

Primary Income Account

A. Overview of the Primary Income Account

Reference:

2008 SNA, Chapter 7, The Distribution of Income Accounts.

11.1 *The primary income account shows primary income flows between resident and nonresident institutional units.* In the SNA, primary distribution of income is recorded in two accounts, namely, the generation of income account (which records primary income generated in the production process) and the allocation of primary income account (which records primary income allocated to institutional units for the provision of labor, financial assets, and natural resources). In the international accounts, all primary income flows relate to the allocation of primary income account.

11.2 The main components and structure of the account are shown in Table 11.1. Credit entries reflect primary income receivable by the compiling economy and debit entries reflect primary income payable by the compiling economy. The balance on primary income shows net primary income receivable by the compiling economy, which is defined as the total value of primary income receivable by the compiling economy less the total value of primary income payable.

11.3 *Primary income represents the return that accrues to institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units.* Two types of primary income are distinguished:

- (a) Income associated with the production process. Compensation of employees is income for the contribution of labor inputs to the production process. Taxes and subsidies on products and production are also income related to production; and
- (b) Income associated with the ownership of financial and other nonproduced assets. *Property income is the return for providing financial assets and renting natural resources. Investment income is the return for providing financial assets; it consists of dividends and withdrawals from income of quasi-corporations, reinvested earnings, and interest.* However, ownership of financial derivatives and employee stock options does not give rise to investment income. The relationship between financial assets and the type of investment income they generate is shown in Table 5.2.

11.4 Cross-border primary income flows provide a link between the concept of gross domestic product (GDP) and gross national income (GNI). GDP is linked to the concept of production, in which value added is generated. Contributors to the value added (such as labor, finance, and entrepreneurship) receive returns for their contributions. The economic process of income generation from production together with primary income distributions result in the GNI for an economy. The difference between the GNI and GDP is equal to the difference of primary income receivable from nonresidents and primary income payable to nonresidents, often described as “net income from abroad.” When labor, financial resources, and natural resources owned by residents are put at the use of nonresidents, primary income is earned. When labor, financial resources, and natural resources are owned by nonresidents and are put at the use of residents, primary income is payable. GNI is larger (smaller) than GDP if more (less) income is generated from the provision of labor, financial resources, and natural resources owned by residents to nonresidents than the similar income payable to nonresidents.

11.5 Primary income should be distinguished from secondary income. Primary income captures returns for the provision of labor and financial assets and renting of natural resources. Secondary income

Table 11.1. Overview of the Primary Income Account

	Credits	Debits
Balance of goods and services		
Compensation of employees		
Investment income		
Direct investment		
Income on equity and investment fund shares		
Dividends and withdrawals from income of quasi-corporations		
Reinvested earnings		
Interest		
Portfolio investment		
Income on equity and investment fund shares		
Dividends on equity other than investment fund shares		
Investment income attributable to investment fund shareholders		
Dividends on investment fund shares		
Reinvested earnings on investment fund shares		
Interest		
Other investment		
Income on equity and investment fund shares		
Interest		
Investment income attributable to policyholders in insurance, standardized guarantees, and pension funds		
Reserve assets		
Income on equity and investment fund shares		
Interest		
Other primary income		
Rent		
Taxes on production and imports		
Subsidies		
Total primary income credits and debits		
Balance on primary income		
Balance on goods, services, and primary income		

Note: This table is expository; for Standard Components, see Appendix 9.

captures further redistribution of income through current transfers, such as by governments or charitable organizations. Secondary income is described in Chapter 12.

11.6 The structure of the primary income account is consistent with that of the corresponding financial flows and positions, thus facilitating the analysis of rates of return. (See Table 5.2 for classification of financial assets and liabilities and the corresponding type of income they generate.) For example, rent is shown separately so that it is not mixed with returns on financial assets. Investment income attributable to policyholders in insurance, standardized guarantees, and pension funds is also to be shown as a separate item, if relevant. Specific further groupings of primary income are discussed in the subsequent sections.

11.7 Section B of this chapter discusses the coverage, timing, and valuation issues for each type of primary income (compensation of employees, divi-

dends, reinvested earnings, interest, investment income attributable to policyholders in insurance, standardized guarantees, and pension funds, rent, and taxes and subsidies on products and production). Section C explains specific issues and possible classification of investment income by functional category of financial assets and liabilities (direct investment, portfolio investment, other investment, and reserve assets).

B. Types of Primary Income

11.8 The international accounts distinguish the following types of primary income:

- (a) compensation of employees;
- (b) dividends;
- (c) reinvested earnings;
- (d) interest;

- (e) investment income attributable to policyholders in insurance, standardized guarantees, and pension funds;
- (f) rent; and
- (g) taxes and subsidies on products and production.

These income categories are described in paragraphs 11.10–11.94.

11.9 Table 11.1 presents investment income using both functional and instrument classifications of financial assets. Investment income is generally linked to a particular type of financial instrument. For example, dividends are returns on equity and investment fund shares. Sometimes, a group of financial instruments has the same type of investment income. For example, deposits, loans, and debt securities all give rise to interest. This section describes various types of investment income and other types of primary income. The next section includes a description of specific issues on investment income related to the functional categories of financial assets and liabilities.

I. Compensation of employees

11.10 *Compensation of employees presents remuneration in return for the labor input to the production process contributed by an individual in an employer-employee relationship with the enterprise.* In the international accounts, compensation of employees is recorded when the employer (the producing unit) and the employee are resident in different economies. For the economy where the producing units are resident, compensation of employees is the total remuneration, in cash or in kind, payable by resident enterprises to non-resident employees in return for work done by the latter during the accounting period. For the economy where the individuals are resident, it is the total remuneration, in cash or in kind, receivable by them from nonresident enterprises in return for work done during the accounting period. Residence of enterprises and individuals is described in Section E of Chapter 4, Economic Territory, Units, Institutional Sectors, and Residence.

11.11 Cross-border compensation of employees arises only when a resident individual is employed by a nonresident or when a resident employs a nonresident individual. Therefore, it is important to establish whether an employer-employee relationship exists between a resident individual and a nonresident employer or between a nonresident individual and a resident employer. An employer-employee relationship exists when there is an agreement, which may be formal or informal, between

an entity and an individual, normally entered into voluntarily by both parties, whereby the individual works for the entity in return for remuneration in cash or in kind. The remuneration is normally based on either the time spent at work or some other objective indicator of the amount of work undertaken. If an individual is contracted to produce a given result, it suggests a service contract relationship between the entity and a self-employed. Self-employed individuals are deemed to operate their own unincorporated enterprises, and thus sell output they produce. Self-employed individuals may also employ others. Self-employed individuals are generally responsible for decisions on markets, scale of operations, and finance, and are also likely to own or rent machinery or equipment on which they work.

11.12 When an individual performs work for an entity, it may not always be clear whether an employer-employee relationship exists between the individual and the entity. Provision of several types of services may pose such problems because entities may choose either to purchase a service from a self-employed worker or to hire an employee to perform the job. The status of the worker has important implications for the international accounts. If an employer-employee relationship exists between the worker and the producing entity, the payment constitutes compensation of employees. If an employer-employee relationship does not exist, the payment constitutes a purchase of services. (See Chapter 10, Goods and Services Account for specific categories of services.)

11.13 Several factors may have to be considered in determining whether an employer-employee relationship exists. An important test of whether an employer-employee relationship exists is that of control. The right to control or to direct, both as to what shall be done and how it shall be done, is a strong indication of an employer-employee relationship. The method of measuring or arranging for the payment is not important as long as the employer has the effective control on both the method and the result of the work undertaken by the individual. However, certain control on the work being undertaken may also exist for the purchase of a service. Therefore, other criteria should also be used to define more clearly the employer-employee relationship. If the individual is solely responsible for social contributions, that would suggest that the individual is a self-employed service provider. Payment of social contributions by the employer is an indication of employer-employee relationship. If the individual is entitled to the same kind of benefits (e.g., allowances, holidays, sick leave) that the enterprise generally provides to its employees, this indicates an employer-employee relationship. Payment

of taxes on the provision of services (such as sales tax or value-added tax) by the individual is an indication that the individual is a self-employed service provider.

11.14 Cross-border employees include seasonal or other short-term workers (less than one year) and border workers who are residents of one economy and work in another economy. Nonresidents who are employed as domestic helpers or housekeepers (for less than one year) by resident households are also treated as nonresident employees. Because embassies, consulates, military bases, and so forth are considered extraterritorial to the economies in which they are located (see Chapter 4, Economic Territory, Units, Institutional Sectors, and Residence; Section E, Residence, for the definition of residence), the compensation receivable by local (host country) staff of these institutional entities is classified as payable to resident entities by nonresident entities. Compensation receivable by employees from international organizations, which are extraterritorial entities, represents receipts from nonresident entities.

11.15 According to the residence principles for households as explained in paragraphs 4.116–4.130, technical assistance personnel employed by international organizations or governments on long-term assignments (for one year or more) are residents of the economy in which they reside (unless they are government employees with diplomatic status). Similarly, employees of parent enterprises working in an affiliated enterprise in another economy for one year or more are residents of the economy in which they reside. Although such employees continue to be legally employed and paid by the parent enterprise (which may be international organizations, foreign governments, or commercial enterprises), their employer-employee relationship may not always be clear. They should be considered employees of the institutional unit for which they work if this unit effectively manages and controls their work. The contractual arrangement for hiring or paying salaries may simply be a matter of convenience. In some cases it may be difficult to determine who is managing and controlling the work. In such cases, the workers should be considered to be employed by the entity that pays them.

11.16 Compensation of employees is recorded on an accrual basis. It is measured by the value of the remuneration in cash or in kind that an employee becomes entitled to receive from an employer with respect to work undertaken during the relevant period, whether paid in advance, simultaneously, or in arrears of the work itself. To the extent that payment has not been made for work performed, the economy of the employer must record an entry in the accounts payable and the

economy of the employee must record an entry in the accounts receivable.

11.17 Compensation of employees has three main components:

- (a) wages and salaries in cash,
- (b) wages and salaries in kind, and
- (c) employers' social contributions.

a. Wages and salaries in cash

11.18 Wages and salaries in cash consist of amounts payable in cash (or any other financial instruments used as means of payments) to employees in return for labor input rendered, before deducting withholding taxes and employees' contributions to social insurance schemes (which are shown in the secondary income account; see paragraph 12.35). Included are basic wages and salaries; extra pay for overtime, night work, and weekend work; cost of living allowances, local allowances, and expatriation allowances; bonuses; annual supplementary pay, such as "thirteenth month" pay; allowances for transportation to and from work; holiday pay for official holidays or annual holidays; and housing allowances. Wages and salaries in cash do not include the reimbursement by employers of expenditures made by employees in order to enable them to take up new or relocated jobs (e.g., reimbursement for travel and related expenses) or expenditures on items needed to carry out their work (e.g., tools or special clothing). These are shown as acquisition by the employer of goods and services.

b. Wages and salaries in kind

11.19 Wages and salaries in kind consist of amounts payable in the form of goods, services, interest forgone, and shares to employees in return for labor input rendered. Examples are meals; accommodation; sports, recreation, or holiday facilities for employees and their families; transportation to and from work; goods and services from the employer's own processes of production; bonus shares distributed to employees; and so forth. Benefits in kind should be valued at the market-equivalent price. The goods or services may be provided free or at a reduced cost. For example, when employees receive loans at reduced or zero rates of interest, the interest forgone is the difference between the interest charged and a market-equivalent interest charge. To provide a consistent and economically meaningful way of recording benefits in kind, some "rerouting" may be involved (see paragraph 3.16 for an example of rerout-

ing). That is, although the benefits are purchased by the employer, the benefits are treated as if the employer paid the amount of the benefit to the employee who, in turn, acquired the item. The rerouting may affect the resident-to-nonresident nature of the transaction.

11.20 Employee stock options (ESOs) are a way of paying wages and salaries in kind. ESOs are valued by reference to the fair value of the equity underlying the ESO awarded. The value of ESOs at the time of granting provides the measure of compensation of employees that should be recorded as accruing over the period to which the option relates, generally the period between the granting and vesting dates. Sometimes, the options may cover the period before the granting date, which should also be taken into account in allocating the compensation of employees. The value of the ESO accumulates as compensation of employees is recorded, so that at vesting date, it has accumulated to the value of the ESO at granting. Changes in the value of ESOs at or after the vesting date are not compensation of employees, but are holding gains and losses (see paragraph 9.30). Transactions and positions in ESOs are recorded within financial derivatives and ESOs, with a supplementary item for economies in which cross-border transactions in ESOs are significant.

11.21 In cross-border situations, a multinational parent company may directly provide ESOs to employees of its foreign subsidiaries. The value of ESOs should be recorded as compensation of employees payable by the subsidiary, the actual employer, and hence this transaction is domestic. The liabilities of the parent companies and acquisition of assets by the employees of the subsidiary in the form of ESOs are recorded in the respective economies' international accounts. If the ESO is supplied free or below cost to the subsidiary, a transaction between the parent and actual employer should be imputed for the value of the ESO similar to the treatment of transfer pricing (see paragraphs 11.101–11.102).

c. Employers' social contributions

11.22 *Employers' social contributions are social contributions payable by employers to social security funds or other employment-related social insurance schemes to secure social benefits for their employees.* Social security schemes are operated by general government; other employer-related social insurance schemes may be operated by the employers themselves or by an insurance corporation or may be an autonomous pension scheme. Examples of social benefits

include employers' contributions or subsidies for pensions, life insurance, and health insurance; allowances for children, spouse, family, education, or other payments with respect to dependents; payments made to workers absent from work because of illness, accidental injury, maternity leave, and so forth; and severance payments. Both actual and imputed social contributions are included. For defined contribution employer pension schemes, the actual amounts payable by employers are included in the compensation of employees. For defined benefit pension schemes, including unfunded pension schemes, the amount of employers' social contributions should be determined on the basis of actuarial calculations that yield contributions required to secure the de facto entitlements to the social benefits. (See paragraph 5.66 for the definition of pension entitlements.)

11.23 Employees who are employed outside their economy of residence may incur travel expenses (see paragraphs 10.91–10.93) and may be subject to the payment of income taxes (see paragraph 12.28). These flows should be recorded on a gross basis respectively as travel expenses and taxes on income; that is, they should not be deducted from compensation of employees.

2. Dividends and withdrawals from income of quasi-corporations

11.24 *Dividends are the distributed earnings allocated to the owners of equity for placing funds at the disposal of corporations.* Raising equity through the issue of shares is an alternative way of raising funds compared to borrowing. In contrast to debt financing, however, equity finance does not give rise to a liability that is fixed in monetary terms and does not entitle the holders of shares of a corporation to a fixed or predetermined income. Owners of equity receive their share of distributed earnings, the timing and amounts of which are decided by corporations.

11.25 The concept of dividends is linked to the instrument classification; namely, they are the return payable by corporations to their shareholders or owners.¹ Dividends are most often quoted in terms of the amount of money declared payable per share. They may also be quoted in terms of a percentage of the market value of shares, referred to as dividend yield. Income on nonparticipating preference shares is treated as interest income, rather than dividend income, because such shares are classified as debt instruments.

¹Manufactured dividends are discussed in paragraph 11.69.

11.26 In addition to dividends from corporations, distributed income from quasi-corporations (such as distributed branch profits) should be included under this heading. In legal terms, quasi-corporations cannot distribute income in the form of dividends. Nevertheless, the owner, or owners, of a quasi-corporation may choose to withdraw some or all of the income of the enterprise, and some quasi-corporations formally organized as trusts, partnerships, or other institutions may formally distribute some or only a portion of their earnings. From an economic point of view, the withdrawal of such income is equivalent to the distribution of corporate income through dividends and is treated the same way. Withdrawals from income of quasi-corporations do not include withdrawals of funds realized by the sale or disposal of the quasi-corporation's assets (e.g., the sale of inventories, fixed assets, or land or other natural resources). Transmittal of funds resulting from such disposals of assets is recorded as a withdrawal from the equity of quasi-corporations in the financial account. Income from rent earned on land and buildings directly held by nonresidents is also classified under dividends and distributed incomes from a notional direct investment enterprise.

11.27 Exceptional payments by corporations (including quasi-corporations such as branches) to their shareholders that are made out of accumulated reserves or sales of assets should not be treated as dividends. Such exceptional payments, sometimes called superdividends, are treated as withdrawals of equity, and therefore recorded in the financial account (as noted in paragraph 8.23). The exceptional nature of the payments is normally determined as being disproportionately large relative to the recent level of dividends and earnings. Although dividends are notionally paid out of the current period's operating surplus, corporations often smooth the payments of dividends, sometimes paying out rather less than operating surplus but other times paying out a little more, especially when the operating surplus itself is very low. For practical reasons, no attempt is made to align dividend payments with earnings except when the dividends are disproportionately large. If the level of dividends declared is greatly in excess of previous dividends and trends in earnings, the excess should be excluded from dividends and shown as a withdrawal of equity (see paragraph 8.23).

11.28 Stock dividends arise where stockholders elect to receive payments of dividends in the form of issue of new shares. The stock dividends are essentially a capitalization of earnings and an alternative to distributing cash dividends. Therefore, stock dividends are treated

as income (in the primary income account), which is then immediately reinvested (in the financial account).

11.29 Bonus shares refer to issues of new shares to all stockholders in proportion to existing ownership. These arrangements are not treated as transactions because no new resources have been provided. The claim of the shareholders on the entity is the same before and after the issuance of bonus shares. (See also paragraph 8.33.)

11.30 Liquidating dividends, whether partial or total, arise mainly at the time of the termination of a company. These are treated as a withdrawal of equity, shown in the financial account, as a convention based on the assumption that liquidating dividends are more likely to involve previously existing equity finance rather than current income.

11.31 Dividends are recorded at the time the shares go ex-dividend (see paragraph 3.48 for recording of dividends). Withdrawals of income from quasi-corporations, that is, distributed profits, are recorded when they are withdrawn by their owners. Dividends and withdrawals from income of quasi-corporations are recorded gross of any withholding taxes. These taxes are deemed to be payable by recipients of such income.

11.32 Dividends and withdrawals by owners of quasi-corporations are also identified for equity in investment funds. Investment funds are usually portfolio investment, but they may also occur in other functional categories. For equity in investment funds and direct investment, the owners' earnings include both the distributed income and reinvested earnings.

3. Reinvested earnings

11.33 This section describes the treatment in the international accounts of reinvested earnings from equity participation. Reinvested earnings is associated with the concept of attributing retained earnings to their owners.

11.34 *Retained earnings of an enterprise shows the net earnings from production and primary and secondary income transactions before attributing reinvested earnings. It is equal to net operating surplus plus primary income, current transfers receivable, and change in pension entitlements, and minus primary income (excluding reinvested earnings payable to the enterprise's direct investors and owners of investment funds) and current transfers payable.* Retained earnings of investment funds and the part of the retained earnings

of direct investment enterprises that belongs to direct investors are treated as being distributed to the owners who then are deemed to reinvest back. The imputation of income to the owners of investment funds and direct investors is shown in the primary income account as “reinvested earnings” and the corresponding flow is recorded in the financial account as “reinvestment of earnings” (see paragraphs 8.15–8.16 for the recording of financial account entries). Reinvestment of earnings is an imputed financial transaction. In the position data, reinvestment of earnings is not shown separately but included implicitly in the total value of equity.

11.35 In macroeconomic statistics, corporations are defined as entities separate from their owners and able to take economic decisions (see paragraphs 4.13–4.15 for the definition of corporations as institutional units). Owners receive dividends and face other financial gains and losses arising from the activity of the corporations they own.² For corporations, the notion that the institutional units are decision-making entities implies that retained earnings are treated as the income and saving of that entity rather than those of its owners. So the undistributed income arising from the net operating surplus, net property income, and net current transfers is recorded as retained earnings or net saving of corporations. Losses are negative net saving. Quasi-corporations, such as branches and notional units, are treated in the same way as incorporated entities.

11.36 However, when retaining earnings is a deliberate decision of owners to reinvest, treating them as if they were retained by corporations would not reflect economic reality. Although most economic relationships between a corporation and its owners may be considered to take place in an arm’s length situation, the distribution of its net earnings to its owners, in some cases, may be subject to the control and influence the owners have on corporate decisions. Attribution of cross-border income is particularly important for deriving consistent and comparable measures of national disposable income and national saving. Retained earnings of investment funds and the part of the retained earnings of direct investment enterprises belonging to direct investors are treated as being distributed to the owners and reinvested back by the owners in their enterprises.

²The amount of dividends payable in any given accounting period depends on a range of factors, including the corporation’s judgment of its own investment opportunities relative to those available in the market, differences in the tax treatment of distributed and undistributed income, and the degree of influence and control of the owners in management decisions.

a. Investment income attributable to investment fund shareholders

11.37 Investment income attributable to the owners of investment fund shares (or units) includes dividends payable to them as well as retained earnings. Investment funds provide a convenient, accessible, and affordable vehicle for financial investment. Typically, investment funds sell shares or units to the public and invest in a diversified portfolio of securities, although they may also invest in other assets, including real estate, or they may be limited to a small number of investors (see paragraphs 4.73–4.75 on investment funds as an institutional subsector). Each share represents a proportional equity in the investment portfolio managed by investment funds.

11.38 Earnings from investment funds can be viewed as being passed on to their shareholders (or unitholders) as they are earned in the form of investment income on their equity. Investment funds earn income by investing the money received from shareholders. Shareholders’ income from investment funds is defined as the investment income earned on the fund’s investment portfolio after deducting operating expenses. The net earnings of investment funds after deducting the operating expenses belong to shareholders. When only a part of the net earnings is distributed to shareholders as dividends, the retained earnings should be treated as if they were distributed to the shareholders and then deemed reinvested. The consequence of the treatment of the retained earnings of investment funds is that the saving of investment funds is always zero.

11.39 Investment income attributable to owners of investment funds excludes holding gains and losses arising from investment by the funds. Holding gains and losses are recorded in the other changes in financial assets and liabilities account. (If dividends from an investment fund include distribution of amounts derived from holding gains, reinvested earnings may be negative.)

b. Reinvested earnings on direct investment

11.40 Investment income attributable to direct investors on their equity includes dividends, withdrawals from income of quasi-corporations, and reinvested earnings. The reinvested earnings are the direct investors’ share of the retained earnings of the direct investment enterprise. Reinvested earnings are attributed to direct investors who are in an immediate direct investment relationship with the direct investment enterprises (i.e., when equity participation by direct investors meets

the 10 percent threshold). However, reinvested earnings are not attributed to direct investors when the equity participation provides less than 10 percent of the voting power. (For example, a direct investor may directly hold a stake of 1 percent of an indirectly held subsidiary; although it is a direct investor by virtue of the chain of ownership, it is not shown as a direct recipient of reinvested earnings on its 1 percent holding.) Paragraphs 6.8–6.24 define direct investment relationships. In the case of a government-owned nonresident entity used solely for fiscal purposes, transactions are imputed between the government and the government-owned nonresident entity to reflect the fiscal activities of the government (see paragraphs 8.24–8.26). Therefore, such government-owned entities do not give rise to reinvested earnings.

11.41 The rationale behind the treatment of reinvested earnings on direct investment is that, because a direct investment enterprise is, by definition, subject to control, or influence, by a direct investor or investors, the decision to retain and reinvest some of its earnings within the enterprise represents an investment decision on the part of the direct investor(s). Many factors may influence the decisions of direct investors on the proportions of net earnings of direct investment enterprises to be distributed or retained, including taxation systems, transfer costs, investment opportunities in the ongoing business and elsewhere, relative costs of moving financial resources, and need to expand the ongoing business. Therefore, attributing the retained earnings of direct investment enterprises to their direct investors is needed for consistent and comparable measures of national income and national saving. However, because reinvested earnings are recorded only for equity in direct investment and investment funds, but not for other types of equity, it may be useful for some analysis to have measures of income and the current account with and without reinvested earnings.

11.42 Reinvested earnings represent the direct investors' proportion, in terms of equity held, of the earnings that foreign subsidiaries and associates do not distribute as dividends. The undistributed earnings of branches are also considered to be reinvested earnings.

11.43 Reinvested earnings of a direct investment enterprise are, therefore, the direct investor's share of the direct investment enterprise's retained earnings or net saving (before reinvested earnings payable are deemed distributed). Retained earnings or net saving (before reinvested earnings payable are deemed distributed) of an enterprise may be formally stated as:

- Net operating surplus (operating revenue minus operating expenses)
- + Dividends receivable;
- + Interest receivable;
- + Rent receivable;
- + Enterprise's share of reinvested earnings of any direct investment enterprises;
- + Current transfers receivable;
- Dividends payable;
- Interest payable;
- Rent payable;
- Taxes and other current transfers payable.

(These items correspond exactly to *SNA* items; additional information on the treatment of particular items of revenue and expense can be found in the *2008 SNA*.) Reinvested earnings are recorded in the period in which the retained earnings accrue. See also Box 11.5 for an example of the calculation of reinvested earnings.

11.44 Reinvested earnings are measured on the basis of net saving before reinvested earnings are deemed distributed, and thus linked to the concept of operational earnings generated from production, lending and borrowing financial assets, and renting natural resources, and current transfers. Reinvested earnings do not include any realized or unrealized holding gains or losses. Holding gains and losses may arise from valuation changes, including exchange-rate-related gains and losses, revaluation of fixed assets, and changes in market prices of financial assets and liabilities. Reinvested earnings also do not include gains or losses due to other changes in volume of assets, such as write-offs of nonproduced, nonfinancial assets, write-offs of bad debts, and uncompensated seizures of assets. Because business accounting measures of profits often include holding gains or losses, adjustments to business accounting records may be necessary. Holding gains and losses and other changes in volume of financial assets and liabilities are described in Chapter 9, Other Changes in Financial Assets and Liabilities Account. Provisions for various types of losses, such as for bad debts, are internal bookkeeping entries that should not be taken into account in determining the net saving and reinvested earnings.

11.45 Retained earnings of a direct investment enterprise are measured after deducting corporate taxes charged on the income of the enterprise. Such taxes are payable by the enterprise and not by its

Box 11.1. Reinvested Earnings with Chain of Ownership

Enterprise A has a 100 percent subsidiary Enterprise B, which in turn has a 100 percent subsidiary Enterprise C.

Enterprise A is owned 95 percent by portfolio investors, while Enterprise C owns 5 percent (reverse investment).

In the following example, earnings are as stated and none of the enterprises pays dividends during the period—all earnings are retained; so the following results are obtained for reinvested earnings:

	Earnings from Own Operations	Reinvested Earnings:	
		Payable	Receivable
Enterprise A	100	0	120
Enterprise B	40	120	80
Enterprise C	80	80	0

Notes:

- The reinvested earnings receivable for Enterprise A consist of the reinvested earnings receivable from its immediate direct investment enterprise, Enterprise B. However, the reinvested earnings of Enterprise C are indirectly taken into account through reinvested earnings of Enterprise B. (See paragraph 11.47.)
- No reinvested earnings are payable on the reverse investment equity of Enterprise C in Enterprise A. (See paragraph 11.99.)

owners. Furthermore, retained earnings should be calculated after any provision for consumption of fixed capital. Consumption of fixed capital is measured by the value, at current replacement cost, of the fixed assets used up (as a result of physical deterioration, normal obsolescence, or normal accidental damage) during an accounting period. In the calculation of consumption of fixed capital, the expected economic life of an individual asset should be taken into account. (Expected life and normal obsolescence or damage do not include losses due to wars or major natural disasters.) Depreciation used in the business accounts is not necessarily the same as consumption of fixed capital as the depreciation is usually based on historic cost or book values. If data based on historic cost or book values are used, they should be adjusted to current replacement cost basis for the purpose of calculating consumption of fixed capital.

11.46 Reinvested earnings can be negative when a direct investment enterprise has a loss on its operations or the dividends declared in a period are larger than net income in that period. If direct investment abroad generates negative earnings, the entry should be shown as a negative income receivable by the direct investor. Simi-

larly, the economy of the direct investment enterprise should record the losses as negative income payable.

11.47 In a chain of direct investment relationships, reinvested earnings need only be recorded between the direct investor and directly owned direct investment enterprises. The passing of retained earnings from indirect holdings should be taken into account through the chain of direct investment relationships. Retained earnings of an enterprise in the chain would include reinvested earnings derived from its immediate direct investment enterprise (see paragraphs 6.8–6.24 for a definition of direct investment relationships), which as a direct investor would receive reinvested earnings from its immediate direct investment enterprise, and so on. Therefore, reinvested earnings are passed on to the indirect direct investors through the chain indirectly, as illustrated in Box 11.1.

4. Interest

Reference:

IMF and others, *External Debt Statistics: Guide for Compilers and Users*, Chapter 2, Appendix, Accrual of Interest Costs—How Should This Be Implemented? and paragraphs 6.15–6.17.

11.48 *Interest is a form of investment income that is receivable by the owners of certain kinds of financial assets, namely deposits, debt securities, loans, and other accounts receivable, for putting the financial assets at the disposal of another institutional unit. Income on SDR holdings and SDR allocations is also included in interest.* Not all current account flows associated with debt instruments are interest; some may be commissions or fees, which are charges for financial services (see paragraphs 10.118–10.136 for a discussion of financial services).

11.49 Interest is recorded on an accrual basis; that is, interest is recorded as accruing continuously over time to the creditor on the amount outstanding. Depending on the contractual arrangements, the rate at which interest accrues can be a percentage of the amount outstanding, a predetermined sum of money, a variable sum of money dependent on a defined indicator, or some combination of these methods. Under the accrual basis, as interest accrues, the amount outstanding increases; that is, accrued interest not yet paid is a part of the amount outstanding. What are commonly referred to as interest payments, therefore, are financial account transactions that reduce the debtor's existing liability. The amount initially advanced or borrowed is also known as initial principal. Periodic coupon payments may cover part or whole of the interest accrual during that period as well as payments that reduce the initial principal.

a. Currency of denomination and fixed-rate vs. index-linked instruments

11.50 For the purpose of defining and measuring interest, it is useful to distinguish between the following three types of arrangements:

- (a) **Domestic-currency-denominated fixed-rate instruments.** At inception, the contracting parties determine all future cash flows that the debtor must make in domestic currency. Interest for these instruments is the difference between the sum of all debtor's payments and the funds the creditor makes available to the debtor. The information on the amount outstanding and interest rates needed to calculate interest accruals is known at inception.
- (b) **Foreign-currency-denominated fixed-rate instruments.** At inception, future cash flows are determined in the relevant foreign currency. The recording of interest on foreign currency fixed-rate instruments is also straightforward. Interest is defined according to the formula described

in (a) above, with the only difference being that, in the first instance, a foreign currency is used as the currency of denomination. Interest expressed in foreign currency is to be converted into the domestic currency at the mid-point market exchange rate for the periods in which the interest accrues. The information on amount outstanding and interest rates needed to calculate interest accruals in the currency of denomination is known at inception. Debt instruments with both the amount to be paid at maturity and all periodic payments (such as coupons) linked to a foreign currency are treated as though they are denominated in that foreign currency.

- (c) **Index-linked instruments.** The indexation mechanism links the amount to be paid at maturity or periodic payments (such as coupons) (or both) to indicators agreed by the parties, and the values of the indicators are not known in advance. As a result, the amount of interest cannot be known at the time of issue. For some instruments, it can be determined only at the time of redemption. Indexed instruments include those indexed to the consumer price index, a stock exchange index, a commodity price, and so forth. Index-linked debt instruments are those on which payments are linked to a reference item that normally changes over time in response to market pressures. All other debt instruments should be classified as fixed-rate. As noted in paragraph 11.50(b), debt instruments with both the amount to be paid at maturity and periodic payments linked to a foreign currency are classified and treated as though they are denominated in that foreign currency. All other types of index-linked instruments, including those that are partially linked to exchange rates (e.g., those for which either only the amount to be paid at maturity or only periodic payments are linked to an exchange rate), are treated as being denominated in domestic currency for the recording of interest and other economic flows. The calculation of interest accrual for index-linked instruments is described in paragraphs 11.59–11.65.

b. Interest on loans, deposits, and accounts receivable/payable

11.51 The nature of financial assets and liabilities in the form of deposits, loans, and accounts receivable/payable is explained in Chapter 5, Classification of Financial Assets and Liabilities. In general, the interest accrual on these financial assets and liabilities is determined by

applying the relevant interest rate as specified in the contractual arrangements between parties to the amount outstanding at each point of time throughout the accounting period. Some instruments have a fixed interest rate for the entire life of the instrument. Some instruments may have terms for changes in interest rates, once or several times, during the life of the instrument. For each period, the relevant interest rate should be used to calculate interest accrued in that period. Some loans and deposits may also have indexation of the amount to be paid at maturity or periodic payments (or both). Interest accruals arising from indexation as described in paragraphs 11.59–11.65 also apply to indexed loans and deposits.

c. Interest on debt securities—traded debt instruments and concept of interest

11.52 Defining and measuring interest for traded debt securities is not straightforward. While debtors have obligations to settle according to the terms and conditions set at the inception of the debt instruments, holders of securities acquired in the secondary markets may not know or even care about the interest rate at the time of issue. There are three approaches for defining and measuring interest for traded debt instruments:

- (a) Interest is equal to the amounts the debtors will have to pay to their creditors over and above the repayment of the amounts advanced by the creditors. Interest accrual on a debt instrument is determined for the entire life by the conditions set at inception of the instrument. Interest accrual is determined using the original yield-to-maturity. A single effective yield, established at the time of security issuance, is used to calculate the amount of accrued interest in each period to maturity. This approach is also known as the debtor approach.
- (b) Interest is the income that follows from applying, at any point in time, the discount rate of future receivables implicit in the instrument's market value. The accrual of interest under this approach reflects current market conditions and expectations. Interest accrual at any given time is determined using the current yield-to-maturity. The effective interest rate for calculating the accrued interest varies with period-to-period changes in the market price of the securities. This approach is also known as the creditor approach.
- (c) Interest is the income that follows from applying the discount rate implicit in the cost at which the instrument was acquired. The accrual of inter-

est under this approach reflects market conditions and expectations at the time of acquisition. Interest is determined using the remaining yield-to-maturity at the time the debt instrument is acquired. The effective interest rate will change only if the security is resold in the secondary market. This approach is also known as the acquisition approach.

11.53 In the international accounts, interest is recorded following the first approach described above in paragraph 11.52(a). The same approach is followed in other macroeconomic statistical systems. Interest calculated according to the market rates as described in paragraph 11.52(b) may be reported as a supplementary item, which is important particularly for analyzing rates of return. It should be noted that for debt securities the valuation and recording of transactions in the financial account and positions in the balance sheets do not depend on the method used for the calculation and recording of interest accrual. Acquisitions and disposals of debt securities are recorded at transaction prices and the positions are recorded at market prices or fair values.

Debt securities with known cash flows

11.54 For debt securities for which the issue and redemption prices are the same (i.e., issued at par), total interest accruals over the whole life of the securities are given by the periodic coupon payments. If coupon payments are fixed, accrued interest can be calculated by allocating the coupon payment to the relevant period using a daily compound formula.

11.55 Certain debt securities, such as short-term bills of exchange and zero-coupon bonds, are such that the debtor is under no obligation to make any payments to the creditor until the liability matures. In effect, the debtor's liability is discharged by a single payment covering both the amount of the funds originally borrowed and the interest accrued and accumulated over the entire life of the liability. Instruments of this type are said to be discounted because the amount initially borrowed is less than the amount to be repaid. The difference between the amount to be repaid at the end of the contract and the amount originally borrowed is interest that must be allocated over the accounting periods between the beginning and end of the contract. The interest accruing in each period is recorded in the primary income account with the same amount increasing the debtor's liability for the same instrument in the financial account. An example is shown as Box 11.2.

Box 11.2. Numerical Example of Calculation of Interest Accrual on a Zero-Coupon Bond

A bond is issued on January 1, Year 1, with 100 repayable in five years, with no coupons.

If the market rate of interest at the time of issue is 10 percent for that maturity and credit rating, then the bond will be issued at a price of 62.09 (that is, $100/1.1^5$).

The annual interest calculations and associated values of the principal are as follows:

	IIP Value of Debt Securities January 1	Income Interest Accrued	IIP Value of Debt Securities December 31
Year 1	62.09	6.21	68.30
Year 2	68.30	6.83	75.13
Year 3	75.13	7.51	82.64
Year 4	82.64	8.26	90.91
Year 5	90.91	9.09	100.00

Notes:

- According to the debtor approach (see paragraph 11.52(a)), the interest in each period is fixed at inception.
- The sum of interest over the five years is 37.91, equal to the difference between 62.09 (price at issue) and 100 (price at redemption).
- Interest accrued each year increases in line with the growing accumulated value of accrued interest.
- The corresponding entry to the interest accrued is an increase in debt securities in the financial account. The values of the bond during the period are unknown, because of holding gains and losses. While fluctuations in market interest rates will cause changes in the value, the calculation of interest is unaffected.

(For further details, see *External Debt Statistics: Guide for Compilers and Users*, paragraph 2.66 and Table 2.3.)

11.56 A slightly more complicated case is a deep-discount bond, which is a discounted instrument that also requires periodic coupon payments. In such cases, the interest accrual is the amount of the coupon payable periodically plus the amount of interest accruing in each period attributable to the difference between the redemption price and the issue price. Interest accrual from the periodic coupon payments is derived as explained in paragraph 11.54. Interest accrual from the amortization of the discount (the difference between the issue and redemption prices) can be calculated by summing daily amortizations for the reporting period. Although amortization rates could be calculated on monthly or quarterly bases, amortization at a daily rate facilitates the allocation of the amortized discount to the individual reporting periods.

11.57 In some cases, debt securities are issued at a premium rather than at a discount. The method of determining the interest accrual is identical to the case of a discounted instrument except that when issued at a premium, the difference between the redemption and issue price is amortized over the life of the instrument and reduces (rather than increases as in the case of the discounted instrument) the amount of interest accruing in each period.

11.58 Stripped securities raise special issues for accrual of interest. Unofficial strips are issued by a third party without the authorization of the original issuer and, hence, the stripped securities are new instruments—a liability of the strip issuer. The original debt securities continue to accrue interest according to the term specified in the contract. Interest on stripped securities

accrues at the rate determined at the time of issuance of strips. Official strips (issued with the authorization of the original issuer through a strip dealer it appoints) simply change the arrangements for holding the original instrument, and thus the strips remain the direct obligation of the original issuer. Interest on official strips therefore accrues at the rate on the underlying security, but not at the rate prevailing at the time of stripping.

Index-linked debt securities

11.59 As explained in paragraph 11.50, an indexation mechanism links the amount to be paid at maturity or coupon payments (or both) to indicators agreed by the parties. The values of the indicators are not known in advance. For debt securities with indexation of the amount to be paid at maturity, they may be known only at the time of redemption. As a result, interest flows before redemption are uncertain and cannot be determined with certainty. For estimating interest accruals before the values of the reference indicators are known, some proxy measures will have to be used. In this regard, it is useful to distinguish the following three arrangements:

- (a) indexation of coupon payments only with no indexation of amount to be paid at maturity,
- (b) indexation of the amount to be paid at maturity with no indexation of coupon payments, and
- (c) indexation of both the amount to be paid at maturity and coupon payments.

The principles described in paragraphs 11.60–11.66 for index-linked debt securities apply to all index-linked debt instruments.

11.60 When only coupon payments are index-linked, the full amount resulting from indexation is treated as interest accruing during the period covered by the coupon. It is most likely that by the time data are compiled for a reporting period, the date for the coupon payment would have been passed and hence the value of index is known. When the date for the coupon payment has not been passed, the movement in the index during that part of the reporting period covered by the coupon can be used to calculate the interest accrual.

11.61 When the amount to be paid at maturity is index-linked, the calculation of interest accruals becomes uncertain because the redemption value is unknown; in some cases the maturity time may be several years in the future. Two approaches can be followed to determine the interest accrual in each accounting period:

- (a) Interest accruing in an accounting period due to the indexation of the amount to be paid at maturity may be calculated as the change in the value of this amount outstanding between the end and beginning of the accounting period due to the movement in the relevant index. (See Box 11.3 for an example.)
- (b) Interest accruals may be determined by fixing the rate of accrual at the time of issue. Accordingly, interest is the difference between the issue price and the market expectation, at inception, of all payments that the debtor will have to make, which is recorded as accruing over the life of the instrument. This approach records as income the yield-to-maturity at issuance, which incorporates the results of the indexation that are foreseen at the moment the instrument was created. Any deviation of the underlying index from the originally expected path leads to holding gains or losses that will not normally cancel out over the life of the instrument. (See Box 11.4 for an example.)

11.62 Although the first approach (using the movement in the index) has the advantage of simplicity, interest includes all changes and fluctuations in the value of the amount to be paid at maturity in each accounting period due to the movement in the relevant index. If there is a large fluctuation in the index, this approach may yield negative interest in some periods even though market interest rates at the time of issue and current period may be positive. Also, fluctuations behave like holding gains and losses. The second approach (fixing the rate at the time of issue) avoids such problems, but the actual future cash flows may differ from the initially expected cash flows unless ex ante market expectations are exactly met. This means that interest for the life of the instrument may not be equal to the difference between the issue price and redemption value.

11.63 The first approach works well when a broad-based indexation of the amount to be paid at maturity is used (e.g., a consumer price index or nominal GDP) because such indexation is expected to change relatively smoothly over time. However, the first approach may give counter-intuitive results when the indexation of the amount to be paid at maturity combines motives for both interest income and holding gains (e.g., a narrow price index such as a commodity price, stock price, or gold price). Therefore, when indexation includes a holding gain motive, typically indexation based on a single, narrowly defined item, the second approach is preferred; otherwise the first approach should be used for the measurement of interest accrual.

Box 11.3. Numerical Example of Calculation of Interest Accrual on an Index-Linked Bond—Broad-Based Index

A bond is issued on Jan 1, Year 1 at a price 1000 for five years, with no coupons, indexed to a broad price index. The index value at the beginning of the period is 100.

The index and bond values, with the derived interest and revaluations are as follows:

	Broad Price Index	Interest	Revaluation	Bond
	End of Period			Dec. 31
Year 1	107.0	70	-12	1,058
Year 2	113.0	60	-17	1,101
Year 3	129.0	160	58	1,319
Year 4	148.0	190	10	1,519
Year 5	140.3	-77	-39	1,403
Years 1-5		403	0	

Notes:

- Total interest over the five years (i.e., 403) is determined by the movement of the index (i.e., 40.3 percent increase).
- Since this is a bond, revaluations also arise because of changes in market conditions, such as changes in market interest rates, credit ratings, and expectations about the future path of the index. However, they are zero over the life of the bond when it is repaid at its indexed value.
- Negative values of interest can arise in the periods when the index declines.
- The corresponding entry to the interest accrued is an increase in debt securities in the financial account.
- Fluctuations in market interest rates cause changes in the value of the bond, but the calculation of interest is unaffected.

11.64 Because debt instruments with both the amount to be paid at maturity and coupon payments indexed to foreign currency are treated as though they are denominated in that foreign currency, interest, other economic flows, and positions for these instruments should be calculated using the same principles that apply to foreign-currency-denominated instruments. Interest should accrue throughout the period using the foreign currency as the currency of denomination and converted into the domestic currency using mid-point market exchange rates. Similarly, the amount outstanding should be valued using the foreign currency as the unit of account with the end of period exchange rate used to determine the domestic currency value of the entire debt instrument (including any accrued interest) in the international investment position. Changes in market values of debt securities due to exchange rate movements and interest rate changes are treated as revaluations.

11.65 When both the amount to be paid at maturity and coupon payments are indexed to a broad-based reference item, interest accruals during an accounting

period can be calculated by summing two elements: the amount resulting from the indexation of the coupon payment (as described in paragraph 11.60) that is attributable to the accounting period, and the change in the value of the amount outstanding between the end and beginning of the accounting period arising from the movement in the relevant index (as described in paragraph 11.61(a)). When both the amount to be paid at maturity and coupon payments are indexed to a narrow index that includes a holding gain motive, interest accruals for any accounting period can be determined by fixing the yield-to-maturity at issuance as explained in paragraph 11.61(b).

Debt securities with embedded derivatives

11.66 For debt securities with embedded derivatives, such as call, put, or equity conversion options, the accounting for accrued interest is the same as for securities that do not have such features. For all periods leading up to the exercise of the option, the interest accrual is unaffected by the presence of the option.

Box 11.4. Numerical Example of Calculation of Interest Accrual on an Index-Linked Bond—Narrowly Based Index

A bond is issued on Jan 1, Year 1 at a price 1000 for five years, with no coupons, indexed to a narrow price index. The index value at the beginning of the period is 100. (The numbers are the same as the example in Box 11.3, but the treatment differs because the narrow index treatment is applied in Box 11.4.) Market interest rates are 8 percent per annum at the time of issue.

The index and bond values, with the derived interest and revaluations are as follows:

	Narrow Price Index		Revaluation	Bond
	End of Period	Interest		Dec. 31
Year 1	107.0	80	-22	1,058
Year 2	113.0	86	-43	1,101
Year 3	129.0	93	124	1,318
Year 4	148.0	101	100	1,519
Year 5	140.3	109	-225	1,403
Years 1-5		469	-66	

Notes:

- The total increase in value over the five years (i.e., $469 - 66 = 403$) is determined by the movement of the index (i.e., 40.3 percent increase).
- According to the debtor approach (see paragraph 11.52(a)), the interest in each period is fixed according to the interest rate at inception. The interest for Year 1 is 80 (8 percent of 1000), for Year 2 it is 86 (8 percent of $1000 + 80$), for Year 3 it is 93 (8 percent of $1000 + 80 + 86$), and so on.
- The revaluation for the whole life of the bond is due to the difference between the increase in the index and the compound increase that would have occurred at the market rate of interest. (Revaluations also arise for individual periods during the life of the bond because of changes in market conditions, such as changes in market interest rates, credit ratings, and expectations about the future path of the index.)
- Fluctuations in market interest rates cause changes in the value of the bond, but the calculation of interest is unaffected.

When the embedded option is exercised, the securities are redeemed and accrual of interest ceases.

d. Fees on securities lending and gold loans

11.67 Securities lending without cash collateral consists of the delivery of securities for a given time period. (This is discussed further in paragraphs 7.58–7.61.) Usually the borrowers (e.g., brokers) subsequently on-sell the securities outright to other clients. The ability of the borrower to on-sell the securities reflects that legal ownership is transferred to the borrower, while the economic risks and rewards of ownership remain with the original owner. In return, the “lender” receives a fee from the “borrower” for the use of the security. Gold loans consist of the delivery of gold for a given time period. They may be associated with physical gold

or (less frequently) unallocated gold accounts. As with securities lending, legal ownership of the gold is transferred (the temporary borrower may on-sell the gold to a third party), but the risks and benefits of changes in the gold price remain with the lender. Gold borrowers (usually market dealers or brokers, but also gold producers and industrial gold users) often use these transactions to cover their sales to third parties in periods of (temporary) gold shortage. A comparable fee is paid to the original owner for the use of the gold. The amount of the fee is determined by the value of the underlying asset and the duration of the reverse transaction. Warrants may also sometimes be lent.

11.68 Securities and monetary gold are financial instruments and thus the fees for securities lending without cash collateral and gold loans are payments

for putting a financial instrument at the disposal of another institutional unit. Accordingly, fees on securities lending (equity securities as well as debt securities) and gold loans accrue to the security owner and are treated as interest (with the corresponding entry in other accounts receivable/payable; see paragraph 5.73). As a simplifying convention, fees paid on loans of non-monetary gold are also treated as interest. For securities lending, although, in some circumstances, the fee is payable to the custodian in the first instance (and used to defray custodial charges, in whole or in part), in principle, all of the fee is payable to the owner of the security who, in turn, is deemed to pay part or all of it to the custodian in a separate transaction. (Amounts accruing to custodians are included under custodial services, discussed under financial services in paragraphs 10.121 and 10.124.)

e. Investment income accrued while securities are under reverse transactions

11.69 The economic owner of securities continues to record dividends and the accrual of interest on the securities even when the legal ownership changes under a reverse transaction (see paragraph 7.58) or a custodian has on-sold the securities to a third party (see paragraph 10.124). If the reverse transaction covers the period when dividends or coupons are payable, the security taker is typically obliged to compensate the security lender. (The payments to the security lender to compensate for the dividends are called “manufactured dividends.”) The treatment of the reverse positions is on the research agenda.

f. Accrual of interest on nonperforming debt

11.70 Amount outstanding of nonperforming debt remains a legal liability of the debtor, so interest should continue to accrue unless the liability has been extinguished (e.g., by repayment or as a result of a bilateral arrangement between debtor and creditor). However, for some analysis, it may be more useful to exclude, from primary income measures, interest that is not realistically expected to be paid. It would, therefore, be useful for the creditor to provide supplementary information on accrued interest on nonperforming debt when it is significant and quantifiable. It is important that meta-data should provide information on the method adopted for defining nonperforming debt. Nonperforming loans are described in paragraphs 7.50–7.53.

11.71 Following the accrual principle, arrears on debt repayments (both periodic payments and amount to be

paid at maturity) that are not paid on due dates should continue to be shown in the same instrument until the liability is extinguished (see also paragraph 3.56). For arrears arising from a debt contract, interest should accrue at the same interest rate as on the original debt, unless a different interest rate for arrears was stipulated in the original debt contract, in which case this stipulated interest rate should be used. The stipulated rate may include a penalty rate in addition to the interest rate on the original debt. If the terms and characteristics of the financial instrument automatically change when it goes into arrears, and if the classification of the loan is changed, the change should be recorded as a reclassification in the other changes in financial assets and liabilities account (see paragraph 3.56 for treatment of arrears). If the contract is renegotiated, transactions are recorded as a new instrument is created. If an item is purchased on credit and the debtor fails to pay within the period stated at the time the purchase was made, any extra charges incurred should be regarded as interest and accrue until the debt is extinguished.

11.72 When a one-off guarantee covering a debt that becomes nonperforming is activated, the guarantor assumes the liability for that debt. From the time of activation of the debt guarantee, the interest accrual becomes the liability of the guarantor. A guarantor may make payments for interest that are due on loans or other interest-bearing liabilities of other units for which it acts as the guarantor. Any interest accruing before the guarantor assumes the debt is a liability of the original debtor and payments by the guarantor should be classified on the basis of contractual arrangements between the guarantor and the original debtor. In most cases, such payments establish a claim by the guarantor on the original debtor, who is obliged to service the debt. In other cases, the claim on the debtor may be an increase in the existing equity participation (e.g., the activation of a guarantee made by a parent company for debt of its subsidiary will improve the balance sheet of the subsidiary and hence the parent company’s equity in it). If the guarantor does not obtain a claim on the original debtor, a capital transfer from the guarantor to the debtor is recorded, particularly when the guarantor is a government unit. The treatment of one-off guarantees is described in paragraphs 8.42–8.45.

g. Interest on financial leases

11.73 Financial leases are defined and distinguished from operating leases in paragraphs 5.56–5.58. The implication of treating financial leases as a loan is that interest accrues on the loan. The lessor is treated as

making a loan to the lessee equal to the market value of the asset, this loan being gradually paid off over the period of the lease. The rate of interest on the imputed loan is implicitly determined by the total amount payable in rentals over the life of the lease in relationship to the market value of the asset at the time of lease initiation. The initial loan to the lessee, together with the lessee's subsequent repayments of the loan, are recorded in the financial account of the lessor and lessee. The interest payable on the loan is recorded in the primary income account. (A numerical example of calculation of items for financial leases is shown in Box A6b.1.)

h. Pure interest (excluding FISIM)

11.74 Typically, financial intermediaries offer lower rates of interest to their depositors than the rates that they charge to their borrowers. The resulting interest margins are used by the financial intermediaries to defray their expenses and to provide an operating surplus. This method of operation is an alternative to charging customers directly for services. The treatment of this margin (FISIM—financial intermediation services indirectly measured) and its measurement are described in paragraphs 10.126–10.136.

11.75 The primary income account records “pure interest” by eliminating the FISIM component from “actual interest.” “Actual interest” payable to a financial intermediary includes the service charge, which should be subtracted to give the interest recorded as investment income in the international accounts. Similarly, “actual interest” receivable from a financial intermediary is seen as having had a service charge already deducted, so the actual interest receivable from the financial intermediary will be increased by the value of the service received to provide interest recorded as investment income in the international accounts. The “pure interest” is calculated using the reference interest rate. The concept of “reference” interest rate and its application are described in paragraphs 10.129–10.130. Actual interest charged or received by banks is needed for certain analytical purposes (for instance, for debt sustainability analysis and analysis of rates of return) and should be disseminated as a memorandum item.

i. Interest under high inflation

11.76 High inflation gives rise to specific issues in measuring and interpreting interest. An obvious example is that interest rates for domestic-currency-denominated instruments could be significantly higher than those for foreign-currency-denominated instruments. Thus, nomi-

nal interest for domestic-currency-denominated instruments includes compensation for the loss of purchasing power on the monetary value of the funds advanced. The topic of accounting under high inflation is important and more pervasive in the accounts than simply the question of how to measure interest in these circumstances. Indeed, the whole issue of the measurement of transactions on a current price basis is called into question when prices at the end of the period are several times those at the start of the period. Chapter 29, Satellite Accounts and Other Extensions, of the 2008 SNA provides guidance on compiling and presenting data in conditions of inflation, covering the whole range of issues from the goods and services account, through income and financial accounts, to balance sheets.

5. Investment income attributable to policyholders in insurance, standardized guarantees, and pension funds

11.77 *Investment income attributable to policyholders in insurance, standardized guarantees, and pension funds represents returns to policyholders on their claims in insurance and standardized guarantee schemes in the form of technical reserves and income payable on pension entitlements.*

11.78 The operations of insurance corporations, standardized guarantee schemes, and pension funds include charging premiums, paying claims, and managing and investing funds. However, the observed transactions do not always reflect the underlying economic relationships between the insurance corporations or pension funds and policyholders, and it is necessary to rearrange these operations so that the underlying economic behavior is reflected in the economic accounts. One such rearrangement is the imputation of investment income attributable to policyholders in insurance corporations, standardized guarantee schemes, and pension funds. The measurement of these services is described in paragraphs 10.109–10.117.

11.79 Insurance corporations, standardized guarantees, and pension funds hold technical reserves to meet obligations arising from claims and entitlements. The definition and classification of these technical reserves are described in paragraphs 5.62–5.63 and 7.63–7.68. The technical reserves and entitlements represent a liability of the insurer, issuer of standardized guarantees, and defined benefit pension fund, and a corresponding asset of the policyholders and beneficiaries. To meet their technical reserve liabilities, the insurers, guarantors, and pension funds make investments in

various assets, such as financial assets, land, or buildings. However, the investments by insurers, guarantors, and pension funds are not necessarily equal to the technical reserves and entitlements.

11.80 For nonlife insurance policies, the technical reserves represent prepayment of premiums and reserves against outstanding claims. Guarantors have technical provisions for calls under standardized guarantees. The investment income on these technical reserves is treated as income attributable to the policyholders.

11.81 For life insurance, the insurers' liability equals the present value of expected claims from existing policyholders. Set against these liabilities, the insurance corporations hold assets, and the income earned by insurance corporations from these assets is attributed to the policyholders as investment income on their claims on life insurance corporations. (See paragraph A6c.33 for further information.)

11.82 For defined contribution pension schemes, the investment income payable on pension entitlements is measured in the same way as for the investment income attributable to insurance policyholders (i.e., equal to the investment income on funds plus any income earned by renting land and buildings owned by the fund). For the defined benefit pension schemes, because the value of entitlements is the present value of future payments, the investment income payable on pension entitlements is measured as the increase in benefits payable because the date when the entitlements become payable is closer. The amount of the increase is not affected by whether the pension scheme actually has sufficient funds to meet all the obligations nor by how it is funded (whether from investment income or holding gains, for example). (In contrast, changes in model assumptions are recorded under other changes in volume—see paragraph 9.24.)

11.83 Investment income attributable to policyholders is retained by the insurance corporations, guarantors, and pension funds in practice. It is therefore treated as being paid back by the policyholders to the insurance corporations, guarantors, and pension funds in the form of premium supplements that are additional to actual premiums payable under the terms of the insurance and pension policies. The corresponding entries to the investment income attributable to insurance policyholders for casualty insurance, including standardized guarantees, are called premium supplements and taken into account in deriving service charges and net premiums. (See paragraphs 12.41–12.42 and Appendix 6c, Topical Summary—Insurance, Pension Schemes, and Standardized Guarantees.)

11.84 The total amount of investment income attributable to policyholders is allocated among policyholders. The allocation to policyholders could be made in proportion to actual premiums payable by them. Investment income payable by resident insurers, guarantors, and pension funds to nonresident policyholders can be estimated by multiplying the gross premiums earned from nonresidents by the ratio of investment income attributable to policyholders to gross premiums earned for all operations. To the extent that these ratios vary for different lines of business (reinsurance, marine, life, pension funds, standardized guarantees, etc.), the calculations should be made separately. Such investment income receivable by resident policyholders from nonresident insurers, guarantors, and pension funds is not readily observable. Ratios of investment income attributable to policyholders to premiums that are observed in other similar cases could be used to calculate investment income receivable.

6. Rent

Reference:

2008 SNA, Chapter 7, The Distribution of Income Accounts.

11.85 *Rent covers income receivable for putting natural resources at the disposal of another institutional unit.* The party providing the natural resource is called the lessor or landlord, while the user is called the lessee or tenant. The terms under which rent is payable are expressed in a resource lease. *A resource lease is an agreement whereby the legal owner of a natural resource that has an infinite life makes it available to a lessee in return for a regular payment recorded as rent.*

11.86 Examples of rent include amounts payable for the use of land extracting mineral deposits and other subsoil assets, and for fishing, forestry, and grazing rights. The regular payments made by the lessees of natural resources such as subsoil assets are often described as royalties, but they are classified as rents. Payments or receipts by government of rent on land without buildings (e.g., for military bases) should be shown as rent, not as government goods and services n.i.e. If a single payment covers both the return on land and structures on it and there is no objective basis on which to split the payment for the use of land and structures, the whole amount should be treated as rent when the value of land is believed to exceed the value of structures, and as purchase of services (rental) otherwise.

11.87 Usually, the entity using land or natural resources is a resident institutional unit. However, if the

user is a nonresident then a cross-border transaction on rent arises. For example, a forestry or fishing operation that pays for temporary access to naturally growing fish or timber in another economic territory gives rise to rent in the international accounts. It is also possible that other natural resources adjoining a border could be extracted from a base on the other side of the border, thus giving rise to rent. Payments for overflight rights are also rent, unless they relate primarily to air traffic control, in which case they would be other transport services. Rent arrangements can be contrasted with:

- (a) outright ownership of the resources concerned, which would be recorded as an international transaction in a natural resource (see paragraph 13.9) or, more likely, give rise to a notional direct investment enterprise that owns the resource (paragraphs 4.34–4.40); or
- (b) when the right to use an asset amounts to an economic asset but not outright ownership of the underlying asset, the purchase and sale are classified under contracts, leases, and licenses (e.g., a right to use a natural resource for 10 years, such as a spectrum license; see paragraph 13.11); or
- (c) rentals, which represent charges for the use of fixed assets, such as houses and machinery (see paragraphs 10.153–10.157 on rentals arising from operating leases).

11.88 Notional direct investment enterprises created for holding land and leases on land for long periods will normally generate rent (or travel or operational leasing services if there is a building on the land). Notional units are described in paragraphs 4.34–4.40. When the land or buildings are used by the owners (who are nonresidents) of the notional unit, an imputation for rent (in the case of use of land) or travel services (e.g., in territories that had a large number of vacation homes owned by nonresidents) or operational leasing (if nonresident enterprises own premises for their own use) would be necessary. These imputations are recorded under relevant categories of the current account. The income arising from the notional direct investment enterprise is recorded under direct investment income. For example, if the vacation home is rented, the notional unit receives the payment for accommodation and generates net earnings that are considered withdrawals from income of quasi-corporations, generated by the provision of accommodation services.

11.89 Rent is recorded on an accrual basis; that is, rent is treated as accruing continuously to the owner throughout the period of the contract agreed between

the owner and the user. The rent recorded for a particular accounting period is, therefore, equal to the value of the accumulated rent payable over that period of time, as distinct from the amount of rent due to be paid during that period or the rent actually paid. An up-front rent payment covering several periods gives rise to a financial asset of the lessee and liability of the lessor, classified under accounts receivable/payable. Similarly, a payment after the rent period(s) gives rise to other accounts receivable/payable.

11.90 If a lessee subleases a natural resource, the income from the subleasing should be classified as rent, as should the income payable to the owner of the natural resource by the owner of the lease.

7. Taxes and subsidies on products and production³

11.91 Taxes and subsidies on products and production are included in the primary income account. (See paragraphs 10.180–10.181 for distinction between taxes and services.) Taxes on income and wealth are included in the secondary income account (see paragraphs 12.28–12.31 for taxes on income and wealth). Cross-border taxes and subsidies on products and production are normally not significant except perhaps in economic unions. They arise if an international or regional organization levies its own taxes or pays subsidies (which may also be done through national governments). They may also arise when economic activity by nonresidents (such as short-term construction or installation projects) is insufficient to constitute a branch. Although taxes on products may be levied at various stages (production, distribution, or use), they are included in the prices of goods and services. Therefore, for purchasers, the prices paid include relevant taxes on products, while for governments such taxes are considered primary income.

11.92 Taxes and subsidies on products and production should be recorded in the primary income account to maintain the conceptual consistency with *SNA*. The 2008 *SNA* distinguishes between

- (a) Taxes on products, which are payable per unit of a good or service. Examples include value-added tax, import duties, export taxes, and excise; and
- (b) Other taxes on production. Examples include payroll taxes, recurrent taxes on buildings and land, and business licenses.

³This item corresponds to the 2008 *SNA*'s "Taxes on production and on imports" and "Subsidies."

The same distinction is made for subsidies. As mentioned in paragraph 11.4, the balance on the primary income account makes up the difference between GDP and GNI. Subsidies are shown separately from taxes, rather than being deducted from taxes.

11.93 In some cases, an exporter of a good contractually agrees to pay import duties. In such cases, the duties are outside the scope of the primary distribution of income in the international accounts. This treatment is adopted because the duties arise from the process of importation, and so they are an obligation of the importer. They are, therefore, treated as payable by the importer, and so are resident-to-resident transactions. The amount of import duties paid by the exporter, therefore, is not included in the FOB value of the goods. (Because the tax is imputed as being paid by the importer, it is a resident-to-resident transaction.) Similarly, if an importer agrees to pay export taxes, the tax is still an obligation of the exporter. The amount of the export tax paid by the importer, therefore, is included in the FOB value of the goods and rerouted through the exporter. (See also paragraph 10.34.) (This treatment is the same as applies to arrangements to pay freight and insurance services.)

11.94 In some circumstances, a duty or other tax may be imposed by the customs authorities without ownership being acquired by a resident of that territory. Examples may include goods to be processed, repaired, or stored, or for use by visitors. In such cases, when customs duties are payable by nonresidents, the duties are recorded as taxes on products payable by nonresidents.

C. Investment Income and Functional Categories

11.95 This section deals with investment income that is included under each functional category of financial assets and liabilities. It also discusses specific issues related to investment income for a functional asset category. A functional asset category includes different types of financial instruments that serve the same function, and hence a functional category can include different types of investment income. Financial derivatives and employee stock options do not give rise to investment income.

I. Direct investment income

11.96 Direct investment income includes all investment income arising from direct investment

positions between resident and nonresident institutional units. As noted in paragraph 6.28, debt between selected affiliated financial intermediaries is not included in direct investment, so the corresponding income on those instruments is also classified as portfolio or other investment income. Rare cases of other primary income, such as compensation of employees and rent between direct investors and direct investment enterprises, are not included under direct investment income.

11.97 Direct investment relationships are defined in paragraphs 6.8–6.24. Three types of direct investment relationships and associated investment income flows can be distinguished:

- (a) Direct investors' investment in direct investment enterprises. This category includes investment income flows (distributed earnings, reinvested earnings, and interest) between the direct investor and its direct investment enterprises (whether in an immediate relationship or not).
- (b) Reverse investment (defined in paragraph 6.40). This type of relationship covers investment income flows on liabilities of direct investors to their direct investment enterprises and on claims of direct investment enterprises on their direct investors.
- (c) Between fellow enterprises. This covers investment income flows between all fellow enterprises that belong to the same direct investment group.

Dividends, withdrawals from income of quasi-corporations, and interest can apply for any of these types of direct investment relationships. Reinvested earnings are attributed to direct investors only when equity participation by the direct investor meets the 10 percent threshold. A numerical example of the calculation of reinvested earnings is given in Box 11.5.

11.98 Investment income associated with various types of financial instruments is discussed in Section B above. Table 11.2 shows various types of investment income by three types of direct investment relationship.⁴ Interest can be broken down further by type of financial instruments. The possibility of a detailed presentation of direct investment income as shown in Table 11.2 not only allows explicit links to financial instruments but also expands the analytical value of the

⁴Note that the titles in Table 11.2 refer to the position to which the income flows relate, so the heading "direct investors in direct investment enterprises" refers to investment income payable to direct investors by their direct investment enterprises.

Box 11.5. Numerical Example of Calculation of Reinvested Earnings of a Direct Investment Enterprise

Profit and Loss Statement of Enterprise A
Nonresident direct investors own 50 percent of the equity of Enterprise A.

Revenue:	
1. Sales of finished goods	20,000
+ increase in inventories of finished goods	500
2. Transport services provided	3,000
3. Repair services	6,000
4. Dividends	3,000
5. Interest on bonds	1,000
6. Profit on sale of property	1,000
7. Total revenue (1 through 6)	34,500
Expenses:	
8. Raw materials purchased	12,000
– increase in inventories of materials	2,000
9. Salaries and wages	5,000
10. Office rental	500
11. Travel of employees	2,000
12. Fuel, electricity, other costs	500
13. Depreciation	1,000
14. Interest on loans	1,000
15. Bad debt provisions	2,000
16. Total expenses (8 through 15)	22,000
17. Net income (before taxes)	12,500
18. Taxes on income	4,000
19. Net income (after taxes)	8,500
20. Dividends payable	5,000

Reinvested earnings can be derived by:

- (a) Adjusting net income after taxes:
Net income after taxes (line 19 = 8,500)
– dividends (line 20 = 5,000)

– revenue not part of output, primary income or secondary income (namely, holding gains, line 6 = 1,000)
+ expenses not being a transaction (namely, bad debt provisions, line 15 = 2,000)
= 4,500, multiplied by 0.5
= 2,250.

- (b) From the national accounting relationships
output of goods and services (line 1 + line 2 + line 3; which gives 29,500);
– intermediate consumption of goods and services; (line 8 + line 10 + line 11 + line 12; which gives 13,000)
– consumption of fixed capital (line 13, which gives 1,000) (Assumes depreciation is an acceptable approximation to consumption of fixed capital. Aggregate adjustments may be possible if it is not.)
+ primary and secondary income receivable (line 4 + line 5, which gives 4,000);
– primary and secondary income payable (line 9 + line 14 + line 18 + line 20; which gives 15,000)
* all multiplied by the direct investor's share in the equity of the enterprise
= 4,500 multiplied by 0.5
= 2,250

In practice, data for these calculations may not always be available monthly or quarterly, or may not be available for the most recent period(s). As a result, it may be necessary to derive some items from partial data or by methods, such as extrapolation, ratios, and models.

data for detailed analysis of direct investment relationships. However, the second and third categories may be insignificant or confidential in some cases, allowing for dissemination of only aggregate data for all three types combined.

Income on reverse investment

11.99 Reverse investment is defined in paragraph 6.40. Investment income on reverse investment is shown on a gross basis. That is, both the income receivable from claims on direct investors and income payable on liabilities to direct investment enterprises are shown separately. However, income data may also be presented according to the directional principle on a supplementary basis. There are no reinvested earnings on reverse equity because the 10 percent threshold has not been met.

Income on investment between fellow enterprises

11.100 There are no reinvested earnings on equity between fellow enterprises because the 10 percent threshold has not been met. The treatment of fellow enterprises in income data presented according to the directional principle is discussed in paragraph 6.43 and Box 6.4.

Transfer pricing

11.101 Transfer pricing at values that differ significantly from arm's length prices is usually associated with shifting resources between related enterprises, so it relates to direct investment income measures. Transfer pricing may be motivated by income distribution or equity buildups or withdrawals. Examples may be the provision of goods and services without

Table 11.2. Detailed Breakdown of Direct Investment Income

	Credits	Debits
Direct investment income		
Income on equity and investment fund shares		
Dividends and withdrawals from income of quasi-corporations		
Reinvested earnings		
Interest		
1. Direct investors in direct investment enterprises		
Income on equity and investment fund shares		
Income on equity other than investment fund shares		
Dividends and withdrawals from income of quasi-corporations		
Reinvested earnings		
Income on investment fund shares		
Dividends		
Reinvested earnings		
Interest		
By type of financial instruments		
2. Direct investment enterprises in direct investors (reverse investment)		
Income on equity and investment fund shares		
Income on equity other than investment fund shares		
Dividends and withdrawals from income of quasi-corporations		
Income on investment fund shares		
Dividends		
Reinvested earnings		
Interest		
By type of financial instruments		
3. Between fellow enterprises		
Income on equity and investment fund shares		
Income on equity other than investment fund shares		
Dividends and withdrawals from income of quasi-corporations		
Income on investment fund shares		
Dividends		
Reinvested earnings		
Interest		
By type of financial instruments		

Note: This table is expository; for Standard Components, see Appendix 9.

explicitly charging, or at understated or overstated values. Where transfer pricing is identified and quantified with a high degree of certainty, the relevant entry should be adjusted to an arm's length value (see also paragraphs 3.77–3.78). Compilers in each of the economies involved are encouraged to cooperate and exchange information in order to avoid asymmetrical recordings of bilateral data. In addition to the adjustment to the flow itself, there should be a corresponding entry, as stated below:

- (a) if a direct investment enterprise is overinvoiced on a good or service provided by the direct investor or
- (b) if a direct investor is underinvoiced on a good or service provided by the direct investment enterprise,

then the transfer pricing acts as a hidden dividend from the direct investment enterprise, so dividends should be increased by the difference between the market value of the goods and services and the prices actually charged:

- (a) if a direct investment enterprise is underinvoiced on a good or service provided by the direct investor or
- (b) if a direct investor is overinvoiced on a good or service provided by the direct investment enterprise,

then the transfer pricing acts as a hidden investment in the direct investment enterprise, so direct investment equity flows should be increased by the difference between the market value of the goods and services and the prices actually charged.

Table 11.3. Detailed Breakdown of Other Investment Income

	Credits	Debits
Other investment income		
Income on equity and investment fund shares		
Income on equity other than investment fund shares		
Dividends and withdrawals from income of quasi-corporations		
Income on investment fund shares		
Dividends		
Reinvested earnings		
Interest		
Deposits		
Loans		
Trade credit and advances		
Other accounts receivable and payable		
SDR allocations	n.a.	
Nonmonetary gold loans		
Investment income attributable to policyholders in insurance, pension funds, and standardized guarantee schemes		

Note: This table is expository; for Standard Components, see Appendix 9.

11.102 The adjustments for transfer pricing have implications for reinvested earnings and for data of the counterpart economy. It is, therefore, useful to exchange information to the extent possible with counterpart economies in order to avoid asymmetrical recordings.

2. Portfolio investment income

11.103 Portfolio investment income includes income flows between residents and nonresidents arising from positions in equity and debt securities other than those classified under direct investment or reserve assets. Financial instruments covered in portfolio investment are described in paragraphs 6.54–6.57.

11.104 Two types of portfolio investment income are distinguished at the first level, namely, income on equity securities and investment fund shares, and income on debt securities. The income on investment fund shares includes both dividends and reinvested earnings. Income on equity securities other than investment fund shares includes only distributed earnings (dividends). Interest is further classified by types of debt security and by maturity. Such a detailed classification of portfolio investment income ensures consistency with both instrument and functional classifications of financial assets and liabilities.

11.105 Portfolio investment income can be further classified by domestic institutional sectors (see Chapter 4, Economic Territory, Units, Institutional Sectors, and

Residence; Section D, Institutional Sectors) for owners of securities as well as issuers of securities. A variety of other supplementary disaggregations by foreign sector, currency of denomination, and so forth may be desirable for specific analytical purposes.

3. Other investment income

11.106 Other investment income covers flows between resident and nonresident institutional units in regard to interest on deposits, loans, trade credit and advances, and other accounts receivable/payable; income on equity and investment fund shares that are not classified in any other functional categories; and investment income attributable to policyholders in insurance, standardized guarantees, and pension funds. Interest payable on SDR allocations is also recorded under other investment income. Fees for nonmonetary gold loans should also be included in interest under other investment income (see paragraph 11.68). Table 11.3 shows various types of other investment income and associated financial instruments.

11.107 Other investment income on equity excludes income on direct investment equity and portfolio investment in equity securities. Equity participation in some incorporated or unincorporated enterprises (such as partnership or joint ventures) does not qualify either as direct investment (because the equity participation is below the 10 percent threshold) or as portfolio investment (because they are not equity securities). Such

equity participation is classified under other investment (see also paragraphs 5.26 and 6.62) and any income distributed to the owners should be classified in other investment income. Similarly, some investment funds may be organized by and limited to a small number of members, but may not meet the definition of direct investment or portfolio investment. Both distributed and reinvested earnings on such investment fund shares are classified under other investment income.

11.108 Other investment income should be further classified by type of financial instruments. It can also be classified by the domestic institutional sectors (for both income receivable on holdings of external assets and income payable on external liability positions).

4. Income on reserve assets

11.109 Data on income on reserve assets is useful for studying rates of return on reserves, and for ensuring that rates of return on other categories exclude reserves.

Investment income on reserve assets includes income on equity and investment fund shares, and interest. Fees on security lending and monetary gold loans (as discussed in paragraph 11.67) and interest on unallocated gold accounts (as discussed in paragraph 6.80) are also included under interest on reserve assets. Income on equity and investment fund shares can be further classified into dividends on equity securities and income attributable to investment fund shareholders. The latter includes both distributed and reinvested earnings. Interest receivable can also be further classified by type of financial instruments. If not available for publication, income from reserve assets should be included in other investment–interest.

11.110 Interest on SDR holdings is shown on a gross basis under income on reserve assets. That is, the value of interest payable on SDR allocations is not deducted. (Interest payable on SDR allocations is shown as income under other investment liabilities, as stated in paragraph 11.106.)