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Progress in the Coordinated Implementation of *BPM6* in the European Union

Prepared by the
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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

Introduction

In the last three years, the IMF Balance of Payments Committee (BOPCOM) has been updated on the steps being taken to implement the revised manuals[1] in the European Union (EU).[2] The changeover will take place in 2014, in coordination with the implementation of the System of National Accounts 2008. Since the last IMF BOPCOM, national statistical authorities have been implementing the new EU data requirements as defined in the ECB Guideline (ECB/2011/23) of 9 December 2011 and Commission Regulation (EU) No 555/2012 of 22 June 2012. In parallel, the European Institutions (ECB and Eurostat) have been reshaping their compilation systems to be ready for the compilation of euro area and EU aggregates by summer 2014.

This note summarises the latest developments directly or indirectly related to the implementation of BPM6 in the EU. It starts with a brief recap of the new European requirements in Section 1. Section 2 describes the initiatives targeting a more harmonised

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[1] 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).

[2] For further details on past reports please consult BOPCOM 12/12, BOPCOM 11/05, BOPCOM 10/05 and BOPCOM 09/05.

introduction of the manuals across EU Member States and Section 3 deals with an effective and efficient data exchange, compilation and conversion.

1 Background: the new European requirements

In the EU, changes to international statistical standards are translated into new data requirements via the adoption of a new EU legal framework. The procedural steps for the revision of the legal base were completed by the end of 2011 and the respective legal acts published thereafter:

- ECB Guideline (**ECB/2011/23**) of 9 December 2011 on the statistical reporting requirements of the European Central Bank in the field of external statistics[3];
- Commission Regulation **(EU) No 555/2012** of 22 June 2012 amending Regulation (EC) No 184/2005 of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment, as regards the update of data requirements and definitions[4].

While translating the new manuals into legal acts, Eurostat and the ECB took the opportunity to simplify and rationalise their data requests, so as to avoid double work for the compilers. The common reporting to Eurostat and ECB will be organised in two data sets: Monthly Balance of Payments and Quarterly BoP and IIP. These two datasets to be reported to Eurostat and ECB will be identical in every detail. In the case of Eurostat, the Monthly Balance of Payments data request is new and replaces the previous reporting of preliminary estimates of Quarterly BoP due at t+60. Compared to the reporting that is due under BPM5 in the EU, the new BPM6 reporting will include much more detail for transactions and positions and an increased geographical breakdown.

The first transmission by EU Member States to Eurostat and the ECB of data compiled according to BPM6 will occur on 24 June 2014; it will contain data for the first quarter of 2014 and for all quarters of 2013. Additional back data necessary for time series analysis will be reported in the course of September 2014; these data will be mostly converted from BPM5. As regards timeliness, the deadline for reporting quarterly b.o.p. and i.i.p. data will gradually

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[3] http://www.ecb.europa.eu/ecb/legal/pdf/l_06520120303en00010044.pdf

[4] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:166:0022:0066:EN:PDF

converge from the current T+90 days to T+80 in 2019, starting with a reporting at T+85 from 2014 until 2016 and followed by a reporting at T+82 in 2017 and 2018.

The European System of Central Banks (ESCB) and Eurostat have been regularly monitoring the progress on the national implementation of the new legal requirements based on BPM6. So far, with the exception of some difficulties on the derivation of BPM6 data for periods before 2008 (back data), EU Member States seem to be progressing as expected, on schedule for the first data transmission in June 2014.

The first publication of EU aggregates compiled according to BPM6, including back data, is envisaged for the last quarter of 2014. The ECB and Eurostat have developed a "change-over webpage" (http://www.ecb.europa.eu/stats/external/bpm6/html/index.en.html) which encloses basic information on:

- The new BPM6 manual, including a set of FAQs and links to other methodological material;
- Details on the new legal acts and respective data requirements;
- The interim period (when BPM5 and BPM6 data will coexist);
- Data availability and accessibility;
- Links to similar national webpages.

Further coordinated communication initiatives around the implementation of BPM6, for instance seminars for intensive users of BOP and IIP data or conferences for journalists, will be considered closer to the first publication in 2014.

2 Initiatives on methodological harmonisation

The introduction of the new statistical standards brought about quite some methodological changes and compilation challenges. Since the ECB and Eurostat strive to support harmonisation and the adoption of best practices, some initiatives have been taken to ensure a smooth and correct introduction of the new statistical standards.

2.1 Fees on securities lending without cash collateral

BPM6 states in paragraph 11.68 that *"(...) 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 nonmonetary gold are also treated as interest."* Paragraph 5.73 says that 'other accounts receivable/payable – other' *"(...) includes liabilities for taxes, purchase and sale of securities, securities lending fees, gold loan fees, wages and salaries, dividends, and social contributions that have accrued but not yet paid. (...) Interest accrued should be recorded with the financial asset and liability on which it accrued, not as other accounts receivable/payable. However, for securities lending and gold loan fees, which are treated as interest by convention (see paragraphs 11.67–11.68), the corresponding entries are included under other accounts receivable/payable, rather than with the instrument to which they relate."*

While BPM6 is rather clear on the allocation of the accrued income to other accounts receivable/payable in the financial account, it is silent on the functional allocation on the primary income account. Therefore, to keep consistency between current and financial accounts, the ECB and Eurostat have recommended EU Member States to record fees/interest related to securities lending operations in "other accounts receivable/payable" under "other investment", regardless of whether the assets lent are equity, debt securities or even gold, and of whether the parties involved are in a direct investment relationship or not.

2.2 Definition and identification of "superdividends"

"Superdividend" is a new concept introduced in paragraph 8.23 of BPM6[5] and defined in paragraph 11.27 as *"Exceptional payments by corporations (including quasi-corporations such as branches) to their shareholders that are made out of accumulated reserves or sales of assets"*. It is further stated that superdividends should not be treated as a normal dividend but rather as a withdrawal of equity and therefore be recorded only in the financial account. This definition is in line with paragraph 11.90 of the SNA2008, which states that *"if dividends paid out are significantly in excess of recent average earnings, then the excess should no longer all be recorded in the allocation of primary income account but should be regarded as a withdrawal of equity by the owners and be reflected under this item. Such payments are sometimes referred to as superdividends."*

[5] Although it can be considered as an extension of the treatment of liquidating dividends under BPM5; paragraph 290 of BPM5 specifies that "Liquidating dividends are excluded from investment income because such dividends represent returns of capital contributions rather than remittance (distribution) of earnings. Therefore, liquidating dividends should be recorded in the financial account as a withdrawal of capital."

Paragraph 11.27 of BPM6 offers some guidance on how to identify superdividends: *"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."*

The last sentence from this paragraph seemingly offers a practical and easy way of identifying superdividends: one simply looks at previous dividends and the trend in earnings and when a dividend is found to be greatly in excess of those, it is automatically treated as a superdividend. However, this automatic approach has several problems. It does not offer a solution for dividends paid by very young companies (or just entering national surveys) that do not have previous dividends to compare to. It is also conceivable that not every dividend that is largely in excess of previous dividends or trends in earnings is a superdividend. Moreover, dividends that are largely in excess of previous dividends are not necessarily paid out of accumulated reserves or the sale of assets but could be the consequence of a business preference, for example when the sales of a company skyrocket due to a new best-selling product.

In summary, it is clear that the automatic approach, which is seemingly suggested in paragraph 11.27, is insufficient to identify superdividends and may lead to the misclassification of normal dividends as superdividends. Further evidence of the occurrence of superdividends should be sought before a dividend payment is classified as such. A case-by-case approach for identifying superdividends seems the most appropriate approach. <u>As a general rule, superdividends should be seen as extraordinary business events and not treated by means of automatic statistical procedures</u>. Dividends' payments should always be treated as a distribution of income, unless there is clear evidence of the payments being "extraordinary".

2.3 Sectorisation of international organisations

The new Guideline ECB/2011/23 and Commission Regulation (EU) No 555/2012 require EU countries to report quarterly portfolio investment (income, financial transactions and international investment position) credits/assets with a breakdown by counterpart issuing sector. At national level, portfolio investment is compiled on a security-by-security basis; hence relying on reference information stored in the Centralised Securities Database (CSDB), particularly as regards residency and sectorisation of issuers of securities.

To ensure a correct accomplishment of this requirement further information was needed for international organisations (IOs), particularly as regards the classification by sector of these IOs, which was broadly missing in the CSDB.

There are approximately 100 sizeable international organisations around the world, but only 27 are currently recorded in the CSDB, i.e. have issued securities in the EU, and/or have issued securities denominated in euro and/or have issued securities held by residents in the EU. The ECB and Eurostat, with the support of the respective Working Groups and the views of the IMF Statistics Department, have classified by sector those international organisations with "active" securities in the CSDB (see Annex 1) in accordance with BPM6 and SNA08.

3 Further implementation aspects

3.1 Tool for conversion from BPM5 to BPM6 and *vice versa*

To help Member States to convert data originally compiled according to BPM5 into BPM6, the Working Group on External Statistics has been developing an Excel tool. In fact, the tool allows the conversion from BPM5 to BPM6 and vice versa, i.e. the tool maps series reported under the current ECB Guideline 2004/15, as amended by Guideline ECB/2007/3, to those series required under the new Guideline on External Statistics (ECB/2011/23), and vice versa. The bridging process is not based on "assumptions", i.e. it is not automatic; instead, all breakdowns are needed to ensure a comprehensive mapping between the two standards.

3.2 Workshop on SDMX and BOP-Data Structure Definition (BOP-DSD)

The Working Group on External Statistics held a workshop (on 20-21 February 2013) to discuss a number of practical issues concerning the development and implementation of SDMX and the BOP-DSD in the EU. The importance of the SDMX BOP-DSD as a framework to ensure data transmission efficiency and effectiveness for the European exchange of b.o.p. statistics and possibly a worldwide exchange was highlighted by all participants.

3.3 Harmonised EU revision practices for national accounts and balance of payments statistics

The Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) developed a harmonised EU revision policy for balance of payments/international investment position and national accounts in the middle of 2012, to be implemented by September 2014. This policy will bring additional consistency and comparability between BOP/IIP and national accounts on the one-hand and between EU Member States' revision practices on the other-hand, which will facilitate the compilation of euro area and EU aggregates.

In a nutshell, the new revision policy will separate between "Major revisions" and "Routine revisions". The first will take place whenever there are major methodological changes (e.g. the introduction of a new methodological manual) and/or on regular intervals (e.g. every five years); in these occasions, compilers will be able to revise the whole time series. As a complement, "routine revisions" (e.g. every quarter with a new quarterly release) aim at catering for regular updates of data sources; depending on the frequency and timeliness of the data, a maximum pre-defined number of periods will be open to revisions.

3.4 International data cooperation using common DSDs and SDMX

In the context of the Inter-Agency Group on Economic and Financial Statistics (IAG)[6] work on implementing the 20 recommendations under the G-20 Data Gaps Initiative (DGI), further improvements should be envisaged with respect to the international data cooperation. After initial discussions on the general principles of international data exchange in the course of 2012, a task force has already been set-up in early 2013 to test the practical implications of such an approach with two pilots in the area of national accounts: (i) GDP main aggregates and population indicators and (ii) sectoral accounts. These pilots include defining responsibilities of the actors involved, setting-up workflows, as well as investigating the use of common data structure definitions and SDMX as the technical platform. As the establishment of common Data Structure Definitions (DSDs) required to support SDMX is finalised for Balance of Payments, a further pilot could be organized to test the exchange of Balance of Payments data between international organisations.

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[6] The IAG comprises the BIS, the ECB, Eurostat, the IMF, the OECD, the United Nations and the World Bank.

Annex: Sector classification of IOs with securities recorded in the CSDB

Code (CL_AREA)	Name	Sector (ESA 2010) (CL_SECTOR)
1E	International Bank for Reconstruction and Development (IBRD)	S125 - Other financial intermediaries, except ICPFs
1M	International Finance Corporation (IFC)	S125 - Other financial intermediaries, except ICPFs
4C	European Investment Bank (EIB)	Under discussion
4D	European Commission (EC)	S13 - General government
4G	European Investment Fund (EIF)	S125 - Other financial intermediaries, except ICPFs
4H	European Community of Steel and Coal (ECSC)	S13 - General government
4S	European Stability Mechanism (ESM)	S125 - Other financial intermediaries, except ICPFs
4U	European Atomic Energy Community (EURATOM)	S13 - General government
5B	Bank for International Settlements (BIS)	S121 - Central bank
5C	Inter-American Development Bank (IADB)	S125 - Other financial intermediaries, except ICPFs
5D	African Development Bank	S125 - Other financial intermediaries, except ICPFs
5E	Asian Development Bank	S125 - Other financial intermediaries, except ICPFs
5F	European Bank for Reconstruction and Development	S125 - Other financial intermediaries, except ICPFs
5G	Inter-American Investment Corporation	S125 - Other financial intermediaries, except ICPFs
5H	Nordic Investment Bank	S125 - Other financial intermediaries, except ICPFs
5L	Caribbean Development Bank (CDB)	S125 - Other financial intermediaries, except ICPFs
5T	Central American Bank for Economic Integration (CABEI)	S122 - Deposit taking corporations, except the central bank
5U	Andean Development Corporation (Corporatión Andina de Fomento - CAF)	S122 - Deposit taking corporations, except the central bank
7C	Eurasian Development Bank	S125 - Other financial intermediaries, except ICPFs
7E	Council of Europe - Development Bank	S125 - Other financial intermediaries, except ICPFs
7G	Black Sea Trade and Development Bank	S125 - Other financial intermediaries, except ICPFs
7H	African Export-Import Bank (Afreximbank)	S122 - Deposit taking corporations, except the central bank
7I	Foreign Trade Bank of Latin America (Bladex)	S122 - Deposit taking corporations, except the central bank
7J	Fondo Latino Americano de Reservas (FLAR)	S122 - Deposit taking corporations, except the central bank
7K	Fonds Belgo-Congolais D'Amortissement et de Gestion	S13 - General government
7L	International Finance Facility for Immunisation (IFFIm)	S13 - General government
7M	EUROFIMA - European Company for the Financing of Railroad Rolling Stock	S125 - Other financial intermediaries, except ICPFs