

*BPM7* Chapter 8. Financial Account: Annotated  
Outline



# **BPM7 Chapter 8. Financial Account: Annotated Outline<sup>1</sup>**

(Update to *BPM6* Chapter 8)

*Changes from BPM6 highlighted in yellow*

## **I. Introduction**

- As in *BPM6* Chapter 8, this chapter will introduce the financial account and its main components. The overall structure will be maintained from the *BPM6* chapter. The chapter will have separate sections on concepts and coverage (Section I), direct investment (Section II), portfolio investment (Section III), financial derivatives (other than reserves) and employee stock options (Section IV), other investment (Section V), reserve assets (Section VI), and arrears (Section VII). See the Schematic Overview for details.
- In addition to the highlighted updates/additions below, further changes may be made to improve the consistency of the language with other macroeconomic statistics manuals (e.g., *2025 SNA*) as appropriate. Additional references to other chapters regarding the treatment of financial instruments may also be added during the drafting process.

## **II. Concepts and Coverage**

- This section will be maintained as in *BPM6* with no significant changes. It will introduce the financial account, explain the use of net recording in the standard framework and gross recording on a supplementary basis as well as principles related to timing and valuation.

## **III. Direct Investment**

- The structure of this section will be slightly adjusted compared to *BPM6*. A new subsection on dividends and withdrawal of equity will replace the *BPM6* subsection on superdividends since this concept will not apply to direct investment in *BPM7*.

**A. Reinvestment of Earnings** – no significant changes

### **B. Dividends and Withdrawal of Equity**

- This subsection will replace the subsection *Superdividends*, which is described in paragraph 8.23 of *BPM6*. Per GN D.17 and the Issue Note *Identifying Superdividends and Establishing the Boundary Between Dividends and Withdrawal of Equity in the Context of Direct Investment*, it will be explained that the concept of superdividends does not apply to direct investment enterprises, and any distributions of accumulated reserves from ordinary earnings should be treated as dividends. It will also be explained that only the earnings from non-operating activities (sales of fixed capital assets and liquidations of branches) would be treated as exceptional and recorded as withdrawals of equity.

**C. Direct Investment Flows in Kind** – no significant changes

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<sup>1</sup> Prepared by Jannick Damgaard (BPM editor) and cleared by Carlos Sánchez-Muñoz (BPM Project Manager).

#### **D. Mergers and Acquisitions**

- Mergers and acquisitions will be contrasted to greenfield investment and extension of capacity as described in GN D.1. There will be references to Chapter 6 on functional categories and Annex 6 on selected direct investment issues where greenfield investment and extension of capacity will be addressed in further detail.

#### **E. Corporate Inversion and Other Restructuring**

- The definition of corporate inversions will be updated with the amendment provided in GN D.4. Moreover, the text will be shortened, and references will be made to Annex 6 on selected direct investment issues, which will be expanded to include a taxonomy of the most usual cases of corporate actions that involve inversions or other forms of restructuring with similar economic effects.

#### **F. Borrowing for Fiscal Purposes**

- This subsection will be updated with the guidance on recording imputations with a more analytically meaningful instrument breakdown as described in GN D.5 and with a reference to Annex 6 on selected direct investment issues where this will be explained in further detail.

### **IV. Portfolio Investment**

- The structure of this section will be slightly adjusted compared to *BPM6* as a new subsection on superdividends will be added.

#### **A. Reinvestment of Earnings in Investment Funds**

- Per GN F.2 and the Issue Note “Identifying Superdividends and Establishing the Boundary Between Dividends and Withdrawal of Equity in the Context of Direct Investment”, it will be clarified that reinvestment of earnings for portfolio investment other than investment funds will be incorporated as a supplementary item to *BPM7*.

#### **B. Superdividends**

- This is a new subsection that is not included in *BPM6*. Per the Issue Note “Identifying Superdividends and Establishing the Boundary Between Dividends and Withdrawal of Equity in the Context of Direct Investment”, it will be explained that any distribution in excess of operational profits, including out of accumulated reserves, should be classified as a superdividend and treated as withdrawal of equity. The practical difficulties of implementing this treatment will be acknowledged in the text.

**C. Convertible Bonds** – no significant changes

**D. Debt Defeasance** – no significant changes

**E. Share and Debt Buybacks** – no significant changes

**F. Bonus Shares** – no significant changes

## V. Financial Derivatives (Other Than Reserves) and Employee Stock Options

- The structure of this section will be the same as in *BPM6*, but additional guidance related to financial derivatives will be added as described below.

### A. Financial Derivatives

- Per GN F.4, paragraph 8.34 of *BPM6* will be updated to clarify the cases in which recording transactions on a net basis is acceptable (i.e., where separate data on transactions in assets and liabilities are not available, and the position may change between assets and liabilities (e.g., forwards, swaps)).
- Per GN F.4, this subsection will be expanded to provide methodological guidance for the recording of novation and portfolio compression as financial transactions, including the role of central counterparties.
- Depending on the outcome of GN F.10, margins may also be classified as loans in certain circumstances. If this treatment were to be adopted, paragraph 8.39 on margins will be updated accordingly.

### B. Employee Stock Options – no significant changes

## VI. Other Investment

- The structure of this section will be maintained as in *BPM6*, but additional references to the treatment of reverse transactions will be added.

### A. One-off Guarantees and Other Debt Assumption – no significant changes

### B. Insurance Technical Reserves, Pension Fund Entitlements, and Provisions for Calls Under Standardized Guarantees

- Following the decision at the 15<sup>th</sup> Meeting of the Advisory Expert Group on National Accounts, it will be clarified that when nonlife insurance policies are surrendered by mutual agreement between policyholders and nonlife insurers, the technical reserve liabilities of the nonlife insurers will be reduced by the amount of the unearned premiums that is returned to the policyholders and recorded as a transaction. Correspondingly, the technical reserve assets of the policyholders will be reduced by the same amount and recorded as a transaction.

### C. Special Drawing Rights – no significant changes

### D. Securities Repurchase Agreements and Other Reverse Transactions – no significant changes

- Following GN F.3, this section will include updated references to Chapter 7 and Chapter 12 where the treatment of reverse transactions will be discussed in further detail.

### E. Currency – no significant changes

### F. Change of Contractual Terms – no significant changes

## **VII. Reserve Assets**

- This section will be maintained as in *BPM6* with one addition. Consistent with paragraphs 9.19–20 of *BPM6*, it will be clarified that transactions involving unallocated gold accounts are recorded in the financial account under reserve assets only if they occur between two monetary authorities for reserve purposes or between a monetary authority and an international financial organization. Otherwise, they will be classified as currency and deposits. Along those lines, this section will also include a reference to Chapter 6 where the treatment of securities (and gold bullion) under reverse transactions in reserve assets is described.

## **VIII. Arrears**

- This section will be maintained as in *BPM6* with no significant changes.

## Schematic Overview

I	<p>Concepts and Coverage</p> <p><i>Table 8.1: Overview of the Financial Account</i></p> <p>Net Recording</p> <p>Gross Recording on a Supplementary Basis</p> <p>Timing and Valuation</p>
II	<p>Direct Investment</p> <p>Reinvestment of Earnings</p> <p><b>Dividends and Withdrawal of Equity</b></p> <p>Direct Investment Flows in Kind</p> <p>Mergers and Acquisitions</p> <p>Corporate Inversion and Other Restructuring</p> <p>Borrowing for Fiscal Purposes</p>
III	<p>Portfolio Investment</p> <p>Reinvestment of Earnings in Investment Funds</p> <p><b>Superdividends</b></p> <p>Convertible Bonds</p> <p>Debt Defeasance</p> <p>Share and Debt Buybacks</p> <p>Bonus Shares</p>
IV	<p>Financial Derivatives (Other Than Reserves) and Employee Stock Options</p> <p>Financial Derivatives</p> <p>Employee Stock Options</p>
V	<p>Other Investment</p> <p>One-Off Guarantees and Other Debt Assumption</p> <p>Insurance Technical Reserves, Pension Fund Entitlements, and Provisions for Calls Under Standardized Guarantees</p> <p>Special Drawing Rights</p> <p>Securities Repurchase Agreements and Other Reverse Transactions</p> <p>Currency</p> <p>Change in Contractual Terms</p>
VI	<p>Reserve Assets</p>
VII	<p>Arrears</p>

## References

- GNs D.1, D.4, D.5, D.17, F.2, F.3, F.4, and F.10\*. These guidance notes are posted at [Update of the sixth edition of the \*Balance of Payments and International Investment Position Manual \(BPM6\)\* \(imf.org\)](#) or at [List of Guidance Notes for the 2008 SNA Update](#) (unstats.un.org).<sup>2</sup>
- Issue Note “Identifying Superdividends and Establishing the Boundary Between Dividends and Withdrawal of Equity in the Context of Direct Investment”.
- Clarification Note “Treatment of Securities Under Reverse Transactions in Reserve Assets” [still under discussion].
- Paper prepared for agenda item 3.1 of the 15<sup>th</sup> Meeting of the Advisory Expert Group on National Accounts: “Incorporating Corrected Inconsistencies in the 2008 SNA, Clarifications and Interpretations and Other Global Statistical Initiatives into the Updated 2008 SNA”.

## Key Stakeholders Consulted

- System of National Accounts and Balance of Payments Manual editors
- IMF Statistics Department Financial Institutions Division and Government Finance Division
- Balance of Payments Task Team
- Global Consultation of the External Sector Statistics Community

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<sup>2</sup> Guidance notes that are under consultation at the time of writing this AO are marked by an asterisk (\*).