

***BPM7* Annex 7. Selected Financial Issues: Annotated
Outline**

BPM7 Annex 7. Selected Financial Issues: Annotated Outline¹

(New BPM7 Annex)

This annex on “Selected Financial Issues” will cover two topics: financial derivatives and reverse transactions in two separate sub-annexes. Annex 7.A will discuss financial derivatives, while maintaining the BPM6 definition and concept. It will combine guidance on financial derivatives explained in Chapters 5, 6, 7, 8, 9, and Annex 14 of BPM7 and provide further clarifications. The recommendations agreed in Guidance Notes (GNs) F.4 and F.5 will also be included. Section I will provide an overview and Section II will deal with specific issues relating to financial derivatives.² Annex 7.B will discuss reverse transactions (RTs), while maintaining the BPM6 definition and concept. It will combine guidance on RTs explained in Chapters 5, 7, 8, and 12 of BPM7 and provide further clarifications. The recommendations agreed in GN F.3 will also be included. Section I will provide an overview and Section II will deal with specific issues relating to reverse transactions. See the Schematic Overview for details.

ANNEX 7.A FINANCIAL DERIVATIVES

I. Overview

This section will provide the definition, concept, and recording of financial derivatives by bringing together the guidance described in different chapters of *BPM7*.

- Definition and explanation about options, forwards, swaps, credit derivatives, margins, and employee stock options (Chapter 5. Classifications of Financial Assets and Liabilities).
- Financial derivatives in functional categories (Chapter 6. Functional Categories)
- Valuation and recording (Chapter 7. International Investment Position)
- Recording derivatives transactions (i) at inception; (ii) in secondary markets; (iii) on servicing and margins; and (iv) at settlement. Recording of employee stock options (Chapter 8. Financial Account and Chapter 12. Earned Income Account)
- Revaluations (Chapter 9. Other Changes in Financial Assets and Liabilities Account)
- Currency composition of notional values of foreign exchange derivatives, option/forward breakdowns (Appendix 14)

II. Specific Issues Relating to Financial Derivatives

Following the recommendations of Guidance Notes (GNs) F.4 and F.5, guidance with references to relevant *BPM7* chapters will be provided on the following topics:

¹ Prepared by Joji Ishikawa (BPM editor) and cleared by Carlos Sánchez-Muñoz (BPM Project Manager).

² Some specific issues (e.g., revaluations, gross and net recording) could be incorporated in the overview for better understanding. The same applies to specific issues on reverse transactions in Annex 7.B.II.

A. Additional Breakdowns (all these breakdowns are supplementary items)

- Breakdown by market risk category (i.e., foreign exchange, single-currency interest rate, equity, commodity, credit, and other)
- Breakdown by instrument (i.e., options, forwards and related instruments, futures, swaps, credit derivatives, and marketable employee stock options)
- Breakdown by trading venue and clearing status (exchange traded, over-the-counter (cleared), and over-the-counter (not cleared)).

B. Currency Composition of Notional Values of Foreign Exchange Derivatives

- To emphasize the importance of the compilation of the data as they often involve the delivery of the underlying items, which makes these derivatives similar to foreign currency debt.

C. Revaluation of Foreign Currency Derivatives

- To record other price changes, instead of foreign exchange changes, when these two cannot be separated.

D. Recording of Post Trading Activities

- To provide guidance on the recording of novation and portfolio compression.

E. Gross and Net Recording

- To provide guidance on the cases where net recording is allowed for transactions in assets and liabilities of financial derivatives.

ANNEX 7.B REVERSE TRANSACTIONS

I. Overview

This section will provide the definition, concept, and recording of reverse transactions (RTs) by bringing together the guidance described in different chapters of *BPM7*.

- Definition of a securities repurchase agreement, **securities lending**, and a gold swap under loans (Chapter 5. Classifications of Financial Assets and Liabilities)
- Valuation and recording (Chapter 7. International Investment Position)
- Recording in the financial account (e.g., loans) (Chapter 8. Financial Account)
- Recording of investment income (Chapter 12. Earned Income Account)

II. Specific Issues Relating to Reverse Transactions

Following the recommendations of GN F.3, guidance will be provided on the following topics and references to relevant *BPM7* chapters will be provided, as needed.

A. Clarification for Recording a Short Position as a Negative Asset

- Short positions generated by on-selling are recorded as negative assets for the short-seller (as if the short-seller holds a negative amount of the securities) to address the double-counting of the securities by both the economic (original) owner and the final owner as well as the implications for who-to-whom presentations by counterpart sector and geography.

B. Clarification of Income for Securities Lender, Borrower, and Short-Seller

- Manufactured interest/dividends are recorded as positive credit entries in interest/dividends for the security lender and negative credit entries in interest/dividends for the security borrower.

C. Identification of the Partner Economy and Sector for Manufactured Dividends and Interest

- The partner economy and sector for manufactured interest/dividends are identified by the security issuer, not the security borrower (actual payer) consistent with Item B above.

D. Clarification on Commodities Under RTs

- Commodities are also used for RTs in addition to securities and gold.

E. Supplementary Information on RTs

- To discuss usefulness of separate identification of RT-related transactions and positions and encourage economies to prepare supplementary information where RTs are significant.³

F. Reclassification of Securities and Monetary Gold Collateral from Reserve Assets

- In cases where securities or monetary gold provided as collateral under reverse transactions are not readily available for a balance of payments financing need, they are reclassified to portfolio investment or nonmonetary gold.

³ *BPM7* will discuss the usefulness of separate identification of data on RTs, but it will not introduce a supplementary item for it.

Schematic Overview

Annex 7.A	
I	Overview
II	<p>Specific Issues Relating to Financial Derivatives</p> <ul style="list-style-type: none"> A. Additional Breakdowns B. Currency Composition of Notional Values of Foreign Exchange Derivatives C. Revaluation of Foreign Currency Derivatives D. Recording of Post Trading Activities E. Gross and Net Recording
Annex 7.B	
I	Overview
II	<p>Specific Issues Relating to Reverse Transactions</p> <ul style="list-style-type: none"> A. Clarification for Recording a Short Position as a Negative Asset B. Clarification of Income for Security Lender, Borrower, and Short-Seller C. Identification of the Partner Economy and Sector for Manufactured Dividends and Interest D. Clarification on Commodities Under RTs E. Supplementary Information on RTs F. Reclassification of Securities and Monetary Gold Collateral from Reserve Assets

References

- GNs F.3, F.4, and F.5. These guidance notes are posted at [Update of the sixth edition of the *Balance of Payments and International Investment Position Manual \(BPM6\)* \(imf.org\)](https://www.imf.org/external/pubs/ft/bpm6/updates/2015/01/01/)

Key Stakeholders Consulted

- System of National Account and Balance of Payments Manual editors
- IMF Statistics Department Financial Institutions Division and Government Finance Division