

**Fifteenth Meeting of the  
IMF Committee on Balance of Payments Statistics  
Canberra, Australia, October 21–25, 2002**

**Residence**

**Prepared by the Statistics Department  
International Monetary Fund**

## RESIDENCE

### A. Introduction

1. Balance of payments and other macroeconomic statistics are designed to show information for a particular economic territory. The concept of residence<sup>1</sup> is basic to all of these statistics because it identifies the units that are to be included in each territory.
2. The concepts and definitions of residence are harmonized across macroeconomic statistics frameworks. The definition of residence is the location of the unit's "center of economic interest." It is this focus of interest that provides the link of the entity to the economic territory. As can be seen from the definition, the identification of statistical units and the definition of the economic territory are important steps preliminary to the determination of residence.
3. The objective of this paper is to review issues that have arisen in relation to the application of the residence concept, with a view to identifying issues to be addressed in updating the fifth edition of the *Balance of Payments Manual (BPM5)*. The outcome of discussions of this paper will be used to identify where there is a clear consensus on needed clarifications and changes or where further work and discussion is needed.
4. In the vast majority of cases, entities have a clear center of economic interest because all or almost all their activities and relationships take place in a single economic territory. However, there are an increasing number of entities with connections to multiple territories and some with minimal connections to any particular territory. Such cases are increasing due to globalization, financial innovation, and technological change. For example, the location of a holding company and the liabilities of a multinational corporation may in some cases be easily switched between jurisdictions. As a further example, individuals and households may have jobs and dwellings in two or more territories.
5. Factors such as location of dwelling, ownership, location of premises, location of production, incorporation, registration, and legal control may point to different economic territories. In such cases, "center of interest" does not always shed light, so more specific guidelines are necessary to narrow down the aspects of "interest." The guidelines should allow the residence of entities to be consistently classified to one territory only.
6. In *BPM5*, the guidelines largely relate to physical location over a sustained period. In this paper, the use of legal structure is proposed to deal with cases where there is no physical location. Further, this paper proposes specific guidelines to deal with particular cases of ambiguity. A number of cases listed in *BPM5* are not dealt with here, including

---

<sup>1</sup> *BPM5* and the *1993 SNA* both use the term "residence," while the *Monetary and Financial Statistics Manual* and *Government Finance Statistics Manual* use "residency."

embassies and other governmental enclaves, nonprofit institutions, international organizations and their pension funds, and foreign students, because no changes to *BPM5* guidelines are proposed.

## **B. Existing Guidelines on Residence**

7. *BPM5* Chapter IV “Resident Units of an Economy” covers the definitions of economic territory and residence. It states that “an institutional unit is a resident unit when it has a center of economic interest in the economic territory of a country” (para. 58). *BPM5* provides more specific guidance for households (paras. 66-72), enterprises (paras. 73-83), nonprofit institutions (para. 84), general government (para. 85-89), and regional central banks (para. 90). A one-year period of location is suggested for both households and enterprises, but “*only as a guideline* and not as an inflexible rule” (para. 63, italics appear in original).

8. The definition of residence interacts with the definition of units because it is applied to units, and because a branch will be recognized as a statistical unit if it has substantial aspects of residence (physical presence, intention to operate over a long or indefinite time, separate accounts, being subject to income tax laws, see para. 78) even if it is not a separate legal entity.

## **C. Issues in Existing Guidelines and Proposed Changes**

### **1. Meaning of “Economic Territory”**

#### **(a) Zones subject to special laws**

9. *BPM5* defines economic territory as “the geographic territory administered by a government; within this territory, persons, goods, and capital circulate freely” (para. 59). The case of manufacturing and trading zones is mentioned in para. 59, where it is specified that they should be included with the rest of the economic territory administered by that government. (The principle is stated again in para. 79, under the heading of attribution of production.)

10. Comments: Problems in the definition of economic territory arise when it is applied to special economic zones such as bonded warehouses, export processing zones, free zones, and “offshore financial centers.”<sup>2</sup> In many of these cases, the first part of the *BPM5* definition contradicts the second, in that while the zone is administered by the same

---

<sup>2</sup> An offshore financial center is defined in “Offshore Financial Centers” (an IMF Background Paper prepared by the Monetary and Exchange Affairs Department) as “a center where the bulk of financial sector activity is offshore on both sides of the balance sheet, (that is the counterparties of the majority of financial institutions liabilities and assets are non-residents), where the transactions are initiated elsewhere, and where the majority of the institutions involved are controlled by non-residents.”  
Source: [www.imf.org/external/np/mae/oshore/2000/eng/back.htm#II](http://www.imf.org/external/np/mae/oshore/2000/eng/back.htm#II)

government, there are restrictions on movements of some goods, labor, and finance between the zone and the rest of the economic territory. For example the special zone may have different foreign exchange, foreign investment, customs, other taxation, and statistical legislation; typically there are restrictions on dealings with resident customers. These zones are sometimes in a physically separate area, but not always, e.g., many offshore financial centers have a special legal status but do not operate in a physical enclave.

11. As special zones have different economic situations from, and restricted economic connections with the rest of the economy in which they are situated, some compilers wish to exclude them from their balance of payments data. Where special zones are sufficiently large to be of separate analytical interest, compilers should consider showing separate data for each of the “domestic economy,” special zone(s), and national totals. The national total would be a consolidated sum of the domestic economy and special zone(s), so that consolidation principles would need to be applied. (This possibility is not discussed in *BPM5*.) For international purposes, it is quite clear that the national totals are the highest priority. If the special zones are not included in the national totals, the territory will not have a full picture of the function of the zone or its linkages with the rest of the world and their operations will be omitted from any balance of payments data. Further, the reporting in other countries of counterpart transactions with units in the special zones will cause discrepancies.

12. Proposals: The definition should state that an economic territory means a geographic area administered by a single government (without stating any further assumptions about how free the flows of good, labor, and finance are). It should refer to offshore financial centers specifically, and state that they are to be included as part of the national economy in all cases where they are significant, but encourage a supplementary presentation of data when policymakers need separate data for either special zones or the rest of the economy.

#### **(b) External territories**

13. *BPM5* does not refer to this issue, although the second half of the definition of economic territory in para. 59 states that “within this territory, persons, goods, and capital circulate freely”; this could be interpreted as flagging the issue.

14. Comments: Some special territories have internal self-government or in some other way are not subject to some rules of the central government. The issue is somewhat similar to the case of special zones, although the motivation is typically a recognition of the historically and geographically separate status of the economic territory, rather than to encourage a particular kind of economic development.

15. Where these territories have sufficiently independence in tax and other economic laws, there may be a wish to exclude them from economic statistics used for making economic policy. The *BPM5* definition of free flows of persons, goods, and capital may be a way of determining external territories that should be separate. Since this decision would depend on circumstances and particular policy interests, international guidelines are not

needed. However, there is an international interest in not having gaps in data, so if the total size of the territory or territories is significant and excluded from national statistics, it would be desirable to compile data for the territory or territories.

16. Proposal: External territories should be included or excluded from national data according to national needs, but the coverage should be clearly be stated in metadata. Data for excluded external territories should be compiled if they are significant in total.

**(c) Zones subject to joint sovereignty**

17. *BPM5* does not mention these cases.

18. Comments: There may be joint sovereignty over some activities on land, on the sea, on or under the seabed, and in space. Examples include Antarctica, the international space station, and the oilfields between Australia and East Timor. In such cases, there appear to be three options.

(i) The joint zone could be treated as an economic territory in its own right. The zone would qualify as an economic territory in its own right because it would be under administrative authority different from the individual administering economies and have laws separate from each of the two administering economies. The zone would then be shown as having its own transactions in services, property income, etc. with the administering economies and the rest of the world. The result would be the same as for an international organization, which this case resembles. However, if there are a small number of operators, confidentiality requirements are likely to be a serious practical limitation that may prevent the publication of some or all data for the zone, which could cause a serious data gap. In addition, the treatment would be the same for both joint and completely independent territories, which would not reflect the fact that joint zones have stronger links to the administering economies than do completely separate territories.

(ii) The operations in the zone could be split into separate units in each of the administering economies on the basis of actual arrangements. Operators with a predominant link back to one of the administering governments could be treated as residents of that economy, according to factors relating to the production process such as sources of employees, bases for operations, and pipeline or other connections. If these links were predominantly with one economy, data for the operators could be included realistically in the economy's data, without the concerns about confidentiality or data gaps of the first option. Alternatively, the enterprise may be able to be split, if there are components in both territories that meet the qualifications for a separate branch (accounts, pay income taxes in the host economy<sup>3</sup>, physical presence, etc. as stated in *BPM5* para. 78). However, in many cases, the operations may have substantial connections with both sides (and perhaps also with third territories)

---

<sup>3</sup> To be interpreted as being subject to income tax law in the host economy.

but run as a single unit, so that they are not able to be allocated. There may also be political sensitivities if statisticians make judgments about predominant connections.

(iii) The operations in the zone could be split between the administering economies on a pro rata basis. This option would result in artificial statistical units that would be inconsistent with the units concepts that are designed to reflect actual producing and financing units. These artificial units also give rise to complexity because single transactions would have to be split into transactions with two different territories. However, the option may avoid some of the practical problems that arise with the previous two alternatives.<sup>4</sup>

19. Proposals: In terms of conceptual desirability, the first option appears best, the second option also acceptable, and the third would be appropriate if the other two were not feasible. In each case, it is highly desirable that the economies involved in the joint administration cooperate to ensure consistent treatments and results.

#### **(d) Zones under rebel control**

20. When parts of an economy are not under the effective control of the government, it is usually impractical to compile balance of payments statistics for the full legal territory of that government. It is even possible that a whole country could be under the control of various authorities, with none being recognized as the central government.

21. The definition of economic territory in *BPM5* refers to being under the administration of a government, implying that economic territory is defined by effective control, rather than the claimed or officially recognized area. Accordingly, each administering authority is potentially a balance of payments territory.

22. In the interests of assisting in interpretation of the data, it is important that the balance of payments compiler identify the actual geographic coverage of the data and that the data include all areas under effective government control. (Of course, the language used would need to be sensitive to political concerns, and be a simple statement of statistical coverage without providing any recognition to the rebels.)

23. Ideally, the rebel areas would also compile statistics, so that consolidated data could be produced. However, this is not likely to be practical.

24. It may be desirable for other economies to show separately transactions with the government- and rebel-held areas in their partner statistics. Such a presentation could be useful and would reduce a source of bilateral inconsistency, but in most cases it is likely to be more practical for other economies to treat both the government- and rebel-held areas as a single territory.

---

<sup>4</sup> While potential confidentiality problems are not a conceptual reason, recognition of possible problems with the first two approaches points to the need to endorse a wider range of options.

Proposals: This case should be mentioned, with a recommendation to apply the existing definition, showing that practical control could be used. The territory covered should be specified in the metadata.

**(e) Areas outside existing jurisdictions**

25. *BPM5* states that in cases where mobile equipment operates in international waters and airspace, its activities should be attributed to the economic territory of the base of operations of the operator (para. 80). The issues also arise for submarine cables and pipelines, which are not mobile.

26. Comments: The location of the entity's base shows its center of economic interest. It is technically possible that entities could be established to operate on the high seas or in space with no home base, possibly in order to avoid taxation or regulation. Examples include the *Residensea* (a luxury ship that permits permanent residents) and *Sealand* (a North Sea platform that claims to be a country and is used to provide data services). If there is no home base, the entities will be omitted from any existing balance of payments statistics.

27. Proposals: No change to existing guidelines is needed. The base of operations concept is suitable for mobile production. Any cases that are outside any existing balance of payments territory are potential balance payments territories in their own right. (If the activities were to become economically significant, estimates would be needed for inclusion in global totals.)

**(f) Changes in sovereignty**

28. Sovereignty over areas, and assets that are located there, is sometimes passed from one government to another. When a colony becomes independent, there is a change in the nature of its government, but there is a continuation of the same economic territory, so there is no problem of changes in the economic territory.

29. However, when a part of a territory becomes a part of another territory, the change in the assets of each of the territories needs to be recorded. It is clear that an accounting entry is needed to remove the relevant assets from the national balance sheet of the economy that it was originally part of to the national balance sheet of the economy it is conveyed to. While the international investment position omits nonfinancial assets, it is still necessary to record international changes that affect nonfinancial assets. Such changes can be recorded as either a transaction or an other change in the volume of assets. The classification as a transaction or other change depends on whether such events occur as a result of payment, mutual agreement, war, or international court judgment.

30. Transactions are defined as "interactions by mutual agreement between institutional units" (*1993 SNA* para 12.6, also paras. 2.25-26). This definition seems to apply to changes in sovereignty that are made for payment or voluntarily. Only transactions are included in

the current, capital, or financial accounts, while the other changes in assets cover other economic events that do not arise from transactions.

30. In the case of change in sovereignty over the land in return for payment, it seems to be a transaction similar to dealings in land for embassies, which are treated as a transaction, namely, acquisition/disposal of nonproduced assets. (Buildings for embassies that are conveyed with the land and buildings conveyed other changes in sovereignty are not mentioned, but presumably would be treated in the same way as other acquisition/disposal of produced assets, i.e., as imports/exports, respectively.) Similarly, if the conveyance is not for payment, but still by mutual agreement, it would be treated as a transaction, but financed by a capital transfer, in line other unrequited transactions. (If there is a payment, but it is less than the value of the assets, there would be both payment and a transfer.)

31. In other cases, the transfer is not voluntary and, therefore, does not qualify as a transaction. The 1993 SNA Chapter XII gives examples of changes of the value of assets that do not arise from transactions which include uncompensated seizures, theft, write-offs of bad debts, and changes in the classification of a unit. Acquisition of sovereignty by war seems to be a case of uncompensated seizure. Conveyance of assets due to court judgments, in cases other than enforcement of contracts, occur as a result of legal impositions rather than agreement between the parties, which suggests that they are other changes, not transactions. However, international courts and arbitration are rather less mandatory than national legal systems, to the extent that the country must first accept the tribunal's jurisdiction and there is limited enforcement capacity. On the other hand, any resulting handover would generally be an undesired outcome that was motivated by a willingness to accept international law and avoid conflicts, rather than an unqualified wish to convey the benefit to the other party, so it may be better seen as an other change in assets.

32. Proposals: Refer to this situation, with changes in sovereignty for payment or voluntarily to be treated as transactions in the capital account, otherwise in the other changes in assets account.

### *Questions for the Committee*

1.1 *Does the Committee agree with the paper's proposals that updates to BPM5 on the meaning of "economic territory" should include:*

*(a) a specification of economic territory to include all zones under the sole administration of the government, including processing zones, offshore financial centers, etc. and exclude areas not under the effective control of the government?;*

*(b) an encouragement of separate presentation of "domestic" and special zones, where applicable?*

*(c) a discussion of zones of joint sovereignty, offering the three alternative treatments discussed?; and*



*(d) treatment of changes in sovereignty, as outlined?*

*1.2 Are there problems associated with the meaning of “economic territory” in addition to those identified in the paper?*

## **2. Identification of units**

33. Standard definitions of households and enterprises as units are adopted across macroeconomic statistics. In a few cases, a notional resident unit is identified for statistical purposes because a nonresident enterprise has assets and activities that have substantial connections to a territory even though those assets and activities are not owned by a separate legal entity. Creation of a notional unit is a way of splitting the owning entity between the two jurisdictions. Cases include:

(i) Ownership of land and structures (*BPM5* para. 64): A notional direct investment unit is identified in these cases because land has an inherent link with the territory in which it is located, and this constitutes a center of economic interest. The same argument would apply to assets related to land, such as mining and grazing rights and long-term leases of land, so that it would seem appropriate to treat these in the same way as ownership of land. However, there are conceivable cases where land is owned but there is no meaningful separate unit or center of economic interest in the territory in which the land is located because production is actually managed from a base in a nearby neighboring territory. For example, a farmer resident on a farm in one territory may own adjoining fields in another territory. For cases of rights over other nonproduced assets, such as broadcasting spectrum licenses and fishing rights, it is also conceivable that production could be based in another country without a center of interest in the territory of issue.

(ii) Preparatory activities to direct investment<sup>5</sup> such as payment of license fees, legal costs, etc. associated with establishing new operations in a territory: At this point, if there is an intention to set up an entity to conduct business on a continuing basis, a statistical unit may be recognized from the time it begins undertaking preparatory activities.

(iii) Branches (*BPM5* para. 78<sup>6</sup>): When parts of a legal entity from one territory have sufficiently strong connection to another territory, the parts in the other territory are recognized as constituting a separate unit. The requirements are to have local physical presence, undertake production for a long or indefinite period (with a year or more

---

<sup>5</sup> The treatment of one aspect of this (the payment by a prospective direct investor of fixed amounts of money for the right to undertake direct investment) was clarified as being direct investment by the Committee at its meeting in 2001 (see paper BOPCOM 01/20B) and this clarification was promulgated through (i) an article in the *Balance of Payments Newsletter* (Midyear 2002) and (ii) the posting an information note on the IMF website.

<sup>6</sup> There is also a mention of the creation of a notional unit (para. 69) with a simple test of having employees in the territory for a year or more. As this would have wide implications, but appears an aside in a section on households, it is presumably not intended to supersede para. 78.

suggested as the guideline), have complete and separate accounts of local activities, and be subject to the jurisdiction for income tax purposes (if applicable). The strictness of the requirements highlights the reluctance to create artificial units. It is conceivable that the entire operation of an enterprise could be in a branch, with none in the location of incorporation. *BPM5* (paras. 78 and 254) specifically mentions the case of construction, where it notes that major specific projects managed by nonresident enterprises are usually managed through site offices and that production from site offices will mostly satisfy the requirements to be treated as a branch. The qualification “most instances” suggests that the existence of a site office is not a criterion, but just an indicator that is correlated with the other general criteria already set out for recognizing branches. Presumably, projects without an office in the country of the construction project are managed from the enterprise’s home territory, so it is less likely that the criteria for separate branch will be met.

34. The identification of units in the case of trusts and limited liability partnerships is not currently covered in the statistical standards. Trusts and partnerships are legal structures that have some degree of separate status from their owners, but are not corporations. In the case of trusts and partnerships whose owners and legal status are in the same jurisdiction, whether they are treated as separate units or not does not matter, in that the units will be covered either separately or through the owning household. However, when these legal structures are located in a different jurisdiction from their owners, there are no guidelines as to their coverage in the jurisdiction where the owners reside or in the jurisdiction where the trust or partnership was created, and hence there is a risk of their being omitted or double-counted. Because the problem arises only for cross-border cases, it is mainly an issue for balance of payments compilers. A previous paper on this issue (BOPCOM 01/12) tentatively proposed that the cross-border trusts and partnerships be recognized as separate units resident in the territory of their legal domicile. This treatment would use the management and the legal structure to identify where the center of economic interest is located, analogously with shell corporations (discussed below). Furthermore, the jurisdiction where the legal structures are created and regulated is also where data collection is most likely to be feasible.

35. In a few cases, *BPM5* supports prorating a single entity between two or more economic territories (namely, para. 82 for multi-territory transport enterprises and para. 90 for regional central banks). In these cases, the unit in each territory is an artificial one that does not follow the normal principle that statistical units should reflect real-world entities. Nevertheless, there are some cases where a real-world entity is so closely connected to each of two or more territories that it appears that representing the connections to each territory as residence is more important than avoiding artificially split units. This treatment is discussed under the heading of residence of enterprises in section 5 below.

36. Proposals: No changes to the existing guidelines are proposed for ownership of land or for branches. However, there should be a clarification that leases and grazing and mining rights are treated in the same way as land. Preparatory activities should be referred to in the guidelines. Cross-border trusts and limited liability partnerships should be treated as separate units in their economic territory of legal domicile.

*Questions for the Committee*

2.1 *Are any refinements needed to the BPM5 guidelines for:*

*(a) the treatment of land and associated assets?;*

*(b) the general situation for recognition of branches?; or*

*(c) the recognition of branches in the case of construction?*

2.2 *How far should the treatment of land be extended to related assets such as leases and mining rights?*

2.3 *Does the Committee agree with the paper's proposals that updates to BPM5 on the identification of units should include guidelines on a treatment for trusts and limited liability partnerships that are in different territories from their owners?*

2.4 *Are there problems associated with the identification of units in addition to those identified in the paper?*

**3. General Principles for Defining Residence**

37. *BPM5* adopts the center of economic interest as the definition of residence for households, enterprises, and other units. More specific guidelines are offered for each type of unit, however, the general principles apply for all types of units. *BPM5* points to a location from which a unit engages in transactions over an indefinite or long period (para. 62). Among a number of considerations discussed, a guideline of engaging in transactions for a year or more (para. 63) is suggested.

38. Comments: Possible indicators of “center of economic interest” include location of premises, what territory’s legal regime applies, location of owners, and location of assets. To the extent that these give different answers, “center of economic interest” does not help choose between them so that more detailed guidelines, specific to different types of unit, are needed.

39. An alternative terminology “predominant center of economic interest” would recognize that entities may have multiple points of interest, but they should be classified to the economic territory to which the entity has the strongest connection.

40. An alternative to the allocation of all of an entity to its predominant center of interest is to allow units that have points of interest in two or more jurisdictions to be split. Because splitting results in artificial units, it is not generally encouraged, but it is used for branches and may be acceptable in a small number of cases where there are connections with two or more territories (discussed separately below for households and other entities).

41. The one-year guideline for residence in *BPM5* is “one year or more,” while the “long-term” is defined elsewhere as “more than one year” (para. 336). The inconsistent treatments of an exact one-year period should be resolved.

42. The one-year guideline could be defined according to intentions or outcomes, and *BPM5* endorses both (para. 63). It seems suitable to regard new permanent migrants and subsidiaries as having a center of interest in their new location from their time of arrival, rather than have them as nonresidents for their first year. In this case, intention is an appropriate criterion. In other cases, intention is unknown to statisticians or perhaps even the party, so outcomes are more practical. In any case, statisticians are usually dealing with groups of households, so that generally tendencies normally need to be used rather than tracking individuals.

43. Proposals: The definition should be changed to “predominant center of interest.” General guidelines should be related to the specific guidelines for households and other entities to make clear whether the specific guidelines over-ride the general or not.

#### *Questions for the Committee*

3.1 *Does the Committee agree with the paper’s proposal that updates to BPM5 on the general definition of residence should include a change to “predominant center of economic interest”?*

3.2 *Does the Committee have a view on whether the one year guideline for residence should be “one year or more” or “more than one year”?*

3.3 *Are there problems associated with the general definition of residence in addition to those identified in the paper?*

#### **4. Center of Economic Interest of Households**

44. *BPM5*: Further guidelines for determining the residence of households appear in *BPM5* paras. 66-72. Para. 66 states that “a household has a center of economic interest when it maintains a dwelling, or succession of dwellings, within the country that members of the household treat, and use, as their principal residence.” The principal residence provides a link that shows that the household has a center of economic interest in the territory.

45. A number of specific cases are also stated:

- Travelers and visitors who leave a territory for limited periods of time for business or personal reasons do not change residence (para. 67);
- Cases of employees who work for an employer in another territory are mentioned as being determined on the basis of the principal residence, not the location of employment. The specific cases are seasonal, border workers, staff of international organizations, locally recruited staff of embassies, etc., crews of ships, etc. (para. 67);

- Individuals who work continuously abroad for more than a year, set up a household in the new location, and only visit the old location for short-term and infrequent visits are regarded as changing residence to the new territory (para. 68);
- Staff on postings with their home employer for more than a year and technical assistance personnel on long-term contracts are residents of the host country (para. 68);
- Military personnel and civil servant staff of military bases, embassies, etc. maintain their residence in their home countries; and
- Students and medical patients maintain their residence in their home countries, regardless of the length of stay (para. 71).

There is also recognition that there are some people who do not fit into the foregoing categories and whose “centers of economic interest are often international rather than designated economies.” In these difficult cases, compilers are advised to consider tax status, citizenship, etc. with no guidelines, so that the decision is “left to the discretion of the economies (sic) concerned” (para. 72).

46. Comments: Rapid changes point to a need to review, and possibly update, the guidelines for residence of households. With increasing globalization, including more efficient transport and communication, there is a greater scope for individuals and households to have links with several territories, so cases of unclear residence are becoming more significant. Some cases of households having links to more than one economic territory include refugees, global executives who travel (such as “NYLONS” who commute between New York and London and have residences in both), expatriate experts, and employees of mobile equipment based in other territories (ships, oil rigs, etc.). Further, large numbers of people from some territories work abroad on ships, as maids, as drivers, etc. on a nonpermanent basis. Another situation is where expatriate experts are recruited to work in territories where there are insufficient people with skills in particular specialized highly paid and highly skilled work. If leaving and returning to a home location becomes more frequent, the question arises as to whether these moves constitute changes in centers of economic interest.

47. The most difficult cases relate to those individuals who work in another territory for a period longer than a year but who maintain strong ties to their home territory. Such links to the home territory could include maintaining a permanent dwelling that they intend to return to, or keeping spouses and dependent family members in the home territory. In such cases, the principal residence appears to point in a different direction to the one-year guideline.

48. In many of these cases, the people involved often maintain strong links to their home territories. For example, if crewmembers of other territories’ ships generally had contracts of varying lengths, but generally less than two years, and usually maintained a dwelling at home, this might be taken as suggesting that they maintain their center of interest in their home countries. That expatriates typically had parts of their salaries paid

into foreign bank accounts and largely returned to their home territories after a few years might support a convention that they remained residents of their home territory. In contrast, permanent immigrants set up a new and long-term household arrangements in the new territory. Refugees and exiles are example of both situations, in that some become long-term residents of the host country, while others return or are resettled after a short period.

49. If the various criteria in *BPM5* were to be replaced by a single criterion for determining the center of economic interest of households, possible alternatives and comments on each are:

- (i) Presence or intended presence for a minimum period, without any qualifying guidelines: This would make the specific definition for households more consistent with the general definition in *BPM5*. The obvious period is more than a year. However, a short and temporary stay of just over a year seems a low hurdle for household to change their center of interest, e.g., under the General Agreement on Trade in Services (GATS), governments are negotiating agreements on access by individuals to take up nonpermanent work, most typically on a two to five years basis. On the other hand, the World Tourism Organization uses a one-year definition for identifying tourists (this is also applied to students and patients).
- (ii) Income tax status: To the extent that an individual can be eligible for income tax in two or more jurisdictions, and at least one jurisdiction uses citizenship as a basis for income taxation, this criterion is ambiguous. Members of the same household members could have different tax status.
- (iii) Immigration visa status: A status of permanent residence or reasonable expectation of continued visa renewal could be used to identify when new arrivals are treated as developing a new center of interest. It would mean that short-term and other nonpermanent workers would not generally be residents of the host economy.
- (iv) Establishment of a new principal place of dwelling in the new territory as a prerequisite to changing center of economic interest: Alternatively, the principal location of household could be used. Criteria of this kind seem to closer to the center of economic interest concept, in that the principal dwelling shows a stronger link to an economy than temporary presence, and that many saving, investment, and transfer decisions will be focused on the old home territory (although consumption is more likely to be split, depending on how many family members stay in the home territory). This type of approach may deal with the case of a single household member who leaves for a medium-term period for work or study, but maintains continuing financial and personal links, and the intention of return to the same household. To identify changes of residence, indicators would need to be used where connections with both a home and a host economy are maintained, e.g. return rates after a few years, whether spouses and dependent family members stayed in the home country, and substantial payments to home country family members. The continued stronger focus of economic interest in the home economy could use indicators such as maintaining a long-term intended dwelling place in the home territory, for example, if spouse and dependent family members remain, and making continuing payments to support

household members. If such a case were adopted the exceptions for students, patients, and diplomats would be covered by the general principle rather than be exceptions.

50. In most cases, the residence of households is determined for groups of people from aggregate data, rather than by tracking the movement of particular individuals. It is therefore usually necessary and appropriate to rely on demographic generalizations about whole groups of people, typically based on past patterns of behavior. In such cases, a general pattern can be used to classify the group as residents or not, or proportions can be used to split the group. As a result, particular individuals just on the classification borderline would not be a serious problem.

51. In the case of very wealthy individuals (i.e., large enough to have an impact on overall data), it may be necessary to make residence determinations on an individual basis.

52. A possible alternative treatment to identifying a single center of interest is to split some households or individuals across boundaries. *BPM5* already proposes splitting households when an individual member works abroad (para. 68) or owns land abroad (para. 64). Splitting is comparable to the recognition of branches or the proposals for some enterprises that operate simultaneously in two or more territories (see section 5 below), and could be a possible treatment for individuals with complex residential status. A further extension could allow splitting aspects of a single household across boundaries based on its operations. It may be an option for tycoons who are important enough to be macroeconomically significant.

53. In balance of payments statistics, the proceeds of working abroad may be reported under services (for contracted labor), compensation of employees (for short-term workers), workers' remittances (for long-term workers), and migrants' transfers (for the proceeds repatriated at the end of contracts of long-term workers)<sup>7</sup>, depending on the choice among possible arrangements. Given the uncertainties in delineating between the alternatives, for territories where these flows are important it may be more helpful to provide a fuller picture of the economic effects of international labor flows by presenting and considering the different types of flows together.<sup>8</sup>

54. The definition and perhaps terminology for the travel component should be considered in making decisions about the residence of households. *BPM5* is close to following the World Tourism Organization's traveler/other split.

55. Proposals: While the general concepts are "center of economic interest" and "principal residence," in order to achieve international consistency and avoid operational

---

<sup>7</sup> These last two components provide only partial information on proceeds.

<sup>8</sup> The draft *Manual on International on Statistics of International Trade in Services* identifies these possibilities in its Annex 1 *Movement of Natural Persons Supplying Services Under the GATS*. Further work in this area is being undertaken by the Task Force on Statistics of International Trade in Services.

ambiguity, the several principles and guidelines in *BPM5* should be replaced by a single one-year criterion. The only exceptions would be for diplomatic and military personnel and their households. Accordingly, students, medical patients, and ship's crew that stayed abroad more than one year would be changed to be residents of their country of presence.<sup>9</sup> However, in recognition that analytical needs and economic circumstances differ, where relevant, compilers should be encouraged to compile supplementary presentations that use other criteria. For example, an economy that provided a large number of medium-term nonpermanent workers, may wish to show alternative data in which those workers were treated as continuing to be residents.

### *Questions for the Committee*

4.1 *Does the Committee support the adoption of a single one-year criterion for residence of households, with an exception for diplomatic and military personnel? Does the Committee support the development of alternative presentations so as to allow definitions to be amended to local circumstances?*

4.2 *Are there problems associated with the definition of residence for households in addition to those identified in the paper?*

## **5. Center of Economic Interest of Other Entities**

56. *BPM5* deals with attribution of production generally (para. 78), units operating mobile equipment (paras. 80-82), international organizations (para. 88, whether they operate in one or more territories), joint enterprises (para. 90), and regional central banks (para. 91).

### **(a) Entities engaged in activities in two or more jurisdictions run from a single base of operations**

57. *BPM5* discusses, in paras. 80-82, a number of instances of units operating mobile equipment, including ships, aircraft, and railways. It specifically notes that ships are classified on the residence of the operating enterprise, not the country of registration.

58. Comments: There are a wide range of cases where production has connections to two or more jurisdictions, in that production is undertaken from a base in one territory but takes place in one or more other territories. Examples are somewhat wider than the examples in *BPM5* and can include fishing, oil drilling, transport, construction, and a wide range of services (such as repairs, training, and the provision of advice). The general principle that seems to underlie all the instances given in *BPM5* paras. 80-82 is that residence is determined from the base of operations that is used to undertake the activity, rather than the place where the activity is actually carried out. This principle seems to be

---

<sup>9</sup> In the case of ships, the country of presence would be the base of operations of the ship.



practical and is also conceptually valid in that the actual center of economic interest is likely to be the base rather than where the location where the mobile service is delivered.

59. In this context, the existing rules for identification of a separate branch (para. 78) can be seen as identifying the cases in which the location of the production amounts to a separate base of operations.

60. Proposal: The principle that the base of operations of the unit should be used to determine the residence should be stated. In addition, the rules to identify branches are also appropriate to identify when presence in the territory is sufficient to conclude that the operations are managed in the territory rather than from a base of operations in another territory.

**(b) Entities with bases in two or more jurisdictions that are operated as a single unit**

61. In the case of operators of mobile equipment operating in several jurisdictions, *BPM5* suggests either splitting in proportion to capital (as a first preference), or identifying a head office and separate branches (as a second choice, also recognized as being consistent with general principles) (para. 82). Regional and global international organizations that are not businesses are treated as outside the scope of any national economy (which is also true even if they only operate in one territory) (para. 88). In the case of regional central banks, *BPM5* suggests treating each national office as a separate unit, with assets and liabilities prorated; no treatment is provided for the headquarters operations other than assets and liabilities (para. 90).

62. Comments: The treatment of an entity that is run as a single, seamless operation with bases in two or more territories is more conceptually complex than the previous case of mobile production from a base in a single territory because there is no single base. Normally, tax and other regulations require separate accounts for operators in each territory. However, in these cases, intergovernmental agreements are made to facilitate the project when splitting the operation between the relevant territories is impractical.

63. Examples of such multi-territory entities include businesses (i.e., enterprises that produce goods and services for sale on the market), such as submarine cables, SAS (Scandinavian Airlines), and the Argentina-Paraguay and Brazil-Paraguay hydroelectric schemes. Multi-territory entities can also perform governmental functions, such as regional central banks or international organizations that operate in two or more territories.

64. The multi-territory entities raise issues that parallel those for zones of joint sovereignty, in that the entity is subject to more than one government. The options are:

(i) The multi-territory enterprises could be treated as outside any of the individual territories, in the same way as international organizations. As these enterprises are outside the control of an individual government, it is arguably appropriate that they not be included in any of the individual territories. However, the omission of production from the local

economy, and treatment of apparently internal transactions as external may be considered artificial and unrealistic.

(ii) Operations could be split up based on actual arrangements. The structure of the operations could allow the identification of a predominant connection to one territory or of separate branches in each territory. However, often it would not be possible because the objective of such arrangements is to run the entity as a single unit.

(iii) Operations could be split on a pro rata basis between the territories. This option would produce artificial units and be inconsistent with standard units concepts that are designed to identify actual producing and financing units. These artificial units would mean that single transactions would have to be split into transactions with two or more different territories. However, the option may avoid some of the practical problems that arise with the previous two alternatives. Usually there is already a formula for proportions for taxation or capital contribution purposes as part of the agreement establishing the entity.

65. Regional international organizations that are not businesses raise some special issues. It is desirable to include regional international organizations in regional totals, (e.g., a Euro zone or European Union total should include the European Central Bank). This treatment is recommended for regional central banks in *External Debt Statistics: Guide for Compilers and Users (Debt Guide)* para. 37. The logic should also apply to other regional international organizations, though the values involved will typically be less significant than for regional central banks.

66. In the case of regional central bank assets, while prorating the data for the banks themselves is feasible, it not practical or desirable for counterpart reporting. For that reason, the second edition of the *Coordinated Portfolio Investment Survey Guide (CPISG2)* para. 3.32 does not follow *BPM5*, but suggests treating them in the same way as other international organizations, that is, not allocated to any territory.

67. Proposals: Regional international organizations, including central banks, should be treated in the same way as global international organizations, except that guidelines should note that regional organizations should be included in regional totals.

68. Multi-territory business entities should be allocated to the individual territories. To the extent that an allocation can be made based on the structure and records of the business itself, this is conceptually preferable, but a pro rata allocation would be an acceptable substitute.

69. The allocation to territories in the case of multi-territory business entities but not other international organizations is not conceptually neat, but follows existing practice and may be justified by the fact that the business entities serve resident individuals, while the regional and international organizations serve governments.

**(c) Entities engaged in production that has no physical dimension**

70. *BPM5* provides no guidance because it assumes that all production has a physical dimension. (The closest it comes is para. 79 where it states that special purpose entities should be attributed to the jurisdiction in which they are “located.”)

71. Comments: Some financial intermediation, insurance, leasing, and other services may be provided with no physical presence because the associated administrative tasks are contracted out to another unit.

72. Possible criteria for identifying the economic territory of residence, such as location of the assets, owners, incorporation, tax status, and administrative support, may give conflicting answers. The solution adopted in other guides is to use incorporation or legal

73. domicile to determine residence.<sup>10</sup> The *Debt Guide* adopts incorporation as the preferable criterion and domicile as an alternative. Legal domicile is important in determining what accounts the company prepares, what laws it follows, and where data may feasibly be collected. While there are undoubtedly cases where the territory of incorporation is determined by administrative convenience, and there are important links with other jurisdictions (such as ownership and asset holdings), other criteria are hard to identify and not likely to be feasible.

74. If incorporation and legal domicile are adopted as criteria, the question arises as whether they apply generally or only in the case of lack of physical presence. The *Debt Guide* and *CPISG2* suggest the latter, in which case there is no contradiction with the existing principles in *BPM5*.

75. Proposals: Place of incorporation or legal domicile should be used to determine residence in cases where an entity undertakes production without a physical location.

**(d) Units not engaged in production**

76. *BPM5* does not mention the residence of units not engaged in production.

---

<sup>10</sup> See:

- *System of National Accounts 1993 (1993 SNA)* paras. 4.16(c) and 4.24(a) (qualified by “normally be expected to have a center of economic interest in the country in which they are legally constituted and registered.”) Unfortunately, this factor in dealing with determination of residence included in the *1993 SNA* was omitted from *BPM5*.
- Third edition of the *OECD Benchmark Definition of Foreign Direct Investment* para. 69.
- *Debt Guide* para. 34.
- *CPISG2* para. 3.9.

77. Comments: Some entities exist solely to hold assets, without undertaking any productive activity themselves. These entities tend to lack premises or other physical processes that would provide a link to a particular jurisdiction, and may have economic interests based on incorporation, ownership, and assets in one or more territories. Examples include many holding companies, special purpose entities, international business companies, and shell companies. As *BPM5* guidance on the residence of enterprises is largely determined by the basis of location of production, a gap in the guidelines exists.

78. In some cases, the entities may be ancillary to another unit undertaking production. These include head offices and other support operations that are not sold, but are a service to the parent or other related corporations. In these cases, the *1993 SNA* treatment is to combine the parent and ancillary units to form a single unit (para. 4.43). However, some parents are incorporated in different jurisdictions from their ancillaries, and it is impractical and inappropriate to combine entities across international boundaries. The issue is not discussed in *BPM5*, but appears in the *Balance of Payments Compilation Guide* (paras. 705-711) and *Balance of Payments Textbook* (paras. 542-544), which both use territory of incorporation of the ancillary unit, rather than combining the ancillary with a parent in another jurisdiction.

79. In other cases, the entity is simply a vehicle for individuals or families to hold assets. These arrangements may be made for many reasons, including confidentiality, ease of administration, management of income tax, or estate planning. In these cases, the choice of statistical treatments is between combining the entities with the parent household(s) or treating them as a separate unit in the territory of incorporation. As for entities owned by companies, determining residence on the basis of the territory that controls the creation and management entity is in accord with the actual legal status of the arrangements. It also represents a reasonable interpretation of center of economic interest and is more likely to be feasible for data collection.

80. Proposals: Place of incorporation or legal domicile should be used to determine residence in cases where an entity does not undertake production.

#### *Questions for the Committee*

5.1 *Does the Committee agree with the paper's proposals that updates to BPM5 on the application of the residence concept to multi-territory entities should include:*

*(a) the principle that the base of operations determines the residence of units engaged in mobile production?;*

*(b) the principle that single business entities that have bases in two or more territories be split between territories based on actual arrangements or on a pro rata basis?;*

*(c) the principle that both global and regional international organizations (including regional central banks) be excluded from the economic territory of individual territories in all cases, but that regional international organizations be included in regional totals?; and*

*(d) the principle that incorporation and, secondarily, legal domicile, should be used as criteria for determining the residence of entities either undertaking production with no physical location or not undertaking production?*

5.2 *Are there problems associated with the definition of residence for other entities in addition to those identified in the paper?*

## **6. Change in the Residence of Units**

81. A person or other entity may change from being a resident of one jurisdiction to another. With the change in residence, the assets and liabilities of the entity need to be moved from the balance sheets of one territory to another. As for the change in sovereignty issue discussed above, the change can be made as a transaction or in the other change in assets account.

82. In the case of persons, the treatment in *BPM5* is that the change of residence is treated as a transaction and the flows of the persons' assets that occur in the goods and financial accounts are offset by an item in the capital account called migrants' transfers. To treat the change in residence of the owner as giving rise to a transaction between two units seems to be somewhat artificial. It is also worth noting that the terminology "migrant" is misleading in the item follows the concept of residence for balance of payments purposes, rather than migration status.

83. In the case of other entities, changes in residence may be permitted in some legal arrangements, although in many cases, a new legal entity in the new jurisdiction would be created. There does not appear to be a specific reference, although *1993 SNA* paras. 12.56-59, refer to changes in units from one classification to another (e.g., due to mergers or incorporation) as being other changes in assets. That treatment seems applicable to changes in residence and would avoid an artificial transaction.

84. Proposals: Changes in residence of all types of units should be shown as other changes in assets.

*Question for the Committee:*

*6.1 Does the Committee agree with the proposals?*

## **7. Joint Accounts**

85. *BPM5* does not mention the classification of joint accounts.

86. Comments: Joint accounts are those held by two or more people or other entities. If the holders are residents of different economies, the allocation of the account holders to a particular territory of residence is unclear. The issue is not the residence of the account or the individual account holders, but a question of whether the account is held by residents or by nonresidents (or a combination) of a particular economic territory.

87. For accounts held in fixed shares (in contrast to joint accounts), the treatment of splitting the value of the account proportionally to the shares is obvious. However, for joint accounts there are no fixed shares, and a wide range of possible arrangements is possible.

88. Proposal: In the absence of more specific information about intended disposition of the account, a convention of splitting the value of the account proportionally should be adopted.<sup>11</sup>

### *Questions for the Committee*

7.1 *Is the proposed treatment of joint accounts suitable?*

## **8. Alternatives to Data Classified by Residence**

89. *BPM5* does not discuss alternative concepts.

90. Comments: As globalization and other changes make residence a less clear concept, it may be desirable to consider other bases for data presentation. While location and legal status are used to link an enterprise with a territory, the links of an affiliated company to the rest of the multinational company may also be important.

91. The *Benchmark Definition of Foreign Direct Investment* (paras. 41-47) and the *Debt Guide* (paras. 335-341) recognize the location of “ultimate risk” as an alternative presentation to take into account the effect of guarantees made for a debt in another jurisdiction.

92. To the extent that the residence of an entity can be somewhat artificial in some cases, it may be useful for some purposes to “see through” the corporate structure to its owners. For example, Hong Kong SAR data on foreign investment by partner territory has a supplementary presentation in which companies from international financial centers such as the British Virgin Islands and Cayman Islands are reclassified to the territory of ultimate ownership. Recent publicity on U.S. holding companies being relocated to Bermuda highlight that the legal domicile of the owner of a multinational company may be very fluid, and a poor guide to other aspects of residence such as location of its management and ultimate beneficial owners. Other surveys have examined patterns of trade between affiliated companies, which emphasizes ownership rather than residence.

93. *BPM5* guidelines define economic territory on a locational basis. In contrast, a consolidated basis for data compilation defines data of subsidiaries to the territory of the head office. The Bank for International Settlements produces banking data on both a locational and consolidated basis. In some cases, a consolidated basis may shed light on the role of multinational companies in international transactions or to show ultimate risk when subsidiaries in one territory are guaranteed by parents in other economic territories.

---

<sup>11</sup> This may have implications for the *Monetary and Financial Statistics Manual*.

94. Proposals: An updated manual could introduce other approaches in an Annex. It should emphasize that such approaches are not a substitute for the basic residence concept, but could be used for supplementary presentations for some types of analysis.

### **Conclusion**

95. The basic concepts and definitions of residence and economic territory remain appropriate. However, more specific guidelines are needed to deal with cases where there are multiple points of economic interest.

### *Questions for the Committee*

8.1 *If a long-term effect of globalization is that a growing proportion of the world economy is not clearly tied to one economy, what are the implications for the relevance of balance of payments and international investment position data? Should consolidated data be encouraged?*

8.2 *Are there other issues in residence not covered in this paper that should be dealt with in updating BPM5?*