Thirty-Fifth Meeting of the
IMF Committee on Balance of Payments Statistics

Washington, D.C.
February 22–25, 2021

BOPCOM VM1—21/12
For discussion

Summary of Discussions

Prepared by the Statistics Department

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SUMMARY OF DISCUSSIONS

INTRODUCTION

1. The thirty-fifth meeting of the IMF Committee on Balance of Payments Statistics (Committee) was held virtually, during February 22–25, 2021. This summary of discussions includes the action points agreed during the meeting.

2. In his opening remarks, Mr. Louis Marc Ducharme, Director, Chief Statistician and Data Officer (IMF), commended the Committee for the progress made in the last year—eight guidance notes (GNs) approved in the last meeting, nine GNs presented in this meeting, and the field testing of the feasibility of using invoice values initiated (via a survey for the valuation of imports and exports of goods). He stressed that the work is conducted in close collaboration with the other macroeconomic statistics domains for aligning the *Balance of Payments and International Investment Position Manual, sixth edition* (*BPM6*) update process with the *System of National Accounts 2008* (*2008 SNA*) update and other relevant manuals. For this purpose, joint BPM/SNA task teams were established, and Government Finance Statistics (GFS)/Monetary and Financial Statistics (MFS) experts were included in various task teams. He recognized that the Committee's work program is fully loaded for the next one year as Phase I of the update process (i.e., finalization of the detailed research) is scheduled to come to an end in March 2022. For this purpose, two Committee meetings are scheduled for June and October 2021 with a considerable number of GNs to be discussed. He clarified that the remaining work will be prioritized and alternative ways of discussing and approving the GNs will be considered, such as through written procedure.

A. TOWARDS THE UPDATE OF MACROECONOMIC STATISTICAL MANUALS
A.1. BALANCE OF PAYMENTS TASK TEAM (BPTT)

BOPCOM VM1 21/02 AND 21/02.1 – TREATMENT OF EXTERNAL ASSETS AND RELATED INCOME DECLARED UNDER TAX AMNESTY IN EXTERNAL SECTOR STATISTICS (B.9)
PAPER BY BPTT

Topics Presented for Discussion:

3. Many countries implemented tax amnesties on external assets and related income in recent years, leading compilers to seek guidance on the treatment of those assets and related income in external sector statistics. Specific guidance on the treatment of cross-border assets and income declared under tax amnesties in external sector statistics is not provided in current international statistical standards, including the *BPM6*. This GN fills this gap by recommending adjustments for external assets and related income declared under tax amnesties for periods in which incomplete estimation occurred following the accrual principle.

4. The GN presents two practical scenarios:

- Declared assets/income already estimated from other sources.
- Declared assets/income not incorporated earlier in the current estimates.

5. The GN recommends that all transactions related to tax amnesties should follow the accrual principle. Recording transactions only in the period when cash payments are declared should be done only in the absence of any other data to make accrual adjustments. However, if adjustments are made, they should be consistent over time, and between flows and positions. Further, to provide additional guidance to the compilers on potential recording in different scenarios of data availability, this GN recommends the incorporation of an analytical Box in *BPM7* and examples in the *BPM7 Compilation Guide (BPM7 CG)*.

Outcomes of Public Consultations:

6. The public consultation showed strong support for the proposed recommendation to provide additional guidance on the recording of tax amnesty related transactions on an accrual basis. Further, a majority of respondents agreed that the incorporation of an analytical box and simplified examples in *BPM7* and the *BPM7 CG*, respectively, could be helpful in bringing further clarity on the treatment of external assets/income declared under tax amnesty in external sector statistics.

Summary of Discussions:

7. All Committee members supported the need for additional guidance on the recording of tax amnesty related transactions on an accrual basis. While the Committee welcomed the proposal for incorporating of analytical box and practical guidance in the updated BPM, the majority of the members indicated that practical guidance should rather be part of the *BPM7 CG,* as these changes are not conceptual in nature.

8. Some of the members underscored the importance of complete alignment of the proposed guidance with national accounts and government finance statistics (in particular on the interpretation of accruals recording and retropolation of declared assets). One of the members expressed concerns on the availability of sufficient data to recalculate back series on assets/income declared under tax amnesty due to the confidentiality usually granted to declarers. The need for close coordination with tax authorities to facilitate appropriate implementation of the proposed adjustments was emphasized, including access by balance of payments compilers to the list of new respondents for their possible inclusion in future surveys even if individual values of the income and assets declared cannot be shared by the tax authorities. One member also pointed out that the issue of previously hidden income and whether it should be recorded as other changes in volume, or a transaction could merit a separate discussion.

9. The Committee agreed that a small analytical box providing a brief scope of the issue will be included in the *BPM7*, and detailed practical guidance with examples in the *BPM7 CG*. Acknowledging the difficulties in consistent recording of tax amnesty related transactions across countries in general, the *BPM7 CG* could cover different possibilities of recording, such that countries can choose an appropriate method taking into account the availability of resources and data, and impact on their balance of payments.

Actions:

- To ensure complete consistency with the national accounts and government finance statistics, the authors of the GN should check the proposal with GFS compilers in BPTT and consult the AEG;
- The final version of the GN (stating the agreed proposals that should go into *BPM7* and removing the questions to the Committee) to be circulated to the Committee (via written procedure) for final approval and subsequent posting on the *BPM6* Update website.

A.2. CURRENT ACCOUNT TASK TEAM (CATT)

BOPCOM VM1 21/03 AND 21/03.1 – RECORDING OF FINES AND PENALTIES (C.8)
PAPER BY CATT

Topics Presented for Discussion:

10. Cross-border fines and penalties are treated as miscellaneous current transfers in *BPM6*. There may be some arguments to treat significant fines and penalties transactions as capital transfers. Further, in certain cases, an amount identified as a fine/penalty may be used to compensate for damages in some manner, which could be recorded as either a current or capital transfer depending on the nature of the damages. It may be helpful to distinguish fines/penalties from the compensation for damages that can also be compulsory in the *BPM7*. If so, fines/penalties could be defined as compulsory payments that are punitive in nature.

11. The GN covers three aspects related to fines and penalties:

(i) Role of Multinational Entities (MNEs): when a fine is issued against an MNE, identifying which part of the MNE (resident or nonresident) is liable for the fine is challenging. The part of the MNE that pays is not necessarily the one that responds to the court.
The GN recommends: to clarify that fines and penalties should impact direct investment income when direct investment entities (DIEs) are the responsible party in these transactions and explicitly treat contingent fines and penalties in merger and acquisition (M&A) contracts as price adjustments/updates. It also describes various scenarios for the payment of fines and penalties by MNEs and how these should be recorded in the accounts.

(ii) Time of Recording: while accrual recording is necessary for balance of payments, a court decision settling the payment of a fine may be appealed, making it difficult for compilers to implement the guidance in *BPM6* that they should be recorded “when a legal claim to the funds is established”. The *Government Finance Statistics Manual 2014 (GFSM 2014)* specifies that fines and penalties should be recorded “when the general government unit has an unconditional claim to the funds”—missing from the *2008 SNA/BPM6*. Also, the *GFSM 2014* states that if the “judgment or ruling is subject to further appeal, then the time of recording is when the appeal is resolved” (paragraph 3.85, emphasis added). Both clarifications should be made in SNA and BPM to bring the standards into alignment.
The GN recommends: clarify that fines and penalties should only be recorded when the unit issuing the fine has an “unconditional claim to the funds” and, if a ruling is subject to further appeal, an unconditional claim exists “when the appeal is resolved.”

(iii) Classification: while fines are classified as current transfers, other compulsory payments can be classified either as current or capital transfers. For instance, taxes are recorded as current or capital; payments of compensation (which can be compulsory if awarded by courts) are also recorded as current or capital transfers, depending on the nature of the damages. *The GN recommends*: revise the international standards to indicate that major compensation payments should be recorded as capital transfers (instead of current transfers) if they are "intended to recover losses incurred over a multi-year period or to replace an asset (financial or nonfinancial)."

Outcomes of Public Consultations:

12. The public consultation showed strong support for the proposed clarification to distinguish payments for compensation to be recorded under current or capital transfers. Most respondents welcomed the suggested time of recording and agreed that fines and penalties should impact earnings of direct investment enterprises, and that fines and penalties in MNEs contracts should be recorded under direct or portfolio investment and not under current transfers.

Summary of Discussions:

13. All Committee members agreed with the proposed definition of fines and penalties transactions as being punitive in nature to differentiate these payments from payments for compensation of damages. The majority also agreed that the fines and penalties should be recorded in statistics when all court appeals are exhausted.

14. Some members stressed the practical difficulties in distinguishing compensation for damages from fines and penalties and when to record a current transfer and when to record a capital transfer. They also stressed that clear guidance is needed, such as by a detailed decision tree. Guidance also is needed on what constitutes a "major compensation". Such guidance should be provided in the *BPM7 CG*.

15. Some members disagreed with allowing fines and penalties paid by direct investment enterprises to impact the enterprise's income that is recorded in the primary income account. The GN should provide further clarification on how the proposed treatment compares to how countries are currently applying the Current Operating Performance Concept (COPC). The GN should also provide further clarification on fines and penalties that would be considered part of current operations and therefore included on the COPC and those that should be considered extraordinary and omitted. Also, the national accounts community should be consulted considering the recording them in primary income would impact GDP and GNI, and further exploration is needed of the effects of the choice on other macroeconomic accounts.

Actions:

- CATT to revise the GN in light of the discussions and to consult with Advisory Expert Group on National Accounts (AEG) to ensure consistency with national accounts;
- The updated version (stating the agreed proposals that should go into *BPM7* and removing the questions to the Committee) to be recirculated to the Committee for final approval via written procedure.

A.4. DIRECT INVESTMENT TASK TEAM (DITT)

BOPCOM VM1 21/04 AND 21/04.1 – GREENFIELD INVESTMENT AND EXTENSION OF CAPITAL (D.1)
PAPER BY DITT

Topics Presented for Discussion:

16. Despite the importance of greenfield investment (GI), there are few countries that collect such data due to (i) lack of a clear and harmonized definition of GI; and (ii) likely respondent burden. GI is an investment that brings new and additional resources and assets to the enterprise and leads to gross fixed capital formation. Currently, direct investment (DI) statistics do not separately identify it.

17. This GN presents two approaches for measuring GI to better understand the economic impact of DI in the host economy—transaction approach and capital approach.

- Transaction approach: measures the DI transactions broken down by their type (cross-border M&As; GIs; extension of capital and financial restructuring). Already described in the *OECD Benchmark Definition of Foreign Direct Investment, fourth edition* (*BD4*) for M&A transactions (FDI by type)— (option 1).
- Capital approach: measures fixed capital formation of newly created DIEs and the expansion of existing affiliates regardless of the source of funding, which is outside the scope of DI in the *BPM6* (option 2).

18. The GN recommends including the collection of supplementary data on GI using transaction approach (option 1) under direct investment in *BPM7* (provided that clear definitions of greenfield and extensions of capacity can be developed). Further, the GN notes that the *BD4* has already recommended a supplemental series for DI equity flows only for M&As.

Outcomes of Public Consultations:

19. The public consultation showed strong support for including guidance on the definition and collection of data on GI and extension of capacity in the *BPM7*. Regarding the measures of GI, the general preference was to include the transactions approach into the BPM framework and explore the capital approach through the work on MNEs being carried out with the Globalization Task Team (GZTT). Before developing detailed guidance on the transactions approach for inclusion in the revised manual, respondents largely supported the need for testing to gather more countries' experiences.

Summary of Discussions:

20. Almost all Committee members agreed on the need for providing guidance on the definition and collection of data on GI and extension of capacity in the *BPM7* and considered that these data are highly relevant for analytical purposes. Regarding the proposed data collection, it is clarified that the initial data collection will be limited to the liabilities side of the GI only. There was broad support for collecting data on GI and extension of capacity. In terms of GI measurement, while a few members supported the capital approach as closer to user needs and analytically more useful, the

majority supported using the transactions approach as being more consistent with the overall balance of payments framework. It was stressed that the capital approach is well covered in foreign affiliate statistics. Committee members urged to include practical guidance on the collection and compilation of these data in the updated Compilation Guide. The Committee largely favored the need for testing the proposed approaches before including this topic in the *BPM7* and the *BPM7 CG*.

21. Further, all the members recommended the inclusion in the *BPM7* of a clear definition of the GI and extension of capacity, clarifying the scope of their coverage (i.e., equity/debt or both), and recording (gross or net basis) to ensure comparability across countries. There were suggestions to disaggregate transactions on debt instruments on a gross basis to better understand their impact on host economies. Some members suggested including reinvested earnings under the scope of extension of capacity noting that it is an important source of financing. Given that it is already available, it would not pose additional challenges.

Actions:

- DITT in collaboration with the WGIIS to seek volunteers to undertake testing on the approaches for GI measurement and present the results of the testing, including the analytical usefulness of the transaction approach, by June 2021;
- DITT to prepare an updated version of the GN (i) incorporating the results of the testing; (ii) updating the text with the members' comments, including (a) a proposal for a definition of GI and extension of capacity, (b) clarifying the scope of their coverage (i.e., equity/debt instruments or both), (c) the recording (gross or net basis), (d) stating the rest of the agreed proposals that should go into *BPM7*; and (iii) removing the questions to the Committee.
- The updated note with the agreed proposals will be circulated to the Committee for final approval (via written procedure) and subsequent posting on the *BPM6* Update website.

BOPCOM VM1 21/05 AND 21/05.1 – TREATMENT OF COLLECTIVE INVESTMENT INSTITUTIONS (D.3)
PAPER BY DITT

Topics Presented for Discussion:

22. Investments in and by collective investment institutions (CIIs) that meet the operational definition of DI, as per the current *BPM6* standards, are included in DI. Conceptual and practical difficulties have been raised, over time, with respect to CIIs, which have led to re-thinking the current BPM guidance. Conceptually, it is not clear that the motivations and effects of DI by CIIs are consistent with those of traditional direct investors. For example, CIIs cover a wide variety of undertakings where the primary motivation of investors in CIIs tends to be more focused on managing their portfolio return rather than managing the strategic and day-to-day operations of the individual businesses they own.

23. This GN proposes three alternatives, for consideration, on treatment of CIIs: (A1) maintain the status quo; (A2) separate statistics on DI in or by CIIs; (A3) modify the operational definition of DI to exclude certain investments in or by CIIs. Within Alternative A3, the GN further reflects three options: (A3.1) to exclude all investments in or by CIIs from DI; (A3.2) to treat all investments (even

over 10 percent) in CIIs as portfolio investment, while keep investments by CIIs of over 10 percent in DI in accordance with *BPM6* standards; or (A3.3) to exclude all investments in or by CIIs from DI with the exception of private equity and real estate investment funds.

Outcomes of Public Consultations:

24. The public consultation showed major support for A3, which is to modify the operational definition of DI with respect to CIIs. Within A3, views were equally split between alternatives A3.2 and A3.3. Alternative A3.2 is already the practice in some countries. Alternative A3.3 holds with an exception for private equity and real estate funds, whose motivation is to control or influence. From a practical perspective, the respondents noted that both A3.2 and A3.3 could be challenging to implement due to the confidentiality and cost concerns.

Summary of Discussions:

25. All Committee members agreed with the proposal to clarify the classification of investments in and by CIIs in the revised BPM manual. In that respect, there was unanimous support to modify the operational definition of DI. Members' views were more split between alternatives A3.2 and A3.3 on the treatment of CIIs with a slight majority supporting A3.2 (i.e., the same treatment for all CIIs).

26. Some saw A3.3 as responding better to the true definition of direct investment, since relative to other CIIs private equity and real estate funds tend to have a more active stance in their invested companies. Conversely, others saw this differentiation as an attempt to pass through certain funds (private equity and real estate investment) (i.e., assuming the shareholders are the ones exercising a direct investment influence). This would go in contradiction with the basic principle of institutional unit in macroeconomic statistics. Besides, practical difficulties to differentiate and apply a different treatment to different types of funds (especially concerning non-resident CII investors) made A3.3 substantially more challenging to apply and likely prone to increasing bilateral asymmetries and reducing cross-country comparability.

27. The Committee members recognized the practical challenges in implementing either alternative, with a recognition that A3.2 is easier on practical grounds and slightly preferred by the Committee. Additional clarification could be included as part of the *BPM7 CG* on practical implementation, the type of funds concerned, and their institutional sector classification.

Actions:

- DITT to revise the GN in light of the discussions and the slight preference for A.3.2 expressed by the Committee members.
- The updated version of the GN (stating the agreed proposals that should go into *BPM7* and removing the questions to the Committee) to be recirculated to the Committee for final approval via written procedure.

BOPCOM VM1 21/06 AND 21/06.1 – CORPORATE INVERSIONS (D.4)
PAPER BY DITT

Topics Presented for Discussion:

28. Some MNEs geographically locate (or re-locate) their economy of legal residence to reduce their global tax liability, which is known as a "corporate inversion." Corporate inversions can significantly impact the international and national accounts, which can result in international transactions and positions that are misleading and that are not treated consistently. Corporate inversions reduce the analytical usefulness of DI statistics as they are motivated by factors other than those conventionally ascribed to direct investors.

29. This GN presents the ways to address the conceptual/practical issues posed by this phenomenon including a definition of corporate inversion. The phenomenon is not widespread geographically—according to a recent study, important home countries are Australia, Canada, France, Germany, Italy, Netherlands, Spain, Sweden, Switzerland, UK, and US. The underlying financial transactions in corporate inversions typically involve an exchange of shares and an agreement to designate the lower-tax economy as the legal residence of the combined entity. It can be difficult to identify corporate inversions in practice, and it may even be difficult to define them such that all types of restructurings are covered.

30. The GN discusses three options for addressing the conceptual and practical issues and recommends option 2.

(i) maintain the methodological and presentational status quo;
(ii) strengthen the current guidance on publishing supplementary detail on corporate inversions and define corporate inversions for economies where they are important; or
(iii) record corporate inversions as portfolio, rather than direct investment.

Outcomes of Public Consultations:

31. The public consultation showed some support to the view that corporate inversions have distorted the analytical value of direct investment statistics if not separately identified. The proposal to have supplemental statistics on corporate inversions has been well received, as long as they are kept voluntary. For that purpose, there is significant support for an official definition of corporate inversion for statistical purposes, and the current definition in *BPM6*, paragraph 8.19, as acknowledged in the GN, is deemed a useful start.

Summary of Discussions:

32. There was broad recognition within the Committee that corporate inversions distort the analytical usefulness of direct investment data in countries where this phenomenon is important. In general, Committee members supported the need for an official definition of corporate inversion for statistical purposes and also supported a voluntary supplemental data collection on corporate inversions in those countries where this may be important, with suggestions to provide further guidance to the compilers in the *BPM7 CG*.

33. While most of the members agreed with the definition in paragraph 18, some members suggested to clarify the borderline between corporate inversions and other forms of corporate restructuring, like changes in registered offices, which can have a similar economic effect but need to be treated differently. It is also considered useful to provide a full typology of corporate actions (or at least the most usual cases) indicating in each case whether the actions should be treated as transactions or as other changes in volume (OCV). For instance, *BPM6* paragraph 4.167 refers to "corporate migration" saying that they should be treated as OCV; an exhaustive taxonomy of those cases is needed. The Committee agreed to consult the GZTT in finalizing the GN.

Actions:

- DITT to update the GN (i) addressing the comments of members; (ii) stating the proposals that should go into *BPM7*, including the definition of corporate inversions and typology of corporate actions; and (iii) removing the questions to the Committee;
- Before sending the note back to the Committee, DITT to consult with the GZTT;
- The updated note will be circulated to the Committee (via written procedure) for final approval and subsequent posting on the *BPM6* Update website.

BOPCOM VM1 21/07 AND 21/07.1 – INCLUDING INTRA-CONCERN [BETWEEN AFFILIATES] DERIVATIVES IN DIRECT INVESTMENT (D.12)
PAPER BY DITT

Topics Presented for Discussion:

34. Activities of the MNEs encompass intra-concern derivatives, that is, financial derivatives between affiliates. Anecdotal evidence shows that such derivatives behave atypically, given that they may differ from market terms. In the current standards, except for financial derivatives associated with official reserves, all others are classified within the functional category "financial derivatives" in both the balance of payments and international investment position.

35. This GN revisits the issue and discusses four alternatives on the treatment of intra-group financial derivatives for inclusion in the *BPM7*: (i) status quo—no change in current *BPM6* standards; (ii) maintain the current classification but adding a supplementary item, on a voluntary basis, "*of which between affiliates*"; (iii) classify within "DI" for all sectors; or (iv) classify in "DI", but with exclusion of selected financial institutions (similarly to the treatment of debt instruments). The GN recommends Alternative 2.

Outcomes of Public Consultations:

36. The public consultation unanimously favored the status quo to maintain financial derivatives between affiliates within the standard component "financial derivatives", with the possibility of a supplementary breakdown, on a voluntary basis, for cross-border transactions and positions between affiliates—Alternative 2. 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.

Summary of Discussions:

37. The Committee members expressed strong support for the proposal of no-change (to continue reporting financial derivatives between affiliates under "Financial derivatives and employee stock options"). Members also supported the addition of a supplementary breakdown of transactions and positions "*of which between affiliated parties*", on a voluntary basis.

38. Committee members agreed to include a detailed elaboration on data sources to identify transactions and positions in financial derivatives between affiliated entities in the update of the *BPM7 CG*. Committee members also supported research into financial derivatives within company groups as they may behave differently and serve different purposes (e.g., shifting income) than financial derivatives between unaffiliated parties.

Action:

- DITT to prepare a final version of the GN stating the final recommendation and removing the questions to the Committee for posting on the Committee website.

BOPCOM VM1 21/08 AND 21/08.1 – IDENTIFYING SUPERDIVIDENDS AND ESTABLISHING THE BORDERLINE BETWEEN DIVIDENDS AND WITHDRAWAL OF EQUITY IN THE CONTEXT OF DIRECT INVESTMENT (D.17)
PAPER BY DITT

Topics Presented for Discussion:

39. Applying the superdividends concept to direct investment entails the following drawbacks: (i) difficulties in operationalization which may lead to international inconsistencies, (ii) limited interpretability of the related reinvested earnings sub-item, reducing the analytical usefulness of DI statistics; and (iii) inconsistency between *BD4* and *BPM6/2008 SNA*. In addition, the GN points out that the aim of superdividends—to align dividends with earnings when the dividends are disproportionately large—is not applicable to DI because DI income is always recorded on an accrual bases since it includes both distributed and reinvested earnings. The GN proposes three different alternative treatments: (A1) maintain the status quo; (A2) adopt the concept in European macro statistical system of accounting (ESA 2010)—treat any distribution out of accumulated reserves as a superdividend; (A3) discard the concept of superdividends for accumulated reserves from ordinary earnings for direct investment enterprises.

Outcomes of Public Consultations:

40. The public consultation generally agreed with the adoption of alternative A3. However, the consultation strongly supported not including an "of which" position of withdrawal of equity to distinguish exceptional distributions from sales of assets in the financial account due to confidentiality constraints. There was strong preference to keep "superdividends" for direct investment and to reject reference in the manuals to the treatment of distributions of the proceeds from the sales of assets.

Summary of Discussions:

41. Most Committee members supported Alternative 3; disagreed with the inclusion of an "of which" category for confidentiality reasons; and did not support replacing the term "superdividends" in BPM7.

42. A few members supported Alternative 2 and stressed that accepting Alternative 3 would result in inconsistency of dividends in DI with other dividends in macroeconomic accounts (in particular the misalignment with *2008 SNA*). Others noted that DI income is measured in a unique way in external sector statistics due to the recording of reinvested earnings and considered that such an inconsistency does not exist. The question of whether the GN only related to DI or superdividends in general was also raised. It was agreed to consult the AEG and to take into consideration the outcomes from the discussion on GN F.2 "Asymmetric Treatment of Retained Earnings Between Direct and Portfolio Investment and Potential Extension to Domestic Relationships" and D.16 "Treatment of Retained Earnings".

43. With reference to the term to be used, while some suggested using other terms such as "distribution of proceeds from the sales of assets" or "distribution of earnings from non-operating activity", the majority supported keeping the term "superdividends" in *BPM7*.

Actions:

- DITT to revise the GN in light of the discussions (i.e., indicating that the Alternative 3 is the preferred Alternative and that the concept of superdividends is maintained), and to consult with AEG to ensure consistency with national accounts;
- The final decision on this topic will take into consideration the outcome of the AEG consultation and the discussion on GNs F.2 and D.16.

A.5. FINANCIAL AND PAYMENT SYSTEMS TASK TEAM (FITT)

BOPCOM VM1 21/9 AND 21/9.1 – REVERSE TRANSACTIONS (F.3)
PAPER BY FITT

Topics Presented for Discussion:

44. This GN revisits current concepts, definitions, and treatment of reverse transactions (RTs) to ensure consistent recording of different arrangements under RTs and to provide further methodological guidance and clarifications on recording positions and transactions associated with RTs in external sector statistics and national accounts. The GN discussed six issues and made the following recommendations.

Issue 1: Methodological Framework for Recording RTs

- Maintain the current recording of RTs as recommended in *BPM6* and *2008 SNA* (option b).

Issue 2: Clarification for Recording of Short (Negative) Positions

- Introduce further clarifications for recording of short positions (including their income streams and from-whom-to-whom implications) in the income and financial accounts for RTs in the updated BPM and SNA (option b).

Issue 3: Classification of Income for Security Lender, Borrower, and Short-Seller

- Record payments of manufactured dividends/interest as negative credit in the income account for the security borrower (option b.2).

Issue 4: Identification of the Partner Economy and Sector Counterpart for "Manufactured Dividends or Interest"

- Identifying the counterpart economy and sector for manufactured dividends/interest by the economy and sector of the security issuer (option a).

Issue 5: Clarification on Commodities Under RTs

- Include commodities in the discussion on RTs in the updated BPM and SNA (option b).

Issue 6: Supplementary Information on RTs

- The updated BPM and SNA discuss the usefulness of separate identification of repo-related transactions and positions and encourage economies engaged in RTs to prepare supplementary information on RTs similar to the table in this GN (option c).

Outcomes of Public Consultations:

45. Public consultation showed strong support for the proposed recommendations on Issues 1, 2, 5, and 6. However, the majority of respondents did not support the proposals to record manufactured dividends/interest as fees (thus as interest) in the income account (Issue 3–option B.1) and identify the partner economy and sector for manufactured dividends/interest by the economy and sector of the security borrower—the payer of the manufactured dividends/interest (Issue 4–option B)—recommended in the earlier version of this GN that was circulated for public consultation.

46. Most respondents preferred the current treatment of recording payments of manufactured dividends/interest as negative credit in the income account for the security borrower and identifying the counterpart economy and sector for manufactured dividends/interest by the economy and sector of the security issuer. In line with the majority views from the public consultation and given similar views expressed by a few FITT members earlier, these two recommendations were revised accordingly, and the updated version is presented to the Committee.

Summary of Discussions:

47. Most Committee members supported the proposed recommendations on the six issues presented in the GN. Some members indicated practical challenges to collect information on manufactured payments and underscored the need for providing detailed practical guidance on all aspects of reverse transactions in the *BPM7 CG*. One of the members noted that the proposed approach contributes to some methodological problems, in particular the recording of income flows

between parties that do not have a claim on each other. Another member noted that the proposed treatment on Issue 4 (i.e., identifying the counterpart economy and sector for manufactured dividends/interest by the economy and sector of the security issuer) may lead to bilateral asymmetries among countries as both the lender and the on-buyer will record positive income credits against the issuer, whereas the on-seller will record a negative entry. However, because the negative and one of the two positive entries will cancel out, the proposed approach could contribute to reducing global asymmetries.

Actions:

- FITT to prepare a final version of the GN stating the final recommendations and removing the questions to the Committee for posting on the *BPM6* Update website; being a joint TT, the note will not be finalized until it is also approved by the AEG.
- Detailed practical guidance on all aspects of reverse transactions to be included in the *BPM7 CG.*

BOPCOM VM1 21/10 AND 21/10.1 – TREATMENT OF CASH COLLATERAL (F.10)
PAPER BY FITT

Topics Presented for Discussion:

48. Repayable margins in financial derivatives give rise to claims that are classified in *BPM6* and *2008 SNA* as deposits if potentially included in the monetary aggregates, or as other accounts receivable/payable otherwise. According to the European System of Accounts such claims are classified as deposits if they are liabilities of monetary financial institutions and as loans in other cases.

49. The GN focuses on (i) claims on units whose liabilities are not included in the monetary aggregates and (ii) cases other than securities lending with cash collateral. It covers for instance investors' provisions of cash to "margin accounts" with brokers or dealers—the issue at stake is the classification of the claims arising as a result of transferring cash to secure any kind of credit exposure.

50. Options considered and corresponding reasoning: (1) Other accounts receivable/payable: current treatment in *BPM6* and *2008 SNA* (would require minimum changes); (2) Loans: the features of the claims associated to cash payments are seen as being in line with those of loans (the focus is put on the economic effect rather than on the economic purpose); (3) Deposits: not necessary to make a distinction of instrument class on the basis of the sector of the debtor—both non-negotiable liabilities of units whose liabilities are included in the monetary aggregates and those not included to be classified as deposits. The GN recommends option 3.

Outcomes of Public Consultations:

51. The public consultation reflected mixed views on the proposals in this guidance note (GN). Respondents' views were split (seven supported the proposal while nine did not) on classifying all cash-collateral-related liabilities as deposits. Out of the seven who supported the proposal, five indicated that not only deposit-taking and other financial corporations but also other institutional sectors (e.g., non-financial corporations) should be allowed to record deposit liabilities for cash

collateral. Out of the nine who did not support the proposal, five preferred recording cash collaterals in accounts payable/receivable while four preferred recording them in loans.

52. More than half of the respondents did not support the proposal to introduce a new sub-instrument category to cover cash collateral (six supported the proposal while ten did not), indicating that the usefulness of the data would not justify the additional reporting/compilation burden it would entail.

Summary of Discussions:

53. In line with the outcome of the public consultation, there were mixed views on the proposed options, and it was recognized that this is a borderline case. The Committee did not support introducing a new sub-instrument category.

54. Some Committee members supported option 3—to treat cash collateral as deposits. Those who supported option 3 considered that it should be applied with no exception for certain types of institutional units. Other Committee members favored option 2—treating cash collateral as loans, while a few members preferred option 1—other accounts receivable/payable.

55. Members in favor of option 3 stressed that cash collateral better fits the concept of deposits—including counterparty risk—and they do not carry the characteristics of loans. They also indicated that a common treatment would not require exceptions for different types of institutional units as institutional units from all sectors (financial and nonfinancial) will treat them in the same way. They indicated that, in addition to financial intermediaries, other sectors also can take deposits.

56. Members that preferred option 2 highlighted that cash collateral: (i) while not having all the features of "regular" loans, present many commonalities; (ii) don't have important dimensions for a classification as deposits (standardized and non-negotiable; intention of placing funds); (iii) loan classification is also the one used for other borderline cases (e.g., repos and security lending). They recognized that the distinction between loans and deposits will always have elements of a convention; however, they considered that treating cash collateral as loans is also easier to implement and for users to understand and more prone to harmonization/comparability. They referred to the European System of Accounts (ESA 2010) relevant paragraphs and to *BPM6* paragraph 5.40.

57. The Committee acknowledged that, in the absence of substantive agreement, the fallback solution of no change to the current standards would prevail.

Actions:

- After the AEG discussions, FITT to propose a way forward based on the guidance provided by Committee and AEG members.

A.6. SUSTAINABLE FINANCE

BOPCOM VM1 21/11 – SUSTAINABLE FINANCE: DEVELOPING GUIDANCE FOR DATA TO ADDRESS CLIMATE CHANGE
PAPER BY IMF AND THE NETHERLANDS

Topics Presented for Discussion:

58. Following up on the discussions during the 2019 Committee meeting and drawing on other international initiatives on sustainable finance, this paper presents an initial discussion on the cross-border aspects of data needs focusing mainly on those related to climate change. Further, it seeks Committee's inputs on the way forward, specifically on guidance to be included in the updated *BPM6*: (i) aspects and indicators to be investigated; and (ii) whether to focus only on financial issues or consider non-financial aspects such as consumption and production.

59. Annex III provides a list of climate change related indicators for different components of balance of payments split into three types:

- those that require additional breakdowns of existing balance of payments items;
- those that would potentially result in supplemental—possibly non-financial—satellite tables to the balance of payments; and
- existing balance of payments items that could in their current form already be useful for research on climate change.

60. The IMF and the DNB will continue exploring the information needs based on the responses to the stocktaking survey and work by others (IFC survey, IFRS work, etc.).

Summary of Discussions:

61. The Committee members strongly supported continuing the work with the preparation of GN B.6 Sustainable Finance for discussion at the October Committee meeting. Given the immediate user needs, the Committee suggested an incremental approach focusing on statistics that could be quickly compiled. In general, there was a consensus within the Committee that the proposed GN should focus on financial aspects, leaving the work on nonfinancial aspects to other domains of macroeconomic statistics. Regarding the indicators in Annex III, a majority of members showed preference for covering trade in goods and services, current/capital transfers, direct investment, and portfolio investment (green bonds) in the proposed GN. There were suggestions to clearly define climate change (as opposed to the wider concept of environmental statistics) for statistical purposes as the definition is key in developing the methodology and data on related indicators. Some pleaded for establishing priorities to properly focus the work, given how costly data collection may become. Some members agreed to share the experience of their agencies in compiling these data with the drafting team of the GN bilaterally.

Actions:

- BPTT to prepare the GN considering the suggestions from the members and present it to the Committee meeting in October 2021.
- Committee members who have not yet done so are encouraged to return the stocktaking survey distributed after the October 2020 meeting by March 31, 2021.

OTHER ISSUES:

The next meeting will be held virtually during June 21–24, 2021. The location of the next annual Committee's meeting will be Washington D.C., USA (proposed dates October 26–28, 2021—if virtual, October 25–28, 2021).

Items for Information: *Some documents prepared for information have been presented at the meeting, but no discussion took place; others have not been presented during the meeting (*). However, all of them will be part of the official BOPCOM papers and will be posted on the BOPCOM webpage.*

BOPCOM VM1 21/13	Coordination of the Revision of the *BPM6* with the Revision of Other Statistical Manuals *Report by BPTT*
BOPCOM VM1 20/14	Overview of the Work of the Balance of Payments Task Team *Report by BPTT*
BOPCOM VM1 20/15	Overview of the Work of the Current Account Task Team *Report by CATT*
BOPCOM VM1 20/16	Treatment of Travel Packages, Health-Related Travel, and Taxes and Fees on Passengers' Tickets (C.7): Way Forward *Report by CATT*
BOPCOM VM1 20/17	Progress Report on Work Undertaken by the Globalization Task Team *Report by GZTT*
BOPCOM VM1 20/18	Overview of the Work of the Direct Investment Task Team Report by *DITT*
BOPCOM VM1 20/19	Overview of the Work of the Financial and Payments Systems Task Team *Report by FITT*
BOPCOM VM1 20/20*	Investment Trend Monitor *Report by UNCTAD*