FAQs on Conversion from *BPM5* to *BPM6*
(including FAQs on BPM6 Sign Convention)

The IMF Statistics Department (STA) started publishing balance of payments (BOP) and International Investment Position (IIP) data on a *BPM6* presentational basis with the August 2012 editions of the IMF's *International Financial Statistics* (*IFS*) and the online *Balance of Payments Statistics* (*BOPS*) database. The data series began with 2005 data in electronic media and with 2008 data in the hard copy of *IFS*.

To present data on a consistent *BPM6* presentational basis, STA had worked closely with IMF member countries. For each country, one of three approaches had been followed: (i) economies had implemented *BPM6* and provided their own *BPM6* estimates; (ii) economies had reported *BPM5* data to STA and opted for a "generic conversion" of their data to a *BPM6* basis using standard rules that are broadly applicable to a large number of economies and over time; or (iii) economies had opted for a "customized" conversion of their *BPM5* basis data, by adjusting the results from the "generic conversion" in consultation with the IMF.

With the September 2015 edition of the *IFS*, STA started redisseminating an economy's own official *BPM6*-basis estimates for *all* years for which the economy developed such estimates, and converted *BPM5*-basis estimates for years where there are no official *BPM6*-basis estimates.

Starting with the July 2015 *IFS* and the online Balance of Payments Statistics (BOPS) database, BOP data exclude migrants' transfers. These had originally been retained since the 2012 launch of the *BPM6*-basis "generic" converted series to ensure consistency with the balance of capital account and net errors and omissions series in the *BPM5*-based series.

To assist users in understanding the impact of conversion to *BPM6* and methodological changes from *BPM5* to *BPM6*, STA has prepared this set of FAQs. They are organized into the following sections: (i) those that pertain to methodology (i.e., the impact of *BPM6* on high level aggregates and on individual accounts); (ii) presentational changes (i.e., the impact of *BPM6* on sign conventions, account titles, and other presentational changes); (iii) information on statistical data publications; and (iv) how to request assistance and further information.

Methodology: General

Q1. What will be the impact of *BPM6* conversion on major BOP current account aggregates, including imports (or payments), exports (or receipts), and balances on goods, services, primary and secondary income; and on capital account and financial account transactions and balances? Also, what will be the impact of *BPM6* conversion on major IIP aggregates (assets, liabilities, and net IIP)?

Under STA's generic conversion, the following rules were applied: (i) no changes in the balances on current account, or financial account; levels of reserves were not adjusted; the capital account and net errors and omissions changed due to the removal of migrant transfers; (ii) "merchanting" was reclassified from services to goods; (iii) "manufacturing services on physical inputs owned by others" ("goods for processing" in *BPM5*) and "maintenance and repair services n.i.e." ("repairs on goods" in *BPM5*) were reclassified from goods to services; and (iv) "reverse investment" in "direct investment" was reclassified so as to present assets and liabilities on a gross basis in the BOP and IIP. The changes are explained in greater detail in the FAQs below.

In general, *BPM6* provides enhanced clarification, elaboration, and level of detail to the BOP/IIP framework. The impact on many major aggregates and balancing items may be limited for many economies. Nonetheless, in the BOP, the change in the methodology for "goods for processing" (and, to a lesser extent, to "merchanting") may have a significant impact on estimates of goods and services trade for a number of economies. More specifically, the adoption of the *BPM6* treatment of goods for processing results in increases in imports and/or exports of services (equivalent to the amounts received or paid for manufacturing services), and larger reductions in gross goods imports and exports (due to the elimination of imputed transactions in goods that do not change ownership), although *net* goods and services trade may not be affected. In the IIP, the change in the recording of reverse investment in foreign direct investment (see FAQ #11) will result in substantial increases in both IIP assets and IIP liabilities for many economies under *BPM6*, although the *net* IIP is not affected by this change.

Q2. Where can I see the full range of changes from *BPM5*?

The full range of changes are explained in Appendix 8 of *BPM6* called "Changes from *BPM5*", which is available at http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm.

The so-called "*BPM5-BPM6* Conversion Matrix" (available on the same website) matches for the BOP and IIP the standard components and additional details of *BPM5* to the standard components and selected other items of *BPM6.*

METHODOLOGY: INDIVIDUAL ACCOUNTS

Current Account

Q3. One of the most significant changes in *BPM6* is the treatment of goods for processing (GFP), i.e., goods that are processed under contract for an explicit fee by a nonresident processor, where the goods being processed do not change ownership. Can you explain the treatment of GFP under *BPM5*, *BPM6*, and in customs filings?

In *BPM5*, a *change of ownership was imputed* for goods undergoing processing by an entity other than the owner that were sent from and returned to the economy of the owner. These imputed transactions were included on a gross basis in "goods for processing" in the goods account. Under *BPM6,* as described in detail below, the imputation was eliminated. The change in methodology under *BPM6* affects the compilation of statistical data and does not affect international trade rules or guidelines that govern multilateral trade system.

In *BPM6*, the *imputation of a change of ownership is eliminated*. The fee received for the processing services rendered is included in "manufacturing services on physical inputs owned by others". The goods trade flows are recorded (only) when the goods change ownership, not when they are physically shipped to an economy for processing without a change in ownership. So for economies where inward or outward processing is relevant, the treatment in *BPM6* will reduce gross exports and imports of goods, and will increase exports or imports of services. The increase in services will equal the value of the processing services performed.

Where processed goods are sold by the nonresident owner to residents of the processing economy, the value of the processing services is recorded in services, and the subsequent sale of goods is recorded in general merchandise (exports of general merchandise by the nonresident owner, and imports by the processing economy) in *BPM6,* similar to the treatment under *BPM5* (*BPM6*, paragraph 10.66 (b)).

Where goods cross borders for processing, are processed, and then exported to a third economy, a goods export figure is recorded between the economies of the original owner and purchaser of the goods, as in *BPM5*, but the service payment between the economies of the original owner and the processor is recorded under "manufacturing services on physical inputs owned by others" rather than "merchanting and other trade-related services" as in *BPM5*.

BPM6, paragraph 10.17(g), discusses the treatment of goods sent abroad without a change in ownership, including goods for processing, and *BPM6,* paragraphs 10.62-10.64, discuss the recording of the fee for manufacturing services.

Q4. A significant change under *BPM6* is in the treatment of goods under merchanting, i.e., goods that are purchased by a resident (of the compiling economy) from a nonresident combined with the subsequent resale of the same goods to another nonresident, without the goods being present in the compiling economy. Can you explain the treatment under *BPM5*, *BPM6*, and in customs filings?

In *BPM5*, merchanting was included in "merchanting and other trade-related services". In the case where these goods were kept in inventories from one period to the next, then the purchase of goods under merchanting was included in merchandise imports, and this same amount was deducted from imports (as negative imports) in the period in which the goods were relinquished. Any difference between the value of the goods when acquired and when relinquished was entered as exports of merchanting services.

In *BPM6*, merchanting of goods is reclassified from services to goods. The acquisition of the goods is classified as a negative goods export of the economy of the merchant, and the sale is classified as a positive goods export, with the difference between sales and purchases recorded in goods exports as "net exports of goods under merchanting".

The value of "net goods under merchanting" under *BPM6* is of the same value as merchanting services under *BPM5*.

Goods under merchanting do not cross the border of the merchant's economy, and thus are not captured in customs documents filed by the merchant.

Merchanting is discussed in *BPM6*, paragraphs 10.41-10.49.

Q5. *BPM6* introduces financial intermediation services indirectly measured (FISIM). Could you explain the treatment of FISIM under *BPM5* and *BPM6*?

Financial corporations[1] provide some financial services for borrowers and depositors for which they may be compensated indirectly. Actual interest can be seen as including both an income element (pure interest) and a charge for services (FISIM). Interest margins are an alternative to charging customers explicitly for financial services.

In *BPM5*, FISIM is not separated from interest and therefore not included in financial services. FISIM was, however, included in the national accounts estimates under the *1993 System of National Accounts.* This was the sole difference in coverage of imports and exports of goods and services between *BPM5* and the *1993 SNA.*
In *BPM6*, FISIM is calculated for loans and deposits involving financial corporations. The "pure interest" component of interest (excluding the financial intermediation service charge) is recorded in the primary income account (income account in *BPM5*) under both *BPM5* and *BPM6*.

FISIM is discussed in *BPM6*, paragraphs 10.126-10.136.

Q6. A significant methodological change in *BPM6* involves insurance transactions. Could you briefly explain the differences in the treatment of insurance transactions between *BPM5* and *BPM6*?

Insurance companies produce services for their policyholders over the lifetime of insurance contracts, and some of these services are not charged explicitly. Payments for these services are undifferentiated components of various other financial flows (including the premiums that policyholders pay, and investment income that accrues to policyholders), and therefore need to be derived indirectly from amounts accruing to the insurers and amounts accruing to policyholders. Recording insurance transactions is complex, so *BPM6* includes an appendix (Appendix 6c) which provides detailed methodological guidance.

Under *BPM6*, "premium supplements", which reflect the investment income earned on assets designated to meet insurance company liabilities to policyholders, are recorded in the primary income account as being paid by the insurance companies to policyholders, and then also as being returned by policyholders to insurance companies (added to premiums, and thereby being

[1] Financial corporations consist of all corporations and quasi-corporations that are principally engaged in providing financial services, including insurance and pension fund services, to other institutional units.

considered in the calculation of insurance services). *BPM5* allowed the transactions associated with investment income on technical reserves to be ignored because of estimation problems.

In *BPM6*, nonlife insurance and reinsurance are treated similarly, which reflects a change from *BPM5*. In *BPM5* for reinsurance, exports of services were, in principle, estimated as the balance of all flows occurring between resident (nonresident) reinsurers and nonresident (resident) insurers.

BPM6 allows for nonlife insurance claims to be calculated reflecting a longer term view of claims behavior and for exceptionally large claims such as those following a catastrophe, to be recorded as capital transfers rather than as normal current transfers, if needed to be consistent with national accounts treatments. In *BPM5* there was no specific discussion of adjustments for claims volatility.

To properly match the income earned of the insurance company with the expenses incurred in the relevant period under the accrual system, under *BPM6,* the calculation of claims include both those that have been reported by policyholders to insurance companies, as well as those that have been incurred but not yet reported to the insurance company. In *BPM5,* there was no detailed discussion of the calculation of nonlife insurance claims.
In regard to life insurance, there is no change from *BPM5* and *BPM6* with regard to the inclusion in the financial account of premiums minus service charges minus claims.

As can be concluded from the above, the calculation of insurance transactions under *BPM6* is more sophisticated than that under *BPM5*. The *BPM6* treatments resolve some of the problems that occasionally arose under *BPM5,* including negative services and erratic time series that were not well justified conceptually.

Q7. *BPM6* introduces the item "charges for the use of intellectual property", which also includes the recording of charges for licenses to reproduce and/or distribute intellectual property embodied in produced originals or prototypes. Could you explain the changes in treatment from *BPM5* to *BPM6*?

BPM6 uses the title "charges for the use of intellectual property" instead of "royalties and license fees" in *BPM5*. Charges for the use of intellectual property include (i) charges for the use of proprietary rights, such as franchises and trademarks, like in *BPM5*; and (ii) charges for licenses to reproduce and/or distribute intellectual property embodied in produced originals or prototypes and related rights; *BPM5* was not explicit on the recording of these transactions. In *BPM6*, as in *BPM5*, outright purchases/sales of franchises and trademarks are recorded in the capital account.

Charges for the use of intellectual property include licenses to reproduce and/or distribute intellectual property embodied in produced originals or prototypes involving (i) software; and (ii) audiovisual and related products. Examples are licenses to reproduce products subject to copyrights, such as books, computer software, cinematographic works and sound recordings.

The treatment of flows relating to intellectual property is summarized in Table 10.4 of the *BPM6* (reproduced below):

BPM6 **Table 10.4. Treatment of Intellectual Property**

<table>
<tr><th></th><th colspan="2">Use of Intellectual Property</th><th>Sale or Purchase of Ownership Rights[3]</th></tr>
<tr><td>Franchises and trademarks</td><td colspan="2">charges for the use of intellectual property n.i.e.</td><td>capital account entry</td></tr>
<tr><td>Outcomes of research and development</td><td colspan="2">charges for the use of intellectual property n.i.e.</td><td>research and development services</td></tr>
<tr><td>Computer services;
Audiovisual and related services:</td><td>License to use excluding reproduction and distribution[1]</td><td>License to reproduce and/or distribute[2]</td><td rowspan="5">relevant service item[4]</td></tr>
<tr><td>(a) Customized all types</td><td>relevant service item[4]</td><td rowspan="4">charges for the use of intellectual property n.i.e.</td></tr>
<tr><td>(b) Noncustomized—downloaded or otherwise electronically delivered</td><td>relevant service item[4]</td></tr>
<tr><td>(c) Noncustomized—provided on physical media with periodic license fee</td><td>relevant service item[4]</td></tr>
<tr><td>(d) Noncustomized—provided on physical media with right to perpetual use</td><td>goods</td></tr>
</table>

[1] Covers the case where a specific product is supplied with the right to use the intellectual property embodied in it, but not to copy it for further distribution. The transactions should be classified under the appropriate goods and services items.
[2] Covers the case where authority to reproduce or distribute (or both) the intellectual property is delegated by its owner.
[3] Covers the case where there is a change of economic ownership of the whole of the intellectual property right in question. The seller no longer has any rights or obligations associated with the intellectual property. This case also includes second or subsequent outright sales of intellectual property rights.
[4] The relevant service item is either computer services (see paragraph 10.143), or audiovisual and related services (see paragraphs 10.162–10.166), depending on the nature of the content provided.

For example, the sale or purchase of a copy of a software package that is mass-produced and is obtained by an individual to load onto a single computer is covered by a license to use that excludes reproduction and distribution; this situation would be recorded in goods or services depending on the examples (see examples (b), (c), and (d) under software in Table 10.4). If a manufacturer pays for the right to include the software on computers that it produces, then the payment would be a license to reproduce or distribute or both (charges for the use of intellectual property provided by the owner of the original).

Q8. In *BPM6*, personal transfers in the secondary income include workers' remittances, but are not confined to transfers within families and income from employment only. *BPM6* also introduces supplementary data related to cross-border employment to compile personal remittances. Could you explain the changes from *BPM5* to *BPM6*, and how personal remittances are distinguished from workers' remittances and personal transfers?

Personal transfers in *BPM6* include all current transfers in cash or in kind between resident households and nonresident households, independent of the source of income and the relationship between the households. Workers' remittances are a part of personal transfers and may be shown by economies as a supplementary item. In *BPM5*, workers' remittances were a standard component and consisted of current transfers by migrants who are employed in new economies and considered residents there.

Three additional supplementary data items in the international accounts pertaining to remittances are defined in *BPM6*, which are: (a) **Personal remittances.** This consists of current and capital transfers in cash or in kind between resident households and nonresident households, plus compensation of employees, less taxes and social contributions paid by nonresident workers in the economy of employment, less transport and travel expenditures related to working abroad. In short, this item includes all household-to-household transfers and the net earnings of nonresident workers; (b) **Total remittances.** This consists of personal remittances receivable plus social benefits receivable; and (c) **Total remittances and transfers to Nonprofit Institutions Serving Households (NPISHs).** This consists of total remittances and both current and capital transfers to NPISHs from any sector of the sending economy.[2]

Personal transfers are discussed in *BPM6*, paragraphs 12.21-12.26; and remittances are discussed in *BPM6*, paragraph 12.27 and Appendix 5.

Capital Account

Q9. In *BPM6*, the personal effects, financial assets, and liabilities of persons changing their economic territory of residence (migrants' transfers) are no longer included in the balance of payments as capital transfers (and the counterpart entries are no longer included in goods imports or exports, financial account transactions, etc.). Could you explain the reason for the different treatments under *BPM5* and *BPM6*?

In *BPM5*, transactions were imputed when persons changed residence. This was an exception to general principles in the balance of payments accounts, where transactions generally are recorded when a resident of one economy interacted with a resident of another economy. In the

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[2] The high international interest in analyzing remittances data and their impact on economic development led to the publication of the *2009 International Transaction in Remittances: Guide for Compilers and Users* available at http://www.imf.org/external/np/sta/bop/remitt.htm.

case of migrants' transfers, there were not interactions between a resident and a nonresident, but instead a resident changed his or her country of residence.
In *BPM6*, the personal property and other assets of people changing residence are no longer recorded as transactions because a *change in ownership is no longer imputed*. Rather, because the residence of the owner changes, but not the ownership of any assets, the change in cross-border assets (such as bank balances and real estate ownership) and liabilities between economies are recorded as reclassifications in "other changes in volume" in the IIP. Financial assets and liabilities of persons changing residence are discussed in *BPM6*, paragraphs 9.21-9.23.

Starting with the July 2015 *IFS* and the online *Balance of Payments Statistics* (*BOPS*) database, the data exclude migrants' transfers, which resulted in a change to net errors and omissions of the same size.

Q10. In *BPM6*, transactions involving the outcomes of R&D, such as patents and copyrights, are no longer recorded as nonproduced assets in the capital account. Could you explain the different treatment under *BPM5* and *BPM6*?

In *BPM5,* outright purchases and sales of patents, copyrights, trademarks, and other ownership rights reflecting the results of R&D were recorded in the capital account, because these were regarded as transactions in nonproduced intangible assets.

In *BPM6*, outright purchases and sales of franchises and trademarks continue to be recorded in the capital account. However, outright purchases and sales of patents, copyrights, and other intellectual property ownership rights (except franchises and trademarks) are recorded in services (in research and development services, computer services, or audiovisual and related services, as appropriate), because these are regarded as transactions in *produced* assets.

Charges for the use of the outcomes of R&D are included in "royalties and license fees" in *BPM5,* and in "charges for the use of intellectual property" in *BPM6*.

Outright purchases and sales of patents, copyrights, trademarks, and other ownership rights reflecting the results of R&D are discussed in *BPM6*, paragraphs 10.143(e), 10.148, and 10.166, respectively; charges for the use of intellectual property are discussed in *BPM6*, paragraphs 10.137-10.140. See also FAQ #7.

Financial Account and IIP

Q11. A significant change in *BPM6* involves foreign direct investment (FDI). Could you explain the treatment of FDI under *BPM5* and *BPM6*, including the treatment of fellow enterprises?

A main difference between the two presentations (*BPM6* versus *BPM5*) is in the recording of reverse investment.

In *BPM5*, FDI was presented in the standard components on a directional basis, i.e., direct investment in the reporting economy (on the liability side of the IIP statement) included assets and liabilities between a resident direct investment enterprise and its nonresident direct investor, and direct investment abroad (on the asset side of the IIP statement) included assets and liabilities between a resident direct investor and its nonresident direct investment enterprises.

In *BPM6*, FDI is presented in the standard components on a gross assets and liabilities basis, with detail that separately identifies the relationship between the investor and the entity receiving the investment. Thus, for example, all assets are recorded on the asset side of the IIP statement, with separate detail shown for direct investor in direct investment enterprises; direct investment enterprises in direct investor (reverse investment); and claims on fellow enterprises abroad. Supplemental detail is shown for fellow enterprises, to separately identify whether the ultimate controlling parent is resident; nonresident; or unknown.

In *BPM6*, investment involving fellow enterprises is included in FDI. Fellow enterprises are related enterprises (those in a direct investment relationship with each other because they are under the control or influence of the same immediate or indirect investor), but neither holds 10 percent or more voting power in the other. In *BPM5*, the treatment of fellow enterprises was not explicitly described.

In addition to the presentational differences between in *BPM5* and *BPM6* described above, so-called "permanent debt" between affiliated financial intermediaries[3] is reclassified from FDI to portfolio or other investment. This is partly for conceptual reasons (financial intermediary debt was not considered to be so strongly connected to the direct investment relationship) and partly for practical reasons. (In regard to the latter, there was no agreed international standard for identifying permanent debt, resulting in bilateral asymmetries. Also, the debt figures included in FDI were often quite large, resulting in figures that were difficult to interpret. The debt that had been recorded in FDI was not related to activities typically associated with FDI, such as building of manufacturing plants and acquisition of inventories, but instead was related to financial activities that were more commonly recorded in portfolio or other investment.) Both the presentational change (i.e., the recording of FDI on a gross basis in *BPM6*) and the methodological change (reclassifying "permanent debt" between affiliated financial intermediaries), result in changes in total FDI assets and total FDI liabilities under the *BPM6* methodology.

Reverse investment and the difference between the *BPM5* and *BPM6* presentation of FDI are discussed in *BPM6*, paragraphs 6.39-6.45 as well as in Box 6.4; the coverage of debt between selected affiliated financial corporations is discussed in *BPM6*, paragraph 6.28.

[3] The exclusion of debt positions between affiliated financial corporations is specified as being for deposit-taking corporations, investment funds, and other financial intermediaries except insurance companies and pension funds.

Q12. A significant methodological change in *BPM6* involves the treatment of allocations of Special Drawing Rights (SDRs). Could you explain the treatment of allocations of SDRs under *BPM5*, *BPM6*, and in the IMF's major publications for external sector statistics, i.e., the *Balance of Payments Statistics Yearbook* (*BOPSY*) and the *IFS*?

In *BPM6*, new allocations of SDRs to participants in the IMF SDR Department are recorded as increases in gross reserve assets (holdings of SDRs) and, at the same time, in long-term debt liabilities of the authorities (allocations of SDRs). The main change from *BPM5* is the treatment of the SDR allocation as a long-term debt liability recorded in both the transactions and position data.

In regard to the rationale for recording SDR allocations as debt, according to *BPM6*: "Debt instruments are those instruments that require the payment of principal and/or interest at some point(s) in the future." (*BPM6*, paragraph 5.31) SDR allocations meet this definition because they incur interest (at the SDR interest rate). Also, interest arrears accrue if not paid when due. The liability is fixed in amount. "Equity consists of all instruments and records that acknowledge claims on the residual value of a corporation or quasi-corporation, after the claims of all creditors have been met." (*BPM6,* paragraph 5.21) SDRs do not meet the definition of equity, because they do not provide for participation in the distribution of the residual value of the issuer on dissolution; also, as noted above, SDRs accrue interest.

The IMF implemented new allocations of SDRs in August 2009 and September 2009[4], and these were reflected in the BOP transactions (as increases in gross reserves and increases in long–term debt liabilities of the authorities) in the October 2009 and November 2009 issues of the *IFS*, respectively. They also were reflected in Q3 2009 balance of payments transactions data and quarterly IIP statistics published in the January 2010 *IFS* and the 2010 *BOPSY.*

A set of FAQs on the statistical treatment of SDRs is posted at http://www.imf.org/external/np/exr/faq/sdrallocfaqs.htm.

Q13. A methodological change in *BPM6* involves debt arrears. Could you explain the treatment of arrears, including arrears in interest and in principal, under *BPM5* and *BPM6*?

In *BPM5*, when a payment of principal or interest went into arrears, a transaction was imputed, and the amount in arrears was reclassified from the original asset/liability to short–term debt under "other liabilities".

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[4] The IMF implemented a $250 billion General Allocation of special drawing rights (SDRs) on August 28, 2009. In addition, under the Fourth Amendment of the Fund's Articles of Agreement, the IMF implemented a Special Allocation of SDRs of $33 billion on September 9, 2009.

In *BPM6*, there is no imputed transaction for arrears on principal and interest. The arrears on principal are kept under the original instrument, and interest is recorded as accrued, with an offsetting entry under the respective instrument. The accumulation of arrears related to exceptional financing is, however, included as a memorandum item to the financial account in the analytical presentation (*BPM6*, paragraph 8.58 and *BPM6*, Appendix 1).

Arrears are discussed in *BPM6*, paragraphs 5.99 - 5.102.

Q14. *BPM6* recognizes pension entitlements and provisions for calls under standardized guarantee schemes as changes in assets and liabilities in the financial account. Could you explain the different treatment under *BPM5* and *BPM6*?

In *BPM6*, pension entitlements are recognized as financial assets with changes in technical reserves due to transactions recorded in the financial account. The transactions consist of value of the estimated obligations to beneficiaries and holders that accrued during the period (*BPM6*, paragraph 8.48).

In *BPM6*, provisions for calls under standardized guarantees are identified and treated similarly to insurance technical reserves (*BPM6* A6c.43-44). In *BPM5*, standardized guarantees were not classified as financial assets / liabilities.

Q15. *BPM6* includes unallocated gold accounts in addition to gold bullion in monetary gold and reserve assets. Could you explain the different treatments under *BPM5* and *BPM6*?

In *BPM6*, monetary gold consists of gold bullion and unallocated gold accounts with nonresidents that give title to the delivery of gold. In *BPM5*, monetary gold only consisted of gold bullion; *BPM5* did not discuss the treatment of unallocated gold. Thus, the definition of monetary gold was revised with *BPM6* to include unallocated gold accounts held by monetary authorities with nonresidents.

Unallocated gold accounts represent a claim against the account operator to deliver gold. The account provider holds title to physical gold, and it issues claims to account holders denominated in gold, but that do not give title to specific gold bars (or other forms of gold). Unallocated gold accounts held as reserves are classified as monetary gold; all other holdings of unallocated gold accounts as well as the liabilities are included in currency and deposits (*BPM6* paragraph 9.19).

Unallocated accounts involving other precious metals, as well as gold accounts that are indexed to gold (but that do not give title to claim delivery of gold), held with nonresidents, are excluded from monetary gold and classified as “currency and deposits” (*BPM6* paragraph 5.39).

Q16. *BPM6* introduces standardized reporting for the currency composition of international assets and liabilities, including financial derivatives, to enhance the usefulness of the IIP. What are other significant IIP data enhancements introduced in *BPM6*?

Other significant *BPM6* IIP data enhancements include the following:

a. A more detailed sectoral breakdown, including identification of other financial institutions
b. Information on the impairment of cross-border loans (for creditors only) at fair values (memorandum item), and nonperforming loans at nominal value (supplementary item, or memorandum item if fair value of impaired loans is unavailable)
c. Loan loss provisions (supplementary item)
d. Supplementary detail on the remaining maturity of debt liabilities
e. Increased emphasis and guidance on use of market valuation for direct investment positions
f. Short-term reserve-related liabilities on a remaining maturity basis (memorandum item)
g. Significant contingent assets and liabilities (supplementary item)
h. Financial derivative positions with nonresidents at notional value, and if feasible by market risk categories (e.g., foreign exchange, single currency interest rate, equity, commodity, credit, and other; supplementary items)
i. Holdings of sovereign wealth funds not included in the reserve assets functional category (supplementary IIP item)

Presentational Changes

Q17. Could you explain changes introduced in the "sign convention" to be applied in reporting data?

In *BPM6*, the headings of the financial account have been changed from "credits and debits" to "net acquisition of financial assets" and "net incurrence of liabilities"; i.e., all changes due to credit and debit entries are recorded on a net basis separately for financial assets and liabilities. A positive sign indicates an increase in assets or liabilities, and a negative sign indicates a decrease in assets or liabilities.

In *BPM6*, the financial account is now consistent with the *SNA* and the *GFS* (Government Finance Statistics) presentations, and eliminates the balance of payments practice of presenting an increase in assets as a negative entry (debit) (**for a detailed explanation and examples, see Annex I)**.

Furthermore, in the current and capital accounts, gross credit and gross debt entries are recorded with positive signs in the respective column. In *BPM5*, all debits were recorded with negative signs.

The Table below displays the changes in sign convention from *BPM5* to *BPM6*.

	BPM6	*BPM5*
Current and capital accounts	Both credits and debits are registered with positive sign	Credits with positive sign and debits with negative sign
Financial account	Increases in assets and liabilities with positive signs, and decreases in assets and liabilities with negative signs	Increases in assets and decrease in liabilities with negative signs, and decreases in assets and increase in liabilities with positive signs
Financial account balance (so-called "net lending (+)/net borrowing (-)" in *BPM6*)	Is calculated as change in assets *minus* change in liabilities	Is calculated as change in assets *plus* change in liabilities

Q18. Could you identify major changes in account titles in *BPM6*?

In *BPM6*, the terms "primary income" and "secondary income" replace "income" and "current transfers" respectively, to be consistent with the *2008 SNA*.

Q19. Can you explain the difference in the sectoral breakdown in the *BPM5* and *BPM6* presentations?

BPM6 strengthens the data on sectors by introducing a breakdown of "other sectors" into "other financial corporations"; and "nonfinancial corporations, households and NPISHs". Furthermore, in *BPM6,* "central bank" replaces "monetary authorities" as an institutional subsector, whereas "monetary authorities" remains an essential concept for defining reserve assets.[5]

New Appendices in *BPM6*

Q20. What new features are included in *BPM6* to help users and compilers of BOP and IIP data?

BPM6 includes a suite of new appendices that provide methodological advice. For example, these include appendices on exceptional financing transactions, debt reorganization, currency

[5] Monetary authorities encompass the central bank (which subsumes other institutional units included in the central bank subsector, such as the currency board) and certain operations usually attributed to the central bank but sometimes carried out by other government institutions or commercial banks, such as government-owned commercial banks.

and economic unions, activities of multinational enterprise, and remittances. These appendices provide more in depth discussion of these topics than is covered in the main text, a response to both compiler and user requests for more information and methodological advice.

Statistical Data Publications

Q21. When did the IMF convert its major publications for external sector statistics—i.e., the *BOPSY* and *IFS*—from a *BPM5* to a *BPM6* basis? What historical time series of data are available on a *BPM5* and on a *BPM6* basis?

The IMF implemented the *BPM6* framework for BOP and IIP in its major statistical publications beginning with the August 2012 editions.
With the September 2015 edition of the *IFS*, STA started redisseminating an economy's own official *BPM6*-basis estimates for all years for which the economy developed such estimates, and converted *BPM5*-basis estimates for years where there are no official *BPM6*-basis estimates.

Q22. When the IMF converted its major statistical publications from a *BPM5* to a *BPM6* basis, was there any major change in the presentation?

The number of *BPM6* basis BOP and IIP tables presented in *IFS* and *BOPS(Y)* **Part 1** is the same as in the *BPM5* basis publications, but there was a renaming of account titles (to reflect the titles in *BPM6*) and a reduction in the number of lines in the hard copies of the publications (to eliminate blank space because a number of data items were not reported by very many economies). Also, there is a greater focus on the distinction between debt and equity in the financial accounts presentation in *IFS* and *BOPSY*.

The number of world tables included in the monthly online *BOPS* database and the associated annual hard copy publication, the *BOPSY*, **Part 2**, *World and Regional Tables,* was considerably reduced – from 50 to 21. The 21 tables are those of specific interest to a significant number of data users, or that are essential for STA's monitoring of global errors and omissions. Furthermore, the hard copy of *BOPSY,* **Part 3**, *Methodologies, Compilation Practices, and Data Sources* (often referred to as metadata) was eliminated (and a summary table of country reporting practices was added); a cross reference to the electronic source of the metadata was provided. Similar to the metadata that STA collects on the Coordinated Portfolio Investment Survey and the Coordinated Direct Investment Survey, metadata is being collected via an on-line questionnaire, and the metadata appear only in electronic products (through eLibrary Data and CD-ROM).

Q23. After the IMF's major statistical publications for external sector statistics (i.e., *BOPSY* and *IFS*) are converted to a *BPM6* basis, how will data be developed for economies that are still on a *BPM5* basis?

The data for economies who continue to report data to the IMF on a *BPM5* basis will be converted by STA on an ongoing basis into a *BPM6* presentational format for publication purposes, similar to the procedures used for the conversion of data for the August 2012 data releases. Thus, economies may report data through STA's Integrated Correspondence System (ICS) using either a *BPM5* or a *BPM6* basis report form.

Q24. What is SDMX and how often is the BOP-DSD updated?

The Statistical Data and Metadata eXchange (SDMX) is an initiative to foster standards for the exchange of statistical information. The BOP-DSD version 1.0 was released October 1st 2013 and is the standard for transmitting BOP statistics according to *BPM6*.. It was prepared in close cooperation between Eurostat, ECB, IMF and OECD, under the auspices of the SDMX Technical Group on BOP-DSD. The maintenance cycle established by the SDMX ownership group is undertaken on an annual basis with scope for fast-track maintenance changes that do not break backwards compatibility and are deemed as essential by the ownership group. The BOP-DSD is currently at version 1.5. Additional information can be found on the SDMX website (http://SDMX.org).

Getting assistance

Q25. Where may I obtain more information on the impact of *BPM6*? How will the IMF assist member countries in their efforts to implement *BPM6*?

The STA Balance of Payments Division (STABP) provides technical assistance (TA) to member countries to help improve the collection, compilation, and dissemination of official BOP and IIP statistics according to *BPM6* by providing on-the-job training and practical hands-on help. The main vehicle for the delivery of technical assistance continues to be short-term single-topic missions conducted by IMF staff and externally recruited experts. To complement TA efforts, STABP conducts training courses through the IMF Institute for Capacity Development and Regional Training Centers that generally consisting of a series of lectures, discussions, practical exercises, and case studies on *BPM6*.

As explained in the answer to FAQ #2, Appendix 8 of *BPM6*, as well as the "*BPM5–BPM6* Conversion Matrix" (http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm), provides useful information about changes from *BPM5* to *BPM6*.

In addition, STA published the *Balance of Payments and International Investment Position Compilation Guide* (*BPM6 CG*) (available at: http://www.imf.org/external/pubs/ft/bop/2007/bop6comp.htm). This document is a companion to *BPM6* and updates the *Balance of Payments Compilation Guide* that was released in 1995 to accompany the *BPM5*. Such compilation guides provide practical directions for using sources and methods to compile BOP and IIP statistics.

Users may contact STABP with questions about data conversion or *BPM5* or *BPM6* methodology at: STABPM6@imf.org.

ANNEX I

FAQS ON *BPM6* SIGN CONVENTION

Q1: For time series presenting changes in financial assets, the signs in *BPM6* changed compared to the *BPM5* presentation, while for time series presenting financial liabilities the signs remained the same. Why? More specifically, how do I interpret the *Plus 6.75* in portfolio investment (PI) assets in the BOP statement based on a *BPM6* basis as compared to the *Minus 6.75* on a *BPM5* basis?

In the financial account of *BPM6*, a positive sign for financial assets denotes a net increase in foreign assets; in this *BPM6* basis table below, the net increase of *6.75* in Q1 refers to the net increase in equity and investment fund shares held by deposit-taking corporations (*5.02*) and other sectors (*1.73*). More generally, in *BPM6* the financial account items are recorded on a net basis for financial assets and liabilities separately and reflect changes due to all credit and debit entries during the accounting period (see *BPM6* 3.31).

In *BPM5*, transactions are recorded in the financial account using the debit and credit presentation, where net debits have a negative sign and net credits a positive sign. The interpretation of increase or decrease depends on whether the change refers to an asset or a liability: a debit entry for an asset is an increase of this instrument; a debit for a liability is a decrease of this instrument. In the *BPM5* basis table below, the *negative* (i.e., debit) sign for assets/equity securities denotes an *increase* of *6.75* in the equity security assets held by deposit-taking corporations (*5.02*) and other sectors (*1.73*).

I. EXCERPT OF BOP STATEMENT ACCORDING TO *BPM6* PRESENTATION: FINANCIAL ACCOUNT – NET ACQUISITION OF FINANCIAL ASSETS

Portfolio investment	**Q1**	**Q2**	**Q3**	**Q4**
Net acquisition of financial assets				
Equity and investment fund shares	**6.75**	**4.93**	**5.48**	**-1.88**
Central bank	0.00	0.00	0.00	0.00
Monetary authorities (where relevant)				
General government	0.00	0.00	0.00	0.00
Deposit-taking corporations, except central bank	5.02	-1.28	3.28	-0.80
Other sectors	1.73	6.21	2.20	-1.08

II. Excerpt of BOP Statement According to *BPM5* Presentation: Financial Account – Assets

Portfolio investment	Q1	Q2	Q3	Q4
Assets				
Equity securities	-6.75	-4.93	-5.48	1.88
Monetary authorities	0.00	0.00	0.00	0.00
General government	0.00	0.00	0.00	0.00
Banks	-5.02	1.28	-3.28	0.80
Other sectors	-1.73	-6.21	-2.20	1.08

<u>Q2: With the change in signs, how do I interpret the *Minus 25.21* in other investment liabilities in the BOP statement based on *BPM6* as compared to the *Minus 25.21* based on *BPM5?*</u>

In *BPM6*, a minus sign in the "net incurrence of liabilities" section of the balance of payments financial account denotes a net decrease in foreign liabilities; in the *BPM6* basis table below, the net decrease refers to a net decrease in currency and deposits liabilities of *28.84* of deposit-taking corporations and a net increase in currency and deposits liabilities of *3.63* of the central bank. In contrast to the current and capital accounts, the financial account registers transactions on a net basis, which are shown separately for financial assets and liabilities. More specifically, net transactions in financial assets shows acquisition of assets less reduction in assets, and net incurrence of liabilities show increases in liabilities less decreases in liabilities. Thus, the financial account items are recorded on a net basis for financial assets and liabilities separately and reflect changes due to all credit and debit entries during an accounting period (see *BPM6* 3.31).

In *BPM5*, transactions are recorded in the financial account under the headings of "debits" and "credits", where net debits have a negative sign and net credits a positive sign. The interpretation of increase or decrease depends on whether the change refers to an asset or a liability: a debit for an asset is an increase in holdings of that asset; a debit for a liability is a decrease in that liability; a credit for a liability is an increase; a credit for an asset is a decrease. In the *BPM5* basis table below, the negative 25.21 (i.e., a debit) denotes a decrease in liabilities of *25.21*, which is the result of a decrease (debit) in currency and deposits liabilities of banks (*-28.84*) and an increase (credit) in currency and deposits liabilities of the central bank (*3.63*).

III. Excerpt of BOP Statement According to *BPM6* Presentation: Financial Account – Net Incurrence of Liabilities

Net incurrence of liabilities	**Q1**	**Q2**	**Q3**	**Q4**
Currency and deposits	**15.52**	**6.18**	**-25.21**	**-1.48**
Central banks	1.78	-0.17	3.63	-1.04
Short-term				
Long-term				
Monetary authorities (where relevant)	0.00	0.00	0.00	0.00
Short-term				
Long-term				
Deposit-taking corporations, except the central bank	13.73	6.35	-28.84	-0.43
Short-term				
Long-term				
Of which: Interbank positions				
General government	0.00	0.00	0.00	0.00
Short-term				
Long-term				
Other sectors	0.00	0.00	0.00	0.00
Short-term				
Long-term				

IV. Excerpt of BOP Statement According to *BPM5* Presentation: Financial Account – Liabilities

Liabilities	**Q1**	**Q2**	**Q3**	**Q4**
Currency and deposits	**15.52**	**6.18**	**-25.21**	**-1.48**
Monetary authorities	1.78	-0.17	3.63	-1.04
General government				
Banks	13.73	6.35	-28.84	-0.43
Other sectors				

<u>Q3: Could you explain why the net financial account numbers have opposite signs for the years 2005–2008 in *BPM5* and *BPM6*?</u>

In *BPM6,* the balance in the financial account was calculated by *subtracting* transactions in liabilities from transactions in assets, instead of *adding* both, like in *BPM5*. Also, there is a change in signs for transactions in assets (e.g., increases carry a positive sign under *BPM6* but carry a negative sign under *BPM5*), but not for transactions in liabilities (e.g., increases carry a positive sign under both *BPM6* and *BPM5*.) The absolute value for the balance in the financial account does not change because of this, but the balance on the financial account under *BPM6* has the opposite sign from that presentation based on *BPM5*.

A. *BPM6* Presentation

Financial account (by functional category)	**Net acquisition of financial assets**	**Net incurrence of liabilities**	**Balance**
Direct investment	-5	1	-6
Portfolio investment	-2	-8	6
Financial derivatives	21	13	8
Other investment	15	-4	19
Reserve assets	4		4
Total changes in assets/liabilities	33	2	
Net lending (+)/net borrowing (-) (from financial account)			*31*

B. *BPM5* Presentation

Financial account (by functional category)	**Credit**	**Debit**	**Balance**
Direct investment			6
Abroad	5		
In reporting country	1		
Portfolio investment			-6
Assets	2		
Liabilities		-8	
Financial derivatives			-8
Assets		-21	
Liabilities	13		
Other investment			-19
Assets		-15	
Liabilities		-4	
Reserve assets		-4	-4
Net lending (-)/net borrowing (+) (from financial account)			*-31*

Q4: How do I derive net lending/net borrowing from the financial account in *BPM6*?

The sum of the balances on the current and capital accounts represents the net lending (surplus) or net borrowing (deficit) by the economy with the rest of the world. This is conceptually equal to the net balance of the financial account (net change in financial assets minus net incurrence of liabilities, where a net increase in both financial assets and liabilities has a positive sign) (see also Q3). In *BPM6,* a positive figure reflects net lending and a negative figure reflects net borrowing.

Q5: How are net errors and omissions derived according to BPM6 compared to BPM5, and does the sign o f "net errors and omissions" change?

The BOP accounts are, in principle, balanced; imbalances result from imperfections in source data and compilation. This imbalance is labeled net errors and omissions.

Under *BPM5*, net errors and omissions are calculated as the sum of the balances on the current, capital and financial accounts, with the sign reversed. Under *BPM6*, it is calculated as the balance on the financial account minus the sum of the balances on the current and capital accounts. The sign for net errors and omissions does not change from the *BPM5* to the *BPM6* presentation.

As an example, if the current account balance is *plus 13*, the capital account balance is *minus 8*, and the financial account balance is *minus 12*, then net errors and omissions under the *BPM6* presentation is *minus 17* (see *BPM6*, paragraph 2.24). In *BPM5*, it would be the current account balance (*plus 13*) *plus* the capital account balance (*minus 8*) *plus* the financial account balance (*plus 12*), with the sign reversed. The resulting *BPM5* errors and omissions would therefore also be *minus 17*.

Mathematically, under both *BPM5* and *BPM6*, a negative figure of net errors and omissions indicates an overall tendency that:

(a) the value of credits in the current and capital accounts is too high; and/or

(b) the value of debits in the current and capital accounts is too low; and/or

(c) the value of net increases in assets in the financial account is too low; and/or

(d) the value of net increases in liabilities in the financial account is too high.

Q6: Using the example below, could you explain the differences in value and sign between *BPM5* and *BPM6* figures for direct investment?

In Q1:2010, in country A's BOP, the following figures are published based on *BPM5* and *BPM6*:

Direct investment abroad (*BPM5*): -33.71

Direct investment assets (*BPM6*): 23.18

Direct investment in reporting economy (*BPM5*): 9.55 Direct investment liabilities (*BPM6*): -0.98

V. Excerpt of BOP Statement According to *BPM6* Presentation

***BPM6*: Assets/Liabilities Presentation**	**Q1: 2010**
Financial account	
Direct investment	24.16
Net acquisition of financial assets	23.18
Equity and investment fund shares	14.92
Equity other than reinvestment of earnings	11.75
Direct investor in direct investment enterprises	11.75
Direct investment enterprises in direct investor (reverse investment)	0.00
Between fellow enterprises	0.00
Reinvestment of earnings	3.16
Debt instruments	8.26
Direct investor in direct investment enterprises	14.67
Direct investment enterprises in direct investor (reverse investment)	-6.41
Between fellow enterprises	0.00
Net incurrence of liabilities	-0.98
Equity and investment fund shares	2.68
Equity other than reinvestment of earnings	4.55
Direct investor in direct investment enterprises	4.55
Direct investment enterprises in direct investor (reverse investment)	0.00
Between fellow enterprises	0.00
Reinvestment of earnings	-1.88
Debt instruments	-3.66
Direct investor in direct investment enterprises	0.46
Direct investment enterprises in direct investor (reverse investment)	-4.12
Between fellow enterprises	0.00

VI. Excerpt of BOP Statement According to *BPM5* Presentation

***BPM5*: Directional principle**	**Q1: 2010**
Financial account	
Direct investment	-24.16
Abroad	-33.71
Equity capital	-11.75
Claims on affiliated enterprises	-11.75
Liabilities to affiliated enterprises	0.00
Reinvested earnings	-3.16
Other capital	-18.79
Claims on affiliated enterprises	-14.67
Liabilities to affiliated enterprises	-4.12
In reporting economy	9.55
Equity capital	4.55
Claims on direct investors	0.00
Liabilities to direct investors	4.55
Reinvested earnings	-1.88
Other capital	6.87
Claims on direct investors	6.41
Liabilities to direct investors	0.46

In *BPM6*, direct investment is presented on an assets and liabilities basis, compared to the directional principle presentation in *BPM5*. Under both *BPM5* and *BPM6,* direct investment data are presented according to the relationship between the investor and the entity receiving the investment: Under *direct investment enterprises in direct investor* (i.e., reverse investment), the reporting economy of the direct investment enterprises records the assets of the direct investment enterprises, and the reporting economy of the direct investor records the liabilities of the direct investor. The differences in value and sign between *BPM5* and *BPM6* figures for direct investment are therefore due to the re-arrangement of reverse investment.

In particular, in the above table, for Q1:2010, country A's direct investment enterprises decreased their debt instrument claims on their parent companies by *6.41*; while the direct investment enterprises abroad decreased their claims on Country A's direct investors by *4.12* (i.e., resident direct investor liabilities decreased by *4.12*).

In *BPM5*, reverse investment of resident direct investment enterprises was recorded on the liability side (in direct investment in the reporting economy), and reverse investment of nonresident affiliated enterprises vis-à-vis resident direct investors was recorded on the asset side (in direct investment abroad). In *BPM6*, reverse investment is re-arranged and classified according to the relationship between the investor and the entity receiving the investment.

Additionally, the financial account registers transactions on a net basis, which are shown separately for financial assets and liabilities (i.e., net transactions in financial assets shows acquisition of assets less reduction in assets).

<u>Q7: What is the rationale behind changing the sign convention in *BPM6*?</u>
The rationale of changing the headings and signs was to integrate the BOP with the IIP and the other changes in assets and liabilities, as well as to harmonize the presentation of the financial account with other macroeconomic datasets such as the SNA and government finance statistics.

<u>Q8: Do you have a numerical example that illustrates all the changes in presentation due to the sign convention?</u>

The *BPM6 Compilation Guide*, Chapter 8 (*Cross-cutting Issues in Compiling BOP and IIP Statistics*)[1] includes a numerical example on the use of signs in balance of payments under *BPM6* versus the convention used in *BPM5.* It is repeated here for convenience. In the example, the following assumptions are made for the reported period of Country A:

(i) Exports and imports of goods 150 and 200 units, respectively;
(ii) Exports and imports of services 50 and 180 units, respectively;
(iii) Investment income received 30 units and paid 110 units;
(iv) Grants for current needs received 70 units;
(v) Investment grants received 85 unit;
(vi) Direct investment in equity capital received by resident enterprises 115 units;
(vii) Purchase of debt securities issued by nonresidents 30 units;
(viii) Disbursement of loans from nonresidents 75 units and repayment of principal for loans to nonresidents 40 units; and
(ix) Disbursement by the central bank of 65 units of loan from the IMF used to increase the reserve assets.

BPM6			***BPM5***		
	Credit	Debit		Credit	Debit
Current account	*+ 300*	*+ 490*	*Current account*	*+300*	*- 490*
Goods	+ 150	+ 200	Goods	+ 150	- 200
Services	+ 50	+ 180	Services	+ 50	- 180
Primary income	+ 30	+ 110	Income	+ 30	- 110
Secondary income	+ 70		Current transfers	+ 70	

[1] See: http://www.imf.org/external/pubs/ft/bop/2007/bop6comp.htm.

Current account balance ***(credit minus debit)***		*-190*	*Current account balance* ***(credit plus debit)***		*- 190*
Capital account	*+ 85*		*Capital account*	*+85*	
Capital transfers	*+ 85*		Capital transfers	+85	
Capital account balance ***(credit minus debit)***	*+ 85*		*Capital account balance* ***(credit plus debit)***	*+85*	
	Net acquisition of financial assets (NAFA)	**Net incurrence of liabilities (NIL)**		**Credit**	**Debit**
Financial account	*+ 110*	*+ 215*	*Financial account*	*+ 815*	*- 710*
Direct investment, equity and investment fund shares		+ 115	Direct investment in reporting economy, equity	+115	
Portfolio investment, debt securities	+ 30		Portfolio investment, assets, debt securities		- 30
Other investment, currency and deposits	+ 150 - 200 + 50 - 180 + 30 - 110 + 70 + 85 +115 - 30 + 75 - 40		Other investment, assets, currency and deposits	+ 200 + 180 + 110 + 30 + 40	- 150 - 50 - 30 - 70 - 85 - 115 - 75
Other investment, loans		+ 75 - 40 + 65	Other investment, liabilities, loans	+ 75 + 65	- 40
Reserve assets	+ 65		Reserve assets		- 65
Net lending (+)/ net borrowing(-) ***(NAFA minus NIL)***	*- 105*		*Financial account balance* ***(credit plus debit)***	+105	