



# Thirty-Ninth Meeting of the IMF Committee on Balance of Payments Statistics

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For discussion

## *BPM7* Chapter 6. Functional Categories in International Accounts: Annotated Outline



# **BPM7 Chapter 6. Functional Categories in International Accounts: Annotated Outline<sup>1 2</sup>**

(Update to *BPM6* Chapter 6)

*Changes from BPM6 highlighted in yellow*

## **I. Introduction**

- As in the *BPM6* Chapter 6, this chapter discusses the concept of functional categories used in the compilation of balance of payments/international investment position statistics.
- The chapter will have separate sections on direct investment (Section II), portfolio investment (Section III), financial derivatives (other than reserves) and employee stock options (Section IV), other investment (Section V), and reserves (Section VI), in addition to an Introduction (Section I). See the Schematic Overview for details.
- Introduction from *BPM6* Chapter 6 will mostly remain unchanged.
- In addition to the highlighted updates/additions, the consistency of the language with other macroeconomic statistics manuals (e.g., *2025 SNA*, *BD5*, *IRFCL Guidelines*) will be maintained.
- With regards to investment in the form of crypto assets under different functional categories, it will be clarified that their recording will be based on the guidance in Section II.F, Chapter 5, *BPM7* (following GN F.18) and the chapter on Digitalization.

## **II. Direct Investment**

### **A. Definition of Direct Investment**

- Definition of DI and related concepts/definitions of direct investment relationship, direct investor/investment enterprise, control and influence, subsidiaries/associates/fellow enterprises/affiliates, and requirements for a direct investment relationship will be consistent with *BPM6* and *BD4/5*.
- Following the GN D.3, investments in investment funds shares (F52) will be considered always portfolio investment while investments by investment funds (MMF and non-MMF) may qualify as DI in accordance with the current DI rules (i.e., considered DI if investment in equity of 10 percent or more, and PI otherwise).
- For clarity, a table showing which institutional sectors could be direct investors and direct investment enterprises will be added, based on the discussion in paragraph 6.20–6.24. Further, additional explanations/examples will be considered from *BD4/5* to improve the discussion on the

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<sup>1</sup> Prepared by Venkat Josyula (BPM editor, IMF) and Patrick O' Hagan (SNA lead) and cleared by BPM/SNA Project Managers.

<sup>2</sup> All the recommendations on new data collections in this chapter will be subject to the outcome of the Holistic Review of *BPM6* Update Priorities.

Framework for Direct Investment Relationships (FDIR) including the methods for FDIR mentioned in paragraph 6.18. This section will also refer to GN D.10 (Defining the boundaries of DI).

## B. Coverage of Direct Investment Flows and Positions

- The discussion on intercompany lending, debt between selected affiliated financial corporations, coverage of other financial instruments, pass through funds, effect of domestic ownership links on direct investment relationships, and beginning and ending direct investment relationships will be mostly maintained with the following updates.
- A clarification table for determining the functional category of debt between affiliated institutions will be added.
- Equity in international organizations (paragraph 6.32): Equity in international organizations is excluded from direct investment, even in cases in which voting power is 10 percent or more instead, equity contributions are included in other investment – equity in international organizations and other equity. ... (other equity can no longer be included in portfolio investment as described in GN B.12)
- Pass-through funds (paragraphs 6.33 and 6.34): this will be updated based on the recommendations of GN D.6 with brief mention on the identification of pass-through funds and income based on the residency of the ultimate investor as supplementary indicators noting that additional details will be included in Appendix 6 (Selected Issues in DI); and supplementary presentation of DI statistics with identification of pass-through funds based on the residency of the ultimate investor will be included.

## C. Types of Direct Investment Transactions and Positions

This sub-section will have the following important updates based on GN D.7.

- Direct investment standard components presentation will be by instruments (equity and debt instruments) and sectors (central bank; deposit-taking corporations except the central bank; general government; other financial corporations; and nonfinancial corporations, households, and NPISHs).
- Presentation based on the relationship between the investor and the entity receiving the investment (DI in DIE, reverse investment, and between fellow enterprises), and reinvestment of earnings will be included under memorandum items (these are standard components in *BPM6*).
- Subsections on presenting data as per the directional principle and analytical uses of the different presentations will be updated, taking into account the changes to standard components based on instruments/sectors—use of the DI data by sectors in the Balance Sheet Approach (BSA) will be highlighted.
- Box 6.4, *BPM6* (Derivation of Data under the Directional Principle) will be modified as DI in DIE, reverse investment, and between fellows have been shifted to memorandum items with no breakdown of equity and debt instruments.

#### D. Other Issues Concerning Direct Investment Transactions, Positions, and Income

- This will be mostly maintained as in *BPM6* with relevant minor updates as needed. For example, cash pooling (GN D. 18) and Greenfield Investment and Extension of Capacity (GN D. 1) will be briefly introduced as separate items in this subsection, with a reference to further discussion that will be included in Appendix 6.
- Direct investment is further discussed in the chapters concerning positions, financial account transactions, and primary income (Chapters 7, 8, and 12, respectively). Selected issues in DI will be discussed in Appendix 6.

### III. Portfolio Investment

- This section defines portfolio investments and explains specific issues relating to its coverage (inclusions and exclusions), as in the *BPM6*.
- References from *CPIS Guide* (third edition) Chapter 3 will be added to bring clarity on specific issues, as relevant.
- Following the GN D.3, always treat investments in investment fund shares (F52) as portfolio investment irrespective of the equity held (i.e., 10 percent or higher).
- As in *BPM6*, further information on portfolio investment will be included in Chapter 7 (concerning positions), Chapter 8 (concerning financial account transactions), and Chapter 12 (concerning primary income).

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

- The *BPM6* definition of the functional category financial derivatives will be maintained with no change. A brief description of other issues as in *BPM6* will be included—amounts accruing under the contract (classified as revaluations—with additional clarification in the revised Chapter 9 Other Changes in Financial Assets and Liabilities Account), intermediary may provide services associated with transactions in derivatives, etc.
- It will be clarified that the intra-concern derivatives continue to be reported in the FDs functional category but that a supplementary “of which: between affiliates” item will be added so that economies could separately identify them on a voluntary basis, following GN D.12.
- Following GN F.4, it will also be noted that classification by market risk category (with links to discussion on FDs in Chapter 5, *BPM7*) will be included as a standard component, with classification by instrument and by trading venue as supplementary items. In addition, compiling notional values of foreign currency derivatives will be emphasized (updated *BPM6* Appendix 9, Tables A9-I-1b and A9-I-2b).
- Further, guidance on recording of FDs by gross and net basis will be explained noting that recording of transactions on a net basis is acceptable where separate data on transactions in assets and liabilities are not available, and the position may change between assets and liabilities (e.g., forwards, swaps). The method used should be consistently applied during the life of the instrument, not only

when switching from assets to liabilities (the same should be included in 8.34 of *BPM6* and Chapter 17 of *2008 SNA*).

- Further details on FDs will be presented in Chapter 8, Financial account (Recording of Post Trading Activities—novation and portfolio compression) and Chapter 9, Other Changes in Financial Assets and Liabilities Account (Convention for Recording of Revaluations on Foreign Currency Derivatives). More detailed examples on novation and portfolio compression will be presented in the updated *BPM6 Compilation Guide*.

## V. Other Investment

- This section will be maintained as in *BPM6* with no major changes.
- Other equity is included in other investment, when it is not direct investment or reserve assets. Participation in some international organizations is not in the form of securities (or is in the form of unlisted shares that are not tradable) and so it is classified as equity in international organizations and other equity... (paragraph 6.62).
- Following the GN B.12, the *BPM6* standard presentation for the balance of payments will be modified as follows:  
*Other investment – other equity* should be renamed as *other investment – equity in international organizations and other equity*.
- It will be clarified that debt instruments associated with some cash pooling arrangements may be classified under other investment (following GN D.18). Cash pooling is further discussed in Section II.D and Appendix 6.
- As in *BPM6*, information on other investment will be included in Chapter 7 (concerning valuation of positions, particularly loans), Chapter 8 (concerning financial account transactions), and Chapter 12 (concerning primary income).

## VI. Reserves

- This section will have two sub-sections: reserves assets and reserve-related liabilities, and a Box on net international reserves.

### A. Reserve Assets

- As in *BPM6*, this subsection provides the definition of reserve assets and discusses the concepts of residence, control, definition of monetary authorities, availability for use, liquidity, assets denominated in the currency of neighboring countries, assets denominated/index to the domestic currency but settled in foreign currency, etc.,

#### 1. Classification of Reserve Assets

- Descriptions and standard components remain the same as in *BPM6*, but further elaboration will be provided along the lines of *IRFCL Template Guidelines*, to maintain complete consistency.

- Pool allocated gold accounts (a depository sets aside numbered bars into a segregated pool, which backs the amount of pool allocated gold the depository owes to their customers) will be treated similar to allocated gold accounts (i.e., classified as monetary gold, when held as reserve assets). This is consistent with updated paragraph 5.76, *BPM6* (see chapter 5, *BPM7*).
- With regards to securities that have been transferred under repurchase agreements, the updated treatment which is consistent with the *IRFCL Template Guidelines* is under consideration (clarification note is being prepared by the IMF) and the relevant parts of *BPM6* (paragraphs 6.88–6.89) will be updated. The note will also update paragraph 6.82 on the treatment and recording of gold swaps undertaken by monetary authorities.
- Under other claims (paragraph 6.92), updates on long-term loans to IMF Trust Accounts considering the new Trusts (e.g., Resilience and Sustainability Trust—RST) will be added. Additional details on this issue will be provided in *Appendix 9. Positions and transactions with IMF*.
- Regarding the additional presentations of reserve assets, a brief description of COFER and SEFER will be provided.

## 2. Selected Cases

- This will cover sovereign wealth funds, pooled assets, central bank swap arrangements as in *BPM6* with enhanced details/examples based on the clarification note on central bank swaps, Asian Bond Fund, and ongoing discussion on the channeling of SDRs to Multilateral Development Banks (if the process is completed).

### i. Foreign Assets that Do Not Qualify as Reserve Assets

- This will cover all the issues discussed in *BPM6* with additional elaborations, as needed.
- Capital subscriptions to international organizations that are not readily available to the monetary authorities do not meet the definition of reserve assets. Equity arising from these subscriptions are included in other investment – equity in international organizations and other equity (paragraph 6.106)
- In the context of credit lines, a brief explanation will be provided on flexible credit lines (FCL) and precautionary and liquidity lines (PLL) of the IMF, and their eligibility for including in the reserve assets. Additionally, Annex 9 will provide details on positions and transactions with the IMF. With regards to frozen assets, it will be explained that reserve assets that are affected are to be reclassified to the relevant functional category (for all relevant categories of reserve assets-SDRs, monetary gold, RPF, securities, equity, deposits, etc.).

## B. Reserve-Related Liabilities

- The concept of reserve-related liabilities and table for presenting related data will be consistent with *BPM6*.

### **Box on Net International Reserves (NIR)**

- Following GN B.2, a Box on NIR will be added in this section noting that NIR goes beyond the scope of the BPM framework and that the necessary data to calculate NIR is covered by the IRFCL framework.
- The concept of NIR is widely used as an indicator of a country's external vulnerability. This new Box will introduce a standard statistical definition of NIR based on the existing statistical frameworks in the *BPM6* and *IRFCL Guidelines* (based on GN B.2).

Net international reserves = Reserve assets – Net short-term foreign currency drains

- The statistical definition provides a comprehensive approach aimed to inform reserve adequacy assessments and macroeconomic policy advice. Modifications for country-specific characteristics and vulnerabilities remain crucial for reserve adequacy assessments and in the design and monitoring of Fund-supported programs.



## Schematic Overview

*The structure of the BPM6 Chapter 6 will be maintained.*

<b>A</b>	Introduction
<b>B</b>	Direct Investment <ol style="list-style-type: none"><li>1. Definition of direct investment</li><li>2. Coverage of direct investment flows and positions</li><li>3. Types of direct investment transactions and positions</li><li>4. Other issues concerning direct investment transactions, positions, and income</li></ol>
<b>C</b>	Portfolio Investment
<b>D</b>	Financial Derivatives (Other Than Reserves) and Employee Stock Options
<b>E</b>	Other Investment
<b>F</b>	Reserves <ol style="list-style-type: none"><li>1. Reserve Assets</li><li>2. Reserve-related liabilities</li></ol> <p><b>Box: Net International Reserves</b></p>

### **Question for the AEG/Committee**

- 1) *Does the Committee and the AEG have any suggestions on the draft outline of the chapter?*
- 2) *Does the Committee and the AEG agree with the proposed structure and coverage of topics in the chapter presented in this outline?*
- 3) *Please add any specific questions that are considered relevant (not related to the recommendation of the GNs)*

### **References**

- GNs B.2, B.12, D.1, D.3, D.6, D.7, D.10, D.11, D.12, D.14, D.18, F.4, and G.4. These guidance notes are posted at [Update of the sixth edition of the Balance of Payments and International Investment Position Manual \(BPM6\) \(imf.org\)](#)
- *IRFCL Guidelines For A Data Template 2013*
- *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition 2008*
- *System of National Accounts 2008*
- *IMF Financial Operations 2018*

### **Key Stakeholders Consulted**

- System of National Accounts and Balance of Payments Manual editors, and the OECD