a typical wholesale or retail trader. Key issues include whether they are buying and reselling goods or services; and—if they are—should their international transactions be regarded as a merchanting activity (in which case their transactions affect goods trade on a net basis) or as transactions in general merchandise (in which case their transactions are recorded on a gross basis in goods and/or services trade).[11]

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[10] Also, in the 1990s, the United States' Bureau of Economic Analysis developed an ownership-based disaggregation of the U.S. current account in response to the recognition that sales through affiliates should be considered along with cross-border trade to analyze the full role of MNEs in the delivery of goods and services to international markets. The framework continues to highlight the role of MNEs in total trade, with intrafirm trade accounting for 32 percent of U.S. exports and 37 percent of U.S imports in 2016.

[11] These issues initially were raised by the UNECE Task Force on Global Production and have been debated—but not yet resolved—by the AEG and BOPCOM.

D. Digitalization

Key issues: (i) digital trade, (ii) crypto assets, and (iii) remittances/financial services.

21. Digitalization encompasses a wide range of new applications of information technology in business models and products that are transforming the economy and social interactions. Understanding the impact of such transformation on cross border transactions and positions—including of the sharing economy—is relevant for ensuring that the international accounts offer an exhaustive view of economic activities.

E. Digital Trade

22. **Digital trade is growing in importance, raising measurement concerns and data dissemination needs.** Digitally-ordered trade involves cross-border e-commerce in both good and services, while digital delivery involves products/services delivered via digital downloads or web streaming. Digital trade raises both conceptual and practical issues of measurement, and despite its growing importance, there is little progress on measuring it. Work on a Handbook on Digital Trade, led by the OECD, the IMF and other international organizations, is in progress; and is expected to identify data sources and methods for capturing new business models of the sharing economy.

F. Crypto Assets

23. **The advent of crypto assets as the leading edge of digital innovation in financial services in the past decade has raised measurement concerns.** Crypto assets did not exist when the latest macroeconomic statistical manuals were being revised; thus, no international guidelines are available in the *2008 SNA* or *BPM6*. Crypto assets combine properties of currencies, commodities, and intangible assets. In response to requests by some IMF members for guidance on the statistical recording of these assets, the IMF has issued a clarification note (see Annex I) that provides guidance on the classification for their treatment in macroeconomic statistics based on the current statistical standards and classifications. Bitcoin-like crypto assets and digital tokens without counterpart liabilities should be classified as produced nonfinancial assets as a distinct sub-category under valuables. Other crypto assets with characteristics similar to those of more standard financial instruments should be classified according to current guidelines. While this guidance for dealing with crypto assets is consistent with the current statistical standards, the development and use of crypto assets must be closely monitored and these recommendations may need to be revisited if conditions (e.g., regulatory measures) substantially change in the future.

G. Remittances/Financial Services

24. **Digitalization also impacts the international accounts through the channels of cross-border remittances.** The issue is primarily one of data capture as more households use digital platforms. The digitalization of financial services, termed “fintech” also raises the

prospects of marketplace lending platforms facilitating cross-border transactions. This raises measurement concerns and would also require a revisit of the financial services indirectly measured (FISIM) concept used in both national accounts and balance of payments statistics.[12]

IV. Drivers from Evolving Financial and Payments Systems

Key Issues: (i) compiling IIP by currency composition, and separately identifying nonfinancial corporations, (ii) trade finance, and (iii) nonbank financial intermediation.

A. IIP Currency Composition and Nonfinancial Corporations

25. **Data gaps identified in the aftermath of the recent financial crisis gave rise to the IMF-FSB Data Gaps Initiative, which is now in its second phase (DGI 2).** On ESS, DGI 2 is giving more prominence to from whom-to whom investment positions data, through the Fund's Coordinated Direct Investment Survey (CDIS) and the Coordinated Portfolio Investment Survey (CPIS)—helping to monitor interconnectedness. The DGI recommendations related to these ESS areas are anchored on the current conceptual framework; and aim primarily to strengthen data collection efforts by encouraging countries to go beyond the standard requirements of *BPM6* and/or the core requirements of CDIS/CPIS.

26. For the IIP, the DGI also promotes a currency composition breakdown (as in *BPM6* and the *External Debt Statistics Guide*) to better assess currency risks; and separate identification of nonfinancial corporations (NFCs) in the IIP standard components, given the increasing cross-border exposures of NFCs especially of emerging market economies. There is also interest in having a sector breakdown of direct investment in the IIP so as to enhance the BSA matrix.

B. Trade Finance

27. **There is currently no single comprehensive dataset that measures the magnitude, composition, and dynamics of the trade finance market.** In the aftermath of the 2008–9 financial crisis, analysts cited the absence of data as an impediment to estimating the trade finance gap, which impacted assessments of whether targeted interventions to channel liquidity into the real economy were adequate and effective. To address this data gap, the G20 [13] and leading international financial institutions advised on establishing a comprehensive and regular collection of trade credit to overcome "a significant and avoidable hurdle for policy-makers to make informed, timely decisions." The use of swaps

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[12] The digital economy as it relates to compilation challenges and state of play in ESS is discussed in *Measuring the Digital Economy*, IMF Staff Paper, February 2018.

[13] See: G20 Trade Finance Experts Group - April Report Canada-Korea Chair's Recommendations for Finance Ministers

between central banks designed for international trade facilitation has also increased, resulting in calls for supporting data to better manage reserves and macro-financial risks.

28. **STA has proposed a single satellite table capturing trade finance within and across borders including contingent instruments** (such as letters of credit). The trade financing market has undergone structural changes with the invention of digital supply-chain financing solutions and Fintechs that entered established markets with a specific focus on small and medium sized enterprises. This has extended the range of creditors and instruments beyond traditional bank-based financing instruments/facilities presented in *BPM6*. The results of a pilot exercise on the satellite table is being presented at this meeting; and consideration may be given to incorporating supplementary items in the conceptual framework as part of the *BPM6* update.

C. Non-bank Financial Intermediation

29. **Shadow banking gained increasing attention in the aftermath of the recent global crisis.** DGI 2 follows the definition established by the Financial Stability Board (FSB) that non-bank financial intermediation is “credit intermediation involving entities and activities (fully or partially) outside the regular banking system". The *BPM6* update provides an opportunity to review whether the current instrument breakdown of assets/liabilities provides adequate data from a macroeconomic perspective.

V. Other Issues in the Research Agenda

Key issues: (i) asymmetric treatment of retained earnings between direct and portfolio investment, (ii) informal economy, and (iii) other issues.

A. Retained Earnings Between Direct and Portfolio Investment

30. **The asymmetric treatment of retained earnings between direct and portfolio investment, and its implications for the income balance is a longstanding issue.** While retained earnings are attributed to immediate owners in the case of direct investment and are reflected in the investment income on an accrual basis, retained earnings on portfolio investment are not attributed to immediate owners and are instead reflected in IIP valuation changes. Some users noted that from an economic perspective both should be income.[14] The *BPM6* update therefore provides an opportunity to review the treatment of retained income for different investment types (as well as the borderline between dividends and withdrawal of equity). Nonetheless, the impact on the saving ratio of companies with foreign shareholders

[14] As noted by Adler, Garcia-Macia and Krogstrup (2019), the current treatment leads to a situation where returns to foreign investments driven by real exchange rates or asset prices changes, while affecting net foreign assets (the IIP), are not recorded as investment income in the current account. See IMF Working Paper 19/132.

as well as possible inconsistencies with the treatment of equity income in domestic-to-domestic relationships in national accounts should also be considered.[15]

B. Informal Economy

31. **While much of the statistical work on the informal economy focuses on covering the domestic economy, there is growing policy demand for the measurement of cross-border illicit financial flows.** The movement of cash across borders that is illegal in its source (e.g., corruption, smuggling), its transfer (e.g., tax evasion), or its use (e.g., terrorist financing) are critical gaps that impact ESS. Further, significant gaps remain in the coverage of informal cross-border trade particularly in developing countries—distorting the current account and impairing decision making in key policy areas. The current statistical manuals, *2008 SNA* and *BPM6*, fall short in providing a clear definition nor enough practical guidance that is suitable for compiling the requisite statistics for policy analysis, therefore more clarification in the international standards and related compilation guides is needed.

C. Other Issues

32. The following topics also merit attention:

- **Centralized currency unions:** The treatment of reserves and other cross-border assets in the balance of payments and IIP of centralized currency unions (CUs) such as CEMAC and WAEMU has raised many questions that warrant a review (or clarification) of current recommendations in *BPM6*. Appendix 3 of *BPM6* covers regional arrangements such as CUs and their treatment in ESS. Two kinds of CUs were identified—decentralized and centralized—with the latter covering ECCU, CEMAC, and WAEMU. One emerging issue is the need for additional guidance in the case where the centralized CU arrangements are such that no allocation of union-level reserves across member countries is possible. The consideration as either domestic or cross-border of transactions between the CU central bank and the CU Member States (such as government advances) also merits additional clarification.

- **Sustainable finance:** to foster macro policies that help build resilience to climate and natural disaster risks, and to "connect the dots" between sustainable finance and financial stability, the IMF is stepping up analytical and policy work on climate mitigation. To this end, identifying sustainable finance instruments (such as green bonds) and cross-border portfolio risks provide new frontiers for ESS to respond to emerging data user needs.

- **Islamic finance:** the growing spread of Islamic finance and its impact on the financial account will need to be addressed. There is a need to discuss the treatment of these institutions and instruments in more detail, especially where these arrangements create

[15] For a broader discussion, see Reinsdorf, et al. *A Proposal to Better Elucidate the Income and Condition of Financial Institutions in National Accounts*, International Association for Research in Income and Wealth (2015).

borderline cases that are currently open for interpretation. In addition, as these banks are not involved in financial services provided in association with interest charges on loans and deposits (directly), how to calculate FISIM would need to be addressed.

- **Cost of insurance and freight (CIF) / free on board (FOB) adjustments:** current statistical guidance on measuring international trade in goods shows some inconsistencies between the national and international accounts: *BPM6* uses FOB regardless of delivery terms, while the *2008 SNA* uses actually observed (contractual) price allowing for a variety of recording bases. A proposal to use invoice values was examined by the IMF and the OECD (see BOPCOM 19/15). Further research is needed particularly to weigh the issues, including attainment of full methodological consistency between the *BPM* and the *SNA* versus the practicalities and costs of implementing any new recording bases.

- **Net international reserves and reserves-related liabilities:** there is a call for reviewing the definition of reserve-related liabilities, including with a view to introducing a standardized definition of net international reserves that are central to the design of IMF lending programs. One key issue is that current guidance excludes from the definition of reserves-related liabilities, liabilities that are denominated and settled in domestic currency. From the policy perspective, this results in the exclusion of nondeliverable FX derivatives settled in domestic currency, even if the payoff at maturity is a function of the exchange rate, and settlement may in some cases lead to a drain in reserve assets.

- **Institutional Sectors:** issues for consideration include (i) presentation of households as a separately identifiable sector, and (ii) sectoral consistency between the international accounts and monetary and financial statistics (in areas such as money market funds).

VI. CONCLUSION AND OBSERVATIONS

33. A pragmatic approach to developing the *BPM6* update strategy requires that each issue under consideration be examined from the perspective of:

- was it previously researched in the context of *BPM5* update, and are there new developments that compels a fresh look;

- can the issue be addressed through extended or supplementary statistical frameworks;

- does the issue belong in statistical methodologies versus areas that may better be dealt with by researchers; and

- the practicalities of implementing any new approaches to addressing the issue.

34. While the issues discussed in the paper have been grouped thematically by their drivers, delineating issues that impact the core international accounts concepts versus those that can be addressed through extensions or supplementary statistics/measures is essential;

and also requires harmonization with the *SNA* update strategy. In this regard, STA is not proposing at this stage any fundamental changes to the structural framework of the international accounts as presented in *BPM6*. Nonetheless, to underscore the importance of an integrated and consistent balance of payments and IIP, more attention to stock-flow reconciliation will be addressed.

35. The issues presented in this paper are not intended to be an exhaustive list of all the ESS research issues for consideration. Further, a number of important research areas that arise in the *SNA* context could also impact the international accounts. These include issues such as valuation of digital data-based information, tradable emission permits, provisions, FISIM, and use of fair value for loans.

Questions for the Committee:

- *Does the Committee's agree with the proposed grouping of the issues and key priorities identified?*
- *Does the Committee have any additional priorities that should be considered as backbone to the* BPM6 *Update Strategy?*
- *Does the Committee have any suggestions on how the strategy should be coordinated with other statistical frameworks?*

Annex 1. Clarification Notes Issued

Topic	Description
International Reserves and Foreign Currency Liquidity Data Template—Clarification on the Recording of Gold Under Other Foreign Currency Assets	Clarifies that to be consistent with *BPM6* and other macroeconomic statistics manuals, gold not included in official reserve assets should not be recorded in Section I (B) of the Reserve Data Template; and instead as a new separate Memo Item under Section IV of the RDT.
Remaining Maturity Classification—Clarification of the Definition	Clarifies the definition of remaining maturity in *BPM6*, confirming that the payment schedule should be used as the conceptual basis for classifying debt on a remaining maturity basis.
The Statistical Treatment of Negative Interest Rates – Clarification	Clarifies that negative interest rates on deposits should be recorded as negative income receivable by the investors (and payable by the financial institutions) in the primary income account excluding FISIM, like positive interest income on deposits.
Clarification on Reserve Position in the IMF	Clarifies that RPF should be classified as other deposits without a maturity breakdown, according to *BPM6*. However, if a classification by original maturity is deemed necessary, it should be attributed as long-term, in line with the nature of its main component, the reserves tranche.
Recording of Central Bank Swap Arrangements in Macroeconomic Statistics	Provides guidance on how to treat central bank swaps in macroeconomic statistics. Off-market central bank currency swap arrangements should be recorded as an exchange of deposits with maintenance of value. However, if the central banks conduct the transaction as a standard (market priced) currency swap, then the swap should be recorded as an exchange of deposits with the simultaneous creation of a financial derivative, namely a forward contract.
Statistical Treatment of Precious Metals Accounts	Clarifies the statistical treatment of precious metals accounts. Allocated precious metals accounts other than monetary gold represent ownership of nonfinancial assets; and unallocated precious metals accounts are treated as deposits in foreign currency.
Sectoral Classification of International Organizations	Clarifies that the sectoral classification of global international organizations should not follow concepts designed for domestic institutional units. The IMF should be coded as an "international financial organization". This guidance does not apply to currency union or economic union institutions, which are residents of the union as a whole and may be presented as an institutional sector in some cases.

Topic	Description
The Statistical Treatment of Transfer and Loan Agreements of Sport Players and of Their Salaries and Residence When on Loan	Clarifies the treatment of transactions related to transfer agreements of sports players in balance of payments statistics.
Treatment of Crypto Assets in Macroeconomic Statistics	Provides guidance on the classification of crypto assets in macroeconomic statistics based on the current statistical standards and classifications. Bitcoin-like crypto assets and digital tokens without counterpart liabilities should be classified as produced nonfinancial assets as a distinct sub-category under valuables. Other crypto assets with characteristics similar to those of more standard financial instruments should be classified according to current guidelines.
The Treatment of Freight and Insurance Associated to Merchanting and the Geographical Allocation of Net Merchanting	Clarifies that, according to *BPM6*, freight transport and insurance costs associated to merchanting are to be recorded at transaction prices as agreed between the parties, and dependent on the agreed delivery terms, that is not "free on board" (f.o.b.). In addition, the country allocation of "net exports of goods under merchanting" should be done by adding up all credit and debit entries of goods under merchanting for each partner country.

Source: IMF (see https://www.imf.org/external/bopage/bopindex.htm)