

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

**OUTCOME PAPER (BOPTTEG) # 5**

**JUNE 2004**

**(1) Topic: Criteria for Identification of Branches**

(2) Issues – see BOPTTEG Issues Paper #5

(3) Recommendations:

(i) The group agreed that physical presence criteria would apply only to those industries that require physical presence. For activities (such as financial intermediation and operational leasing) that can be undertaken without physical presence, such criteria is not required for determining the existence of an institutional unit.

(ii) The group agreed that being subject to income tax laws, rather than paying income taxes as in *BPM5*, should be taken as an indicator.

(iii) The group considered that some flexibility is needed, so that the criteria would be used as indicators with some compiler discretion. The group agreed that not all of the criteria needed to be met. A sufficient condition was that most of the criteria would be met. However, the criteria of having separate income statements and balance sheets was considered to be the strongest factor, and would usually be decisive. The importance of such records was explained on both conceptual and practical grounds. The group noted the importance of where decisions are made, of which separate accounting could be a reflection.

(4) Rejected Alternatives:

A fixed set of requirements was rejected, so as to give compilers flexibility.

(5) Questions for the Committee:

*(i) Does the Committee agree with the recommendation that physical presence only be required for activities other than financial intermediation? See 3(i) above.*

*(ii) Does the Committee agree that being subject to income tax laws should be taken as an indicator of a branch rather than a requirement? See 3(ii) above.*

*(iii) Does the Committee agree that all the criteria should be taken as indicators of a separate branch, while noting that availability of separate accounts be given a very strong weight? See 3(iii) above.*