Thirty-Fifth Meeting of the

IMF Committee on Balance of Payments Statistics

Washington, D.C.

February 22–25, 2021

BOPCOM VM1—21/07.1

For discussion

D.12 Including Intra-Concern [Between Affiliates] Derivatives in Direct Investment: Outcome of the Public Consultation

Prepared by the Direct Investment Task Team (DITT)

INTERNATIONAL MONETARY FUND

D.12 Including Intra-Concern [Between Affiliates] Derivatives in Direct Investment: Outcome of the Public Consultation[1]

The public consultation reveals general consensus for maintaining the status quo of classification of financial derivatives between affiliates in the standard component "Financial Derivatives" but with the addition of a supplementary breakdown, on a voluntary basis, for transactions and positions between affiliates. There was also significant support to include a detailed elaboration of data sources to identify those statistics in the revised Compilation Guide. From a practical perspective, the consultation revealed concerns about reporting burden and data availability. Additionally, it was suggested more research was needed on the topic.

In view of the broad agreement received during the public consultation, the Guidance Note (GN) is proposed to be considered by the Committee for final decision.

1. **The public consultation[2] revealed a unanimous preference for Alternative II within the four proposed options.[3]** This alternative keeps the current classification of financial derivatives between affiliates in "Financial Derivatives", but with addition of a supplementary item on a voluntary basis: "of which between affiliates". Respondents viewed that there were (i) limited evidence on the significance of financial derivatives between affiliates across countries; (ii) practical difficulties in identifying the breakdown; (iii) potentially erratic and large movements that may likely disturb the usual interpretation of DI statistics for users; and (iv) no clarity about appropriate data sources to identify derivatives between affiliates. Due to this, it seemed more appropriate to be a supplementary item on a voluntary basis. Additionally, the option of allowing countries with available breakdown to start disclosing the information on a voluntary basis could lead towards analyzing the possibility of changes in the treatment of these instruments in the future. While the option of status-quo was also put forward as a preference, the remaining alternatives were altogether rejected.

2. **There was large support for incorporating a detailed elaboration on the data sources to identify cross-border transactions and positions of financial derivatives between affiliated entities in the Compilation Guide.** Practical guidance and best-practices (to be collected through a stocktaking exercise) were seen as useful to developing ways to compile this supplemental breakdown. More elaboration on data sources, including indirect data collection systems, to identify financial derivatives between affiliates would be beneficial. Additionally, guidance would help to achieve the outcome of supplemental breakdown. Others, however, considered that it may not be necessary to come up with a detailed elaboration since the breakdown is voluntary and not part of the standard components. In that respect, a concise explanation on data sources may be enough.

---

[1] Prepared by Ms. Padma S. Hurree-Gobin (IMF), and Ms. Francesca Spinelli (OECD), both DITT Secretariat.

[2] Eighteen responses. See detailed results in Annex II.

[3] The four options are: **I**: *Status quo—financial derivatives between affiliates classified under 'Financial Derivatives" balance of payments/IIP item*; **II**: *Financial derivatives between affiliates classified in "Financial Derivatives", but with addition of a supplementary item on a voluntary basis: "of which between affiliates"*; **III**: *Financial derivatives between affiliates of all sectors classified in "DI"*; and **IV**: *Financial derivatives between affiliates classified in "DI", but with exclusion of selected financial institutions (similar to the treatment of debt instruments).*

3. **From a practical perspective, the respondents expressed several concerns ranging from reporting burden to questioning data availability to build the supplementary details.** Some respondents considered that the reporting costs associated with this additional collection of information did not outweigh the benefits; the more so that the rationale behind these derivatives differs entirely from that of direct investment relationships. While the inclusion of details on financial derivatives between affiliates may be useful in the presentation of supplemental information for analysis, data availability is a major concern. From a practical standpoint, the inclusion of derivatives in DI (alternatives III and IV) would make the reconciliation between directional principle and asset/liability principle very challenging as noted in the GN. In that respect, the complication arises due to the fact that *BPM6* establishes the asset/liability approach as the standard presentation while the OECD and UNCTAD consider that the directional principle has more analytical value.

4. **In general, it was suggested to conduct more research in this area.** For instance, some proposed understanding the kind of financial derivatives contracts that are common in DI relationships; or the connection or possible impact of the derivative contract on the other DI related instruments, loans, and equity; or if there was a third party involved; or still, how should their value be computed if not traded on the market. This topic must try to be harmonized with other initiatives dealing with intragroup operations in direct investment.

Annex I. WGIIS Consultation on GN D.12

As part of the BPM6 *and* BD4[4] *update process, the OECD Working Group on International Investment Statistics (WGIIS) Secretariat, consulted with WGIIS delegates[5] on the DITT GN D.12 to gauge their support and preferences. The OECD also organized a webinar[6] on February 4 to discuss the outcomes of the consultation and gather additional insights on the feasibility of the proposed approaches.*

1. **Almost all respondents indicated that it is currently not possible to assess the importance and nature of transactions and positions in financial derivatives (FD) between affiliated parties.** No data source is available to identify these transactions.

2. Almost all of the respondents strongly opposed to including FD between affiliates in direct investment (DI). Some indicated that it would affect the analytical usefulness of DI statistics, which relate to the supply of funds, especially long-term, between affiliated entities, whereas derivatives relate to risk transfer and are short-term. Others also indicated that it would be too premature to take such decision and that more research is required to better understand intra-group FD**.**

3. **Therefore, respondents expressed preferences for either keeping the Status quo (A1) or for adding an "of which: between affiliated enterprises" item in the financial derivatives presentation in *BPM7* (A2).** There were slightly more preferences expressed for A2 (15 respondents selected A2 and 10 respondents selected A1) although practical concerns were raised by many regarding the feasibility of identifying FD between affiliated parties, among which, increased reporting burdens.

4. **There was no clear preference on the need to include more details on the data sources in the *BPM7* compilation guide to better identify transactions and positions in FD between affiliated entities.** It was suggested that the European analysis of FD in the external sector statistics and financial accounts could be helpful in discussing potential sources.

---

[4] The IMF and the OECD are collaborating in the work of the Direct Investment Task Team (DITT), serving as co-Chairs and in the DITT Secretariat. The OECD's *Benchmark Definition of Foreign Direct Investment, fourth edition* (*BD4*), which is being updated, provides detailed guidance on the compilation of direct investment (DI) statistics in line with the IMF's *Balance of Payments and International Investment Position Manual, sixth edition* (*BPM6*). The WGIIS reviews the guidance notes produced by the DITT and provides feedback at different stages.

[5] Twenty-six countries responded to an online survey set up by the OECD, but not all countries responded to all questions. Includes answers provided by two countries during the earlier WGIIS/BPTT consultation exercise conducted in December 2020.

[6] There were more than 100 participants, and no dissenting opinions emerged during the discussion.

Table 1. WGIIS Delegates' Answers to the Questions Included in the Online Survey

	Yes	No
Q1. Do you have a data source for BOP compilation that could identify transactions and positions in financial derivatives (FD) between affiliated entities?	0	23

	[1-10%]	[11%-50%	[50%-90%	Don't know
Q2. Based on available information, what is your estimate of the share of positions in FD between affiliated entities (all entities) in total FD positions (in %)?	1	2		19
Q3. Based on available information, what is your estimate of the share of positions in FD between affiliated financial intermediaries in the above positions (in %)?	1		2	19

Q4. What are the main purposes of intra-group FD and what are the main actors involved in this activity (treasury centres)?	Free text

	A1	A2	A3	A4
Q5. Table 1 in Annex II of the Guidance Note proposes four different alternatives for treatment of intra-group FD, outlining the pros and cons. Which alternative would you support?	10	15	0	0

	Yes	No
Q6. Do you find a need for a detailed elaboration on the data sources that could identify transactions and positions in financial derivatives between affiliated entities for the *BPM7* Compilation Guide?	11	12

Annex II. Summary Results of the Public Consultation

1. Table 1 in Annex II of the Guidance Note proposes four different alternatives for treatment of intra-group financial derivatives, outlining the pros and cons. Do you have a preference for?

Alternatives	Yes	No	Abstention
I: Status quo—financial derivatives between affiliates classified under "Financial Derivatives" balance of payments/IIP item	39%	50%	11%
II: Financial derivatives between affiliates classified in "Financial Derivatives", but with addition of a supplementary item on a voluntary basis: "of which between affiliates"	100%		
III: Financial derivatives between affiliates of all sectors classified in "DI"		83%	17%
IV: Financial derivatives between affiliates classified in "DI", but with exclusion of selected financial institutions (similar to the treatment of debt instruments)	6%	78%	17%

2. Do you find a need for a detailed elaboration on the data sources that could identify transactions and positions in financial derivatives between affiliated entities for the Compilation Guide?

Yes	No
72%	28%