

**Twentieth Meeting of the
IMF Committee on Balance of Payments Statistics
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**Consideration of Comments from Committee Members and
Worldwide Consultation on Draft *BPM6***

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

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I. INTRODUCTION

1. In March 2007, the IMF posted a draft version of the IMF's *Balance of Payments and International Investment Position Manual (BPM6)* on its external website and invited comments by mid-June 2007.

2. In total, 53 respondents provided comments to the Fund. The respondents included compilers in member countries, international organizations, the private sector, and interested individuals. From June to September, IMF staff revised the draft Manual to take account of comments received and of *1993 SNA Rev 1* drafting; the changes are reflected in the revised draft provided to Committee members in September.

3. There were some new issues arising from the comments that the IMF wishes to bring to the attention of the Committee for decision.¹ Also, further work has been on-going in related fields, notably the *SNA* update and on services statistics, that have raised other issues that need the Committee's attention. Finally, there have been additions to the draft *BPM6* since the March draft, notably new appendices, and we would like to receive feedback from the Committee on this new text. This note sets out the issues and asks for the views of Committee members.

4. Looking ahead, the draft Manual will be further revised to reflect the outcome of the Committee meeting. Thereafter, we intend for an outside expert review of the document, not least to ensure internal consistency and that issues are appropriately described, during which a comparison with relevant text in the updated *SNA* will be undertaken; the expert review is not to reopen any BOPCOM decisions or introduce new issues. We expect that a revised draft of *BPM6* will be posted on the IMF's external website early in 2008, and this text will be the basis for the regional outreach seminars in the first half of 2008 (see BOPCOM-07/14).

II. ISSUES FOR DISCUSSION

Chapter 3 (and Chapter 11): Accounting principles

(1) Time of the recording of dividends

- Issue raised by Spain

¹ Some commentators raised issues that have already been decided in the appropriate groups, such as the percentage cut-off for recognizing direct investment. These issues are not being reopened in this paper.

5. The March draft of *BPM6* (draft *BPM6*) recommended that “dividends are recorded at the moment they are declared payable” (paragraph 3.48). While this advice is consistent with the decision taken by the Committee in 2001 and with what was proposed for the *1993 SNA Rev 1* at that time, it changed the *BPM5* guidance to record dividends on the date they are payable (paragraph 282).²

6. An issue has arisen regarding this guidance. The problem is that when dividends are declared payable, the amounts of the dividends remain included in the market price of the shares until the shares go “ex-dividend”, at which time the creditors can be identified. Recording dividends when they are declared payable therefore leads to an inconsistency in the total value of financial assets/liabilities: both the value of the shares and accounts payable/receivable reflect the dividends payable. Also, at the time dividends are declared payable, there is a problem in determining the creditors as the dividends are traded as part of the shares. The ISWGNA considered this problem in the context of the update to the *SNA* and decided that dividends should be recorded when the shares go ex-dividend instead of when declared. For consistency and the reasons set out above, the September draft of *BPM6* also recommends that dividends be recorded when the shares go ex-dividend (paragraphs 3.48, 7.26, 11.29).

Question for the Committee

Does the Committee agree to record dividends when the shares go ex-dividend?

Chapter 4 (and Chapters 6, 7, and 8): Economic Territory, Units, Institutional Sectors, and Residence

(2) Direct Investment

7. The OECD Workshop on International Investment Statistics (WIIS) discussed the Draft *Benchmark Definition of Foreign Direct Investment* (4th Edition) at its October 2007 meeting. The treatment of special purpose entities (SPEs), and the components of inward and outward foreign direct investment under the directional principle, for so-called core data sets were discussed. The changes to the *Benchmark Definition* will be taken up by the Committee as part of the OECD report on the *Benchmark Definition*.

8. In regard to the treatment of SPEs, WIIS proposals would have countries who host SPEs looking through the SPEs in core data sets (i.e., excluding these units from both inward and outward direct investment by country), which would not be fully consistent with guidance in draft *BPM6* that direct investment by partner country should be reported

² Some commentators also raised the question on the timing of dividends receivable and reinvested earnings. The draft *BPM6* does not take up this issue as an earlier decision was made by the Committee and AEG not to reopen the question of reinvested earnings. Nonetheless, it could be addressed in the research agenda item on income.

according to the immediate host/investing country (paragraphs 4.137 and 4.141). In contrast, under the WIIS proposals, countries that invest in SPEs, and countries that receive investment from SPEs, would regard the country of the SPE to be their direct investment counterparty, as in draft *BPM6*. In regard to the directional principle, the WIIS proposals would cause some investment positions that are now considered to be part of outward direct investment to be reclassified as negative inward direct investment, depending on where the “ultimate parent” is located.

Question for the Committee

This item will be further described and discussed under another agenda item during the meeting.

Chapter 5: Classification of Financial Assets and Liabilities

(3) *Technical provisions of non-life insurance companies*

- Issue raised at the March 2007 Advisory Expert Group (AEG) meeting

7. In the *1993 SNA*, the technical reserves of insurance companies consist of pre-paid premiums and reserves for outstanding claims. In the discussion on the treatment of insurance in the context of the update of the *SNA*, it was proposed to include also equalization provisions. The March 2007 AEG meeting asked that the consistency of this proposal with previous AEG recommendations and *BPM6* be examined. Subsequent consideration revealed the following problems with this proposal:

- Equalization provisions do not arise through transactions but an allocation of own funds by the insurance companies in response to regulatory requirements. These allocations must appear as an “other change” in assets and liabilities. The need for an other volume change is described in paragraph 17.77(c) of the draft Chapter 17 of the *1993 SNA Rev 1* posted on the UN website.
- Part of the motivation for including equalization provisions in technical reserves was the notion that these provisions should, over the long term, approximate exceptional claims. Investigation of the regulations surrounding the establishment of the provisions does not bear out this supposition.
- Treating equalization provisions in the same way as technical reserves implies that the establishment of the provision establishes not only a liability of the insurance company but a matching asset of the policy holders. This is quite artificial from the policy holder’s point of view.
- Conceptually, the idea that debt can be created through an other changes in volume account is inconsistent with the description of the creation of debt as set out in the *External*

Debt Guide, which makes clear that debt is created either through the provision of value or from events that require future transfer payments.³

9. These concerns were raised with the ISWGNA which has concluded that it is not in fact appropriate to include equalization provisions with technical reserves.

Question for the Committee

Does the Committee agree that BPM6 should not be changed to include equalization provisions from the technical reserves of non-life insurance companies? That is, technical provisions of non-life insurance companies recorded in the international accounts only arise from prepayments of premiums and reserves for outstanding claims (paragraph 5.62) .

Chapter 8 (and Chapter 4): Financial Account

(4) Treatment of corporate inversion

- Issue raised by Australian Bureau of Statistics and Eurostat

10. Corporate inversion describes the corporate restructuring of a transnational enterprise group such that the original parent company in one economy becomes a subsidiary of the new parent in another economy. In addition, ownership of a group of enterprises may be shifted to the new parent company. Such arrangements may be called corporate relocations, headquarters relocations, or corporate restructuring. (September draft of *BPM6*, paragraph 8.19.) Inversion is achieved by transactions in assets - and possibly liabilities - between an entity in one economy and another entity in a different economy. Therefore paragraph 4.153 of the draft *BPM6* recommends to record these transactions in the balance of payments.

11. Upon initial examination, the above treatment did not appear to be entirely consistent with the draft *1993 SNA Rev I*, which recommends recording corporate restructuring as other changes in paragraph 12.75: “Changes in structure are also recorded here [i.e. in other changes]. The financial account does not cover the disappearance or appearance of certain financial assets and liabilities because of corporate restructuring. When a corporation disappears as an independent legal entity, it ceases to be a separate institutional unit in the System because it is absorbed by one or more other corporations. In this case, all claims/liabilities, including equity and investment fund shares, which existed between that corporation and those that absorbed it are eliminated. The disappearance of these financial instruments is recorded under changes in sector classification and structure.”

12. However, the corporate inversion discussed in the draft *BPM6* differs from changes in structure discussed in the *SNA* because the former does not discuss the disappearance of

³ *External Debt Guide*, paragraph 2.4

institutional units; in fact, to the contrary, it discusses the creation of new institutional units that are established as residents in other economies. But even if the original headquarter company ceases to exist after a period needed to move the assets and liabilities, a change in ownership of the headquarter company occurs in the case described in the draft *BPM6*. Additionally, changes in ownership of the subsidiaries involved in the restructuring often take place. It appears consistent with the concept of transactions to record these flows in the financial account of the balance of payments.

Question for the Committee

Does the Committee agree that the changes resulting from a corporate inversion are transactions that should be recorded in the balance of payments, or should these flows be recorded in the other changes account?

Chapter 10: Goods and Services

(5) *Services: intellectual property*

- Issue arising from discussion by the Interagency Task Force on Statistics of International Trade in Services.

13. The Task Force made the following proposals relating to the classification of a range of products that are increasingly obtained electronically. These proposals also clarify classification of products to the services subcomponent *fees for the use of intellectual property*.

- All products obtained by downloading through the internet be classified to the appropriate service. For example, computer systems and applications software would be classified to computer services, downloaded music or films to audiovisual services, and games to other personal, cultural and recreational services. This clarifies a decision made by the Committee in 2006 that all downloaded products be classified as services. (See paragraphs 10.7, 10.94, 10.96, 10.147 of the September draft of *BPM6*.)
- All products obtained with a license to use (such as software, music, electronic games), no matter how obtained, be classified in services, and be recorded under the appropriate service (as described in the first bullet point above). For example, computer systems and applications software (including both customized software and noncustomized software provided on magnetic media or electronically) should be recorded in computer services. This is irrespective of whether the products are obtained for a single use (such as watching a film online), are downloaded, or are obtained in physical form via a one-time payment that conveys rights for perpetual use, such as computer software on disks. (See paragraphs 10.14(c), 10.20(f), 10.94-95, 10.129-130, and 10.147-148 of the September draft of *BPM6*.)

IMF comment: The above represents a change in the treatment from the March draft of BPM6, which stated that noncustomized packaged software sold in physical form (such as on disks) be recorded in general merchandise. (See paragraphs 10.7, 10.94, 10.96, 10.147 of the September draft of BPM6.) It also creates an inconsistency with ISIC and CPC classifications; the CPC classifies noncustomized software recorded on discs and tapes in goods, and ISIC classifies the businesses that sell them as resellers of goods (retailers or wholesalers) rather than as resellers of services or of licenses. It is also inconsistent with concepts and definitions used for U.N. International Merchandise Trade Statistics. The IMF recommends that noncustomized packaged software sold in physical form continue to be included in general merchandise, as the Committee earlier agreed.

- Sales and purchases of originals and ownership rights be classified to the appropriate services (as described in the first bullet point above). This proposal clarifies the coverage of research and development in that research and development does not include the development of systems and applications software, games software, production of original music, film and other audiovisual products, or literary originals and other similar products. Outright sales of originals will be classified as above (for these products) and as research and development in all other cases.
- The definition of fees for the use of intellectual property (this replaces and clarifies the *BPM5* subcomponent royalties and license fees) can be found in paragraphs 10.129-10.131 of the draft *BPM6*. In particular, classified to this subcomponent would be: amounts payable and receivable for the authorized use (for subsequent production and/or distribution), through licensing agreements, of produced originals (such as copyrights on manuscripts or cinematographic works).

Questions for the Committee

Does the Committee agree with the above proposals of the Task Force on Statistics of International Trade in Services?

In particular, does the Committee propose to record noncustomized packaged software subject to licensing agreements and sold in physical form in computer services (as recommended by the Task Force) or in general merchandise (as earlier agreed by the Committee and as recommended by the IMF)?

Does the Committee agree with the proposal to rename the “fees for franchises and other proprietary rights” component as “fees for the use of intellectual property”?

III. APPENDICES TO *BPM6*

A. New Appendices

14. Since the draft *BPM6* was posted in March, IMF staff has prepared the following new appendices:

Appendix 4: Activities of Multinational Enterprises

Appendix 5: Remittances

Appendix 6: Topical Summaries

6a: Direct Investment

6b: Financial Leases

6c: Insurance, Pension Funds, and Standardized Guarantees

15. The appendices on Activities of Multinational Enterprises and Remittances provide brief descriptions of these statistics and discuss cross-cutting issues between these documents and *BPM6*. The Topical Summaries give a comprehensive overview (signposting) of some rather complex issues that are discussed in more than one chapter of *BPM6*,

Question for the Committee

Does the Committee have views on the new appendices, and are there any issues that need to be discussed?

B. Appendix on the Changes in *BPM6*

16. At the end of each chapter in the draft *BPM6*, there is a box that sets out the changes in *BPM6* from *BPM5* for the issues covered in that chapter. It is being proposed that these lists of the changes remain in the *BPM6* when it is published, as a source of reference. The issue arises as to whether it would be better to include them all together in a separate appendix, or leave them as boxes at the end of each Chapter. The Fund staff preference is for an appendix. (The Committee may like to note that changes in the SNA will be indicated in an annex to the whole publication and not chapter by chapter.)

Question for the Committee

*Does the Committee support the idea of including a detailed list of the changes in *BPM6*, and should the lists remain at the end of each Chapter or be set out in a single appendix?*

IV. ANY OTHER ISSUES

Does the Committee have any other issues that were not previously raised in the AEG and the Committee, and that should be discussed?