Box 1. Some Major Decisions Taken by the Committee Regarding the Revision of the *BPM5* [1]

1. **Guarantees.** The Committee agreed with BOPTEG's proposal that the current treatment of guarantees as contingencies be retained and that the activation of a guarantee should be treated as other changes in the volume of assets/liabilities[2].

2. **Accrual principle for arrears.** The Committee agreed with the proposal that when arrears occur, no transactions should be imputed, but the arrears should continue to be shown in the same instrument until the liability is extinguished. The Committee reinforced the view that data on arrears are important. It was concerned about how the proposals for arrears and non-performing loans could be reconciled.

3. **Loan valuation.** The Committee agreed with BOPTEG's proposal to retain nominal value for loans (both assets and liabilities) in the IIP, with a memorandum item for the creditor, showing the likely realizable value.

4. **Change in economic ownership.** The Committee agreed with an IMF staff proposal to adopt the concept of "change in economic ownership" (instead of "change of ownership") as better reflecting the nature of transactions that are recorded in the balance of payments.

5. **Goods for processing.** The Committee agreed with BOPTEG's proposal to change the treatment – so that the economic ownership principle should be adopted. This would mean that goods for processing would be measured by the processing fee and be treated as a service, not as a good[3, 4].

6. **Multiterritory enterprises.** The Committee agreed with BOPTEG's proposal that the current treatment in *BPM5* be generalized to all enterprises where identification of separate units in different economies is not possible. For joint sovereignty zones, the Committee agreed that guidance should be provided in the new manual, but flexibility should be allowed.

7. **Institutional sectors.** The Committee agreed with BOPTEG's proposal to include all the SNA institutional sectors in the new manual, but that the presentation should be done in such a fashion as to ease the transition from the four sectors shown in *BPM5*.

8. **Residence of households.** The Committee agreed with BOPTEG's proposal to adopt the concept of "predominant" center of economic interest. The Committee did not agree that a strict application of the "one-year" rule should be applied to students.

9. **Special purpose entities (SPEs).** The Committee agreed with BOPTEG's and DITEG's proposal that SPEs are to be recognized as separate institutional units in the economy in which they are incorporated. As there is no international definition for SPEs, the Committee agreed that compilers may wish to present supplementary data, using national definitions, where these entities are important.

10. **Classification of services.** The Committee agreed with BOPTEG's proposals that (i) *goods for repair* should be changed from goods to a service; (ii) additional detail on *travel* be included on a supplementary basis; (iii) *communication* and *computing services* be combined, provided that *postal and courier services* be classified separately ; (iv) *construction services* be shown with an additional split, to identify construction services abroad separately from construction services in the compiling economy; (v) the treatment of *financial services* be harmonized, in line with developments at the OECD and the AEG, to the extent possible; (vi) international passengers services should remain in *transportation services*; and (vii) use of a residual category for services transactions between related enterprises be avoided.

11. **Valuation of direct investment equity.** The Committee agreed with DITEG's proposal that market price should be the preferred valuation principle for direct investment equity, and that that principle be given greater emphasis than it received in *BPM5*.

12. **Direct investment 10 percent threshold.** The Committee rejected DITEG's proposal to move the threshold for establishing a direct investment relationship from 10 percent equity (or equivalent) to 20 percent.

13. **Treatment of insurance catastrophic claims.** The Committee rejected the IMF staff proposal to retain the treatment of insurance claims as being *current transfers* for catastrophic claims, preferring to adopt the proposal by the AEG that these latter claims should be classified to the capital account.

14. **Fully Consolidated System (FCS).** The Committee agreed with DITEG's proposal that the FCS represents the ideal concept of indirect direct investment relationships but noted that it should be explained more fully in the new balance of payments manual[5].

15. **Headings and signs.** The Committee agreed with an IMF staff proposed changes to the presentation of the headings in the financial and other changes in financial assets and liabilities accounts to "changes in assets" and "changes to liabilities" to bring them into line with the IIP and the SNA.

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[1] The issues papers, describing the issues in greater depth, and the outcome papers, outlining the reasoning for the TEGs' recommendations, can be found on the Committee's web page (http//:www.imf.org.bop).
[2] The Committee also agreed that the broader issue of risk transfer should be referred to the Task Force on the Harmonization of Public Sector Statistics
[3] This decision is to be referred to the Advisory Expert Group (AEG) of national accountants, who are reviewing possible changes to the *1993 SNA*. Should this proposal not be agreed to by the AEG, the matter will be reconsidered by the Committee.
[4] The Committee also decided to leave the treatment of re-exports and goods in transit unchanged.
[5] The Committee will reconsider the different approaches to measurement of indirect direct investment relationships at its meeting in 2005, following further work by DITEG.