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Coordinated Implementation in the European Union of *BPM6*

**Prepared by the European Central Bank (DG-Statistics)
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Coordinated Implementation in the European Union of the IMF Balance of Payments and International Investment Position Manual (6th edition)

For information of the IMF Balance of Payments Committee

Background

The new international standards that apply to external statistics are defined by the Balance of Payments and International Investment Position Manual – 6th Edition (BPM6), the OECD Benchmark Definition of Foreign Direct Investment – 4th Edition (BD4), and the Manual on Statistics in International Trade in Services (MSITS 2010).

In its previous meetings (Shanghai in November 2009, and Washington DC in October 2010), the IMF Balance of Payments Committee was informed about the envisaged steps to implement the revised manuals in the European Union (EU) in 2014, in coordination with the implementation of the System of National Accounts 2008.¹

This note summarises the developments since October 2010, in particular on the timeliness, first transmission and provision of back data according to BPM6 (Section 1), special issues related to direct investment in investment funds (Section 2) and the update of EU legal acts (Section 3).

¹ See respective documents in the following links: <http://www.imf.org/external/pubs/ft/bop/2009/09-05.pdf> and <http://www.imf.org/external/pubs/ft/bop/2010/10-05.pdf>.

1 Timeliness, first transmission and back data according to BPM6

In the EU, quarterly b.o.p. and i.i.p. are currently required 90 days after the end of the reporting quarter. The timeliness of quarterly b.o.p. and i.i.p. will increase as from 2014.

In view of compiling quarterly financial and non-financial accounts by sector (the so called euro area accounts) at T+90 the Statistics Committee and the Eurostat Balance of Payments Committee agreed converging to reporting b.o.p. and i.i.p. by T+80. In practice, the convergence will be achieved gradually, starting with the reporting at T+85 from 2014 until 2016, at T+82 in 2017 and 2018, and at T+80 from 2019 onwards.

Taking into account the discussions in the Eurostat Working Group on Balance of Payments and in the ESCB² Working Group on External Statistics, as well as the results of a questionnaire to the 27 EU Member States, the following plan was agreed as to the initial transmissions following BPM6. The first transmission by Member States to Eurostat and the ECB of data according to BPM6 will occur on 24 June 2014 and will contain data for the first quarter of 2014 and for all quarters of 2013. The first publication of European aggregates, including back data, is envisaged to take place in November 2014. Back data according to BPM6 have been considered necessary for the economic analysis of time series, even if they include a substantial degree of estimations.

2 Special issues related to investment funds

BPM6 recommends classifying as direct investment holdings of more than 10% of the shares issued by investment funds. In practice this can be difficult because of two reasons. First, there is often a long chain of intermediaries between the issuer and the holder of the shares. Second, in open-ended funds the total amount of issued shares can continuously vary, and the holder of share may lack the information about the total amount.

For building up European aggregates, it is essential that investments are classified consistently across countries.

2.1 Investment fund shares

As to the standard components in BPM6, the main difficulty is related to the inclusion of investment fund shares in FDI. This is because the investment funds are often traded as securities and owing to long custodian chains, the domestic issuers (as well as the domestic

² European System of Central Banks (ESCB).

custodians) often are not able to identify the final investors and assess whether their participation exceeds the threshold of 10 % of the total.

Thus, it would be likely that a fund in which a non-resident holds more than 10% would be reported as direct investment by the country of the investor and as portfolio investment by the country where the fund is resident. As the compilation of portfolio investment for the euro area and EU requires consolidation, the Working Group on External Statistics is considering to classify investment fund shares in the portfolio investment account.

2.2 Assets of open-ended investment funds

The European Directive on the UCITS (Undertaking for Collective Investment in Transferable Securities)³ sets up a single regulatory regime across the EU for open-ended funds investing in transferable securities, with a view to defining high levels of investor protection. The Directive regulates the organisation, management and oversight of such funds, and imposes rules concerning diversification, liquidity and use of leverage.

The UCITS are designed for retail investors and benefit from the European Passport, which allow UCITS to be freely marketable throughout the EU countries with a minimum of formalities. Transferable securities are either shares or other securities equivalent to shares, bonds and other forms of securitised debt, or any other negotiable securities that carry the right to acquire such transferable securities by subscription or exchange.

Open-ended funds can vary the amount of shares/units issued at any time. On the contrary closed-ended funds have a fixed amount of shares/units issued, and cannot be classified as UCITS. The UCITS sole objective is the investment in transferable securities. They do not seek “to exercise control or a significant degree of influence over another entity” (BPM6, paragraph 6.11), even if they own more than 10% of the voting power of an entity.

Given the remarks above, in light of the UCITS Directive the ESCB Working Group on External Statistics is considering to classify investments of such open-ended funds as portfolio investment since they do not aim at having control or a significant degree of influence on other entities.

On the contrary, closed-ended funds may seek alternative investments (i.e. hedge funds), venture capital, and real estate. Together with real estate mutual funds, the closed-ended funds

³ European Directive 85/611/EEC on the UCITS (Undertaking for Collective Investment in Transferable Securities), dated 20 December 1985.

that have an investment policy with the objective of controlling an entity, e.g. like private equity funds, and may be considered as direct investors.

3 Update of European legal acts

The changes introduced by the new statistical manuals have to be translated in new data requirements and integrated in the EU legal framework. Once included in the legal framework, the reporting of the data becomes mandatory for the EU Member States. This translation of the data requirements into legal texts required comprehensive and intensive discussions with the Member States in order to reach an agreement about the set of mandatory data.

The procedural steps of the revision of the legal base will be completed by the end of 2011, so that the amended legal acts can be published in 2012. The fulfilment of this deadline is particularly important to ensure that national central banks and national statistical institutes have sufficient time for implementing all the necessary changes in the data collection required at a country level for reporting according to the new standards from 2014 onwards.

While translating the new manuals in legal standards, Eurostat and ECB also took the opportunity to simplify and rationalise their data requests, so as to avoid double work for the compilers in Member States. From 2014 onwards Eurostat and ECB data requests will be fully aligned and synchronized, so that both requests can be fulfilled with a single file sent to both organizations.

The technical discussions about the updating of the requirements has proceeded in a coordinated fashion in the working groups of the ESCB (Working Group on External Statistics – WG-ES) and by the European Commission/Eurostat (Working Group on Balance of Payments – BoP WG). The parent Committees, i.e. the ESCB Statistics Committee⁴ and the Eurostat Balance of Payments Committee⁵, have also been periodically informed.

On the ECB side, a draft Guideline replacing Guideline ECB/2004/15⁶ has been commented by the ESCB Statistics Committee. The draft amended Guideline will be submitted to the ECB Governing Council for adoption.

⁴ The Statistics Committee of the European System of Central Banks (ESCB) is composed of senior statisticians of the ECB and all 27 national central banks of the EU.

⁵ The Eurostat Balance of Payments Committee is composed of the European Commission (Eurostat) and representatives of the 27 Member States of the EU.

⁶ See text of Guideline ECB/2004/15 under <http://www.ecb.int/ecb/legal/1005/1022/html/index.en.html>.

On the Eurostat side, the amending Regulation will be submitted to the formal written vote of the Balance of Payments Committee in October 2011 and will then be submitted to the European Parliament and Council, for their right of scrutiny. Before submitting the legal acts for formal approval, Eurostat and the ECB will carefully crosscheck the respective texts to be sure that they are consistent and coordinated in all parts. A similar procedure will be applied to the translation of the final texts from English to the other EU official languages.

Furthermore, so far the design of the new data requirements has proceeded without attaching operational codes to the items. Technical discussions between the ECB, Eurostat and the IMF are taking place in order to agree on concepts, code lists and SDMX data structure definitions to allow exchanging data according to BPM6. In parallel to the technical discussions, governance arrangements will be discussed, which include the creation of a steering group and a schedule of consultations of relevant BOP and SDMX bodies, as well as agreements about future maintenance of the BOP data structure definition. Particular attention will be paid to the systematic use of cross-domain concepts and a close coordination with the data structure definition for national accounts. The finalisation of the BPM6 SDMX data structure definition for balance of payments is envisaged by the end of 2012.