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Direction of Review for Revision of Policy on BOP, IIP, and EDS in Japan

Prepared by the Bank of Japan

Direction of Review of Revision Policy Regarding BOP, IIP, and EDS in Japan

In this paper, we describe difficulties facing Japan's revision policy and practices regarding BOP, IIP, and External Debt Statistics, and possible remedies. Then we discuss some practical considerations.

1. Difficulties facing our revision policy and practices

Among the four types of revision (statistical revision, methodological revision, definitional revision and presentational revision)¹, we here focus on the first, statistical revision, because we believe Japan handles the others appropriately. As for statistical revision in Japan, periodic revision is, in principle, conducted only once for BOP and EDS and not at all for IIP: such frequency is considerably less than in other major countries.

Statistical revision of these statistics has been very limited because we have emphasized the continuity of statistics more than other components of data quality. In other words, we have been afraid that frequent data revision would impair the credibility of statistics.

But this does not necessarily mean that these statistics are totally inaccurate. In fact, net errors and omissions, one (though not the absolute one) of the indicators that identify the accuracy of BOP statistics, has not been large compared with figures of other major countries.

In Japan, the main data source comprises administrative reports of ITRS (the International Transactions Reporting System) which is based on the Foreign Exchange and Foreign Trade Law. Neglecting to report subject transactions or reporting erroneous information is a violation of the law and can result in penalty; therefore, it is rare that reporters intentionally fail to report or disguise description, and, in most cases, reporters turn in proper documentation on time. Besides, the Ministry of Finance notifies industry groups concerned to meet their legal obligation and the Bank of Japan runs a website, which gives detailed instructions regarding all of the major reports, in order to preclude erroneous reports due to misunderstanding. Nevertheless, some reporters still forget to report or report incorrect figures due to misunderstanding. To ensure that any such erroneous figures do not affect statistics,

¹ This classification follows Mr. Kozlow's opinion in BOPCOM 2002.

professionally trained staff closely check regular reports received from significant reporting entities and also try to correct erroneous figures by checking details in submitted reports, etc.

This is the background to the infrequent statistical revision of Japan’s BOP, IIP, and EDS. On the other hand, recently, the need for appropriate statistical revision in terms of data quality has gained international recognition, a result of better understanding of DQAF and revision policy discussion by the BOPCOM, the Executive Board of the IMF, etc. Under such circumstances, we think it appropriate to review our basic stance regarding statistical revision. Our current revision policy and practices are faced with problems. Above all, (1) there are, in fact, cases where the reporting of not small transactions was found to have been omitted after revised (‘final’) BOP or IIP data had been fixed, and which was subsequently not revised in accordance with our basic philosophy that final data should not be revised from the viewpoint of maintaining statistical continuity; and (2) reinvested earnings are not recorded in the period when they are earned.

BPM5 specifies, “Reinvested earnings on direct investment are recorded in the period when they are earned. (Paragraph 121) ” On the other hand, corporate financial statements, the source data for reinvested earnings, only become available after respective fiscal years (=when the earnings are acquired) have ended. Thus, to compile accurate data on reinvested earnings, it is necessary (1) to use some estimations as preliminary figures and (2) to revise data for the previous year retroactively once financial statements have been obtained. In Japan, however, we cannot employ such a method because, as stated above, we make it a general rule not to revise data after final data are fixed (data for each month of a quarter become final next month of the following quarter). As a result, concerning earnings for a fiscal year, we record the reinvested earnings for that year, starting from six months after the following fiscal year starts (see below; month-on-month volume is one-twelfth of the difference between undistributed profit for a year and that of the previous year). Obviously, this timing of recording reinvested earnings in Japan does not comply with the rule specified in BPM5.

	Year earnings are earned
BPM5	==== (Recording) =====
Japan’s practice	----- --6 months-- ==== (Recording) =====

Recognizing these facts, it is appropriate for us to introduce a new revision system in order to ensure accuracy of statistical data and methodological soundness at the internationally required level. Accordingly, giving due consideration to statistical continuity and reliability, we intend to review our revision policy so as to revise statistics more frequently.

2. Practical considerations

While overall review of revision policy will be directed toward more frequent revision as stated above, some points remain to be considered before the subject can be pursued in actuality:

(1) Revision rule

- From the viewpoint of the continuity of statistical data and user convenience, employment of a stockpile method should be considered. To be more precise, we suppose a method where, in addition to revisions corresponding to the current ‘preliminary to final’ revisions, monthly data from the previous year (or several years) are revised as a yearly revision.
- As for retroactive revision which arises from the timing of recording reinvested earnings, we will consider whether it should be incorporated in the above yearly revision or conducted separately.

(2) Decision regarding revision period

- In Japan, as stated above, BOP, IIP, etc. are compiled by summing up the reported figures in administrative reports based on ITRS; and, in principle, we do not complement unreported data through estimations. On the other hand, due dates for reports are set largely in time for the compilation of current preliminary data (a few reports are due in time not for the compilation of preliminary data but for final data). Accordingly, it is not likely that estimation source data will expand significantly as time passes. While some reports are delayed and erroneous reports are corrected, their number is small and it is not as if coverage systematically expands after final data are fixed.
- Consequently, in determining the revision period, it is important to assess when such omissions and corrections become small enough to be negligible in the interest of statistical data accuracy. Hence, we will analyze the filing of adjustment reports, etc., and consider the cost of maintaining computer systems.

(3) Improving the computer system

- In improving revision frequency, the most formidable problem concerns the maintenance of the statistical computer system. The current system is built basis of the conventional revision policy; for example, as for BOP, the minimum source data necessary to compile the statistics (only seven months’ data in principle, which is necessary to compile regional data) are stored in the database.

- Our new statistical system will become operational in January 2005. The new system is similar to the present one; it does not have programs enabling the revision of final data once fixed. The designing phase has already been completed and the system is now under actual development; consequently, it is impossible to change major specs such as database capacity or interlocking programs.
- Therefore, after the start-up of the new system, we will upgrade it and work on a system design which enables the appropriate revisions, along the review of revision period and rule. The upgrade will require substantial resources (several hundred man-months); how to secure the man-power and the cost will be major issues. As a statistical section, we would like to seek the opportunity to improve the computer system as soon as possible, bearing the resource constraints in mind.
- Finally, as for system design and operation which will enable retroactive revision, we think the experience of countries that have already introduced such revision policies will be of value to us. We would thus be most grateful if BOPCOM members² could provide information on this subject.

² We would like to particularly refer to the experience of countries which employ transaction reports based on ITRS as the main data source for BOP, etc.