Joint Thirty-Seventh Meeting of the IMF Committee on Balance of Payments Statistics and Seventeenth Meeting of the Advisory Expert Group on National Accounts

Inter-secretariat Working Group on National Accounts

Remote Meeting
October 26–November 1, 2021

BOPCOM—21/18b
SNA/M3.21/09

Summary of Discussions

Prepared by the Statistics Department

INTERNATIONAL MONETARY FUND

Summary of Discussions

INTRODUCTION

1. The thirty-seventh meeting of the IMF Committee on Balance of Payments Statistics (Committee) and the seventeenth meeting of the Advisory Expert Group (AEG) on National Accounts was jointly held virtually on October 26, October 29, and November 1, 2021. This summary of discussions includes the action points agreed by the members during the meeting.

2. In his opening remarks, Mr. Louis Marc Ducharme, Chief Statistician and Data Officer, Director of the Statistics Department (IMF), and Chair of the Committee, commended the combined efforts of the Committee and the AEG to collaborate jointly with a view to ensure the alignment between the updated versions of the *BPM6* and *2008 SNA*. This joint meeting, the first ever, is a big innovation in terms of process as it will allow to discuss cross-cutting, complex issues much faster than would have been possible in separate meetings. It was also noted that as we are approaching the end of Phase one, the progresses achieved since the launch of the updates has been highly impressive. In this context, he underscored the need to start now to frame our views of the prioritization of the approved recommendations for their inclusion in the *2025 SNA/BPM7*. In that respect, he informed members that the Committee will have an initial discussion on the holistic review of research priorities for the *BPM6* Update at its meeting on October 27. This will help focus on achievable targets within high priority areas, taking into account the differing levels of statistical development of economies.

3. Mr. Stefan Schweinfest, UNSD Director and Chair of the Inter-secretariat Working Group on National Accounts (ISWGNA), also praised the commitment of both the AEG and the Committee to come together in a concerted manner to resolve research issues of common interest in the most efficient way. The joint sessions over two days would review seven guidance notes (GNs) for endorsement, including topics, such as valuation of imports and exports goods and factoryless goods producers, that will have an impact on other economic statistics domains, namely the update of the international trade statistics manuals and the update of the International Standard Industrial Classification of All Economic Activities (ISIC). He also informed the Committee and AEG members that a Lead Editor for the drafting of the update of the *2008 SNA* and a Project Manager to assist the ISWGNA in coordinating the update process would be hired shortly. He further underscored that the outreach element of the SNA update programme, facilitated by UNSD, which includes the baseline assessment, and early implementation through experimental estimates was progressing as planned.

GLOBALIZATION TASK TEAM (GZTT)

BOPCOM 21/02 AND 21/02.1; SNA/M3.21/02 AND 02.1 – VALUATION OF IMPORTS AND EXPORTS OF GOODS IN THE INTERNATIONAL STANDARDS (CIF TO FOB ADJUSTMENT) (G.1)

Topics Presented for Discussion:

4. The *System of National Accounts 2008* (*2008 SNA*) recommends recording of imports and exports of goods at free-on-board (FOB) values, consistent with the valuation principles of trade in goods in the *Balance of Payments and International Investment Position Manual, sixth edition* (*BPM6*). However,

the FOB recording is not fully reconciled with the principle of output valuation at basic prices used for domestic transactions within the SNA. To resolve these challenges, three options were considered:

- Option 1: change the recommended treatment of domestic transportation back to the recommendations in the *1968 SNA* where transport services would be treated as services.
- Option 2: maintain the recommendation of the *2008 SNA* and *BPM6* to record imports and exports using an FOB-type valuation.
- Option 3: changing the current SNA and BPM recommendation for the valuation of imports and exports to the observed transaction value (invoice value).

5. Both the Committee and the AEG members, during previous discussions, agreed that Option 3 is conceptually correct, but requested that experimentation and testing should be done to assess the practical implementation of this recommendation. The Committee and the AEG both emphasized the overarching objective of ensuring consistency between the SNA and the BPM in the final decision on the valuation of imports and exports of goods.

Outcomes of Global Consultation:

6. A global consultation was conducted in two phases to assess (i) the availability and accessibility to external trade data at observed transaction values from customs data, and (ii) the plausibility of implementing this change.

7. The first stage testing, in which 120 economies participated, revealed majority support, on a conceptual basis, to adopt invoice (transaction) values for the valuation of imports and exports of goods in both the national accounts and balance of payments statistics. While 70 percent of the respondents indicated that invoice values are either fully or partially available, only around half reported that they had access to the information.

8. Of an initial 43 volunteers, only a reduced sample of 13 economies eventually participated in the second stage of testing, with only 12 submitting data needed to assess the impact of the adoption of invoice (transaction) values for valuing imports and exports of goods. The difference between the total value of imports of goods (cif) and transaction (invoice) valuation, had an impact that spans from 0.2 to 8.5 percent of total imports of goods valued at cif. For exports, which only six economies tested, the reported impacts range from -2.5 to 15.0 percent of total exports of goods (fob). Overall, the second-stage consultation results suggest that, at this stage, the participating economies were not ready to implement the proposed change in the current valuation principles for trade in goods.

Summary of Discussions:

9. While a majority of members agreed that the updated manuals should emphasize that invoice values (Option 3) are conceptually consistent with the general principle of market valuation, the outcome of the second stage global consultation did not support the change to this valuation method for this update (the participants in the testing revealed that access to the information to facilitate the implementation of transactions values would require important institutional changes/arrangements and sufficient time for quality testing).

10. Although some members noted that Option 3 could not be rejected outright despite the low participation by countries in the testing, in light of the practical difficulties shown by the second stage testing results Option 2—the status quo—would be retained for this round of the standards' update. However, it was suggested that this current update should indicate clearly that the change in the standards to value trade in goods at transaction prices will be adopted in the next update of the manuals. Countries will be encouraged to take steps and start collecting the information and testing before the next update is initiated. This will provide economies ample time to undertake the necessary institutional changes/arrangements to get access to invoice values, particularly in economies where the data are not easily accessible, as well as enough time for quality testing. This proposal was supported by most members.

11. Most Committee and AEG members supported the proposal to explore further the collection of invoice values as part of the International Merchandise Trade Statistics (IMTS). This will enable assessing the quality of invoice values over time and ensuring that economies switch over with a change in standards over a defined timeline.

Actions:

- The GZTT to update and finalize the GN highlighting that Option 3—valuing exports and imports of goods at invoice values—is conceptually sound but in light of the limited results of the second stage testing, the status quo (Option 2) is being recommended as part of the current BPM and SNA update.
- The GZTT to clearly indicate in the proposed text to be included in the revised manuals that Option 3 (valuing trade in goods at transaction prices) will be the standard in the next round of BPM and SNA updates, with an understanding that economies should start collecting the information and testing before the next update is initiated.
- The GZTT to mention that in the meantime the collection of invoice data will be explored through the International Merchandise Trade Statistics (IMTS) and experimentation by economies should ensure the quality of the data.
- The final version of the GN (stating the agreed proposals that should go into *BPM7* and the updated SNA and removing the questions) to be circulated to the Committee and AEG (via written procedure) for final approval and subsequent posting on both the *BPM6* and *2008 SNA* Update websites.

BOPCOM 21/03 AND 21/03.1; SNA/M3.21/03 AND 03.1 – TREATMENT OF MULTINATIONAL ENTERPRISES (MNE) AND INTRA-MNE FLOWS (G.2)

Topics Presented for Discussion:

12. MNE and intra-MNE group flows present measurement challenges for both national accounts (NAs) and balance of payments. Both the *BPM6* and *2008 SNA* recommend that foreign affiliates of MNEs are resident in their respective economies of operation. Economic decisions made by MNEs can have a sizeable effect on balance of payments and NAs statistics, which when mis-measured can adversely affect key macroeconomic indicators. Consequently, without robustly accounting for MNE group activities, the reliability of macroeconomic statistics for domestic policymaking purposes may be reduced. Over time, estimates recorded by MNEs in national statistical surveys may not be best suited to meet the purposes of NAs and balance of payments statistics.

13. To highlight the activities of MNEs in the NAs, four options are considered, three of which can be addressed within the core System of National Accounts (SNA) framework and one beyond the core SNA framework by developing additional indicators:

- Option 1: emphasize existing indicators within the SNA.
- Option 2: increase the granularity and scope of the supplementary data provided within the SNA framework using the institutional sector accounts (ISAs).
- Option 3: provide more granularity within the SNA framework using the extended supply and use tables (eSUTs).
- Option 4: considers redefining existing indicators within the SNA framework; the most relevant example being the Gross National Income - GNI* (modified GNI published by Ireland).

14. The GN also discusses three main conceptual issues, namely (i) the definition of MNEs in macroeconomic statistics, (ii) the principle and definition of control in the context of MNEs, and (iii) the proposed decision tree to be used in the allocation of MNE units to institutional sectors.

15. The AEG members, during previous discussions, agreed with the proposals to emphasize existing "national and net" indicators within the existing SNA framework (Option 1) and to introduce additional breakdowns (for example, new sub-sectors) which highlight the activities of MNEs (Option 2 and 3). Option 4—redefined indicators within the core system of the SNA framework—was rejected. In addition, they had emphasized the need for a statistical definition of MNEs.

16. The proposed definition of the MNE is aligned to the "control" aspect outlined in both the *BPM6* and *BD4*.

17. An MNE is defined as a legal entity that:

- has at least one nonresident affiliate or branch; and
- exercises control over its affiliate(s) or branch(es) either directly—by owning over 50 percent of the voting power in the entity—or by indirect transmission of control.

18. The MNE is the ultimate controlling parent (UCP)—the direct investor at the top of the control chain.

19. In that respect, with a view of maintaining consistency, the proposal is to align the definition of control in the SNA with *BPM6* and *BD4* when defining foreign-controlled corporations. To support the practical implementation of the definition, a decision tree allocating institutional units, including units that belong to an MNE group to institutional sectors, is proposed. The decision tree will be used for operational guidance to assist compilers in identifying MNEs for NAs. The decision tree extends Figure 4.1 of the *2008 SNA* and includes the proposed classification of MNE units and special purpose entity (SPE) units.

Outcomes of Global Consultation:

20. The global consultation revealed majority support for the recommended definition of MNEs as well as the conceptual proposals to (i) align the definition of "control" elaborated in the SNA with the

definitions put forward by the *BPM6/BD4*, thus enforcing the strict "50 percent voting power rule" in the SNA, and (ii) use the decision tree to allocate MNE units to institutional sectors.

21. Regarding how to implement the options proposed, there was a clear preference for Approach 1 [1]—highlighting existing SNA gross and net aggregates. The consultation also confirmed that while granularity through ISA, eSUTs, and breakdown of Gross Value Added (GVA) would be considered beneficial from a conceptual point of view, resource and data requirements are challenging.

Summary of Discussions

22. Members unanimously agreed with the proposed definition of an MNE, the alignment of the SNA with the *BPM6* and the *BD4* with respect to the control aspect associated with foreign controlled entities and the inclusion of the decision tree for allocating MNE units to institutional sectors.

23. Some members emphasized the importance of producing net indicators in the updated SNA despite the difficulties that this may entail. This is in line with increased user demand for such indicators from different user communities. Additionally, there was also support for the most ambitious options of increasing granularity and scope of the supplementary data provided within the SNA framework using the ISA or the eSUTs. These proposals should be foreseen as supplementary data collections that economies should aim at in the future, although at this stage the current recommendation is to allow the choice of breakdown by compiling agencies to be dependent on their statistical production process and the analytical and policy needs of users. Regarding the decision tree, which was seen as being very useful, it was mentioned that the aspect of indirect and direct relationships should be further clarified for entities that can be directly controlled by a nonresident but indirectly controlled by a resident.

24. With respect to the "gross" and "net" terms, which are heavily used by the balance of payments and NAs communities, it was noted that the Communications Task Team will, through a GN, make recommendations on "net" and "gross" terms to complement the current guidance available in both the *BPM6* and the *2008 SNA*.

Actions:

- The GZTT to update the GN (i) addressing the comment on the decision tree; (ii) stating the recommendations that should go both into the *BPM7* and SNA, including the emphasis on net indicators, supplemental granular information, definition of MNE, control aspect, and decision tree, and (iii) removing the questions.
- The final version of the GN (stating the agreed proposals that should go into *BPM7* and updated SNA, removing the questions) to be circulated to the Committee and AEG (via written procedure) for final approval and subsequent posting on both the *BPM6* and *2008 SNA* Update websites.

[1] Approach 1: Promoting/Highlighting existing macroeconomic aggregates that are less sensitive to the impact of globalization (e.g., Gross national income (GNI), net national income (NNI), gross national disposable income (GNDI), net national disposable income (NNDI). See https://www.imf.org/-/media/Files/Data/Statistics/BPM6/GZTT/g2-treatment-of-mne-and-intra-mne-flows-survey.ashx

CURRENT ACCOUNT TASK TEAM (CATT)

BOPCOM 21/04 AND 21/04.1; SNA/M3.21/04 AND 04.1 – MERCHANTING AND FACTORYLESS PRODUCERS; CLARIFYING NEGATIVE EXPORTS IN MERCHANTING; MERCHANTING OF SERVICES (C.4)

Topics Presented for Discussion:

25. Increasing globalization with unprecedented expansion of the activities of MNEs brings challenges in capturing their activities in macroeconomic statistics. The *BPM6/2008 SNA* have not given prominence to these phenomena. In this context, the GN (prepared jointly by CATT and GZTT) discusses a range of aspects related to the statistical recording of global production arrangements focusing on the following:

- (A) disentangling of the transactions related with global manufacturing arrangements and factoryless goods producers (FGPs);
- (B) providing some clarifications on the treatment of merchanting transactions, in particular the rationale behind the recording of transactions exclusively on the exports side in the economy of the merchant; and
- (C) clarifying existing guidance on the definition and treatment of "merchanting of services".

A. Goods Traded Within a Global Manufacturing Arrangement and Factoryless Goods Producers (FGPs)

26. Considering the challenges of identifying these transactions and their distinction from the "pure" merchanting activities, as well as the practical aspects of data collection, the GN proposed two options for recording the global production arrangements (that introduce relevant indicator(s) but as *supplementary items* to the balance of payments standard components).

27. The 2019 meeting of the technical subgroup (TSG) of ISIC recommended no changes in the current guidance on the classification of the principal in ISIC based on the ownership of input materials noting that the identification of FGPs was difficult. However, the TSG recommended that the text in the ISIC manual could be further clarified that the recommendations of the classification of FGPs in ISIC Rev.4 apply to the cases where the FGP utilizes a non-affiliated contractor, either abroad or in the resident economy.

Option 1: One supplementary component under General merchandise.

28. Under this scenario, all sales/purchases of goods related to global manufacturing arrangements by the principal (e.g., both processing and FGP arrangements) would be recorded indistinguishably (on a gross basis) under the proposed supplementary item, covering:

a. On the exports side: all sales of *input materials* and *final* goods by the principal

b. On the imports side: all purchases of *input materials* and *processed* goods by the principal

Option 2: Supplementary components distributed between the general merchandise and the net export of goods under merchanting.

29. Under this scenario, supplementary items are proposed separately for:

a. General merchandise on a balance of payments basis (covering the final/processed goods and those input goods procured from other countries by the principal), and

b. Net exports of goods under merchanting (covering the input goods procured by the principal from third parties and sold to the contractor).

B. Clarifying Negative Exports in Merchanting

30. The current treatment was a compromise among those that were concerned about the implications of gross reporting for the trade data, those concerned about the change of ownership principle and those that saw a service being provided.

C. Merchanting of Services

31. Merchanting of services is not conceptualized in the *2008 SNA* and the *BPM6* (one can even wonder whether intermediating between two parties for the provision of services on one's own right is possible given that services are delivered directly from producer to consumer). The GN discusses whether the currently recommended treatment for subcontracting/outsourcing/services merchanting is appropriate in all cases.

Case (a) Full Outsourcing:

- Closest to the idea of "merchanting of services".
- One of the essential conditions which define merchanting (of goods), the change of economic ownership, cannot be applied to services. Following the *2008 SNA,* services "are not separate entities over which ownership rights can be established".
- Transactions in which an intermediary arranges the supply of a service without being engaged in the actual provision of the service do exist in practice. The recommended treatment in these cases is to record in the accounts of the agent only the fee charged for the facilitation of the services rendered.

Case (b) Partial Outsourcing:

- When only part of the production process is subcontracted, or, more generally, when the principal maintains control over the production process (e.g., by ensuring its quality) and keeps a relationship with the client, the gross recording of the transactions in the relevant service category remains appropriate. In the case of subcontracting of specific components in a large software project where principal maintains control over the production process, purchase of software development services (subcontracting) needs to be recorded as an intermediate consumption in the production process.

Case (c) Bundled Products:

- Some of the companies involved in the intermediation of services not only intermediate a single service like a flight but bundle several services (e.g., flight + hotel). Typical examples for bundled services are package tours, where tour operators combine several services for their clients.
- *ESA 2010* states that: "The output of tour operator services is measured by the full expenditure made by travelers to the tour operator" and "… tour operator services create a new product called a tour, which has various components of travel, accommodation and entertainment".
- However, the GN considers that the service bundle in a package is not seen as a product in its own right mainly because the services acquired by the tour operator (transportation or accommodation) cannot be considered to be consumed by it when "producing" the tour. It seems more logical to separate the transaction into (i) one component that reflects the arrangement service of the tour operator and (ii) the other components, such as transportation, which are produced by the airline and consumed by the traveler at a later stage. A similar view is expressed in *BPM6* (paragraph 3.17), which recommends unbundling two or more different transactions.

Outcome of the Global Consultation:

32. The global consultation showed wide support for all proposals concerning factoryless goods producers (FGP) arrangements. On the proposed supplementary component(s) under the Goods Account, respondents were evenly split between the two options (whether under general merchandise or distributed between general merchandise and net export of goods under merchanting).

33. Strong support was shown for providing additional explanations about the recording of negative exports in merchanting of goods and recording of fees separately from the relevant services.

34. While the proposed treatment of bundled services was supported by a slight majority, challenges from its practical implementation and risks of asymmetries were also noted by many respondents.

Summary of Discussions:

35. Members agreed with most of the proposals in the GN, except on the treatment of bundled services, where views were split. In line with the results of the global consultation, the proposals on Issue A (Goods Traded Within a Global Manufacturing Arrangement and Factoryless Goods Producers (FGPs)) and Issue B (Clarifying Negative Exports in Merchanting) received strong support from the members. While most of the members supported the first two proposals on Issue C (Merchanting Services), consensus could not be reached on whether bundled services, such as for tour operators, should be unbundled or rather be recorded as new products.

36. Regarding the FGPs, some members sought clarification on the impact of the proposed treatment on traditional manufacturers engaged in international transactions that are currently recorded under merchanting. It was noted that the change from merchanting to general merchandise may increase exports and imports of goods for some countries. The TT is requested to elaborate on how to address the impact of the change from merchanting to general merchandise on exports and imports of goods for some countries. In this context, the importance of testing, and to validate the impact of this proposal on balance of payments was emphasized. Further, it was suggested creating a separate ISIC code under manufacturing for FGPs as they appear to be borderline cases between trade and manufacturing. On the

decision tree, while there was a broad agreement and recognition on its use, some modest improvements were suggested to accommodate different situations.

37. Members in support of the proposed recommendation to unbundle services (i.e., not being recorded as new products) argued that treating a tour package as a new product is not appropriate. This is due to the undesirable result of potentially recording all components relating to a package (including transportation) in the country of the tour operator. The need for a clear demarcation of products that require unbundling was emphasized. Conversely, members that supported treating bundled services as a new product underscored that those acquiring a package consider it as a distinct product acquired from the tour operator, and in some cases tour operators may own some of the components in the bundle (e.g., holiday homes). They considered that package tours are treated as separate items in the computation of price indices with their own weights stressing that tour operators can secure lower prices than what consumers would experience if buying individually. They also noted that if a particular component in the bundle (tour package) changes, the tour operator is normally responsible for rearranging the whole package (hotel, museum reservations, local guides, etc.).

38. Some of the members that favored unbundling on conceptual grounds noted practical challenges associated with collecting the data on components included in the bundle. Two members considered that all components of package tours except for international passenger transportation should be recorded in the "travel" item. It was suggested to test the practical implications of unbundling of services (for instance, the extent to which resident-nonresident relationships could always be identified in order to "unbundle" services) before taking any decision.

39. Given the diverging views, it was considered appropriate to undertake further research and testing and revisit the treatment of bundled services as part of the GN *C.7 Treatment of Travel Packages, Health-Related Travel, and Taxes and Fees on Passengers' Tickets,* which is scheduled to be presented at the joint Committee/AEG meeting in February 2022.

Actions:

- CATT to finalize the GN incorporating the agreements reached by the Committee and the AEG (i.e., with improvements to the decision tree and further clarification on the FGPs) on Issues A, B, and C (except for bundled services).
- The updated version of the GN (excluding unbundled services) will be circulated to the Committee and the AEG for final decision and subsequent posting on the *BPM6/2008 SNA* Update websites
- The issue of bundled services should be further researched and tested as part of the GN *C.7 Treatment of Travel Packages, Health-Related Travel, and Taxes and Fees on Passengers' Tickets,* aiming for discussion in the February 2022 Committee/AEG meeting.

BOPCOM 21/05 AND 21/05.1; SNA/M3.21/05 AND 05.1 – VALUATION OF LOANS (FAIR VALUE)

Topics Presented for Discussion:

40. Valuation of loans at nominal value can be seen as a deviation from the general principle of market valuation recommended in the *BPM6* and the *2008 SNA*.

41. The GN examines the option of maintaining the current nominal valuation principle for loans, distinguishing between the status-quo and an improved version.

42. **The GN proposes two options, each with two variants.**

Option 1—Maintaining the Current Nominal Valuation

- **Option 1a**—Do not change the current valuation of loans and leave in the updated SNA and BPM the provisions recommending that loans be recorded in the balance sheets of both creditors and debtors at nominal value. Under this option, the use of fair value remains limited to memorandum items and nonperforming loans (NPLs).
- **Option 1b**—Retain the recommendation to measure loans at nominal value and improve and clarify the updated SNA and BPM guidance within the limits of the existing framework, allowing for value reset even beyond cases of bankruptcy and liquidation, when there is public evidence of loan deterioration.

Option 2—Shifting to Fair Valuation

- **Option 2a**—Change the existing valuation rules in the updated SNA and BPM, shifting to a simplified estimate for fair value, based on nominal value less expected loan losses.
- **Option 2b**—Change the existing valuation rules in the updated SNA and BPM, shifting to full fair valuation at any time for all loans in the core accounts.

Pros and Cons of Different Options

- **Option 1a:** It prevents artificial improvements in the debtor's net worth in case of decreased creditworthiness. The main problem is overstating the asset side valuation of financial sector's balance sheets, providing a somewhat distorted view of the financial position.
- **Option 1b:** It improves measurement of financial positions, notably for fiscal and financial stability analysis, and minimizing the burden of changes, to a certain extent. The main drawback is that it does not achieve a full alignment with the general market valuation principle (*2008 SNA*, paragraph 2.60).
- **Option 2a:** As the pure fair value, the simplified value in Option 2a takes continuously into account changes in value arising from impairment, and loans should be revalued even if not traded.
- **Option 2b:** The main advantage is full consistency with the general principle of market valuation in the SNA and BPM and better reconciliation with available business accounting data from the

creditors. On the downside, Options 2a/2b might cause inconsistencies, notably at the cross-country level, and would imply significant statistical burden of changing the current practice.

Outcome of the Global consultation:

- The global consultation revealed that from a conceptual perspective, a large majority of respondents favored maintaining the current nominal valuation (Option 1) over Option 2 (shifting to fair valuation).
- Within Option 1, a slightly higher proportion of the respondents supported the recommended Option 1b, namely retaining the nominal valuation allowing for value resets beyond cases of bankruptcy and liquidation when there is public evidence of loan deterioration, relative to Option 1a (status quo).
- On practicality issues, half of the respondents declared having access to the relevant source data for implementing Option 1b.

Summary of Discussions:

43. Members overwhelmingly supported the valuation of loans at nominal value (Option 1) over valuation at fair value (Option 2). Among those members supporting Option 1, a large majority were in favor of extension of allowing for value reset in extraordinary events publicly known (Option 1b).

44. Those who supported nominal valuation noted that it maintains symmetry between debtors and creditors. They underscored that loans are not actively bought and sold in the market. Fair value is defined differently in the international financial accounting standards. They further considered that rather than the value agreed between debtor and creditor, fair value provides a one-sided assessment of the risk associated with loan repayment. Some members stressed that they preferred the nominal valuation for pragmatic reasons and data availability considerations.

45. Within Option 1, members supported Option 1b acknowledging the need for some improvements in the framework for nominal valuation to account for public announcements where nominal valuation clearly provides an unrealistic value for loans. While some members considered that the relevant information on publicly known cases should be observable from both sides to ensure the symmetry of recording, there were suggestions to provide clear guidance on the situations when values should be reset and the criteria to be applied for the resetting. Some members underlined the need for assessing the impact of this option on interest accrued and the financial intermediation services indirectly measured (FISIM).

46. Those members that supported Option 1a (status quo) emphasized that this is the only option that allows full symmetry and consistency across countries on the recording of loans. In their view, the adoption of Option 1b could lead to asymmetries when loans may be on-sold to third parties, as debtors may not know the price of acquisition of the loan. Therefore, if option 1b is adopted they suggested the need for further practical guidance on how to reduce asymmetries.

Actions:

- FITT to finalize the GN incorporating the comments from members stating the final recommendation (Option 1b) and removing questions for posting on the *BPM6/2008 SNA* Update websites.
- Practical guidance on implementing Option 1b to be provided in the updated *BPM6 Compilation Guide*.

BOPCOM 21/15 AND 21/15.1; SNA/M3.21/06 AND 06.1 – VALUATION OF UNLISTED EQUITY (D.2)

Topics Presented for Discussion:

47. The current methodological standards recommend that market values should be used as the basis for the valuation of equity. In the case of unlisted equity for which the market value is not available, the current manuals recommend six different methods, namely (i) Recent transaction price, (ii) Net asset value, (iii) Present value/Price to earnings ratios (P/E), (iv) Market capitalization ratio to book values, (v) Own funds at book value (OFBV), and (vi) Apportioning global value to estimate market value equivalents.

48. The different methods, as currently presented, are not ranked according to preference in either *BPM6* or the *2008 SNA*. The *2008 SNA* explains that they are not ranked because each method needs to be assessed according to the circumstances and the plausibility of the estimates. The recommendation of multiple methods has led to different practical implementation due to the challenges that each method entails. Differences in country practices for valuing unlisted equity has reduced international comparability, including bilateral symmetry.

49. The GN discusses ways to identify the most preferred estimation methods and proposes to eliminate some of them, in particular those that are used least in the framework of direct investment (DI) and in the national accounts. It also brings forward two other related methodological issues: valuation methods that can generate negative positions, and the impact of various types of provisions on the value of unlisted corporations in *BPM6*.

Issue 1: Valuation Methods for Estimating Unlisted Equity

50. Using criteria like availability, simplicity, comparability, and methodological soundness, the GN proposes to reduce the number of estimation methods both in the BPM and SNA frameworks. A decision tree is also presented to assist compilers in applying valuation methods based on country's circumstances.

51. The GN proposes five options:

- Option 1.1: Adopt the proposed methods based on the decision tree and include it in the updated BPM and SNA.
- Option 1.2: Adopt the methods recommended in the *ESA 2010* and *Handbook on Financial Production Flows and Stocks in the SNA* as preferred methods—these are (a) the values of quoted shares where appropriate; (b) the own funds book value; or (c) discounting forecast profits by applying an appropriate market price to earnings ratio to the smoothed recent earnings of the institutional unit.
- Option 1.3: Cease recommending some of the proposed methods, those ranked lower or applicable only in very specific cases as shown in the decision tree, in both the updated BPM and SNA, with a view to ensuring more consistency when estimating market value. These are (a) Apportioning global value, and (b) Net asset value.

- Option 1.4: Leave some of the proposed methods, listed below, as part of the methodological guidance but clearly limit their use to specific cases in the updated BPM and SNA.
  - Recent transaction price to be used no longer than a year from when the transaction took place.
  - Apportioning global value to be used only for the large MNEs due to (i) availability of the information, and (ii) high effort required to apply this method.
  - Net asset value to be used only when it is possible to verify the quality of the assessment provided by the companies or external auditors and no longer than a year from when the valuation was made.
- Option 1.5: No changes to the manuals.

Issue 2: Treatment of Negative Equity

52. Valuation methods can generate negative positions, which is not consistent with the limited liability aspect of some type of equity. Negative equity could lead to an overstatement of a country's net international investment position (IIP). In that respect, it may be considered necessary to analyze the need to include a zero-lower limit for the valuation of unlisted equity in Chapter 7 of the *BPM6* and Chapter 13 of the *2008 SNA*, except for unlimited liability.

53. Given the complexity of the treatment of negative equity and earlier discussion in Committee meetings, two options are proposed.

- Option 2.1: Clarify the treatment of negative equity in the current BPM and SNA framework covering both limited/unlimited liability in a separate clarification note (including the possibility of zeroing out negative equity for the cases of limited liability).
- Option 2.2: No changes to the manuals.

Issue 3: Treatment of Accounting Provisions, Including Loan Loss Provisions

54. The general treatment of loan loss provisions, as well as the two related items—asset impairment and provisions for future payments uncertain in timing or amount—is clear and consistent between the *BPM6* and *2008 SNA;* both indicate that these provisions as such are not recorded in statistical accounts. It was found beneficial to clarify the impact of various types of provisions on the value of unlisted corporations in *BPM6*. There were different proposals made to achieve more clarity.

55. In that regard, two options are proposed:

- Option 3.1: Review the treatment of accounting provisions, including loan loss provisions, in the particular case of the valuation of unlisted equity under OFBV.
- Option 3.2: No changes to the manuals.

Outcomes of Global Consultation:

56. The global consultation favored the idea of additional guidance in the statistical standards on the valuation methods of unlisted equity. There was majority agreement that it would be helpful to reduce the current number of methods recommended by the *2008 SNA* and the *BPM6*. The top three preferred methods that came out of the consultation were (i) OFBV, (ii) Recent Transaction Price, and (iii) Market

Capitalization Method – Price to book Value (P/B). There was also large support for the proposed decision tree, as a possible way of ordering the different methods, with a view to facilitating decision-making for compilers. Respondents were also favorable to international institutions assisting in implementing an information-sharing system to promote homogeneity in the valuation of unlisted equity worldwide. With respect to the other two issues raised in the GN, the consultation also revealed an agreement to prepare a clarification note on the treatment of negative equity (Option 2.1) and to clarify the impact of various types of provisions on the valuation of unlisted equity in the BPM, SNA, and BPM Compilation Guide (Option 3.1).

57. The FITT was generally supportive of the decision tree but had mixed views on identifying preferred methods, noting that the "best" method may depend on the data sources available or differ by industry. All were supportive of additional clarifications on the treatment of negative equity and provisions, noting that all impacted statistical domains should be represented on the entities drafting these clarifications. Finally, they were all supportive of international organizations assisting in an information-sharing system for the valuation of unlisted equity.

Summary of Discussions:

58. Members mostly supported the proposals put forward in the GN on the valuation methods for unlisted equity, including the need to identify some preferred estimation methods for the valuation of unlisted equity in the updated *BPM6* and *2008 SNA* with a view to improving cross country comparability within the external sector statistics and consistency across institutional sectors within the SNA.

59. Moving forward, members agreed that the updated manuals should first explain the concept to be measured—namely, in the absence of market prices, own funds as the difference between assets and liabilities of unlisted corporations measured at market prices—in line with the core principles of macroeconomic statistics. The recommendations on the most preferred methods proposed to provide estimates of that value can then be outlined.

60. There was general support towards recommending Own Funds at Book Value, Transaction Prices, and market capitalization as the preferred methods in the manuals. Some members noted that market capitalization is less likely to be available and could be challenging in countries without enough listed companies in certain industry sectors.

61. The selection of only three preferred methods was seen as a compromise between reducing bilateral asymmetries and differences in the availability of information across countries. It was also acknowledged that while Own Funds at Book Value is the most widely used valuation method, it would need to be adjusted for valuation[2] of intangibles.

62. Members also agreed that compilers make use of the decision tree to implement one of the three preferred methods, and in the event that some countries may still not be able to do so, the decision tree would serve as a guiding principle to decide on another method as a fallback solution. The metadata should provide indication thereof.

[2] Treatment of intangibles in business accounting differs from national accounts.

63. Members supported the view that the Compilation Guide should include further details on how the preferred recommended methods as well as the decision tree can be applied in practice. Regarding the role of international institutions to help implementing an information-sharing system for the valuation of unlisted equity, the opportunity to leverage on some existing initiatives such as the ECB's publication "Guide to Sharing Economic Data in Official Statistics" and the UNSD Global Group Register,[3] was underscored.

64. Members noted that the issue related to treatment of provisions has been raised for discussion in several GNs, of which D.16 and F.9 are most relevant. They supported additional clarification on the topic in the manuals. There was general support to have a separate clarification note on negative equity encompassing both the balance of payments and national accounts perspective, building on the note on the topic that the Committee and the AEG had discussed before the launch of the update of the standards.

Actions:

- DITT to update the GN including the discussion and way forward proposed by the members and removing the questions.
- The updated version of the GN (stating the recommendations that should go into *BPM7/2025 SNA* and removing the questions) will be circulated to the Committee and the AEG for final decision and subsequent posting on the *BPM6/2008 SNA* Update websites.
- IMF's Statistics Department to coordinate the preparation of a separate clarification note on negative equity in consultation with the experts from relevant TTs/domains.

BOPCOM 21/16 AND 21/16.1; SNA/M3.21/07 AND 07.1 – TREATMENT OF RETAINED EARNINGS (D.16)

Topics Presented for Discussion:

65. The GN discusses the following methodological/practical challenges currently faced by compilers and analysts when dealing with reinvestment of earnings (RIE) in direct investment enterprises (DIEs).

Definition and Calculation of RIE (Issue 1)

66. Some aspects of RIE compilation require further clarification in the *BPM6* update or its compilation guide. (i) change in pension entitlements are only mentioned in paragraph 11.34 and not included in in other parts of the *BPM6* that discussed RIE; and (ii) the values of "Enterprise's share of RIE of any DIEs" are not included in the profit and loss (P&L) statements of the enterprise.

67. Further, the concept of income generated by enterprises does not deduct the expenses related to the provisions for losses on long-term contracts as they are not considered as intermediate consumption of the sector. In the case of credit institutions, these expenses, which are necessary for the development of their ordinary activity and even mandatory from the regulatory authorities, are usually large and have a

[3] A global register of multinational enterprise (MNE) groups to improve the understanding and the measurement of international trade and globalization statistics (https://unstats.un.org/unsd/business-stat/GGR/)

significant impact in its profitability. Therefore, the difference in treatment of provisions between financial and economic accounting can lead to large divergences of DI measures of financial firms' profitability from what is in their financial statements and reported in the media.

68. **GN proposes to modify the explanation on the calculation of retained earnings as** "Retained earnings of an enterprise shows the net earnings from current production and primary and secondary income transaction that has not been distributed", removing the reference to reinvested earnings. Once the retained earnings are calculated, the reinvested earnings are the part of the retained earnings owned by the direct investor based on the percentage of ownership.

69. **To understand the impact of provisions for bad loans in the case of credit institutions,** it is proposed to keep the current RIE imputation and present the provisions as a memorandum item, which will not impact the measurement of GNI of the DIE's economy.

RIE Treatment/Classification Along the DI Ownership Chain (Issue 2)

70. Following the *BPM6*, reinvested earnings are passed on to the indirect direct investors through the ownership chain. It is often easier to obtain the information needed to calculate RIE when the entity in the reporting economy is at the top of the investment chain; companies that are in the middle of the chain and that are foreign controlled often do not have this information or have difficulties in obtaining the required detailed information.

71. *BPM6* guidance is confusing on the implication of including RIE derived from its immediate DIE (*BPM6*, paragraph 11.47), especially as the values of the RIE receivables from the immediate DIE are not included in the profit and loss statement.

72. Incorrectly recorded DI income can have significant impact on the level and partner economy allocation of income statistics and can impact global and bilateral asymmetries between economies.

73. **Three alternatives considered to address the issue:** (A) the status quo (i.e., recognizing all of the earnings generated down the DI ownership chain in primary income); (B) recognizing all of the earnings generated down the DI ownership chain as primary income but reporting indirect income separately; and (C) limiting the imputation of RIE to the P&L account of the immediate DIE.

Calculation of RIE by Investment Funds (Issue 3)

74. In *BPM6*, the treatment and calculation of investment funds' RIE are the same as for RIE of any other DIEs. However, *BPM6* paragraphs 10.124–10.125 and 11.38 lack specific guidance on deducting operating expenses when calculating the investment funds' RIE. It seems unclear if management service charges or fees, whether charged explicitly or implicitly, should be considered as well as the payment of taxes.

75. **The GN proposed that retained earnings (and net income) generated by investment funds should always be compiled** regardless either its type (open-ended vs closed-ended), assets held (e.g., equity, real estate funds or government bonds), dividend distribution policy (distributing vs cumulative), level of liquidity or even the law/statute of constitution.

76. **Explicit expenses should be recorded as financial services paid by the shareholders to the respective counterpart** (e.g., management company and brokers). The counterparts involved in explicit

expenses are classified as financial auxiliaries (“S.126”). Expenses implicitly paid by the shareholders and FISIM should be recorded for simplicity as financial services paid by the shareholders to the investment fund (classified as “S.123” or “S.124”, see *BPM6*).

Outcomes of Global Consultation:

77. The global consultation supported that the *Balance of Payments and International Investment Position Manual, sixth edition* (*BPM6*) paragraphs describing retained earnings should be revised as: “Retained earnings of an enterprise show the net earnings from current production and primary and secondary income transactions that have not been distributed”. Also, most respondents agreed that the recognition of all the earnings generated down the DI ownership chain as primary income is the most conceptually sound option (Alternative A – status quo). Regarding compilation practices, (i) less than half of the respondents agreed to the proposal of reporting indirect income separately; (ii) more than half of the respondents agreed that a memorandum item showing the new obligatory provisions for bad loans in the reporting period would help data users interpret the statistics of reinvestment of earnings (RIE) for credit institutions—this differed from the OECD Working Group on International Investment Statistics (WGIIS) consultation where the majority of DI compilers did not agree with the recommendation of reporting provisions separately as a memorandum item, mostly because of feasibility concerns; and (iii) a vast majority agreed that the RIE and Net Income should always be compiled regardless of the investment fund’s attributes.

Summary of Discussions:

Issue 1

78. Members unanimously agreed that the current *BPM6* paragraphs describing retained earnings and reinvested earnings should be revised as: “*Retained earnings of an enterprise show the net earnings from current production and primary and secondary income transactions that have not been distributed*.” They equally supported the proposal of clarifying the compilation of direct investment income as currently described in *BPM6* and address shortcomings through examples on the calculation of RIE being included in the updated BPM Compilation Guide.

79. A slight majority of members supported presenting changes in obligatory provisions for bad loans separately as supplementary information—instead of as a memorandum item and after checking whether it adds value to the information already available in *BPM6*—when providing RIE for credit institutions. Those arguing against noted that there is no additional value from this recommendation and did not foresee that provisions should be treated differently than any other operations of the DIE that is financed by the direct investor. Among those who saw the benefit of having a separate identification and presentation, some favored a broader perspective targeting not only credit institutions but also other sectors and other types of mandatory provisions (e.g., product warranties).

Issue 2

80. Members agreed that all the earnings generated down the DI ownership chain should continue being part of the calculation of RIE as primary income (Option A – status quo). A few members noted that RIE of the rest of affiliates down the DI chain will be indirectly reflected in the market value of that immediate DIE’s equity and should be recorded as revaluations (price changes) in the integrated IIP. Any

deviation from the recommended methodology should be properly reflected in the balance of payments metadata.

81. There was no agreement on reporting indirect income separately. While some members considered that sufficient information on indirect income may not be available and could lead to confidentiality concerns, some noted that reporting such information may be encouraged on a voluntary basis to increase transparency and analytical use.

82. Some members suggested that the GN should present the impact of the proposed options (A, B, and C) on the national accounts aggregates—in particular, the implications of Option A for domestic ownership chains. This issue is being discussed by the FITT GN F.2.

<u>*Issue 3*</u>

83. Members broadly agreed that RIE and net income should always be compiled regardless of the fund's attributes. In general, it is considered that from practical considerations of data availability in identyfying different types of investment funds, such disntinction may not be feasible. Likewise, there was support for the proposed treatment of operating expenses charged either explicitly or implicitly in the compilation of investment funds' RIE, although it was noted by some members that the proposed treatment for implicit fees would lead to the undesired outcome of investment funds being considered as producing units. There was also some concern about practicality as investment funds may record the data differently.

84. Similar to Issue 2, some members suggested extending the GN to incorporate the implications of the proposed treatment for national accounts.

85. To reflect implications of the different proposals on national accounts, the Committee and the AEG agreed that the GN should be updated in consultation with the IMF's Real Sector Division, and be sent again to the Committee and the AEG for final approval via written procedure.

Actions:

- DITT to amend the GN incorporating comments received on all issues raised and widening its scope to include the national accounts perspective in consultation with the IMF's Real Sector Division. In particular, the proposed treatment for implicit fees could be revisited in light of the national accounts' implications.
- The updated version of the GN to be circulated to the Committee and the AEG via written procedure for final decision and subsequent posting on the *BPM6/2008 SNA* Update websites stating the final recommendations and removing the questions.

BOPCOM 21/17 AND 21/17.1; SNA/M3.21/08 AND 08.1 – COVERING HYBRID INSURANCE AND PENSION PRODUCTS (F.12)

Topics Presented for Discussion:

86. Hybrid Insurance Products (Issue 1): In practice, a large range of insurance products exist that combine nonlife insurance with financial investment elements which make them similar to life insurance. However, the *BPM6* and the *2008 SNA* seems to provide no clear guidance on the treatment of such hybrid insurance products.

87. Employer-Independent Pensions (Issue 2): The GN considers how to record autonomous pension schemes that provide similar benefits as employment-related pension schemes but are employer-independent. A clarification of how to deal with employer-independent schemes is needed because they exist in several countries (e.g., in Germany and Spain for self-employed professionals).

Hybrid Insurance Products (Issue 1)

88. These products (e.g., funded insurance, education endowment insurance, health insurance with a “no claim” bonus, “Hybrid” long-term care insurance) could be classified in the same way as term life insurance depending on the main characteristics of the product (meaning the way premiums are mainly used). Three options are considered, and the GN supports Option 2.

- Option 1: Introduce a new category for hybrid insurance products.
- Option 2: Keep the current categories—life insurance/nonlife insurance. Allocate hybrid products to one category or the other depending on which features are predominant.
- Option 3**:** Revise the categories life insurance/nonlife insurance into insurance with a “saving component” and insurance where premiums are "lost" in case covered events do not occur and change the terms and descriptions in the statistical standards. Hybrid products would be allocated to one category or the other depending on which features (insurance with a “saving component” or insurance where premiums are “lost”) are predominant.

Employer-Independent Pensions (Issue 2)

89. Three options are considered in this GN to clarify the treatment on the basis of the elements identified in the discussion, and Option 3 is the most supported.

- Option 1: Keep the narrow definition of social insurance pension schemes as employer-related schemes only and explore whether it can be aligned with international accounting standards. *2008 SNA* Pension Table 17.10 may be extended to include a column for non-social insurance pension entitlements.
- Option 2: Clarify that autonomous, employer-independent schemes or funds can also qualify as social insurance pensions, and specify the criteria as follows: (i) participation in the schemes is mandatory for certain groups, and (ii) accumulated contributions are set aside for retirement income and are subject to regulation or supervision in line with or similar to employer-related pension schemes/funds.

- Option 3: Clarify that autonomous, employer-independent schemes or funds can also qualify as social insurance pensions, and specify the criterion as follows: accumulated contributions are set aside for retirement income and are subject to regulation or supervision in line with or similar to employer-related pension schemes/funds.

Outcomes of Global Consultation:

90. The global consultation revealed that a large majority of respondents favored keeping the current categories—life insurance/nonlife insurance—and allocating hybrid insurance products to either category depending on which features are predominant (Option 2). Slightly more than half of the respondents confirmed having access to source data for implementing this option. In the case of autonomous, employer-independent pension schemes, most respondents supported the option of treating them as social insurance pensions, provided accumulated contributions are set aside for retirement income and are subject to regulation or supervision in line with or similar to employer-related pension schemes/funds (Option 3). Around 40 percent of the respondents confirmed having access to source data for implementing this option.

Summary of Discussions:

91. Members strongly supported the recommended options for both issues discussed in the GN (i.e., Option 2 for *Hybrid Insurance Products* and Option 3 for *Employer-Independent Pensions).*

92. A few members suggested to exclude the risk of bringing in individual schemes closer to saving schemes within the ambit of social insurance (as implied in Option 3) and indicated that the criterion "participation is mandatory for certain groups" would ensure a clear distinction from other saving instruments, as required in Option 2.

93. Members made the following suggestions for further clarifying the proposed options:

- First, regarding hybrid insurance products, some members in support of Option 2 noted that while some insurance policies may contain some hybrid features, there is usually a predominant benefit and purpose for which the policy is intended, and other features are just value-added benefits to make the policy more appealing to the customers.
- Besides, additional explanations should be provided on (i) the nature of the insurance as recommended in paragraph 27 of the GN "life insurance (insurance with a saving component)" and "nonlife insurance (insurance without a saving component)"; and (ii) term life insurance classified in nonlife insurance and those nonlife insurances recorded in life insurance.
- On employer-independent pensions, clarification should be provided on the coverage of these products with clear identification of exclusions and inclusions. For example, individual personal pensions provided by insurance corporations (non-autonomous pensions) should not be included as they are not social insurance pensions.

Actions:

- FITT to finalize the GN incorporating the agreements reached by the Committee and the AEG (with suggested improvements and clarifications).
- The updated version of the GN to be circulated to the Committee and the AEG via written procedure for final decision and subsequent posting on the *BPM6/2008 SNA* Update websites stating the final recommendations and removing the questions.