

**INTERNATIONAL MONETARY FUND**

**Statistics Department**



**Treatment of Participations in the Capital of  
International Organizations and the Respective  
Income**



## **Treatment of Participations in the Capital of International Organizations and the Respective Income<sup>1</sup>**

*This note addresses the treatment of participations in the capital of international organizations (IOs)<sup>2</sup> and of the respective income. It recommends that all capital subscriptions in IOs, including in the form of unlisted shares, should be classified under other investment – other equity, and consequently, the income on such subscription should be recorded under primary income – investment income – other investment – withdrawals from income of quasi-corporations. This treatment introduces a change with respect to current guidelines in the IMF’s Balance of Payments and International Investment Position Manual (BPM6), so it will require a change in the next edition of the Manual.*

1. The *BPM6* makes several references to the classification of capital subscriptions to IOs. Paragraph 6.32 mentions that equity in IOs is excluded from direct investment, even in cases in which voting power is 10 percent or more. Consequently, the equity contributions would be included in portfolio investment (if in the form of securities) or other investment – other equity (if not in the form of securities). Equity in IOs would not generally qualify as reserve assets, even if denominated in foreign currency because of the lack of liquidity (i.e., they are not readily available). Further, paragraphs 6.32 and 6.106 recommend that capital subscriptions to IOs be included under portfolio investment if they are in the form of securities, and paragraph 5.26 mentions as an example the equity in the Bank of International Settlements (BIS) is in the form of unlisted shares and recommends to classify those equities in portfolio investment. Following this approach, although not explicitly mentioned in *BPM6*, the income (potentially) distributed by the BIS in the form of dividends would be included under portfolio investment income – dividends.

2. The participation/subscription of a country in the capital of IOs follows geopolitical and institutional considerations (i.e., only selected countries can be members of a certain IO and the capital subscription is restricted to certain institutions—e.g., the central government or the central bank).<sup>3</sup> Due to the “political” nature of IOs, member’s capital subscriptions are determined based on economic and/or demographical indicators of the member countries and hence they are usually not readily available to the holder. Transactions in the equity of IOs are mostly due to (i) a re-assessment of the share of each country member by the IOs when new countries join or leave; (ii) a re-assessment every certain number of years (e.g., five years in the case of the European Central Bank) to adjust for the change of economical/demographical weights of the country members; and (iii) increases in the paid-up contributions to support the activities of the IOs. None of these transactions are triggered or decided by individual country members (investors). Most probably the only decision (if any) that an individual country member may take is to request joining and/or leaving the IOs, and therefore this decision will be linked to

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<sup>1</sup> A previous version of this note was prepared by the European Central Bank and presented at the thirty-second meeting of the IMF Committee on Balance of Payments Statistics in October 2019 (see BOPCOM 19/16b at <https://www.imf.org/external/pubs/ft/bop/2019/32.htm>).

<sup>2</sup> International organisations are entities established by formal political agreements between their members that have the status of international treaties; their existence is recognised by law in their member countries; they are not treated as resident institutional units of the countries in which they are located (2008 SNA, paragraph 4.173).

<sup>3</sup> This note does not cover international institutions which have capital in the form of tradable equities nor other supranational institutions that are more profit oriented and whose capital is held by other sectors than the central government or the central bank.

the acquisition/redemption of its participation. In any case, those transactions will be conditional to defined criteria and will in most cases depend on the consent of the issuer (IOs).

3. As recommended by the international statistical standards, it indeed seems appropriate not to record subscriptions to the capital of IOs under direct investment even though these contributions may exceed 10 percent of the voting power of these institutions. Furthermore, bearing in mind that the capital subscriptions are based on geopolitical considerations (as described in the beginning of this section), namely that they are not legally and freely (unconditionally) tradable by member countries, it is also not appropriate to consider them under portfolio investment, even though they may have the form of (unlisted) securities. Similarly, if these equities are not liquid and readily available, they should also not be included under reserve assets, even if they are held by the monetary authority and denominated in foreign currency. Therefore, all the capital subscriptions of IOs that are not tradable should be classified under ***other investment – other equity***, without making any distinction based on the legal form of the IOs capital. The income on such subscription should be classified under ***primary income – investment income – other investment – withdrawals from income of quasi-corporations***.

4. With reference to the participation in the BIS, although the participations (paid-up) in the capital are in the form of unlisted shares, they should not be included in portfolio investment as the central banks participating in the BIS cannot buy and sell freely these shares. Considering the *BPM6*, paragraph 5.26, and the *Handbook on Securities Statistics*, paragraphs 3.60–3.62, the BIS equity also should be classified under ***other investment - other equity*** for the amount already disbursed, excluding the subscribed, but not yet paid capital.

5. Another case is the capital subscriptions to the European Stability Mechanism (ESM). According to the treaty establishing the ESM, the ESM capital is in the form of shares and its earnings will be distributed to the shareholders in the form of dividends. This note clarifies that the ESM paid-up capital should also be reported as ***other investment - other equity***.

6. Since this treatment introduces a change with respect to current *BPM6* guidelines, it will require a change in the next edition of the Manual. On that occasion, it could also be considered to amend the standard presentation by changing the components *other investment – other equity* and *other investment income – withdrawals from income of quasi-corporations* to, respectively, *other investment – unlisted shares of international organizations and other equity* and *other investment income – dividends (international organizations) and withdrawals from income of quasi-corporations*.