

**BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTEG)**

**OUTCOME PAPER (BOPTEG) # 18**

**JUNE 2004**

(1) Topic: **Reinvested earnings**

(2) Issues – see DITEG Issues Papers 5 and #5A, and BOPTEG Issues Paper # 18

(3) Recommendations:

(i) There was no clear consensus on the preferred conceptual treatment of reinvested earnings. The group agreed that this issue should be part of a broader discussion on the concept of “income”, but were unsure the extent to which such a broad topic could be addressed within the time frame of the new manual. The group noted, however, that the “income” concept should remain in the longer-term research agenda. The group also noted the view of the Advisory Expert Group on national accounts (AEG) that the treatment of reinvested earnings should not be reopened within the review of the *1993 SNA*.

(ii) The group agreed that there are inconsistencies in the system in the treatment of retained earnings. First, direct investment relationship is treated differently from portfolio investment relationship. Second, direct investment type relationship between residents is treated differently from those between residents and nonresidents. And, third, some types of collective investment schemes are treated differently from other portfolio investments. The group noted that the Task Force on Harmonization of Public Sector Accounting is considering an extension of reinvested earning concept to resident direct investment relationship between government and public enterprises.

(iii) Notwithstanding these recognized inconsistencies, several members of the group felt that the present imputation of reinvested earnings between entities in a direct investment relationship (and no imputation for portfolio investment) is a satisfactory outcome. Other members of the group disagreed. Of the latter, some saw advantage in imputing a reinvested earnings flow for portfolio investment, in particular, as the issuance of mutual fund shares with accruing earnings has meanwhile become a widespread practice; while others felt that it was more appropriate not to impute any retained earnings (either for direct investment or portfolio investment) as a transaction.

(iv) The group agreed, however, that, in any event, it would be very difficult to implement an imputation of reinvested earnings on portfolio investment, especially for portfolio investment abroad.

(v) The group agreed that, even if reinvested earnings are the correct conceptual basis, there are serious practical problems in measuring reinvested earnings data on a quarterly, or even annual, basis, for direct investment.

(vi) The group supported the DITEG's decision (regarding DITEG Issues Paper # 5) that reinvested earnings should be recorded at each link of the chain of indirectly-owned direct investment enterprises, noting that the examples given in the Benchmark Definition are confusing and need to be clarified.

(vii) The group agreed that the BOPTEG issues paper # 18 deals with several detailed definitional and practical issues and noted that they should be considered, as appropriate, in either the new manual or a compilation guide.

(4) Rejected alternatives

None.

(5) Questions for the Committee

- (i) *What is the Committee's view regarding the appropriate conceptual treatment of reinvested earnings for entities in a:*
  - (a) *direct investment relationship? Is the present treatment acceptable? Or should reinvested earnings not be treated as a transaction, and be recorded instead as an entry in the other change in assets account?*
  - (b) *portfolio investment relationship? Is the present treatment acceptable? Or should reinvested earnings for portfolio investment be imputed?*  
*See 3(iii) above.*
- (ii) *In view of the position of the AEG and the range of views among balance of payments experts, does the Committee agree that a pragmatic outcome would be to retain the current treatment of reinvested earnings, and put the concept of income on the longer-term research agenda. See 3 (i and iii) above.*