

**Summary Conclusions**  
**First Meeting of the Balance of Payments Technical Expert Group**  
**IMF Committee on Balance of Payments Statistics**

**June 22-24, 2004**

**Washington, D.C.**

The first meeting of the Balance of Payments Technical Expert Group (BOPTEG) was held during June 22 - 24, 2004 at IMF Headquarters in Washington, D.C. This report indicates issues/topics for which the BOPTEG prepared outcome papers and summarizes the discussions/decisions on issues/topics for which the BOPTEG did not prepare outcome papers at this stage. This report also summarizes decisions of BOPTEG on processes, future agenda, and other administrative matters.

## **I. ISSUES/TOPICS OF THE FIRST MEETING**

### **A. Accounting principles issues**

#### **Activation of guarantees**

- See BOPTEG outcome paper # 2.

#### **Loan valuation**

- A paper prepared by the Loan Valuation Working Group (IMF) was provided for information. The paper described four options for loan valuation: (i) leave the *1993 SNA* as it is, (ii) primary valuation nominal with realizable loan values and interest arrears on nonperforming loans as memorandum items, (iii) primary valuation market equivalent for creditors only, no symmetry between debtor and creditor; and (iv) primary valuation market equivalent value, but retain symmetry between debtor and creditor. The Loan Valuation Group suggested the option (ii).
- A preliminary discussion indicated a strong preference for symmetry, confirmed the analytic usefulness of both nominal and market value data, and noted the uncertainty regarding the determination of the “true” market valuation. The group acknowledged that in principle the system is based on market values. Many indicated that option (ii) may be the most practical in order to achieve symmetry, but considered that it should be seen as a transitional position on the way to “true” market valuation and that the matter should remain on the "research agenda".
- This issue is on the agenda for the second meeting of the BOPTEG.

#### **Accrual principles for debt arrears**

- See BOPTEG outcome paper # 3.

### **B. Units, residence, sectors**

#### **Identification of branches**

- See BOPTEG outcome paper # 5.

### **Multiterritory enterprises**

- See BOPTEG outcome paper # 6.

### **Institutional sector classification**

- See BOPTEG outcome paper # 7.

### **Special purpose entities, shell companies, and holding companies (units, sectorization, residence)**

- See BOPTEG outcome paper # 9 and 10 combined.

### **Residence of households**

- See BOPTEG outcome paper # 8.

## **C. Goods and services**

### **Re-exports and goods in transit**

- See BOPTEG outcome paper # 14A.

### **Goods for processing**

- See BOPTEG outcome paper # 14B.

### **Merchanting**

- There were no clear views on the treatment of merchanting. Some members noted that merchanting resembles services. A similarity with the treatment of the distribution trade industry in the national accounts was noted. Some members mentioned that inflating the gross flows is not desirable, while others, in contrary, noted that the current treatment deviates from the change of ownership principle. The discussion pointed to problems in measuring the regional breakdown of merchanting services and the possible impact of merchanting on import series. Also, it was noted that the measurement of merchanting services may be distorted by price changes.
- The group argued that the rationale/justification for the current treatment of merchanting in *BPM5* is not clear and needs further exploration. Some members requested a review of the current difficult guidance when the merchanting straddles two reporting periods. There was also a concern about the structural asymmetry in the current guidance.
- The group decided to put this issue at the agenda for the next BOPTEG meeting and IMF volunteered to prepare an issues paper.

### **Classification of services**

- See BOPTEG outcome paper # 17.

### **Reinsurance**

- The group agreed that reinsurance should be treated similarly to direct insurance.
- Further work on insurance within the review of the *1993 SNA* will be followed.

### **Income**

#### **Reinvested earnings**

- See BOPTEG outcome paper # 18.

#### **Retained earnings of mutual funds**

- The group noted inconsistencies in the current treatment of retained earnings of various collective investment schemes (net earnings of life insurance and pension funds are distributed to beneficiaries/policy holders, retained earnings of mutual funds are not distributed in *BPM5* and *1993 SNA*, mutual funds' earnings are distributed in *ESA95* but in a way that results in inconsistency between the classification of income and financial positions and transactions).
- The discussion focused on who owns the income of a collective investment scheme (particularly if the scheme does not pay out dividends - the scheme itself which produces the income or the investors in the scheme). The group also agreed that consistent definitions of these collective investment schemes are needed, noting a quite delicate question of finding a common definition of mutual funds.
- The group expressed concerns on the implications that this issue has, both on conceptual and practical aspects. The group contrasted the treatment of income between direct investment (distributed) and portfolio investment (generally not distributed) and between some types of collective investment schemes (distributed) and other portfolio investment (not distributed). Some reference to the income concept was also felt necessary.
- The group decided that the issues paper will be revised by the IMF to evaluate consistency of treatment within the *BPM5* framework, and that this issue will be discussed again at the next BOPTEG meeting.

#### **Interest on debt securities**

- See BOPTEG outcome paper # 20.

## **Nonmonetary gold**

- The group discussed whether a distinction can be made between gold traded for real demands (industrial or jewelry) involving physical movements and gold for dealing purposes usually involving no physical movements of gold. While gold for real demands are transactions in goods, dealing transactions may be treated either as trade in gold on a gross basis as implied in *BPM5*, on a net basis (e.g. as indicated in the Balance of Payments Compilation Guide that suggests their inclusion in merchanting services) or as financial assets, which would require a change in the existing methodology. It was noted that a vast majority of gold trade is dealing transactions. If dealing transactions are to be treated on a net basis, issues were raised about whether the margin represents services and about the effects of price changes on the margin. For some countries, the gross recording may distort data on exports/imports of goods.
- The group also raised issues related to possible treatment of gold claims and gold lending. Further questions were raised at the discussion about the relationship of the issues on nonmonetary gold with other valuables (precious metals), and gold loans and fees payable on gold loans. It was also noted that a clarification on monetary gold may be needed.
- It was decided that the United Kingdom will prepare an issues paper articulating all relevant issues, and that this issue will be discussed at the next BOPTEG meeting.

## **II. ADMINISTRATIVE MATTERS**

- The BOPTEG agreed on the updated list of issues for BOPTEG, the agenda for the next meeting, and the assignment for issues papers (see the updated list of issues).
- The group agreed that it will continue its work through electronic communication (including EDG).
- The Secretariat will circulate the draft outcome papers and summary of the conclusions to the members who will provide their comments within five days to the Secretariat. After the outcome papers and summary of conclusions are finalized, they will be posted on the IMF's external website.
- The next meeting of the BOPTEG will be held during November 29 - December 2, 2004 at IMF Headquarters in Washington D.C.