CANADA'S IMPLEMENTATION OF BPM-5

The general process

In 1997, Canada released its statistics on balance of payments and international investment position statistics in accordance with the standards of the 5th edition of the *Balance of Payments Manual* of the International Monetary Fund, issued in 1993. The new format in the Canadian series extended as far back as 1926.

This project was implemented by the Balance of Payments and Financial Flows Division of Statistics Canada in five stages over a four year period which ended with the publication of the data in June 1997.

A first stage consisted of assessing the new BOP and SNA[1] standards against the existing Canadian practices. This was done in order to identify where the Canadian practices differed from the international standards.

A second stage saw the gathering of historical data into the Division's electronic time-series database. Historical data which had previously been stored either in electronic or paper form was systematically entered - these historical data covered current account data from 1926 to 1961, the financial account data from 1926 to 1971 and international investment position from 1926 to 1987. The more recent years for all these series were already covered in the database. A close edit was then conducted on the historical data to ensure that they conformed with data already published.

A third stage consisted of identifying and linking the various attributes or dimensions of the series (such as the country, sector, quarter or year and currency). It entailed going back to publications and internal ledgers to draw together all these characteristics of the historical data, which often were published independently from one another. Much care was taken to ensure that these various dimensions of historical data conformed to published control series. The work can be viewed as a delicate work of restoration. It involved co-ordination of many series as well as the co-ordination of the various dimensions of the series. These attributes were previously often published independently from one another.

A fourth stage consisted of extending the new standards back in time by developing new treatments, revising past data and modifying the survey formats to yield current statistical results according to the new standards. Examples of this are direct investment profits which were extended back to 1961 and trade in goods valued at the border which were extended back to 1926.

The fifth and final stage consisted of changing the Agency's statistical products according to the new standards. This meant that all of the tables for

[1] *SNA 1993*

publication, the matrices of CANSIM (the electronic dissemination database used at Statistics Canada) as well as the data submissions to international agencies had to be recoded and reformatted. It also involved extensive documentation of the changes and of the content of the new standards.

In the following sections, the major changes which were implemented to meet the international standards are first reviewed. With the implementation of these changes, Canadian practices are fundamentally in conformity with the international standards. There remain areas, which are generally not of major significance, where Canada does not conform to the standards. These areas are reviewed in a second section.

1. Canada's major changes to conform to BPM-5

(See Summary, Table 1 at the end of this document).

Balance of payments

At the level of the balance of payments generally, the current account now excludes capital transfers and progress payments and also excludes the monetization/ demonetization of gold. Capital transfers and progress payments were reclassified to the renamed capital and financial account under the new norms. The capital account now comprises capital transfers and the acquisition/disposal of intangible assets, but excludes financial transactions. The acquisition and disposal of intangible assets were previously shown as financial transactions though in reality these were sometimes mixed with current account flows. Financial transactions are regrouped under the financial account.

Current account

The current account under BPM5 now comprises three broad accounts: goods and services; investment income; and current transfers. Previously, there were two broad classifications, simply of merchandise and non-merchandise transactions. Non-merchandise transactions consisted of services, investment income and transfers, without always a separation of the components.

Goods

Goods (previously referred to as "merchandise") were redefined both in terms of valuation and content. Exports and imports of goods are now valued at the border of the exporting economy. That is, the valuation of goods now includes inland transportation costs to the border of the exporting country. These inland freight charges are recorded as adjustments to the customs trade data. Previously, goods were valued at the plant of the exporting economy and the transportation cost to the border was classified in services as part of transportation. Goods now also include all goods which cross the border to be processed. Most, but not all, repairs remain with goods; they remain valued at the cost of the repair.

The monetization/demonetization of gold, which represents gold sales and purchases between the Canadian monetary authorities and Canadian residents, is now excluded from goods. These transactions were previously shown as imports/exports of goods. This procedure, known as demonetization/monetization of gold, was used to shift gold from a “monetary” asset to a “commodity” and, vice versa, and from 1968 is handled outside the balance of payments in a account for revaluation and other changes. Prior to 1968, the demonetization/ monetization is maintained as balance of payments accounts for purposes of historical integrity. [2]

Goods no longer include progress payments. Progress payments, which represent sales of capital goods by installments, are now recorded as financial transactions in the financial account. Previously, in lieu of entering a lump sum payment when the good was delivered, a series of progress payments on capital goods such as airplanes were recorded. When the item actually crossed the border, the export or import value was deducted from the trade data since it was already accounted for through a cumulative series of progress payments. This treatment was used to the (limited) extent that the progress payments could be identified in data sources. The goods are now recorded as imports/exports only when delivered, i.e. when they cross the border. At the same time, the corresponding progress payments are included in the financial account.

Services

The new standards on services which comprise travel, transportation, commercial services[3] and government services, were implemented in two phases: in 1996[4] and in 1997.

The main changes to the services series adopted in 1996 were as follows: the travel series were expanded to include education (essentially post-secondary) and medical services (largely limited to those financed by provincial authorities) and to exclude international passenger fares. A distinction was made between travel for business and for personal purposes. Transportation was expanded to include international passenger fares and certain business services auxiliary to transport. Commercial services were expanded to include services to persons and exclude the auxilary transportation services. Medical treatment services were excluded from government services and placed in travel. The previous broad category “Other services” was discontinued. The components of “Other services” were redistributed to travel (student outlays) and to commercial services (the remainder). The details of commercial services were restated according to the

[2] For the years prior to 1968, the treatment consisted in recording all Canadian gold production as exports.

[3] In the Canadian data, a summary term referring to services other than travel, transportation and government services.

[4] For a full discussion of the issues, process and systems used to convert to the new standards in 1996, please refer to Hugh Henderson “*Implementation in Canada of the International Standards for Services Trade – On with the Fifth*”. (http://www.statcan.ca/english/research/other8.htm)

new standards, and a number of subcategories were added, further extending some the breakouts called for in the international standards[5].

The main changes adopted in 1997 were the following: transportation of goods to the border and processing were moved from services to goods. A new methodology was adopted to recognize earnings by Canadian and US domiciled truckers for the transport of goods in the other's country. Previously, it was assumed that domestic truckers operated only in their own economy. Courier services was moved from transportation to commercial services. Disbursements of the federal government for international organizations and programs were reclassified from government services to current transfers. Administrative expenses related to Canada's official assistance were included in government services receipts, consistent with the inclusion of these overheads in current transfer payments. Royalties, classified in Canada as services over the years, required no change when the BPM-5 shifted these from "property income n.i.e.", part of the broad mixed category (other goods, services and income) of BPM-4.

Investment income

Investment income under BPM-5 is now classified as direct investment, portfolio and other investment. These three functional accounts are in turn broken down, when applicable, according to interest, dividends and direct investment profits. The new classification superseded an heterogeneous classification based on a mixture of characteristics.

Within the account "other investment", interest revenues on assets of Canadian banks are now shown separately from interest expenses on their liabilities. These revenues and expenses were previously recorded on a net basis by broad geographical area. For instance, if the banks earned lower interest revenues from the United States than they had interest expenses in that country, the net expense was recorded under payments and no entry was made in the receipts account for the United States. If the reverse applied, that is if revenues were higher than expenses in that country, the only entry would be in the receipts account.

Current transfers

This account now excludes migrants' funds, inheritances, pensions payments to federal government employees and debt forgiveness by the Canadian government. Except for pensions of federal government employees, these components are all considered capital transfers and have been moved to the new capital account of the capital and financial account. The pensions of federal government employees are shown as financial liabilities.

Contributions of the federal government to international agencies and

[5] Please refer to *Canada's International Transactions in Services*, 67-203-XPB or X1B. (http://www.statcan.ca/
cgi-bin/downpub/feepub-cgi).

programs were shifted to current transfers from government services.

Administrative expenses related to Canada's official assistance were added to current transfers. (The receipts deemed to arise from these administrative expenses were added to government services).

Capital and financial account

The capital and financial account is now presented under two broad sub-headings: the capital account and the financial account. Previously, there was only one broad category, the capital account.

Capital account

This is a new account though the name "capital account" had been used in the previous presentation to refer to contents now largely described under the new financial account. The capital account includes: receipts and payments of migrant's funds; receipts and payments of inheritances; debt forgiveness of the federal government; and acquisition and divestiture of intangible assets. The three first components previously appeared as current account transfers. Acquisition and divestiture of intangible assets were previously in financial transactions in principle, but were not always distinguished from the services element which are now more clearly defined as fees for the use of these assets.

The coverage of migrants' funds was also expanded to include funds left abroad. Previously, migrants transfers referred only to funds brought into Canada.

Financial account

The financial account, previously known as the "capital account", contains all the transactions in financial assets and financial liabilities. For both assets and liabilities, the financial account is broken down among direct investment, portfolio investment and other investment. This functional classification, as noted, superseded the previous classification based on a mixture of characteristics.

Direct investment

For direct investment, the geographical allocation of flows from take-over activities was modified to reflect the country of the new owners for inward investment, and the location of the acquisition for outward investment (debtor principle). These flows were previously allocated to the countries of the previous owners (transactor principle). For example, if a Canadian company buys a UK company from a US investor, the investment is now recorded as going to the United Kingdom. Previously the investment would have been recorded as a transaction with the U.S. owner.

Portfolio investment

Portfolio investment, which previously contained only bonds and stocks, was expanded to include transactions in Canadian money market securities. Canadian money market securities were previously shown separately. Foreign investment in Canadian bonds now includes the interest accruals on these bonds. These accruals were previously recorded as other short term payables. Interest accruals now include accruals from coupons as well as the amortization of premiums/ discounts between the issue price and the maturity value. In the past, the recognition of amortization as income applied only to deep discount bonds. For the period prior to 1994, the series on new issues of bonds was revised to exclude new issues in Canada which were subsequently sold during the month of issue in another country. These transactions, are now classified as trade in outstanding bonds; the new treatment began in 1994, with trading during the month of issue left as new issues prior to 1994.

Other investment

Other investment under BPM-5 includes: transactions in deposit assets; transactions in security assets of Canadian banks; transactions in deposit liabilities of Canadian banks; Canadian governments' foreign loans and assets; and, foreign short-term assets of the Canadian non-bank sector. These accounts were previously shown separately. Canadian banks' transactions in financial assets and financial liabilities denominated in foreign currencies are now recorded on a gross basis. These transactions were previously recorded on a net basis by broad geographical areas; for example, if the banks had higher deposits assets in the European Union than it had deposit liabilities in that area, all the transactions in both deposits assets and liabilities were entered as a net flow in deposit asset for the European Union. The portfolio investment of Canadian banks continued to be recorded in other investment and not among portfolio transactions. Similarly, the portfolio investment of Canadian residents in foreign money market instruments is recorded in other investment because of the difficulty in separating the investment in securities from deposits at foreign banks.

Certain data on derivatives are included in other investment as the data sources are insufficient to warrant identifying these accounts separately. The offsetting account for monetization/demonetization of gold is now eliminated from transactions in reserves and is classified as a revaluation of official reserves. In the same way, the allocations of Special Drawing Rights (SDR) to Canada by the IMF are no longer shown in the balance of payments but rather are reclassified as revaluation of official reserves assets.

International investment position

The changes described in the financial account were also implemented in the international investment position when applicable. In addition, certain valuation changes were effected.

Valuation of Canadian bonds

Bonds are valued according to the books of the Canadian issuers, that is according to the debtor principle. Book value is defined as the price at which the bond was originally issued plus interest accruals. Interest accruals comprise the accruals from the coupons plus the amortization of the difference between the maturity price and the issue price. The series on interest accruals was previously classified with other liabilities.

The market value on Canadian bonds is provided as supplementary information to the book value. This supplementary information is provided beginning with the reference year 1990.

Exchange rate effect

The effect of fluctuations of the Canadian dollar on accounts denominated in foreign currencies is now identified separately in current presentations.

2. Canada's remaining differences with BPM-5[6]

(See Summary, Table 2 at the end of this document).

Although much effort has been directed to implementing the international standards, there remain certain areas where they have not been adopted. Such periodic departures were primarily prompted by pragmatic considerations, notably lack of data, but in some cases also reflected reservations about the international standards. While the departures may appear lengthy in number, their impact in terms of value is not significant, except for the valuation at market price of direct investment positions.

Balance of payments

Current account

Goods

Goods are normally valued at "transaction value". It is difficult to ascertain if such prices are at market price as called for by international standards. This is especially relevant since a substantial portion of Canada's trade in goods is carried out with foreign related parties. Transactions with related parties often involve transfer pricing. The international standards relax somewhat the rules of market prices for transactions among related parties given that a significant portion of the world-wide trade is carried out among related parties located in different countries.

[6] This note parallels a companion document: K. Lal, *Remaining differences between the 1997 Canadian System of National Accounts and the 1993 International System of National Accounts.*

> "Thus, for transactions between affiliated parties,…compilers may have no other choice, in practice, but to accept a valuation in terms of explicit costs incurred in production or any other values assigned by the enterprise".[7]

While the "transaction value" of customs is generally used in the Canadian statistics, there are a few cases where supplementary information is used instead of customs valuation and is incorporated through balance of payments adjustments. An example of such supplementary information is the information coming from the Canadian input/output system on selected primary resources.

Trade in goods is valued at the border in conformity with BPM-5 standards and the exceptions to this rule are rare and of relatively low-value. Exports of some newsprint for instance are adjusted to be inclusive of freight to the point of destination.

Reflecting the usual problems of coverage from lack of data sources, no attempt is made in the Canadian statistics to incorporate migrants' effects into goods as called for by international standards. The Canadian treatment is internally consistent as capital transfers also exclude migrants' effects. Except for undeclared imports of tobacco products, no provision for illegal goods is made.

Data limitations and lack of demand have meant that the standard breakouts for goods are not developed; that is, there is no separate identification in the goods accounts on goods for processing, repairs on goods, goods procured in ports by carriers and non-monetary gold.

Travel

Standards specify that travel should include and identify the personal expenditures of foreign migrant workers or Canadian migrant workers. Data limitations bar their explicit identification in the Canadian data.

According to standards, the health series should also include out of pocket or incidental expenditures on goods and services while travelling for health purposes. These expenditures are left in other personal travel because they are difficult to identify separately.

Certain expenditures on education also remain in other personal travel. This practice was adopted because of data limitations. Examples of these expenditures include full-time programs of less than a year and international students at the elementary and secondary levels. The revenues earned by providers of professional education are to be found in commercial services consistent with the standards.

International standards specify that cruise outlays should be included in travel. In Canada, most cruise outlays are shown with passenger transportation services under transportation.

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[7] IMF BOP Manual paragraph 100, page 28.

Transportation

In a departure from international standards, certain items are retained in transportation services. Ships stores are in this category; they remain indistinguishably with port expenditures rather than appearing under goods. Charters without crew cannot be separated from rentals with crew although some charters without crew were identified as of 1997, and have been included with equipment rentals (see below).

The detailed components by mode of transportation as called for by international standards are not altogether followed. This is due to confidentiality and weakness in data sources. For example, rather than showing ocean transportation separately, the Canadian data present water transportation inclusive of inland waterway transport. Inland waterway transport is a sub-component of other transport according to international standards.

In the Canadian statistics, the inland freight carried out by non-resident trucks within the Canadian border and the inland freight carried out by Canadian trucks in the United States are shown as receipts and payments in the transportation account.

In the Canadian treatment, basically the same as the United States, there is some overstatement of transactions in the goods and transportation accounts taken together. This arises from the practical requirement to measure all inland freight as paid by the importing country when goods are valued at the exporter's border. The decision also to recognize as tranportation services the actual earnings of domiciled truckers beyond the export frontier, means that certain segments of these movements are already picked up in the overall inland freight measure by road. (Specifically, actual payments to US truckers for transporting Canadian exports up to the export border are part of Canada's receipts for inland freight. Likewise overall payments by Canada of inland freight on imports up to the US border contain an exported trucking service, earned by the Canadian carrier when transporting imports to Canada).

To this extent, offsetting transportation entries are effected against movements occurring in inland freight. The use instead of negative receipts and payments would both move away from the gross presentation approach called for in the current account, and operationally would have created some net negative results in the transportation account as such, without adequate reflection of beyond-border flows which institutional deregulation had made significant by the close of the 1980's.

Government services

Government services include the purchase of land by embassies. According to international standards, such purchases should be shown under the capital account. The lack of identification of such transactions has precluded their allocation as capital transactions. Expenditure for the building of embassies, when identified from time to time, appears in practice with government services. International standards however, indicate that such construction is part of the exports of the host country when host country contractors perform the work.[8] The absence of embassy construction in the definition of government services reflects the residual nature of the government services category, i.e. it covers only those services – basically public administration – which are "not contained in previous classifications".[9]

Commercial services

The term "Commercial services" used in Canadian statistics does not exist in international standards and has been adopted in Canada to refer to services other than travel, transportation and government. However, this is a presentational issue since the Canadian statistics can easily be grouped to meet the international classification of communications, construction, insurance and other financial services, computer/information services, royalties, services to persons and other business services.

In *construction*, goods supplied directly to/from Canada for cross-border construction activities remain largely recorded in Canada's export and import of goods rather than with construction or miscellaneous services to business as called for by international standards. Furthermore, the Canadian expenditures made in the course of earnings for construction services (such as expenditures for local supplies) are classified as construction payments in the Canadian statistics, a departure from international standards which call for such outlays to be included with other services.

For construction activities, the rule of thumb of one year is not used. The corporate accounting followed by the survey respondents irrespective of the one year rule of thumb is instead applied. If the respondents establish a foreign enterprise, that is, for example, by maintaining full separate accounts in the host country, pay local income taxes and have a substantial physical presence there, their activities signify a lasting interest, central to the notion of direct investment. At this stage they are classified as direct investment; otherwise, the activities are recorded as cross-border provision of services.

Insurance services are presented on the basis of gross premiums and claims in the Canadian statistics. This differs from international standards which call for a special treatment for services, capital transfers and financial flows.[10] Several attempts were made to produce data according to international standards but the results proved not to be analytically useful, despite using much improved data on insurance. In the Canadian statistics, receipts are the sum of premiums received by Canadian residents from abroad and claims paid to clients in Canada by non-resident insurers. Payments are the sum of claims paid abroad by insurers

[8] BPM-5, para. 87.
[9] Ibid, para. 266.
[10] The international standards call for rearrangement of gross premiums and claims data into two separate components. The first is a service charge (premiums earned less claims expensed) which would be entered as the insurance service. The other component, which is the difference between gross premiums and the service charge, would be entered in the case of life insurance under other investment of the financial account, and for non-life insurance, under transfers in the current account.

resident in Canada and premiums paid to outside insurers by policy holders in Canada. This gross treatment is equivalent to the treatment accorded the great majority of other goods and services in the Canadian statistics. International standards make separate recognition of gross premiums and gross claims as memorandum items.

It should be noted that freight insurance services cannot be identified beyond saying some elements may be present in non-life insurance premiums and claims or embedded in goods valuation. According to international standards, freight insurance services should be in insurance services.

In *financial services*, fees associated with foreign exchange transactions and financial services rendered by means of foreign correspondent banking are not as yet measured. Also excluded from services are imputed financial intermediation services indirectly measured (FISIM)[11]; instead they appear indistinguishably in the current account, as part of investment income (interest transactions).

Information services exclude direct subscriptions to newspapers and periodicals, which are covered under goods (through an overall balance of payments adjustment for postal imports) rather than with information services. This is due to data limitations.

Merchanting is the buying and selling of goods which do not enter or leave the economy from which the trader is conducting business. An apt measure of these transactions has not been found for the Canadian series and represents an exclusion from the international standards. The entry for the international category which covers merchanting and other trade-related services is represented by commissions, as a related trade service.

Commissions should, in principle, include fees paid by the importer after the F.O.B. point of export. However, such buying commissions have been viewed by Revenue Canada as less common than selling commissions. Fees paid by the importer after the F.O.B. point of export are taken as an appropriate part of valuation for duty and are valued with goods. Non-financial commissions include auction commissions assigned in international standards to legal services.

In *equipment rentals*, for practical reasons, a limited distinction has been made between rentals with operators and rentals without operators. Under international standards, rentals with operators should be reported under various other specific services to which they are allied, and rentals without operators should be reported here, under equipment rentals (operational leasing). For practical purposes rentals of household equipment are included.

Miscellaneous services to business covers significant amounts of fees paid or received by automotive companies for charges such as retooling, warranties

[11] However, FISIM are included in the non-resident sector in the other components of the Canadian System of National Accounts. The exclusion of FISIM from services is in line with international BOP standards, which in this instance differ from the SNA 1993.

and like charges linked to the production of new models. These charges are not believed to be included in the valuation of goods. These series are without an international counterpart, but after internal review in conjunction with the 1997 historical revisions it was concluded, again for operational purposes, to continue to treat these as services transactions. The United States statisticians assume that such charges are already part of goods valuation.

Provisions for commuter and seasonal worker remuneration as own account service providers are entered as miscellaneous services. International standards classify these as income of employees. Insufficient data precludes their articulation as labour income in the Canadian system.

This account includes "commercial (non-institutional services, as it is taken as the miscellaneous category for the provision of professional and business services more than services simply rendered to or consumed by persons. Remuneration abroad for educators and health care service providers would fall here as they become identifiable.

For practical reasons, certain values for contract production abroad are also assigned to this account.

Other personal, cultural and recreational services ("Personal, cultural and recreational) education services" in the Canadian series presently include only receipts and payments for international trade union activity. Remaining personal, cultural and recreational services is treated as audio-visual and related services on the basis that most of these and the related supporting services, including organized sports and performing arts, represent fees paid to those in the business of providing them. Not insubstantial outlays by individuals for leisure purpose, which occur when the consumer moves abroad, is already covered (if indistinguistably) in general travel outlays.

Investment income

To date, investment income is limited to property income and excludes income from compensation of employees. This exclusion, reflecting data limitations, is a departure from international standards. As indicated, labour income is assigned in the Canadian data to the series covering miscellaneous services to businesses, the income is taken as arising from units of own-account labour.

Capital account

As mentioned earlier, the capital account does not include purchase/sale of lands by embassies as called for by international standards. This exclusion is necessitated by data limitations; the transactions are intermingled with government services in the Canadian statistics.

Financial account

Direct investment

This account does not include real estate investment by individual persons. Such investment is classified as other investment. This is a departure from international standards as it is the Canadian practice to limit direct investment to the business sector.

Portfolio investment

Canadian investment in foreign money market instruments is excluded from portfolio investment. It is classified as other investment as these transactions cannot be distinguished from other investment transactions due to data limitations.

Foreign securities transactions of Canadian banks are excluded from portfolio investment and included in other investment. The rationale for this decision was to regroup as much as possible the transactions of banks under a common account. However, it is recognized that the portfolio trading of banks should be part of portfolio investment.

Other investment

Other investment includes transactions in Canada's reserve assets. In international standards reserve assets is a separate category. The Canadian practice amounts to a presentational issue since the reserve account is identified separately in other investment.

Other investment also includes some elements of derivatives. According to a 1998 amendment to international standards, derivatives should be identified on their own. Data limitations preclude the separate identification of transactions in derivatives.

International investment position

The departures from international standards noted for the accounts of the financial account also apply to the corresponding accounts of the international investment position. There are two additional areas that need be noted: valuation and articulation of intangible assets.

Canada's official international investment position accounts are valued by the equity method for direct and portfolio investment and at cost for other investment. The international standards call for market value. Except for direct investment, Canada already produces or could produce the accounts at market value. For instance, the market valuation of selected portfolio investments is already provided as supplementary information to the official series (Canadian investment in foreign securities and foreign investment in Canadian bonds). Efforts will be made in the near future to value Canadian portfolio stocks at market value. The remaining portfolio investment (Canadian money market instruments) and other investment largely represent short-term capital and, as such, the cost can generally be equated to market value. As for direct investment, major conceptual difficulties exist in attempting to derive market value for that account; the procedures which may be used (replacement cost, discounting models of earnings, market/book value ratios, etc.) have intrinsic problems. These difficulties have also been recognized by the international standards.

> "Although this *Manual*, in concordance with the *SNA*, affirms the principle of using market price as the basis for valuation, it is recognized that in practice, book values from the balance sheet of direct investment enterprises (or investors) are often used to determine the value of stock of *direct investment.* This practice reflects the fact that enterprise balance sheet values … represent the only source of valuation of assets and liabilities readily available in most countries … To facilitate international comparisons, countries that publish data based on market values derived indirectly should, when it is feasible, also publish data collected on a balance sheet (book value) basis if the two types of data differ".[12]

In the Canadian statistics, transactions in intangible assets are reflected in the position category which covers other investment. In the international standards, transactions in intangible non-produced, non financial assets (or intellectual property, leases and other transferable contracts) are clearly dealt with; however, no mention is made of their impact and classification in the international investment position. It is proposed that the assets and liabilities resulting from transactions in intangible assets be shown under other investment.

[12] IMF *Balance of Payment Manual*, paragraph 377, page 89.

TABLE 1

Canada's major changes implemented to conform with BPM-5

	Before	After
Current account	1. Transactions grouped as merchandise and non-merchandise.	1. Transactions grouped as goods and services, investment income and current transfers.
Goods	1. Term: merchandise 2. Valuation at the plant 3. Inclusion of progress payments 4. Inclusion of monetization/demonetization of gold 5. Exclusion of some processed goods; included in services.	1. Term: goods 2. Valuation at the border 3. Exclusion; included in financial account 4. Exclusion; included in valuation adjustment. 5. Inclusion
Services	1. Transactions grouped as freight and shipping, travel, business services, government services and other services.	1. Transactions grouped as transportation, travel, commercial services and government services.
Transportation	1. Term: freight and shipping 2. Exclusion of international passenger fares; included with travel 3. Inclusion of inland freight to the exporting border 4. Exclusion of services auxiliary to transportation; included in business services. 5. Exclusion of resident truck earnings in other country. 6. Inclusion of courier services	1. Term: transportation 2. Inclusion 3. Exclusion; included in goods 4. Inclusion 5. Inclusion 6. Exclusion; included in commercial services.
Travel	1. Inclusion of international passenger fares 2. Exclusion of education services; included in Government services. 3. Exclusion of health charges financed by Provinces; included in government services. 4. No breakout of business and personal Travel.	1. Exclusion; included in transportation 2. Inclusion 3. Inclusion 4. Separate breakout
Commercial services	1. Term: business services 2. Inclusion of processing in goods 3. Inclusion of services auxiliary to Transportation 4. Other services in a separate category 5. Exclusion of courier services; included in transportation 6. Exclusion of services to persons; included in Other services. 7. Many sub-categories not broken out	1. Term: commercial services 2. Exclusion; included in goods 3. Exclusion; included in transportation. 4. Other services dispersed to travel and to commercial services. 5. Inclusion 6. Inclusion 7. Sub-categories broken out.
Government services	1. Inclusion of health financed by provinces 2. Inclusion of disbursements to international Organizations and programs. 3. Exclusion in counterpart receipts of administrative expenses related to official assistance.	1. Exclusion; included in travel. 2. Exclusion; included in current transfers. 3. Inclusion
Investment income	1. Heterogeneous composition. 2. Exclusion of reinvested earnings on direct Investment; included as valuation adjustment.	1. Transactions grouped as direct investment, portfolio and other investment. 2. Inclusion

	3. Netting of banking income. 4. No breakout of portfolio income; included with other income.	3. Grossing up of banking income. 4. Separate breakout
Current transfers	1. Inclusion of capital transfers (migrants' funds, inheritances and debt forgiveness) 2. Exclusion of federal disbursements to International organizations and programmes; included in government services. 3. Exclusion in payments of administrative Expenses related to official assistance. 5. Inclusion of pension payments to federal Government employees.	1. Exclusion; included in capital account. 2. Inclusion 3. Inclusion 4. Exclusion; included in financial account
Capital and Financial Account	1. Term: capital account, made up largely of financial transactions.	1. Term: capital and financial account and made up of capital transactions and financial transactions.
Capital account	1. Inclusion of financial transactions 2. No identification of capital account transactions 3. Exclusion of migrants' funds; included in current transfers. 4. Exclusion of inheritance and debt forgiveness; included in current transfers. 5. Exclusion of intangible non-produced non-financial assets (intellectual property, etc); some included in financial transactions.	1. Exclusion; included in financial account 2. Identification of capital account transactions. 3. Inclusion and expansion to cover funds left abroad. 4. Inclusion 5. Fuller inclusion of such assets when acquired or disposed.
Financial account	1. No identification	1. Identification and made up of direct Investment, portfolio investment and other investment.
Direct investment flows	1. Takeover flows recorded using the transactor Principle.	1. Takeover flows recorded using the debtor principle.
Portfolio investment flows	1. Exclusion of Canadian money market instruments; included in other investment. 2. Exclusion of accrued interest in Canadian Bonds; included in other investment. 3. Inclusion of repurchase agreements	1. Inclusion 2. Inclusion 3. Exclusion; included in other investment.
Other investment flows	1. Inclusion on a net basis of foreign currency transactions of banks. 2. Inclusion of Canadian money market Instruments. 3. Exclusion of repurchase agreements; included in portfolio investment. 4. Inclusion of monetization/demonetization of gold. 5. Inclusion of SDR allocation.	1. Inclusion on a gross basis. 2. Exclusion; included in portfolio investment. 3. Inclusion 4. Exclusion; included in valuation adjustment. 5. Exclusion; included in valuation adjustment.
International Investment Position	1. Heterogeneous composition.	1. Transactions grouped as direct investment, portfolio investment and other investment.
Portfolio investment position	1. Book value of Canadian bonds. 2. Same comments as in portfolio investment flows.	1. Market valuation of Canadian bonds provided as supplementary information. 2. Same comments as in portfolio Investment flows.
Other investment position	1. Same comments as in other investment flows. 2. Same comments as in other investment flows.	1. Same comments as in other investment Flows. 2. Same comments as in other investment Flows.

TABLE 2

Canada's remaining differences with BPM-5

	Canadian practice	International standards
Current account		
Goods	1. Valuation at "transaction value" which may differ from market value notably for trade with foreign related parties. 2. Exclusion of migrants' effects 3. No separate identification of goods for Processing, repairs on goods, goods procured in ports by carriers and non-monetary gold. 4. Exclusion of ship stores; included in transportation 5. Inclusion of goods crossing the Canadian border under construction service contracts. 6. Inclusion of commission fees on buying goods after the F.O.B. point of export. 7. Exclusion of automotive charges linked to the production of new models; included in commercial services. 8. Inclusion of some freight insurance	1. Market valuation 2. Inclusion 3. Separate breakout 4. Inclusion 5. Exclusion; appears in commercial services. 6. Exclusion; appears in commercial services. 7. Inclusion 8. Exclusion; appears in commercial services
Travel	l. No identification of personal expenditures of Migrant workers. 2. Inclusion in other personal travel of certain Expenditures on health (e.g. personal Expenditures) and education (e.g. full-time Programmes of less than one year and for Elementary and secondary levels). 3. Exclusion of cruise outlays; included in transportation	1. Separate breakout 2. Exclusion; appears as part of health and education series in travel. 3. Inclusion
Transportation	1. Incomplete breakout of sub-categories under transportation services. 2. Combination of ocean and inland waterway transportation. 3. Inclusion of ship stores, cruise outlays, charters without crews.	1. Full breakout 2. Separate breakout 3. Exclusion; appears goods and travel, commercial services, respectively.
Commercial services	1. Summary term, not found in international Standards; refers to services other than travel, Transportation and government. 2. Inclusion in construction of projects longer than one year. 3. Exclusion in construction of goods crossing the Canadian border; included in goods. 4. Exclusion from construction of embassy Buildings; inclusion in government services. 5. Exclusion of some charters without crews; included in transportation services. 6. Inclusion in insurance services of gross premiums and claims. 7. No identification of freight insurance and incomplete inclusion in non-life insurance/goods. 8. Exclusion in financial services of fees on foreign exchange and on foreign correspondent banking. 9. Inclusion of some charters without crews 10. Exclusion of merchanting; no estimate.	1. No term 2. Frequent exclusion; often appears in direct investment. 3. Inclusion 4. Inclusion 5. Inclusion; appear in commercial services 6. Inclusion under services, current transfers and other investment 7. Identification and inclusion 8. Inclusion 9. Exclusion; appear in commercial services 10. Inclusion

	11. Exclusion in commissions of fees on buying of Goods after the F.O.B. point of export; Included in goods. 12. Inclusion in commissions of auction Commissions. 13. Inclusion in equipment rentals of rentals with Operators. 14. Inclusion in miscellaneous services to business Of automotive charges linked to the production Of new models. 15. Inclusion in miscellaneous services of cross-Border workers' renumeration. 16. Inclusion in miscellaneous services of Commercial (non-institutional) education. 17. Inclusion only of trade union activities in Personal, cultural and recreational service other Than audio-visual.	11. Inclusion. 12. Exclusion; appears in legal service in Commercial services. 13. Exclusion; appears with other specific Services. 14. No item. 15. Exclusion; appears in a separate labour income account. 16. Inclusion as other personal, cultural and recreational services other than audio-visual. 17. Content appears wider.
Investment Income	1. Exclusion of cross-border workers Renumeration; included in commercial Services	1. Inclusion
Government services	1. Inclusion of purchase of land by embassies and Embassy construction.	1. Exclusion. Land appears in Capital account; building as construction services.
Current transfers account	1. Exclusion of non-life insurance transfers; Included in commercial services.	1. Inclusion
Capital account	1. Exclusion of migrants' effects; no estimate 2. Exclusion of purchase of land by embassies; Included in government services.	1. Inclusion 2. Inclusion
Financial account		
Direct investment	1. Exclusion of real estate investment by persons; included in other investment.	1. Inclusion
Portfolio investment	1. Exclusion of foreign money market; included In other investment. 2. Exclusion of foreign securities of Canadian banks; included in other investment.	1. Inclusion 2. Inclusion
Other investment	1. Inclusion of foreign money market securities 2. Inclusion of foreign securities of Canadian banks. 3. Inclusion of Canada's reserve assets. 4. Inclusion of some elements of derivatives. 5. Exclusion of some elements of insurance claims of life insurance; included in commercial services.	1. Exclusion; appears in portfolio investment. 2. Exclusion; appears in portfolio investment. 3. Exclusion; appears in a separate reserve account. 4. Exclusion; appears in a separate derivative account. 5. Inclusion
International Investment Position	1. Same comments as in specific accounts of Financial account	1. Same comments as in specific accounts of Financial account.
Direct investment	1. Valuation of book value.	1. Market valuation
Portfolio investment Other investment	1. Valuation at book value but market value is also provided as supplementary information for Canadian bonds and foreign securities. 1. Valuation at book value, which could be viewed as proxy for market value given that these accounts are generally short-term.	1. Market valuation 1. Market valuation