Thirty-Sixth Meeting of the
IMF Committee on Balance of Payments Statistics

Washington, D.C.
June 21–24, 2021

BOPCOM VM2—21/12
For discussion

# Summary of Discussions

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## SUMMARY OF DISCUSSIONS

### INTRODUCTION

1. The thirty-sixth meeting of the IMF Committee on Balance of Payments Statistics (Committee) was held virtually, during June 21–24, 2021. This summary of discussions includes the action points agreed during the meeting.

2. In his opening remarks, Mr. Louis Marc Ducharme, Director, Chief Statistician and Data Officer (IMF), welcomed two new members to the Committee: Ms. Angsupalee Wacharakiat (Eh), from the Bank of Thailand, and Mr. Pieter (Piet) Swart from the South African Reserve Bank. He acknowledged the impressive progress made by the Committee over the last two meetings, despite the challenges in these unprecedented times—17 guidance notes (GNs) have been approved in the last two meetings, of which final versions of seven GNs have already been posted on the BPM update website. For this meeting, 10 GNs will be discussed. He recognized the efforts and flexibility of the Committee members in accepting the proposal to discuss the least controversial and more technical GNs through written procedure—10 GNs have been presently earmarked for written consultation.[1] He also noted the smooth coordination of the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)* update with that of the System of National Accounts (SNA), and other statistical manuals—the results can be assessed by way of the work presented by the different joint task teams during this meeting. Looking ahead, the Chair noted the diligent planning for the next nine months leading to the end of Phase I in March 2022. At least 14 GNs are planned for the October 2021 meeting, while some more are likely to come from other task teams, namely the Globalization, Communication, Islamic Finance, and Informal Economy. With a view to alleviating the review work of the remaining high number of GNs and to undertake a holistic discussion of all approved proposals for the next version of the Balance of Payments Manual, the Chair proposed the possibility of having an additional meeting of the Committee to finalize the work on the research agenda before starting to draft the annotated outline of *BPM7*.

[1] The rationale was that either the recommendations are straightforward and/or non-controversial (some not even requiring changes in the current standards), or that the topics—being of technical nature and of significant importance for the IMF's surveillance work—required prior consultation with Fund Departments. Should several Committee members consider during the written consultation that a meeting is needed to discuss any of these topics, they can be added to the agenda of the next Committee meeting.

## A. TOWARDS THE UPDATE OF MACROECONOMIC STATISTICAL MANUALS
## A.1. BALANCE OF PAYMENTS TASK TEAM (BPTT)

### BOPCOM VM2 21/02 AND 21/02.1 – ARREARS IN INTERNATIONAL INVESTMENT POSITION (B.7)
*PAPER BY BPTT*

***Topics Presented for Discussion:***

3. Currently, data on arrears are collected as part of the Memorandum Items to the balance of payments presentation in *BPM6*. The *BPM6* presentation of the international investment position (IIP) lacks the indicator related to positions of arrears as a separate item, making it difficult to interpret IIP in terms of "asset quality" and does not provide information on the share of such instruments in the country's position. The GN discusses these issues and proposes options to be considered, some of which may require the update of *BPM6*.

4. The GN presents three options:

- Maintain status quo on methodology and presentation of arrears.
- Separately identify arrears for each debt instrument in the IIP via "of which" items (both for assets and liabilities) by providing memorandum information for stocks on accumulated arrears.
- Supplementary (voluntary) presentations of arrears in an integrated format.

***Outcome of the Public Consultation:***

5. The public consultation widely acknowledged that the data on arrears are important from the perspective of external sector statistics and thus require separate treatment in the international accounts. A slight majority of respondents supported Option I (i.e., maintaining the status quo) relative to Option II (i.e., separately identifying arrears for each debt instrument in the international investment position via "of which" items).

6. Most of the respondents supporting Option I recognized the potential usefulness of the additional data on arrears proposed in Option II, although they underscored that the costs of data compilation will be burdensome and thus outweigh the benefits. Further, a slight majority of respondents supported the methodological concerns and issues raised in this GN and requested for further elaboration in a separate GN.

***Summary of Discussions:***

7. In line with the results of public consultation, all Committee members broadly acknowledged the analytical relevance of data on arrears from the perspective of external sector statistics. At the same time, a large majority of the members supported Option I (i.e., maintaining status quo on methodology and presentation of arrears) compared to Option II (i.e., separately identifying arrears for each debt instrument in the international investment position via "of which" items).

8. Those members supporting Option I underscored that other Options are not appropriate at this stage considering the collection burden and costs associated with their implementation. They also questioned whether this information was relevant for all international investment position (IIP) categories (e.g., assets or direct investment) and noted that the reconciliation flows/stocks in an integrated IIP will necessitate substantial resources, so additional requirements on this framework should be limited. Overall, members strongly suggested leaving the IIP unchanged but strengthening the external debt statistics for addressing these specific issues and collect additional data on arrears only for liabilities. Given the competing priorities, the members underscored the importance of allocating the *BPM6* update resources to address more relevant issues. One of the members supporting Option I noted that arrears data have not been identified as a data gap in the G-20 Data Gaps Initiative Phase 1 and 2, and therefore financial stability is not in danger even if arrears are not separately identified in the IIP. Finally, it was considered more appropriate addressing any need for additional guidance in the next update of the External Debt Statistics (EDS) Guide rather than under a separate GN.

***Actions:***

- The GN will be finalized incorporating the agreements reached by the Committee and will be posted on the *BPM6* update website.
- Specific methodological issues on arrears identified in the GN will be considered as part of the EDS Guide update.

**BOPCOM VM2 21/03 AND 21/03.1 – RECORDING CITIZENSHIP-BY-INVESTMENT PROGRAMS (B.8)**
***PAPER BY BPTT***

***Topics Presented for Discussion:***

9. Citizenship-by-investment (CBI) programs in some economies offer citizenship, passports or residency permits to nonresidents against financial investments or direct payments. Such individual contributions may be large and, in the aggregate, have a macroeconomic impact. Some of the CBI programs, which require an investment, fit easily under existing *BPM6* guidance for recording. Others require a non-refundable contribution where the general principle for recording such transactions creates some ambiguity for compilers.

10. The challenge for the compilers is how to classify the non-refundable contributions made under CBI programs that may be viewed as “outsized” payments compared to the cost of issuance of a passport or citizenship. The uncertainties relate as to whether to treat these contributions as taxes, services, or transfers, which in turn will have different impacts on key macroeconomic variables.

11. This GN describes the CBI programs, and given that they are not thoroughly detailed in *BPM6,* recommends the provision of explicit guidance on their recording in the updated Balance of Payments Manual. It puts forward three options for the classification of nonrefundable contributions under CBI programs:

- **Option 1: taxes,** based on the fact that these payments are “out of all proportion to the cost of issuance” and little work is demanded on the part of the government.

- **Option 2: services,** from the viewpoint of the recipient of the CBI program, for which the contributions are neither compulsory, nor unrequited, and also because the payments may be considered as the standard fees for passport issuance.

- **Option 3, split into two proposals**

    i. **3a: Transfers, other than taxes** based on the premise that the contributions are so large compared to value of the passport that these contributions are unrequited if they are not taxes.

    ii. **3b: Partitioning between transfers, other than taxes, and Services—**a hybrid option to split the nonrefundable contributions into a service component reflecting the cost of processing passport applications and issuance, and the rest as transfers.

12. The GN presents arguments for choosing between Option 1 (taxes) and Option 3 (transfers). Within Option 3, there is preference for proposal 3(a), transfers other than taxes given that proposal 3(b) is viewed as less attractive on practical compilation grounds with the service component being small and insignificant relative to the transfers. Coordination of the proposed treatments is needed with government finance statistics and national accounts to ensure consistency.

***Outcome of the Public Consultation:***

13. The public consultation revealed general consensus for providing explicit guidance on how to record CBI programs in the update of the manuals, with a slightly higher majority of respondents supporting guidance by convention so as to allow for uniform treatment across economies. There was a slight majority in favor of Option 1 (taxes) over Option 3(a) (transfers, other than taxes), mostly associated with whether respondents considered these payments as either compulsory or voluntary.

14. Whether taxes or transfers, views weighed in for current (instead of capital) payments, with no counterpart (e.g., ownership rights on real or financial assets). From a practical perspective, the importance of a comprehensive guidance on all types of CBI programs and a consistent treatment with the government finance statistics and national accounts were emphasized.

***Summary of Discussions:***

15. The Committee members expressed preference for Options 1 and 3.a with split views between both options, akin to the outcome of the public consultation. While some members considered that the distinct specificities of the different programs in different economies may not necessarily call for a single approach, most members were of the view that differences in the programs may not be so substantial to justify dissimilar treatments and favored the adoption of a convention to ensure consistent treatment and cross-country comparability. Yet, including a typology describing the different existing programs in the Compilation Guide may help compilers.

16. All Committee members acknowledged and supported the view that the national accounts as well as the government finance statistics communities (through the Advisory Expert Group on National Accounts (AEG) and the Government Finance Statistics Advisory Committee (GFSAC)) should be consulted before taking a final decision, such as to ensure a coordinated approach across statistical domains.

***Actions:***

- BPTT to revise the GN incorporating the Committee's comments
- The GN to be sent for comments to the AEG and the GFSAC to ensure consistency with national accounts and government finance statistics.
- The updated version of the GN, incorporating the outcome of the AEG and GFSAC consultations, will be recirculated to the Committee for final decision.
- The updated Compilation Guide will include a typology describing the different existing CBI programs.

## A.2. CURRENT ACCOUNT TASK TEAM (CATT)

### BOPCOM VM2 21/04 AND 21/04.1 – INTERNATIONAL TRADE CLASSIFIED BY CURRENCY (INCLUDING FOR TRADE LINKED TO LONG-TERM TRADE CREDITED AND ADVANCES) (C.3) *PAPER BY CATT*

***Topics Presented for Discussion:***

17. Currency composition for external sector statistics is of great interest to assess cross-border risks at both country and global levels. Currency composition of international trade has an important analytical value. However, none of the current international standards (*BPM6, System of National Accounts 2008 (2008 SNA), International Merchandise Trade Statistics: Concepts and Definitions 2010 (IMTS 2010)*) include the currency composition of international trade in goods and services accounts. Several efforts to collect data on currency composition of international trade and build up cross-country datasets are ongoing. For instance, the ECB has been developing a database on trade in goods and services by currency and Eurostat is collecting trade by invoicing currency data for Extrastat.

18. This GN proposes the development of an encouraged (voluntary) data collection template that introduces a disaggregation of international trade by currency to be considered in the *BPM6* update. It is viewed that recommended international standards and guidance on this topic would provide policymakers and the statistical community with key insights.

19. The GN proposes the development of an encouraged annual data collection template with three different options for the reporting templates:

- **Option 1:** Report the currency composition only for the gross totals of the imports and exports of international trade in goods.
- **Option 2:** Report the currency composition for the gross totals of the imports and exports of both goods and services with the possibility that countries may still choose to report only the goods breakdown if services data are of poor quality or not available.
- **Option 3:** Report more detailed currency breakdowns according to the balance of payments standard components of goods and services.:

20. The GN recommends the currency breakdown to be appended onto the total values of the goods and services accounts at an annual periodicity using the currency of denomination. Countries with advanced collection systems are strongly encouraged to provide higher frequency (quarterly and/or monthly) statistics if able to. Currency of settlement is viewed as being more related to the corresponding financial flows rather than the trade itself. The currency breakdown can be sourced from the invoice value of goods and services. The GZTT GN G.1 proposal to use trade invoicing is currently in the testing phase by both balance of payments and national accounts communities. The outcome of this exercise could also serve as indicator to assess the feasibility of using trade invoices in compiling currency composition.

21. The GN recommends that the template uses domestic currency, foreign currencies part of the SDR basket and also non-SDR basket foreign currencies depending on their importance for the reporting economies, as well as an unallocated item to address currency allocation difficulties.

***Outcome of the Public Consultation:***

22. The public consultation strongly supported the development of a template to collect international trade by currency breakdown. There was majority support to append this additional information onto the balance of payments' goods and services account, and unanimous backing for an annual data collection using the currency of denomination. There was a marked preference for the currency composition for the gross totals of imports and exports of both goods and services.

***Discussant:***

23. Ms. Camilla Casas (IMF Research Department—RES) stressed that the currency composition of trade is an essential component to track the developments in the international monetary system, given that trade is linked to many aspects of the financial system. Understanding how trade is priced or invoiced is important to determine how exchange rate movements impact trade flows—one of the core analyses for external assessment and part of the IMF External Sector Report. From a policy perspective, currency breakdown of trade is key when examining composition of reserves, and for other aspects of monetary policy, for instance to analyze exchange rate passthrough or how monetary policy of foreign trade partners is spilled over onto domestic economies. While this breakdown is essential, no international standards currently provide guidance on currency composition of trade, while they do for financial transactions. Further, comprehensive comparable data are non-existent and when available, they are part of particularly projects or academic work and focus mostly on advanced economies. As a key user of currency composition of trade, RES strongly supports the proposal to include an encouraged (voluntary) data collection template that introduces a disaggregation of international trade by currency to be considered in the *BPM6* update. While the collection for both trade in goods and services (Option 2) is welcome, it is considered that in the short term the breakdown for goods is sufficient, being readily available through customs records, and of higher quality. With respect to periodicity, annual data is appropriate given that usually little movement in the evolution of currency share is noted for economies. Regarding foreign currencies, she emphasized that SDR currencies may not be necessarily relevant for some economies as they may be widely using regional currencies, so she welcomed the proposal to let countries add some neighboring-country currencies if deemed important. Additionally, as possible

future extensions she proposed additional breakdowns by trade partners and/or by broad types of goods.

***Summary of Discussions:***

24. The Committee members strongly supported the need to develop a voluntary data collection template for international trade classified by currency (Option 2), acknowledging the importance of currency composition of trade for users and policy makers. While some members expressed preference to include this currency breakdown in international merchandise trade statistics and international trade in services, a wide majority of the Committee supported the proposal to include it in the balance of payments via an annual supplementary (voluntary) template. Finally, it was reminded that the Committee will need to evaluate and prioritize this and other agreed additional supplementary presentations in a holistic manner at the end of the research process.

***Action:***

- CATT to prepare a final version of the GN stating the final recommendation and removing questions to the Committee for posting on the *BPM6* Update website.

**BOPCOM VM2 21/05 AND 21/05.1 – TRADE IN SERVICES CLASSIFICATION (C.6)**
***PAPER BY CATT***

***Topics Presented for Discussion:***

25. The GN investigates the moderate restructuring of the *BPM6* services classification that provides further detail in the main (first-level) BPM service categories and improves the correspondence between the balance of payments classification of services and the Central Product Classification (CPC). Growing fragmentation of production processes and the rise of digitalization require additional information that is not available within the current balance of payments framework.

26. Regarding intermediation services, which are also being debated in the context of the revision of the International Standard Industrial Classification of All Economic Activities (ISIC), this GN provides some options to consider and highlights, once again, the need to ensure consistency across different domains and classifications.

27. GN made the following proposals:

- Split **Telecommunications, computer and information services** into two standard, first-level categories, to allow a ''mandatory" separate identification of telecommunications and computer/information services, which are fundamentally different services.
- Split Other business services into five standard, first-level items: (i) research and development services; (ii) professional and management consulting services; (iii) trade-related services; (iv) operating leasing services; and (v) technical and other business services.
- Adoption of a separate accounting framework (built on top of the balance of payments) to separately identify digital trade (see OECD-WTO-IMF Handbook for Measuring Digital Trade).

- The issue of intermediation services is currently being debated in the context of the revision of the ISIC. Therefore, no definitive changes in the balance of payments services classification can be proposed before the ISIC revision is concluded. For separate identification of intermediation services, GN proposed **two options**:

  i. **Option I:** introduce a breakdown of *trade-related services* to account for the different types of services and goods intermediation.

  ii. **Option II:** introduce supplementary items in the update of the Manual of International Trade in Services (MSITS) and in the new EBOPS revision (not in the balance of payments services classification)—**recommended option.**

***Outcome of the Public Consultation:***

28. The public consultation showed wide support for the proposed additional breakdowns to Telecommunications, Computer and Information Services and Other Business Services categories. There was also strong support to (i) the need for a separate accounting framework for digital services outside the BPM; and (ii) for supplementary items for Trade-related services to be rather considered in the update of the *Manual of International Trade in Services 2010* (*MSITS 2010*) and the new EBOPS.

***Summary of Discussions:***

29. Most of the Committee members supported splitting (i) the Telecommunications, Computer, and Information Services category into two standard first-level categories; and (ii) the *Other Business Services* category into five standard first-level categories. Some members supporting this split noted that as Telecommunications, Computer, and Information Services were already compiled in the *BPM5*, compilation burden may remain low for most of the countries which were already presenting this breakdown previously. A few members expressed concern that confidentiality issues could impact the implementation of the proposed split, particularly for telecommunication services, and preferred maintaining the existing breakdown.

30. In line with the public consultation, the Committee members strongly agreed that the information needs related to digitalization require a separate statistical framework. In relation to "new" digital services (based on the upcoming update of the ISIC and the CPC), there were suggestions to further assess the influence of digital services before integrating them into the balance of payments services classification. In general, the members are supportive of the view that all changes across linked classifications and Manuals should be properly harmonized; that includes any initiative for the development of an additional component of balance of payments on digital trade that should take into consideration the recommendations of the Handbook for Measuring Digital Trade (OECD-WTO-IMF) and Manual for the Production of Statistics on Digital Economy (UNCTAD).

31. Regarding intermediation services, members agreed that no definitive changes in the balance of payments services classification can be considered before the ISIC revision is concluded—which is expected to be available by March 2022. Almost all the members supported Option II which recommends introducing supplementary items in the update of the MSITS and in the new EBOPS (not in the balance of payments services classification).

***Action:***

- CATT to prepare a final version of the GN stating the final recommendations and removing the questions to the Committee for posting on the *BPM6* Update website.

## A.4. DIRECT INVESTMENT TASK TEAM (DITT)

### BOPCOM VM2 21/06 AND 21/06.1 – ELIMINATING THE IMPUTATIONS FOR AN ENTITY OWNED OR CONTROLLED BY GENERAL GOVERNMENT THAT IS USED FOR FISCAL PURPOSES (D.5) *PAPER BY DITT*

***Topics Presented for Discussion:***

32. The *BPM6* currently recommends that when a government uses an entity resident in a different economic territory to conduct fiscal operations, usually special purpose entities (SPEs), special imputations of transactions and positions between the government and that entity should be made to ensure they are appropriately reflected in the general government accounts. These *BPM6* special rules are consistent with both *2008 SNA* and the *Government Finance Statistics Manual 2014* (*GFSM 2014)*.

33. However, the complex construction of these required imputations, the inappropriate breakdown of government expenditure, and the degree/lack of autonomy of decision-making of the entity have raised concerns. This GN discusses concerns raised with these special imputations.

34. The shortcomings of the current imputations relate to (i) valuation where the imputed instrument as government debt is usually a loan valued at nominal value when in reality debt securities are issued by the SPE, which should be valued at market price; (ii) no recording of interest payment on imputed government debt when current and capital transfers are recorded; (iii) no revenue is imputed for the government when the SPE (in cases of securitization) collects revenue; and (iv) government-owned SPEs may engage in lending or equity acquisition, which are not recorded as such in government accounts.

35. To address these concerns the GN proposes three options for consideration for the BPM update:

- **Option 1:** Eliminate all imputations and consider these entities as part of the controlling government.
- **Option 2:** No changes in the current *BPM6* treatment.
- **Option 3:** Retain the current *2008 SNA/BPM6* treatment, but with a more appropriately defined imputations necessary to adequately reflect the proper nature, value and counterpart of relevant flows and positions in the government accounts.

36. The GN recommends Option 3, which maintains the treatment of SPE, incorporated in a different jurisdiction than the parents, as an institutional unit. This reinforces the current discussion on SPEs by the GZTT and endorses the Committee's decision in 2018. This option entails a more

enhanced imputation that better represents government flows and stocks by nature and counterpart for better fiscal analysis.

37. The GN largely supports that the classification, valuation, as well as recording of the imputed government debt towards the SPE abroad be further discussed by the government finance statistics (GFS) community.

***Outcome of the Public Consultation:***

38. The public consultation strongly supports keeping the main *2008 SNA* and *BPM6* guidance unchanged but enhancing the imputations necessary to adequately reflect the proper nature, value, and counterpart of relevant flows and positions in the government accounts. There was unanimous agreement that the classification, valuation and recording of the imputed government debt towards the SPE abroad should also be discussed with GFS experts to aim for consistency among statistical standards and to provide a broader perspective to the imputations to be developed. From a practical perspective, enhancing the imputations may encounter difficulties in collecting disaggregated information for the adequate compilation of transactions and positions of SPEs under government control.

***Summary of Discussions:***

39. Almost all Committee members agreed with proposed Option 3, which implies keeping the current *2008 SNA/BPM6* standards and treating government SPEs abroad as separate institutional units (like all other SPEs abroad) but with more enhanced imputations of the SPE transactions and positions in the government accounts. Most Committee members agreed that a different treatment would be tantamount to adopting the nationality concept for compiling macroeconomic statistics and would depart from core concepts of the BPM and the SNA such as residency and institutional unit.

40. Committee members agreed that the GFS and national accounts communities (via the GFSAC and the AEG) be consulted before taking a final decision. The consultation to the GFSAC and AEG should be based on a more concise and focused proposal preserving the general principles of residence and institutional units (i.e., Option 3, as agreed by Committee members) and seeking the view of GFS and national accounts experts towards the proposed enhancements to the recording, valuation, and classification of the imputed government debt towards the SPE abroad, which should be described in more detail.

***Actions:***

- The GN to be revised stating the approved option by the Committee and providing more details about the proposed enhancements to the imputations between the SPE and the parent government to be included in the updated *BPM7*.
- The revised GN will then be submitted to the GFSAC and the AEG for comments.
- After incorporating the GFSAC and AEG comments, the GN will be sent again to the Committee for final approval via written procedure.

## BOPCOM VM2 21/07 AND 21/07.1 – PUBLIC-PRIVATE PARTNERSHIPS (D.8)
*PAPER BY DITT*

***Topics Presented for Discussion:***

41. Regarding public-private partnerships (PPPs), the *BPM6* states that a nonresident private unit involved in this arrangement may be a direct investor when a production unit, a branch (that is, a direct investment enterprise (DIE)), is created and has substantial operations over a significant period in the host territory. There is no other specific guidance on the treatment of cross-border transactions and positions of these PPP arrangements involved in a DI relationship.

42. Given the significance of PPP arrangements in many economies and the need to ensure consistency in the treatment by compilers across macroeconomic statistics, the GN discusses the development and inclusion of more detailed guidance in the updated BPM, on the concepts, definitions, scope, and statistical treatment of PPPs under DI.

43. The GN discussed the following four issues and made recommendations:

- **Issue 1:** Methodological Framework for Recording PPPs Arrangements under DI Relationship
  - include an annex in the BPM providing guidance on the concepts, definition, scope and treatment of PPPs related DI and associated transactions and positions (option A).
- **Issue 2:** Clarification on the treatment of the Special Purpose Vehicle/DIE in the generic models of PPPs arrangements
  - provide detailed guidance on the application of the existing guidance on branches and notional units in the case of different PPPs arrangements (option B).
- **Issue 3:** Ownership of the Asset Issue: Clarification of the role of the economic and legal ownerships of the assets in PPPs arrangements under DI
  - include guidance on how to treat PPPs arrangements under DI depending on whether the economic owner is the government or a private corporation (option B).
- **Issue 4:** Recording Issue: Reporting of PPPs arrangements under DI
  - no changes in the current reporting of DI statistics in the current and financial accounts.

***Outcome of the Public Consultation:***

44. The public consultation revealed consensus on including guidance on the concepts, definitions, scope, and statistical treatment of PPPs in the updated *BPM6*. There was slight preference for including the guidance in the Manual rather than in the Compilation Guide. There was large agreement for not separately identifying PPPs arrangements in direct investment (DI) in the balance of payments and international investment position. Regarding the challenges that compilers face to compile data on PPPs arrangements in DI, they referred to difficulties in accessing PPPs contracts, in determining ownership of the asset involved in the PPPs arrangements, and knowing the sources of financing these arrangements.

***Summary of Discussions:***

45. The Committee members unanimously supported the need for additional guidance on the concepts, definitions, scope, and statistical treatment of PPPs related to DI. Further, all members agreed that a separate identification of PPP arrangements in DI classification in the balance of payments and IIP is not necessary. It was agreed including the conceptual guidance on PPPs in an annex of the *BPM7*, while guidance on the sources and compilation methods will be developed in the *BPM7 Compilation Guide.*

***Action:***

- DITT to prepare a final version of the GN stating the final recommendations and removing the questions to the Committee for posting on the *BPM6* Update website.

## A.6. FINANCIAL AND PAYMENT SYSTEMS TASK TEAM (FITT)

### BOPCOM VM2 21/08 AND 21/08.1 – ASYMMETRIC TREATMENT OF RETAINED EARNINGS (F.2) *PAPER BY FITT*

***Topics Presented for Discussion:***

46. The paper discusses the asymmetric treatment of retained earnings (RIE). Because RIE is limited to DI and is not extended to cross-border portfolio investment nor to domestic equity relationships, there are asymmetries in the measures of corporate profits in official statistics. This can give rise to issues of interpretability and comparability of macroeconomic indicators.

47. The paper also briefly discusses the treatment of share buybacks as income distribution, given that they may be seen as a substitute to dividends.

48. The GN discussed the following recording options to address the methodological asymmetries.

- **Option 1:** Keep the status quo (i.e., the current treatment in both *BPM6* and *2008 SNA*).
- **Option 2:** Leave the core balance of payments accounts and national accounts unchanged, but add supplementary information on portfolio investment RIE to the balance of payments (and possibly memorandum items) and national accounts and supplementary information on public corporations RIE and overall investment in resident enterprises RIE to the national accounts.
- **Option 3:** Extend the concept of RIE that is currently applied to foreign direct investors to public controlled corporations and/or to cross-border portfolio investors.
- **Option 4:** Extend the concept of RIE that is currently applied to foreign direct investors to all equity holdings in the national accounts and balance of payments accounts.
- **Option 5:** Eliminate asymmetries by discontinuing the current treatment of RIE for DI (with the possibility to keep the treatment in supplemental tables or memorandum items).

49. The GN recommends Option 2.

***Outcome of the Public Consultation:***

50. The public consultation responses were fairly split across the five options proposed in the GN. The recommended Option 2 was supported by around 35 percent respondents—many of them reasoning the pragmatic aspects explained in the GN. Option 3 received support from 27 percent of respondents. Option 1 (no changes to the current standards) was supported by around 18 percent of the respondents, and Option 5 by 12 percent of them. Option 4 was supported by 9 percent of the respondents. The overwhelming majority of respondents agreed with the GN's proposal of preparing a separate GN to discuss in detail the statistical treatment of share buybacks and the possibility of treating them as income distribution.

***Discussant:***

51. Mr. Cyril Rebillard (IMF Research Department—RES) made a presentation from the users' perspective focusing on the asymmetry relating to retained earnings on portfolio investment and its impact on the current account balances. He underlined that the RIE treatment was originally conceived to reduce distortions in the current account balance and in Gross National Income (GNI) particularly in countries receiving substantial direct investments; however, for large financial centers substantial foreign portfolio liabilities introduce similar distortions to GNI and current account measurement. In his view, the rationale for asymmetric treatment of retained earnings in the *BPM6* (i.e., direct investors have a direct influence on decisions made by the subsidiary whereas portfolio investors have no influence on the decisions), may have become less relevant with the changing corporate structure of multinational enterprises mainly for three reasons: (i) possible substitution effects between portfolio equity holdings and other forms of saving; (ii) share buybacks as an increasingly prevalent way of distributing income; and (iii) multinational companies' organization strategies may amplify issues related to asymmetric treatment of retained earnings. He cited the IMF External Sector Report and other relevant papers to highlight that this distortion may hamper usefulness of current account balance as a key indicator for policy making. Further, he stressed that the bias in current account measurement due to asymmetric treatment of retained earnings is large and increasing over time. For example, in 2019, bias was greater than 4.5 percent of GDP in 5 percent of the countries (Adler et al (2019), The Measurement of External Accounts, IMF Working Paper 19/132). As a result, RES makes explicit adjustments to current account balances to reduce this bias for some countries. However, these adjustments are subject to large uncertainties and may not be accurate given the inherent weaknesses of the underlying data and assumptions. He considered that Option 2 is a good compromise and the possibility of including it under memorandum items (instead of supplementary) is preferred. As the national statistical offices/central banks have access to much more granular and firm level data, implementation of Option 2 would be very valuable for users in improving adjustments to current account bias.

***Summary of Discussions:***

52. In general, the Committee acknowledged that this is a complex issue with implications for all areas of macroeconomic statistics. The views of the Committee members were somewhat split with around half of them supporting Option 2 and others mostly expressing preference for either Option 4 or Option 1 (i.e., maintaining the status quo). In line with the recommendation of FITT (i.e., Option 2),

those supporting Option 2 considered it was a good compromise for pragmatic reasons such as significant challenges associated with data collection and implications for different macroeconomic aggregates (e.g., current account, national income). Members supporting Option 4 underscored that this option is conceptually sound and would address the inconsistencies elucidated in the GN.

53. Most members that expressed preference for other options, deemed Option 2 as an acceptable compromise/a second-best solution, subject to (i) testing its feasibility (which will focus mostly on data accessibility at least for portfolio investment—due to its impact on GNI and current account measurement—and possibly also for domestic equity relationships if the AEG agrees to contribute to its testing); (ii) establishing a clear order of priorities for all recommended supplementary collections (foreseen at the end of the research process); and (iii) considering the views of national accountants (as for all joint Task Teams' items) before taking a final decision. Concerning (iii), it was noted that the GN is planned for discussion at the July meeting of the AEG.

54. Given that option 5 (discontinuing the current treatment of RIE for DI) merely gained marginal support from the public consultation as well as from the discussion, Committee members considered that the work on DITT GN *D.16 Treatment of Retained Earnings* could go ahead and eventually also inform the final decision to be taken for F.2.

55. On the issue of share buybacks, all members supported the preparation of a separate GN to address the related issues in a comprehensive manner.

***Actions:***

- FITT to await the outcome of the July meeting of the AEG and revise the GN incorporating the Committee's and the AEG's comments.
- Subject to the AEG opinion, the supplementary data collections for Option 2 will be tested with a sample of volunteer countries. The testing will cover at least portfolio investment and, subject to the AEG's views, could also be extended to domestic equity relationships.
- The updated version of the GN, incorporating the Committee's and the AEG's comments as well as the outcomes of the feasibility testing and possibly of guidance note D.16 will be re-circulated to the Committee (and to the AEG) for a final decision at one of the next Committee meetings.
- FITT to add the item of share buybacks to the compendium of research issues and prepare a GN on the subject for Committee's and AEG's consideration.

## BOPCOM VM2 21/09 AND 21/09.1 – FINANCIAL DERIVATIVES BY TYPE (F.4)
***PAPER BY FITT***

***Topics Presented for Discussion:***

56. This paper considers alternatives to the current classification of derivatives that may provide users of external sector statistics and national accounts with more useful analytical measures. In addition, the paper also discussed other issues relating to derivatives and provided recommendations.

57. The GN discussed the following five issues and made recommendations.

- **Issue 1:** Broad Classification of Financial Derivatives
    - Discontinue the current breakdown by broad type and introduce (a) by market risk category (standard component), (b) by instrument, and (c) by trading venue (both b and c are supplementary items).
- **Issue 2:** Compiling Notional Values of Foreign Currency Derivatives
    - Emphasize in the main text of the updated BPM and SNA that the presentation of foreign currency derivatives in notional amounts by currency is requested as described in *BPM6* Appendix 9, Tables A9-I-Ib and A9-I-2b (option a).
- **Issue 3:** Convention for Recording of Revaluations on Foreign Currency Derivatives
    - To enhance analytical clarity on what constitutes an exchange rate revaluation and to comply with *BPM6*, paragraph 9.28, the convention in *BPM6,* paragraph 9.31, shall change so that all revaluation effects are due to (other) price revaluations rather than as exchange rate revaluations for those types of derivatives where it may not be practical to separate exchange rate changes from other revaluations (option a).
- **Issue 4:** Recording of Post Trading Activities
    - Expand the current *BPM6* Chapter 8 (Financial Account) and *2008 SNA* Chapter 17 by providing methodological guidance for the recording of novation and portfolio compression as financial transactions (option a).
- **Issue 5:** Gross and Net Recording of Assets and Liabilities
    - To clarify in paragraph 8.34 of *BPM6* that recording of transactions on a net basis is acceptable where separate data on transactions in assets and liabilities are not available, and the position may change between assets and liabilities (e.g., forwards, swaps). The method used should be consistently applied during the life of the instrument, not only when switching from assets to liabilities. The same should be included in Chapter 17 of *2008 SNA*.

***Outcome of the Public Consultation:***

58. The Public consultation showed strong support for all the proposals in this GN. There was large support for:

- the new classification of financial derivatives by market risk category;
- the classification of credit default swaps (CDS) in the new market risk category of credit risk or risks to other underlying instruments, and in the new instrument category of credit derivatives;
- emphasizing in the updated standards the importance of compiling notional values of foreign currency derivatives;

- recording all revaluations as price changes when it is not practical to separate revaluations due to price or exchange rate changes;
- providing methodological guidance on the recording of novation and portfolio compression; and
- ensuring clarity on cases when net recording of financial derivative transactions is acceptable, including cases when gross recording is impractical.

***Summary of Discussions:***

59. Most Committee members expressed support for introducing new breakdowns by (i) market risk category (standard component), (ii) instrument (supplementary item), and (iii) trading venue and clearing type (supplementary item) in the *BPM6* update and discontinuing the current breakdown by broad type. The Committee also endorsed the following proposals put forward in the GN: (i) emphasize in the main text of the updated BPM and SNA that notional values of foreign currency derivatives be compiled by currency; (ii) change the convention in *BPM6* (paragraph 9.31), to attribute all revaluations to other price revaluations rather than exchange rate revaluations for those types of financial derivatives where it may not be practical to separate exchange rate changes from other revaluations; (iii) introduce a Box in *BPM6,* Chapter 8 (Financial Account) and in *2008 SNA,* Chapter 11 to provide methodological guidance for the recording of novation and portfolio compression as financial transactions; (iv) recommend in *BPM6*, paragraph 8.34, and *2008 SNA*, Chapter 17, recording of transactions on a gross basis, while permitting net recording when gross recording is impractical (i.e., for those financial derivatives that can be either an asset or a liability depending on the valuation—e.g., swaps).

***Action:***

- FITT to await feedback from the AEG and, also subject to its approval, prepare a final version of the GN stating the final recommendations and removing the questions to the Committee for posting on the *BPM6* Update website.

**BOPCOM VM2 21/10 AND 21/10.1 – CAPTURING NON-BANK FINANCIAL INTERMEDIATION IN THE SYSTEM OF NATIONAL ACCOUNTS AND THE EXTERNAL SECTOR STATISTICS (F.6)**
***PAPER BY FITT***

***Topics Presented for Discussion:***

60. The current sectoral and instrument breakdowns in the SNA and ESS are not sufficient to explain the current developments in the financial world. *BPM6* currently has these institutional sectors: (i) central bank, (ii) deposit-taking corporations, except the central bank, (iii) general government, and (iv) other sectors, of which (iv-a) other financial corporations (OFCs) and (iv-b) nonfinancial corporations, households, and nonprofit institutions serving households (NPISHs), as standard components. OFCs have the following sub-sector breakdowns, which *BPM6* does not currently list as standard components or selected supplementary items: (i) Money Market Funds (MMFs); (ii) Non-MMF Investment Funds; (iii) Insurance Corporations; (iv) Pension Funds; (v) Other Financial Intermediaries; (vi) Captive Financial Institutions and Money Lenders; and (vii) Financial Auxiliaries.

61. As part of Recommendation #5 of the G20 DGI-2, non-bank financial intermediation in macroeconomic statistics has been further explored. The OECD has developed, in consultation with the FSB and other IOs, a proposal for more granular breakdowns of the financial corporations' sector and some additional subcategories in the financial instruments within institutional sector accounts.

62. The GN proposes further breakdowns of financial subsectors and financial instruments to better capture non-bank financial intermediation, balancing between users' and compilers' perspectives. The idea is to implement (some of) the institutional sector and financial instrument breakdowns in the updated SNA and BPM. The GN, therefore, recommends including further breakdowns of the financial corporations' sector as agreed as part of the DGI work in SNA update, to be compiled in economies for which they are relevant. Similarly the GN suggests to introduce the following subsector breakdowns for OFCs in the ESS: (i) Money Market Funds (MMFs); (ii) Non-MMF Investment Funds; (iii) Insurance Corporations; (iv) Pension Funds; (v) Other Financial Intermediaries, of which central clearing counterparties; (vi) Captive Financial Institutions and Money Lenders; and (vii) Financial Auxiliaries, to better capture non-bank financial intermediation. These breakdowns would be compiled as supplementary items, if relevant.

63. The GN also proposes to consider a greater disaggregation of loans. The updated BPM should consider including non-performing loans as an "of which" item for loans in the main presentation (i.e., the list of standard components and selected supplementary items) along with repurchase agreements, securities lending with cash collateral, and margin lending.

***Outcome of the Public Consultation:***

64. The public consultation showed strong support for all the proposals in this GN. The majority of respondents supported the introduction of (i) further subsector breakdowns of the financial corporations sector in the SNA, (ii) further breakdowns of OFCs subsector in the updated BPM, and (iii) two "of which" items under loans to be considered in the forthcoming GN F.1 *More Disaggregated Institutional Sector and Financial Instrument breakdowns in the updated SNA and BPM*.

***Summary of Discussions:***

65. The Committee members unanimously supported introducing (i) further breakdowns of other financial corporations as supplementary items in the updated BPM; and (ii) further subsector breakdowns of the financial corporations' sector in the updated SNA. It was also agreed to consider two "of which" items under loans in the forthcoming GN F.1 *More Disaggregated Institutional Sector and Financial Instrument breakdowns in the updated SNA and BPM*.

66. Committee members reiterated the importance of reviewing, at the end, the spectrum of supplementary data collection that is being proposed within the updated BPM. This will allow setting priorities and avoiding countries to head in different directions with different priorities.

***Action:***

- FITT to await feedback from the AEG and, also subject to its approval, prepare a final version of the GN stating the final recommendations and removing the questions to the Committee for posting on the *BPM6* Update website.

## BOPCOM VM2 21/11 AND 21/11.1 – SUBSCRIPTION RIGHTS (F.16)
### *PAPER BY FITT*

***Topics Presented for Discussion:***

67. *BPM6* and *2008 SNA* remain silent on the classification of stock subscription rights (SRs). Rather contradictory guidance on the subject exists between the "*Handbook on National Accounting: Financial Production, Flows and Stocks in the System of National Accounts*", which recommends a classification of the rights under financial derivatives, and the "*Handbook on Securities Statistics*", which recommends a classification as equity.

68. This Guidance Note proposes two options for classifying subscriptions rights:

- equity or
- financial derivatives.

69. The GN recommends the classification of subscriptions rights as equity. The main purpose of the SRs is to ensure shareholders have the right to maintain their percentage ownership in the company and therefore the maintenance of a claim on the assets of the corporation. Under this interpretation, the issuance of SRs would be analogous to the issuance of bonus shares whereby the shareholders end up with the same equity stake at market value, but with a different number of shares and share classes in their portfolio.

70. The recommendation to include SRs within equity would have the following consequences for the booking of flows in national accounts and ESS: (i) when the SR is issued (i.e., separated from the share for separate trading) no flow is recorded; (ii) the purchase of a SR by a third party is booked as transactions in equity between the old shareholder and the buyer, compensated with cash payments; (iii) the value of SRs and ex-right shares experience holding gains and losses between the moment of issuance of the rights and the moment of issuance of new capital, are recorded as holding gains and losses in existing equity; and (iv) the issuance of new capital is recorded by the cash provided, issued by the corporation and acquired by those holding and exercising the SRs. Similar to standard shares, SRs can be quoted or unquoted

71. SRs are <u>not</u> meant to trade financial risks as financial derivatives are. The cash flow structure and value determinants of SRs do not correspond to those of standard financial derivatives.

***Outcome of the Public Consultation:***

72. The public consultation revealed a large majority support for Option 1 (equity) on both theoretical and practical grounds relative to the alternative option of treating subscription rights as financial derivatives (Option 2). There was also no common view on how the extinction of the financial derivative should be recorded (transactions or other flows with counterpart equity).

***Summary of Discussions:***

73. In line with the outcome of the public consultation, most Committee members supported Option 1 (the classification and treatment of subscription rights as equity).

***Action:***

- FITT to await feedback from the AEG and, also subject to its approval, prepare a final version of the GN stating the final recommendation and removing the questions to the Committee for posting on the *BPM6* Update website.

## OTHER ISSUES:

The next two meetings will be held virtually during October 25–28, 2021, and February 28–March 3, 2022.

**Items for Information:** *Some documents prepared for information have been presented at the meeting, but no discussion took place;* others have not been presented during the meeting (*). *However, all of them will be part of the official BOPCOM papers and will be posted on the BOPCOM webpage.*

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|---|---|
| BOPCOM VM2 21/13 | Overview of the Work of the Balance of Payments Task Team<br>*Report by BPTT* |
| BOPCOM VM2 21/14 | Progress Report on Work Undertaken by the Globalization Task Team<br>*Report by GZTT* |
| BOPCOM VM2 21/15 | Valuation of Imports and Exports: First Stage Survey Results<br>*Report by GZTT* |
| BOPCOM VM2 21/16 | Progress Report on Work Undertaken by the Communication Task<br>*Report by CMTT* |
| BOPCOM VM2 21/17 | Overview of the Work of the Current Account Task Team<br>*Report by CATT* |
| BOPCOM VM2 21/18 | Overview of the Work of the Direct Investment Task Team<br>Report by *DITT* |
| BOPCOM VM2 21/19 | Overview of the Work of the Financial and Payments Systems Task Team<br>*Report by FITT* |
| BOPCOM VM2 21/20* | World Investment Report 2021<br>*Report by UNCTAD* |