

**Nineteenth Meeting of the
IMF Committee on Balance of Payments Statistics
European Central Bank, Frankfurt, Germany,
October 23–26, 2006**

Summary of Discussions

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

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I. INTRODUCTION

The Nineteenth Meeting of the IMF Committee on Balance of Payments Statistics took place at the European Central Bank at Frankfurt am Main, October 23-26, 2006. The outcomes of the discussions are summarized below.

II. MONDAY OCTOBER, 23, 2006

1. Remittances

(a) *Luxemburg Group: Progress report by IMF—BOPCOM/06-03*

The IMF presented the report. The Committee noted the significant progress made since the previous Committee meeting in June 2005. Looking ahead, the intention is to produce an annotated draft outline of the Compilation Guide by the next meeting of the Luxemburg Group in December 2006, and a draft Guide sometime in 2007.

(b) *Definition of remittances: paper by United Nations—BOPCOM/06-04*

The Committee discussed and endorsed the proposals in the United Nations paper on the definitions of the various types of remittances subject to the following minor clarifications, additions, and amendments:

- (i) by convention personal transfers are to include gambling and lotteries transactions; (ii) the term “remittances of resident employees” to be replaced with “workers remittances”; (iii) the term “net compensation of employees” to be replaced with the term “compensation of employees less taxes, travel expenses, etc”; (iv) while in concept “total remittances” includes non-life insurance transactions, these transactions are excluded on practical grounds; and (v) the supplementary table presented in the paper should include totals for the various types of remittances described.

2. International Investment Position and External Debt

(a) *Expanding the format of the IIP—BOPCOM/06-06*

The Committee discussed the IMF proposal to introduce a currency and remaining maturity breakdown into the IIP. The IMF participant from the PDR Department emphasized the relevance of both data sets, but particularly currency composition, for the Fund and member country policy work, including Article IV consultations.

All members saw the policy need/usefulness of the data on currency composition and noted that the reconciliation of IIP with the other flows required information on the currency composition. There was broad, but not unanimous, support for remaining maturity data. The needs for information on currency hedging and for a breakdown by major currency were raised.

- Some members observed that the inclusion of data on currency composition and debt on remaining maturity in the standard components requires significant changes in data collection systems, while others observed that some data already existed, e.g., for the banking system. Others were concerned over the detail proposed and considered that time is required before such can be included in the standard components. In this situation, it was considered premature to include currency composition and data on remaining maturity in the standard components but they should be encouraged supplementary items. Countries should also be encouraged to periodically compile information on the extent of currency hedging.

The IMF's representatives noted that given the importance of currency composition for the Fund's policy work, they intend to work with the Committee to incorporate such information into IMF reporting forms for the IIP for the Balance of Payments Statistics Yearbook.

(b) *Progress on the work of the Task Force on Finance Statistics (TFFS), including Joint External Debt Hub—BOPCOM/06-07*

- The Committee supported the work of the TFFS in improving data availability and quality.
- Members requested advance notice of the future IMF IIP/external debt comparisons.
- More generally, the IMF was encouraged to continue to work with its international partners to achieve greater coordination in data collection work from countries.

(c) *International Banking Statistics: Report by the BIS—BOPCOM/06-08*

- The Committee noted progress made by the BIS to increase the number of countries reporting banking data. They also noted the BIS effort to improve data quality and coverage, and in particular the ongoing work to improve data on export credits for the Joint External Debt Hub.
- The discussion on this item widened to cover the provision of data to international agencies more generally. While accepting that international agencies have their own priorities, it was agreed to include this topic on the agenda of next year's Committee meeting.

3. Direct Investment

(a) *UNCTAD presentation on capacity building for direct investment—BOPCOM/06-09*

- The Committee welcomed UNCTAD’s initiatives aimed at strengthening the capacity of developing countries to compile direct investment statistics.
- It was agreed that the supply of FDI data to international agencies be included in the topic on data provision referred to under the previous agenda item. However, OECD (Investment Division) expressed concerns on the feasibility of such a coordination for FDI statistics.

(b) ***World investment report 2006: Report by UNCTAD—BOPCOM/06-09A***

- The Committee welcomed the UNCTAD report. However, it was noted that in making international comparisons it is imperative to ensure equal statistical treatment of all countries. In particular, in the case of Hong Kong SAR, it was noted that the inclusion of capital in transit may distort the statistics being presented.

(c) ***Update on Coordinated Direct Investment Survey (CDIS)—BOPCOM/06-10***

The IMF presented its proposal for conducting a CDIS. In an environment of significant declining staff resources in the IMF’s Statistics Department, the IMF considered that for the survey to go ahead strong support of major direct investing countries (most of which are Committee members) and international organizations is required.

- Both countries and international organizations gave overwhelming, in-principle, support of the IMF’s proposal. Most countries expressed a willingness to participate in the survey. The survey should be supportive of the implementation of the relevant aspects of the update of *BPM5*.
- There was some discussion about the appropriate valuation basis to be adopted; it was generally agreed that, while not stepping back from the general principle of market value, on practical grounds, it would be necessary to opt for own funds at book value for bilateral data, at least in the first CDIS, in order to obtain as much comparability in the data as possible.
- It was agreed that the next steps would be to:
 - finalize the report of the “Task Force on the Feasibility of Conducting a Coordinated Direct Investment Survey” as soon as possible, taking into account the discussions at the Committee meeting;
 - transmit the finalized report to the Committee;
 - send the report to IMF management with the recommendation that the CDIS proceed (agreement from Fund management is expected, given that the costs would be covered by the Statistics Department’s budget);
 - send the finalized report to the IMF’s Executive Board, for information;

- set up a task force to prepare a Compilation Guide, with the terms of reference for the survey as set out in the IMF paper BOPCOM/06-10.
- It was noted that the dispatch of formal letters of invitation to participate in the CDIS should be undertaken as early as possible in 2007, so Committee members can mobilize resources within their agencies in good time. Committee members were asked to comment on the appropriate level for the letter to be sent to, and to provide the IMF with feedback.

4. Securities databases—*BOPCOM/06-25*

- The Committee was impressed by the ECB's presentation and demonstration of its Centralized Securities Database.
- The BIS reported on its initiative to share, harmonize, and rationalize securities databases.

III. TUESDAY, OCTOBER 24, 2006

5. Update of International Standards

(a) *Update of the 1993 SNA: Progress Report: report by ISWNA—BOPCOM/06-18*

- The Committee welcomed the progress being made in updating the *SNA*.

(b) *Summary of the Outcome of AEG's discussions—BOPCOM/06-19 and BOPCOM/06-31*

- The Committee received for information the outcome of AEG issues relevant to the work of updating *BPM5* including the work on goods for processing, merchanting, impact of non-performing loans on FISIM, retained earnings of mutual funds, insurance corporations and pensions funds, financial instruments, and granting of guarantees.
- The Committee received for information the presentation by the *SNA* editor on the outcome of AEG's discussion on leases and licenses.

(c) *Updating International statistical standards in services: report by OECD—BOPCOM/06-20*

- The Committee welcomed the progress being made on statistical standards in services.
- It was noted that there were no major changes planned in the structure and details of the standards except those emerging from the work of updating *BPM5*, *SNA*, and other statistical frameworks.

6. Issues on update of *BPM5*—BOPCOM/06-37

Chapter 3: Accounting Principles

(a) *Application of market value—issue raised by Chile*

The Committee considered the issue raised by Chile on how to apply market valuation in the case of transactions in goods in which the contracts establish quotation periods often months after the goods have changed hands.

- It was agreed that market value at the time of change of ownership should be estimated, with the goods data revised with the actual market value, when known. The Committee considered that the market value is the contract price, regardless of whether it is unknown at the time of change of ownership.
- It was agreed that the new Manual and Compilation Guide would need to elaborate on this issue.

(b) *Timing: Progressive change of ownership—issue raised by Australia*

- The Committee noted that the *SNA* recognizes progressive change of ownership on work in progress in cases of buildings under construction where there is a prior contract of sale, but not on plant and machinery. For the latter it was noted that advance payments made to the producer of capital goods are shown as trade credit from the buyer.
- The Committee agreed with the IMF proposal that progressive change of ownership be described consistent with the *SNA* guidelines (see *1993 SNA* paragraph 10.74).

Chapter 4: Economic Territory, Units, Institutional Sectors, and Residence

(c) *Definition of enterprise group—issue raised by Canada*

Noting that the *SNA* does not define the term “enterprise group”, the Committee agreed to avoid the use of the term “enterprise group” in the new Manual. If a reference is needed to a group of related enterprises, it is recommended to use the approach in the Framework for Direct Investment Relationships of the OECD Benchmark Definition of Foreign Direct Investment, 4th edition (BD4).

(d) *Terminology for sectors—issue raised in discussion with UNSD and commented on by Hong Kong and Canada*

- The Committee welcomes short but precise descriptors wherever possible.

Chapter 5: Financial Instruments and Functional Categories

(e) *Unallocated accounts other than gold—issue raised by Hong Kong and Canada*

Unallocated gold and other metal accounts are classified as deposits.

- The Committee agreed with the AEG in taking no decision on unallocated accounts in commodities, such as oil, until such a case is identified. It was noted that should the issue arise after the draft Manual is finalized, there are mechanisms to agree and promulgate changes.
- The Committee agreed that, in principle, the treatment of unallocated gold as a deposit should be applied to other precious metals.

(f) *Unallocated accounts and currency of denomination—issue raised by Canada*

- The Committee noted that the AEG's outcome is to classify these financial assets/liabilities as foreign currency deposits without a need for any specific deposit class to be specified.
- The Committee agreed that all "precious metals" accounts should be classified as foreign currency deposits but considered that there is no presumption that the same treatment will be applied to other unallocated commodity accounts if such cases arises.

(g) *Ownership of land and time shares where equity share is less than 10 percent—issues raised by Australia and Hong Kong*

Australia suggested that there be a notional resident unit for each nonresident equity position rather than one unit per parcel of land, and so the 10 percent definition would be met in each instance, by definition.

- The Committee noted that this approach would be complicated in cases where the land was less divisible, as in the case of joint ownership.
- The Committee agreed that treatment of ownership of land was straight forward where the land is fully owned by residents or nonresidents in one single country. Where it is jointly owned by a resident and a nonresident the Committee felt that the land could be split into separate parcels as proposed by Australia. However, the Committee was informed that the AEG does not like assets to be split. Clarification on this point from the AEG will be sought.
- It was agreed that Committee members would send any comments on the BOPCOM/ 06-33 on time shares to the draft Manual editors in the coming weeks.

(h) ***Payments associated with derivatives—issue raised in the draft manual and commented on by Australia***

The Committee noted that under a swap arrangement, the obligations of each party may arise at different times, for example, an interest rate swap where one payment is quarterly and the other is annual.

- While the quarterly payment could be seen as having the attributes of a loan, the Committee agreed with the Fund proposal that, on practical grounds, the transactions be classified as financial derivative transactions.

(i) ***Other equity in the functional classification—issue raised by Australia and Chile***

The Committee noted that the classification of “other equity” (i.e., equity not in the form of securities), such as in partnerships or notional units that were not direct investment enterprises, was not dealt with in *BPM5*.

- It was agreed that “other equity” (as opposed to “equity securities”) that does not qualify to be included in “direct investment” be included under “other investment.” It was agreed later in the meeting that the classification of cross-border investment in holiday homes as direct investment, as opposed to other investment, be reviewed.

Chapter 8: Other Changes in Financial Assets and Liabilities

(j) ***Write-off and write-downs—issue raised by Australia***

- The Committee agreed to treat write-offs and write –downs as “other changes in volume” and only use the term “write-offs.”
- Some issues were raised over the relationship between NPL’s and write-offs. It was agreed to review the wording in the draft Manual and make clear that write-offs relate to the disappearance of an institutional unit. A “decision-tree chart” to help compilers in deciding between NPLs and write-offs should appear in the Compilation Guide.

Chapter 9: Goods and Services

(k) ***Merchanting/nonmonetary gold—issue raised by Canada and in the general sense of using FOB, by Australia***

- The Committee agreed that goods under merchanting and nonmonetary gold be valued at transaction prices, rather than FOB prices.

(l) ***Education and health—issue raised by China, UK, OECD, Eurostat, UNSD and WTO***

- The Committee members agreed by consensus to stay with the status quo due to the usefulness of time series data and for practicality reasons. Thus (i) education fees payable by foreign students in education services, and (ii) health costs incurred by patients in health services should continue to be in, and not split from, “travel”. However, it was pointed out that for certain economies such expenditures could be shown as supplementary items.
- (m) ***Additional detail for other business services—issue raised by OECD, Eurostat and UNSD***
- The Committee considered the proposal to replace “other business services” with three categories: “research and development services”; “professional and management consulting services”; and “technical, trade related and other business services”. There was strong support among Committee members for this proposal.
 - The Chair indicated that the IMF would reflect further on the issue given the concern of overloading the BOP statement with service items and the possible statistical priorities it implies for developing countries.
- (n) ***Durable goods in travel or goods—issue raised by Eurostat and UNSD***
- The Committee agreed that conceptually durable goods arising from travel should be in “goods”. The Committee also noted that in practice such goods would be included in “travel” in a number of countries due to a lack of detailed source information.
- (o) ***Non-customized software delivered electronically—issue raised by UK, OECD and UNSD***
- Currently the measurement of non-customized software delivered electronically across border is challenging.
 - There was general consensus to include non-customized software delivered electronically under trade in services.
- (p) ***Re-imports—issue raised by UNSD***
- The Committee agreed that on practical grounds there was not much support to show Re-imports in Table 9.1 (“Overview of Goods and Services Account”) of the draft Manual. Nonetheless the Committee agreed that in cases where such transactions are important countries should be encouraged to provide these data as supplementary information.
- (q) ***Table 9.2—issue raised by the UNSD and WTO***
- Good statistical practice is that compilers provide a reconciliation between merchandise trade and balance of payments data for goods. Such a reconciliation includes coverage, valuation, and timing adjustments, etc. This is to be extended to show the reconciliation

for transactions such as goods for processing and merchanting. The Committee agreed that UNSD will provide input in recasting Table 9.2.

Chapter 10: Primary Distribution of Income Account

(r) *Exceptional payments by public corporations to government—comments by Canada.*

- It was agreed that exceptional payments by public corporations to governments funded from accumulated reserves or sales of assets be treated as a withdrawal of equity in cases of cross-border transactions. The recommendation to AEG is to treat the private sector in the same way. The *SNA* editor will inform BOPCOM on the response from AEG.
- The Committee noted that for direct investment, exceptional payments are already treated as a withdrawal of equity, but that this issue could potentially also impact portfolio investment.

(s) *Presentation of Table 10.2—issue raised by Canada and indirectly by Australia*

- The reasoning behind the separate presentation of direct investment income for equity and investment fund shares in Table 10.2 of the draft Manual was clarified.

Other

(t) *Net errors and omissions—what should be said—issue raised by Hong Kong and BIS, commented on by the U.K.*

The Committee noted that net errors and omissions should not be part of the standard components but recognized that this item provides useful information.

It was agreed as follows:

- The revised Manual should provide a few paragraphs elaborating on errors and omissions and in particular, emphasizing that although they do not exist in concept, in practice they will.
- Countries will be encouraged to identify these errors in their statistical statements.
- The revised Manual will not provide guidance on where to show errors and omissions but the IMF will in its reporting requirements. For more information, UNSD referred Committee members to the “System Approach to National Accounting, Handbook on National Accounting.”
- It was proposed to consider revising the term “errors and omissions” to something like “errors and other statistical discrepancies.”

- The possibility, of identifying errors and omissions in other accounts e.g., IIP should be considered, although this may not be fully resolved in time for the revised Manual.

General

- (u) *Detailed relationship with IAS and SNA*—issues raised by China and Hong Kong, respectively
- The IMF agreed to update the Table in Appendix 1 of the *BPM5* that provides a detailed reconciliation between *SNA* and *BPM5*. It was agreed that the links with IAS could be addressed in the Compilation Guide. Such appendices were obvious candidates for electronic publication.

Other issues

Issues raised by Japan under reinvested earnings and FISIM

- Mr. Nobumori raised concern over the treatment of FISIM in the *SNA* and the revised Manual. The *SNA* editor and Mr. Havinga agreed to discuss the issues bilaterally with Mr. Nobumori.
- The Committee saw a need to include some description of reinvested earnings in the Compilation Guide.

7. Overview of the *BPM5* update

- The Committee was updated on the timetable for revising *BPM5*. It was noted that the work is presently on schedule.
- Mrs. Bertrand alerted the Committee of the postponement of the approval date of the BD4 to end-2007 to accommodate developmental work on additional data presentations for FDI statistics. The Chair informed the Committee that any major changes arising from this delay might not be able to be taken up in the revised Manual.
- The Chair informed the Committee that the title of the revised Manual is something to which the IMF would like to give some careful thought, but intended to maintain the balance of payments “brand” name.
- The Committee was informed that it will be provided with the draft standard components for comments before they are posted on the website as part of the draft Manual for world-wide consultation.
- Committee members were invited to provide comments on the other questions raised in the paper, particularly relating to the appendices, in the coming weeks.

IV. WEDNESDAY, OCTOBER 25, 2006

Update of BPM5 *Continued*

8. Financial instruments and institutional sector classification—BOPCOM/06-22B

- Regarding the classification of financial assets and liabilities for the *SNA*, concerns were raised by the Committee over whether in the presentation in Table 1 of the paper all the instruments proposed by the ISWGNA were mutually exclusive. The *SNA* editor is to investigate.
- On the standard components for the revised Manual, there was support for the categories described in BOPCOM/06-22B: central bank, other deposit-taking corporations, General Government, and other sectors split into two: “other financial corporations” and “nonfinancial corporations, household and NPISH (other)”. The category descriptors need to be user friendly when used in free standing text.
- The change to “central bank” from “monetary authorities” could lead to breaks in series for the central bank and general government sectors.
- Subsequently it was agreed that on the issues of whether money market mutual funds should be included with the other deposit-taking institutions sector or not, and for the split of the “other” sector into “other financial” and “other,” questions for reviewers would be included in the draft Manual posted on the web.
- The Committee expressed preference for simple terminology where feasible.

9. Measuring direct investment equity: Canada’s experience—BOPCOM/06-12

- The Committee appreciated the presentation of Canada’s experience in measuring the market value of Canada’s FDI equity position data.
- The Committee welcomed more work on methods for calculating market values from book value data. The Committee noted that the work on CDIS will give impetus on improving book value data.
- The Committee considered that there is need to capitalize on the knowledge available among Committee members in compilation guides such as the CDIS Survey Guide.

10. User needs for FDI data and update on progress of BD4—BOPCOM/06-13, BOPCOM/06-21, and 06-21 A

Mrs. Bertrand set out the user requirements of policy makers for FDI as defined by the OECD’s Investment Committee: (i) attractiveness of the domestic economy as an investment location; (ii)

the opportunities and challenges when domestic enterprises move offshore; (iii) “unwelcome” mergers and acquisitions, strategic sectors and national champions; (iv) investment for development: FDI from the OECD area to poorer countries. Adequate FDI statistics could support these priority areas.

She also mentioned that aggregate FDI data alone are not sufficient to answer all the questions raised in policy areas and more analytical breakdowns would be very useful, such as: (i) in-depth information about partner countries; (ii) detailed equity investment data; (iii) “real” investment as opposed to “paper transactions”; (iv) transactions/positions of special purpose entities.

Finally she noted that additional data sets on new forms of corporate linkups such as strategic alliances, transfer of know-how, joint ventures, etc., are important elements for policy analysis but, could only be considered in the future research agenda.

Good progress is being made on updating the BD4 with the WIIS meeting taking decisions, in April 2006 and October 2006. Deliberations of WIIS are referenced below under 13, as appropriate. Moreover, in October 2006, WIIS considered three developmental papers prepared by project groups on additional breakdowns of FDI statistics (detailed statistics presented by partner country and by industry classification). They are:

- (i) Treatment of pass-through funds and capital in transit in FDI Statistics
- (ii) Identifying ultimate investing/host country in FDI Statistics
- (iii) Segregating mergers and acquisitions as a breakdown of FDI Statistics

11. Framework of direct investment relationships—BOPCOM/06-23

- The Committee welcomed and agreed with Mr. Ridgeway’s proposals set out in the paper for defining the scope for FDI relationships based on equity positions; on terminology that focuses on control; and for the description of FDI relationships to be clear.
- The Committee agreed to leave to the WIIS the issue of clarifying the treatment of situations where enterprises already identified as members of a FDI relationship have joint ownership of another enterprise.

12. Scope of the exception from FDI of transactions between financial entities—BOPCOM/06-26

The Committee decided to limit the scope of the exception of debt transactions between related financial entities to the five sub-categories in Table 2 of the paper BOPCOM/06-26 (central bank, other deposit-taking corporations, money market funds (MMF), investment funds other than MMFs, and other financial intermediaries except insurance corporations and pension funds (ICPF).)

- The Committee decided not to extend the scope of the exception to transactions between nonfinancial enterprises and related financial entities. See also item 14 below.

- The Committee agreed that the coverage of sub-categories 6 (financial auxiliaries) and 7 (other financial institutions except ICPF) needed to be reviewed. This may affect other sub-categories. The Committee would be consulted on the descriptions on of these sub-categories as part of the *SNA* process. The Committee would accept what was agreed for *SNA*.

13. Various issues for resolution on direct investment—BOPCOM/06-27

The first two issues – 10 percent of voting power, and lasting influence – were not discussed as it was agreed that these were to be subsumed within the earlier discussion on the Framework for Direct Investment Relationships.

(a) *Reverse investment*

The Committee considered whether *reverse investment* should apply only to transactions and positions between the direct investment enterprise and its immediate direct investor, or whether it should be extended to any transactions and positions between a direct investment enterprise and any/all indirect direct investors as well.

The Committee overwhelmingly agreed:

- that the principle of reverse investment should apply to claims by a direct investment enterprise on indirect, as well as immediate, direct investors, but recognized that there may be concerns of practicality in some countries.

The Committee was informed that this decision converged with WIIS deliberations.

(b) *Exclusion of retail mutual funds and master/feeder funds from direct investment*

The Committee reconsidered the questions as to whether investments by retail mutual funds and master/feeder funds should be excluded from direct investment, having been unable to reach a conclusion on this issue at its meeting in 2005. In addition to the discussion included in BOPCOM-06/27, the Committee also discussed the annex to a paper from the Bank of Japan and the ECB.

By consensus the Committee agreed that the standard rule for establishing a direct investment relationship should apply:

- were a retail mutual fund to hold 10 percent (or more) of the voting power in an institutional unit resident in another economy; and
- were a feeder fund to hold 10 percent or more of the voting power in its nonresident master fund.

The Committee was informed that WIIS deliberations did not resolve the issue of exclusion of retail mutual funds and master feeder funds from direct investment. WIIS will be consulted by its Secretariat on the Committee outcome.

(c) ***Technical reserves of captive nonlife insurance companies***

The Committee considered whether the technical reserves of a captive non-life insurance company should be included in direct investment.

The Committee decided that, given that a captive non-life insurance company is a direct investment enterprise,

- the claim of the insured was also that of a direct investor and so should be included in direct investment: debt.

The Committee was informed that this decision converged with WIIS deliberations.

(d) ***Nonprofit institutions serving households***

The Committee considered whether a nonprofit institution serving households (NPISH) could have a direct investment relationship with a related activity abroad. The Committee decided that:

- A NPISH could be a direct investor but not a direct investment enterprise.
- Therefore, where an NPISH established a nonresident enterprise with a market orientation, it would be a direct investor in that enterprise, if the direct investment criteria applied.
- Where an NPISH has a financial claim on a related nonresident NPISH, there should be no direct investment claim. Rather such a claim should be treated either as portfolio investment or other investment.
- The principle should apply to all nonprofit institutions, not just NPISHs.

The Committee was informed that WIIS deliberations did not resolve the issue of NPISHs. WIIS will be consulted by its Secretariat on the Committee outcome.

(e) ***Goods and services provided in-kind***

The Committee considered how to treat the counterpart financial transaction to the provision of goods and services provided in-kind, in the absence of any indication of what the counterpart entry should be. The Committee noted the similarity to transfer pricing, noting that such situations are extreme cases of transfer pricing with zero prices.

The Committee decided that:

- the treatment for the provision of goods and services provided in-kind should be treated in the same manner as for transfer pricing between a direct investor and its direct investment enterprise, as set out in paragraph 10.90 of the draft Manual;
- where such transactions occur between other affiliated enterprises that do not have an equity relationship, the transaction should be regarded as an injection of equity into the affiliate receiving the good or service in-kind by the affiliate providing the good or service; but such cases are likely to be rare.

The Committee noted that WIIS deliberations did not resolve the issue of goods and services provided in-kind. WIIS will be consulted by its Secretariat on the Committee outcome.

14. FDI Statistics—Treatment of inter-company transactions of financial intermediaries with nonfinancial entities—BOPCOM/06-24

- The Committee welcomed the ECB paper BOPCOM/06-24 that set out four examples regarding the treatment of financial intermediaries.
- The Committee agreed to apply the conceptual principle previously established in the discussion under BOPCOM/06-26 (see item 12 above).
- Examples illustrating the implications of the Committee's decisions are attached (Appendix I).

V. THURSDAY OCTOBER 26, 2006

15. Treatment of pass-through funds and capital in transit in FDI statistics BOPCOM/06-21B

- Mrs. Bertrand informed the Committee that the issues in the paper, developed by a project group of WIIS, generated considerable interest and debate in the recent meetings of WIIS and of the Benchmark Advisory Group. A revised version will be submitted to WIIS in March 2007 for its inclusion in the Benchmark Definition, 4th edition. However, there is no intention to alter the basic concepts and definitions of FDI agreed to date.
- The Committee was keen that they be kept informed of developments with this work and that members could express views through electronic discussion. The Committee noted the need to foster a clear communication to users on the exact content and interpretation of FDI statistics. The IMF agreed to keep Committee members informed.
- It was agreed that this topic be placed on the agenda for next year's meeting, but is unlikely to be resolved in time for the new Manual.

16. Reserve related liabilities—BOPCOM/06-29

The Committee discussed the IMF paper on the possible inclusion of reserve-related liabilities into the balance of payments and IIP framework.

- Following extensive discussions, the Chair concluded that a small majority favored the memorandum item approach rather than including reserve-related liabilities as a standard component.
- Nonetheless IMF staff should review the discussion, and try to draw out as much common ground as possible, and make a formal proposal to Committee members.
- Committee members noted the sensitivity of this issue and considered that wider discussion within the national authorities will be needed once the IMF proposal is received.

**17. Reserve Asset Technical Expert Group (RESTEG) Summary paper—
BOPCOM/06-28**

The Committee reviewed the outcome of the RESTEG discussions and considered the following five issues:

(a) *Resident bank deposits*

- On the treatment of deposits of the monetary authorities in domestic banks, a range of views were expressed both for and against the exclusion of such assets from reserves.
- The Chair concluded that there was overwhelming support among Committee members to exclude resident bank deposits from reserves.
- Also there was agreement, but not unanimous, to tighten the conditions for the inclusion of foreign currency external assets of non-monetary authority sectors in reserve assets, as set out in paragraph 35 of the paper.
- Given the concerns of some countries at these outcomes, the Chair also acknowledged the need for further consultation with countries.

(b) *Reverse transactions*

- Regarding whether to leave securities (or gold) under repo within reserves and record the repo-loan under reserve-related liabilities, or reclassify them as portfolio investment (demonetize the gold), the majority favored the former option.
- The Chair noted the concern over providing misleading data (double counting in the case where the repo-loan would be from a resident) if the first option is followed, and that the IMF favored the second option. If the first option is followed, clear information on the

associated borrowing is required. Again the Chair also acknowledged the need for further consultation with countries. The issue will be brought back to Committee members.

(c) ***SDRs***

- The Committee accepted the proposal that a country's SDR allocation be classified as debt.

(d) ***Monetary gold***

- There was a clear majority in favor of maintaining the current treatment of monetary gold. Further consultation with Committee members is needed on unallocated gold accounts held by monetary authorities (paragraph 27 of the paper). This issue will involve further consultation with Committee members.

(e) ***Memorandum/supplementary items***

- The majority of Committee members favored including the currency composition of reserves—split between SDR basket currencies and other currencies, only—as a memorandum item to the IIP. For the other items in the paper, supplementary was agreed.
- The Chair considered that including the currency composition as a memorandum item would require high level clearance in the IMF, and that a supplementary item was more likely to be accepted.
- The Committee agreed that RESTEG would continue to work on reserves and, if feasible given resource constraints, start work on other reserve template issues. RESTEG is to report back to next year's Committee meeting

18. International Conference on the CPIS—BOPCOM/06-14

- The Committee appreciated Mr. Tenes's presentation on the CPIS seminar held at the Bank of Spain in March 2006. The IMF agreed to take forward the issues identified in the report, subject to resource constraints.
- The need to coordinate the CDIS and CPIS surveys was noted, given the relationship between direct and portfolio investment.

19. Treatment of hybrid instruments

- The Committee agreed that comments on this item be provided to the IMF in the coming weeks¹.

¹ Messrs Brown and Kozlow plan to circulate a note about the USA/UK investigation on bilateral services to Committee members early next year.

20. Next meeting

- The next meeting is to be held in Washington starting Monday October 29, 2007.

21. Work program

- A draft work program will be circulated to Committee members following the meeting.
- The update of *BPM5* and the *CDIS* (if it proceeds) will remain as top priorities.
- The other topics and their priorities will be reviewed but among the new topics to be added are the implementation of the new Manual, the supply of balance of payments and other external data to international agencies, and the FDI issue relating to pass-through funds and capital in transit. It was also suggested that the use of balance of payments data should be on the long-term work program, perhaps with a focus on specific aspects of the external accounts in turn.

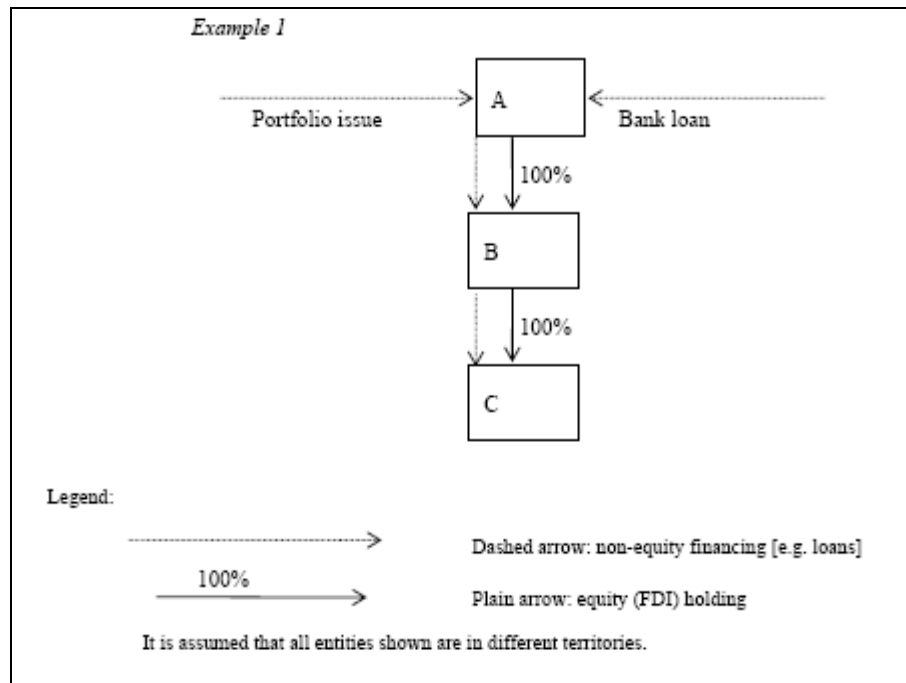
22. Vote of appreciation to ECB

The Committee expressed its appreciation to the ECB for its hospitality in hosting the Committee's meeting.

Appendix I. Direct Investment Relationships: Some Examples²

1. If A is a financial entity in any of the following financial sub-categories— central bank, other deposit-taking corporations, money market funds (MMF), investment funds other than MMFs, and other financial intermediaries except insurance corporations and pension funds (ICPF), (so-called financial subcategories 1 to 5)—and its direct investment enterprises B and C are not then:

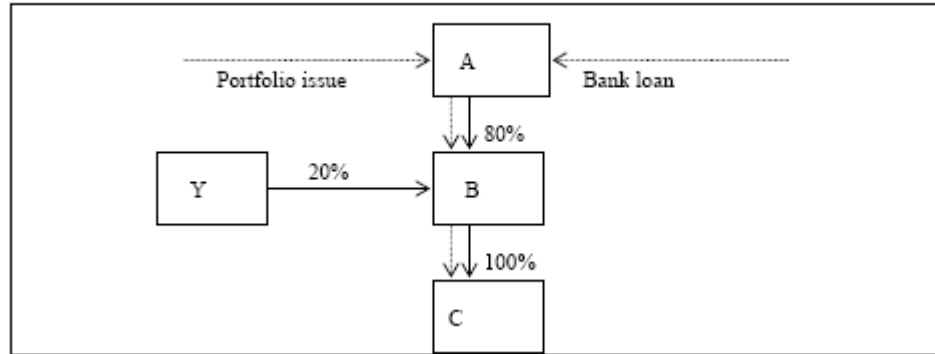
- All debt transactions between A and B, and between B and C, are included under direct investment.



2. If A and Y are financial entities in financial subcategories 1 to 5, but B and C are not, then:

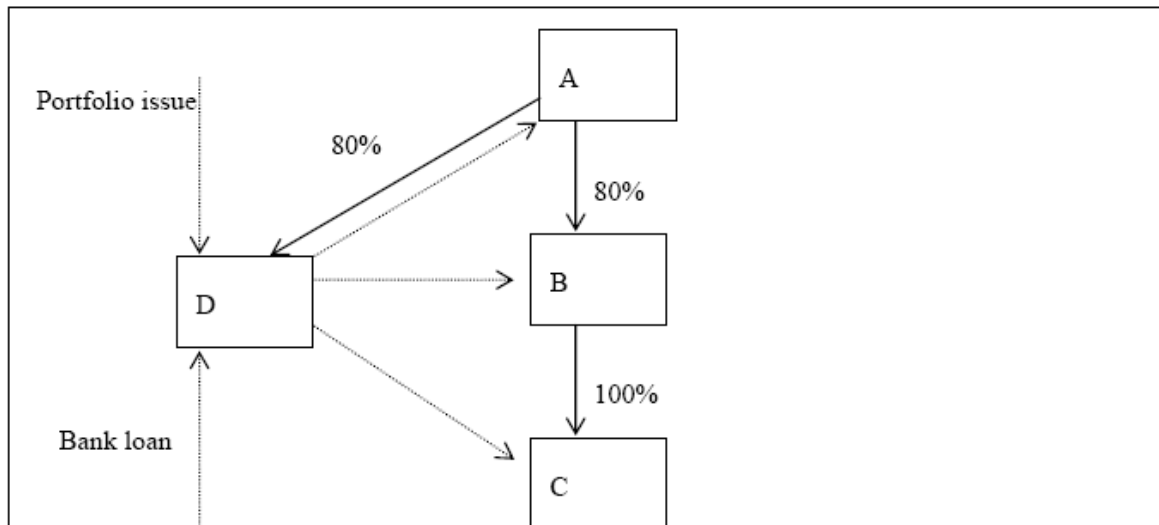
- Debt transactions between A and B, and B and C are all included in direct investment.

² The illustrative diagrams in Appendix I are obtained from BOPCOM/06-24.

Example 2

3. If A and D are financial entities in financial subcategories 1 to 5, but B and C are not, then:

- Debt transactions between D and A are not included within direct investment but all debt transactions between D and B, and D and C are included in direct investment.

Example 3

4. If A and D are financial entities in financial subcategories 1 to 5, but B and C are not, then:

- Debt transactions between D and B are included in direct investment.

Example 4

