BPM6 Implementation

In June of 2014 the Central Statistics Office will be implementing the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6), which was released by the International Monetary Fund (IMF) in 2009. This follows the fifth edition (BPM5) released in 1993 and follows the sequence initiated in 1948.

The Manual provides the standard framework for the compilation of statistics on transactions (balance of payments – BOP) and positions (international investment position - IIP) between an economy and the rest of the world. The Manual explains concepts, definitions, classifications and conventions for BOP and IIP statistics.

Main advantages

The BPM6 provides a standard framework enhancing international comparability of data through internationally adopted guidelines. It promotes consistency across a range of economies, from the smallest to the largest, the least developed to the most complex. It also promotes consistency between different data sets, by showing links to other macroeconomic statistics.

Link with other international statistical standards

BPM6 is consistent with the System of National Accounts 2008 (2008 SNA), the European System of National and Regional Accounts (ESA 2010), which is the "European version" of the 2008 SNA, and with the fourth edition of the Benchmark Definition of Foreign Direct Investment (BD4) of the Organisation for Economic Co-operation and Development (OECD), which were updated in parallel. The OECD's Manual sets the world standard for foreign direct investment (FDI) statistics, whereas the 2008 SNA and ESA 2010 provide the statistical framework for national accounting. All of these manuals share basic concepts, definitions, classifications and conventions in order to ensure consistency and data comparability.

International implementation

The introduction of BPM6 will be gradual and, for a considerable number of years, national data around the globe will be available either in BPM5 or BPM6 format. To improve worldwide data comparability, the IMF has adopted the BPM6 format since August 2012, although for most countries such BPM6-labelled data are derived/converted (through a more or less automated process) from actual BPM5 data. In the European Union (EU), the move to BPM6 will take place in the course of 2014. The first legal reference period will be Q1 2014, to be submitted to Eurostat and the European Central Bank (ECB) at the end of June 2014. The ECB are planning the first dissemination of euro area aggregates in a BPM6 format by the end of 2014.

Presentational changes

Main changes

The initial change introduced with BPM6 is the actual name of the Manual, which now gives equal importance to transactions and positions (stocks), by including "international investment position"

as part of the title. The most relevant presentational change relates to foreign direct investment (FDI), whose standard presentation is now on a "gross" basis (assets and iabilities), instead of the former "directional principle", which would net out reverse investment (this change also has a methodological dimension). Several nomenclature changes were introduced (see below), mostly to increase consistency vis-à-vis national accounting, for example the terms "primary income" and "secondary income" are new. Although only of practical importance (how to read the numbers), changes to the sign convention were also introduced.

Sign convention

The BPM6 sign convention is consistent with that of the Manuals on national accounts (2008 SNA and ESA 2010). In the financial account, negative signs are no longer used to denote an increase in assets (outflows) and positive signs to denote a reduction in assets (inflows). Instead, a positive number indicates an increase in assets or liabilities and a negative number the opposite (a decrease). The sign convention for the international investment position remains unchanged: assets and liabilities are presented with a positive sign. Balancing items, such as "current account balance" or "net lending/net borrowing" are always derived as credits minus debits or (net acquisition of) assets minus (net incurrence of) liabilities.

Nomenclature changes

Several nomenclature changes are introduced in the BPM6. The financial account uses the headings "net acquisition of financial assets" and "net incurrence of liabilities" instead of "debits" and "credits". In general, SNA 2008 institutional sector and financial assets/liabilities classifications and nomenclatures are broadly adopted (e.g. "bonds and notes" and "money market instruments" are replaced, respectively by long-term and short-term debt securities). Another example is the term used to denote the balancing item for the financial account or the current and capital account together, "net lending/net borrowing", which would be identical were it not for the existence of net errors and omissions. The functional category "financial derivatives" is renamed "financial derivatives (other than reserves) and employee stock options", while "Trade credit and advances" replaces the term "trade credits"; in both cases to better reflect their content. The term "reinvestment of earnings" is used in the financial account to distinguish it from "reinvested earnings", which continues to be used in the primary income account (the former income account); although the content of both items is identical. "Charges for the use of intellectual property not included elsewhere" replaces the term "royalties and licence fees" in the services account. The term "personal transfers", which is broader than the former "workers' remittances", is introduced.

Methodological changes introduced by BPM6

Although core methodological concepts remain broadly unchanged, some relevant aspects are introduced or changed with BPM6. The term "economic ownership" is introduced, which is central in determining the time of recording on an accrual basis for transactions in goods, non-produced non-financial assets and financial assets.

New financial assets and liabilities are added to the system; namely, allocated special drawing rights as a liability of central banks (monetary authorities), and pension entitlements and provisions for calls under standardised guarantees. The account allocation and treatment of numerous transactions has also changed, for example merchanting of goods is now classified under goods,

financial intermediation services charges indirectly measured (FISIM) and other implicit financial services are now part of financial services, etc.

The borderline between transactions (balance of payments) and "other flows" (revaluations and other volume changes) has been substantially adjusted, particularly as regards the exchange of external assets between two resident institutional units and the treatment of income attributable to the owners of investment funds shares.

BPM6 recommends the compilation and presentation of foreign direct investment (FDI) on asset/liability ("gross") basis. While this has an impact on total (acquisition of) assets and (incurrence of) liabilities, it does not have an impact on net FDI (transactions and positions). However, the recognition of investments between "fellow enterprises" will have some impact on net FDI.

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". 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.

Some sector reallocations have also taken place in BPM6, particularly as regards non-financial holding corporations (now part of the financial sector), although that has no visible impact in the standard presentation (still within "other sectors"). The treatment of special purpose entities and other similar structures are discussed in more detail: it is made clearer that such entities are always treated as separate units if they are resident in a territory different to that of their owners.

Additions or deletions on the list of financial assets/liabilities

Several assets and liabilities are added to the system. Special drawing rights are now a liability of the recipient (central banks). Pension entitlements are recognised as a financial instrument, including the accrued obligations of unfunded pension schemes. Provisions for calls under standardised guarantees are also recognised in the system and are treated similarly to insurance technical reserves. Employee stock options are recognised as an instrument together with financial derivatives.

Transactions and "other flows"

The definition of balance of payments statistics is limited to transactions between residents and non-residents. Therefore, for example, the exchange of external assets between two resident institutional units should not be recorded in the balance of payments (as transactions), but should instead affect sectoral positions through the reclassification account. The reclassification account should also be used to accommodate changes in financial assets and liabilities arising from changes in the residency of individuals (instead of a capital transfer). Investment income attributable to the owners of investment fund shares (or units) includes retained earnings; therefore, changes in positions are now partly explained by the reinvestment of earnings (transactions) instead of revaluations.

BPM6 impact on the major aggregates (e.g. goods and services account, current account, capital account and financial account transactions and international investment position)

Although most aggregates/"balancing items" will change with the introduction of BPM6, in general the impact is expected to be limited.

The overall balance of goods and services is not expected to change substantially, but on the individual accounts (goods and services separately) the changes will have a considerable impact, mostly because of the new treatment of merchanting, the application of the economic ownership principle and the treatment of financial intermediation services changes indirectly measured (impacting services). The balance of primary income will mostly be affected by the new treatment of (undistributed) income attributable to holders of investment funds shares. The balance of secondary income should remain broadly unchanged. The capital account balance will change, mostly because of the new treatment of migrants' transfers. Net lending/net borrowing (seen from the financial account side) will be affected by the new treatment of reinvestment of earnings in investment funds shares. In the IIP, in addition to the new assets and liabilities, the recording of foreign direct investment on a "gross" basis will result in substantial increases in both assets and liabilities, although the net IIP is not affected by this change.

It should be highlighted that the generic conversion from BPM5 to BPM6 that has been carried out by the IMF since late 2012 is designed to ensure that there are no changes to: i) the balances on current account, capital account or financial account; ii) the level of reserve assets; and iii) the net errors and omissions.

Goods and services account (imports and exports)

The goods and services account is the area that is most extensively affected by the introduction of BPM6. While some borderline cases are clarified and minor adjustments are introduced throughout the account, including the reclassification of some transactions from the capital account to the services account, those changes that are expected to have a major impact are listed below.

Manufacturing services on physical inputs owned by others

In BPM5, a change of ownership was imputed for goods undergoing processing by an entity other than the owner. These imputed transactions were included on a gross basis in "goods for processing" in the goods account. In BPM6, this imputation is eliminated and the fee received for the processing services rendered is included in "manufacturing services on physical inputs owned by others". Trade in goods are recorded (only) when the goods change economic ownership, not when they are physically shipped to an economy for processing without a change in economic ownership. 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.

Net export of goods under merchanting

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, the purchase of goods under merchanting was included in merchandise imports, and the same amount 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 their value when relinquished was entered as exports of merchanting services. In BPM6, merchanting of goods is reclassified from services to goods. The purchase of goods is classified as a negative export of goods of the economy of the merchant, and the sale is classified as a positive export of goods, with the difference between sales and purchases recorded in goods exports as "net exports of goods under merchanting".

Financial intermediation services changes indirectly measured (FISIM)

Financial corporations provide some financial services to borrowers and lenders (depositors) for which they are compensated indirectly. Actual interest can be seen as including both an income element ("pure" interest) and a charge for services (FISIM). In BPM5, the FISIM component was not recorded separately from actual interest and was therefore not included in financial services, but instead in the income account. In BPM6, FISIM is calculated for loans and deposits vis-à-vis some financial corporations and allocated to the services account. The "pure interest" component of actual interest (excluding the financial intermediation service charge) is still recorded in the primary income account (income account in BPM5).

Insurance and pension services

The compilation of insurance transactions under BPM6 is more sophisticated than it was under BPM5 and has a broad impact throughout the accounts, including the estimation of the services component. Insurance claims, one of the components of that estimate, are now changed to adjust for "claim volatility", which attempts to correct for deviations from a longer-term view of claims behaviour due to exceptionally large claims arising in the short term (catastrophes). "Premium supplements" (investment income earned on assets designated to meet insurance company liabilities to policyholders) are now also taken into account in deriving insurance services (in BPM5 they were ignored). In BPM6, non-life insurance and reinsurance are treated similarly, which constitutes a change from BPM5. In BPM5, exports of reinsurance services were, in principle, estimated as the balance of all flows occurring between resident (non-resident) reinsurers and nonresident (resident) insurers.

Financial dealers' margins

Financial dealers' margins are clearly presented as a service charge in BPM6, while its treatment was rather vague in BPM5 and broadly ignored by compilers of the balance of payments and international investment position. Dealers or market-makers in financial instruments may charge for their services, in full or in part, by having a spread between their buying and selling prices. The difference between the reference price and the dealer's buying price at the time of purchase represents the service charged to the seller. Similarly, the difference between the reference price and the dealer's buying of the service provided to the buyer. The reference price is usually a mid-price between the buying and selling prices.

Primary income account (income)

The term primary income is introduced in BPM6 and corresponds to the BPM5 concept of "income" plus some current transfers' items (taxes on production and imports, subsidies and rents). This change brings the BPM6 in line with national accounts. In methodological terms, primary income is mostly affected by the new "gross" treatment of foreign direct investment, and the recording of reinvested earnings on investment funds shares (see below). Other less relevant changes arise from: i) the clarification in the concept of superdividends (exceptional payments to shareholders that are

made out of accumulated reserves) and the extension of their treatment as withdrawals of equity (instead of income distribution); ii) the timing for recording dividends, which changes to "exdividend date" (from "as of the date payable"); iii) the adjustment of interest income to remove the financial intermediation services changes indirectly measured component, with "pure interest" remaining; and iv) the recording of interest on special drawing rights (SDRs) on a gross basis, with the introduction of responsibilities/liabilities for SDR allocations.

Investment income attributable to the owners of investment funds shares In BPM5, only actual income distributed on investment funds shares to their owners was recorded in the income account. Non-distributed income affected the international investment position through the revaluation account. In BPM6, all income generated by investment funds shares is recorded as attributable to shareholders, either as actually distributed income (dividends) or reinvested earnings. In practice, the treatment of the income generated by investment funds shares is similar to that on foreign direct investment.

Secondary income account (current transfers)

The term secondary income is introduced in BPM6 and corresponds broadly to "current transfers" in BPM5, making BPM6 consistent with national accounts. BPM6 introduces the concept of "personal transfers", which includes all current transfers in cash or in kind between resident households and non-resident households, independent of the source of income and the relationship between the households. The BPM5 concept of "workers' remittances" is part of personal transfers and may eventually be shown as an "of which" entry.

Secondary income is also affected by changes arising from the enhanced coverage of current transfers on pension contracts and standardised guarantees. The recording of insurance transactions in BPM6 is rather complex, so the Manual includes an appendix (Appendix 6c), which provides detailed methodological guidance.

Capital account

In BPM6, personal property and other assets of people changing residence are no longer recorded as transactions, i.e. a change in ownership is no longer imputed. Since the residence of the owner changes, but not the ownership of the 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. In BPM5, transactions were imputed when persons changed residence.

There are also some changes to non-produced, non-financial assets, namely "patents and copyrights" which are no longer included (they are classified as produced assets and appear under research and development services), while internet domains are identified as possible economic assets.

Financial account - direct investment

The most relevant change in transactions in foreign direct investment (FDI) is the move to the "gross" (assets/liabilities) concept in the standard presentation. This increases both the net acquisition of financial assets and the net incurrence of liabilities. Investment between fellow enterprises is also added in BPM6. The concepts of direct investor and direct investment enterprise remain broadly unchanged, whereas "fellow enterprises" are those entities under the control or

influence of the same immediate or indirect investor, but which do not control or influence each other (i.e. they are not themselves in a direct investment relationship). Insurance technical reserves are included in FDI (debt instruments), while all debt transactions (including the BPM5 concept of permanent debt) between affiliated financial corporations (deposit-taking, investment funds and other financial intermediaries except insurance corporations and pension funds) are excluded from FDI transactions. Other less relevant changes arise from: i) the clarification in the concept of superdividends and the extension of their treatment as withdrawals of equity (negative transactions); and ii) the timing for recording dividends, which changes to "ex-dividend date" (from "as of the date payable").

Financial account - portfolio investment

Transactions in portfolio investment are mostly affected by the "reinvestment of (undistributed) earnings" on investment funds shares, which in BPM6 affects the IIP via transactions and not via "revaluations" as in BPM5. Other less relevant changes arise from: i) the clarification in the concept of superdividends and the extension of their treatment as withdrawals of equity (negative transactions); and ii) the timing for recording dividends, which changes to "ex-dividend date" (from "as of the date payable").

Financial account - financial derivatives

The functional category "financial derivatives" is renamed to clarify its content. The wording "other than reserves" has been added to clarify that those financial derivatives in reserve assets are not included in this functional category, as well as the wording "and employee stock options" to account for this new BPM6 asset. As the name suggests, employee stock options are options to buy the equity of a company offered to employees of the company as a form of remuneration.

Financial account - other investment

In BPM6, interest income is adjusted to remove the financial intermediation services charges indirectly measured component, with "pure interest" remaining. This methodological change has an impact on transactions (accrued interest) in deposits and loans recorded in the other investment category. New allocations (or cancellations) of SDRs are now recorded as "net incurrences of liabilities" by monetary authorities. Transactions in other equity not included in direct investment (e.g. equity participations in international organisations) are now identified separately in other investment.

Financial account - reserve assets

No relevant changes are introduced under BPM6 on transactions in reserve assets. However, some clarifications are introduced regarding the treatment of gold accounts. While transactions in "unallocated gold accounts" were in theory already recorded in BPM5 under transactions in monetary gold, their treatment is much clearer in BPM6, particularly as regards the recognition of a counterpart liability transaction (currency and deposits in other investment, if not with other monetary authorities).

International investment position

Several assets and liabilities are added to the system, which therefore has a direct effect on the international investment position. However, the the "gross" presentation of foreign direct investment (FDI) has a major impact on the IIP, whereby financial investment assets and liabilities

(reverse investment) are presented separately, i.e. not netted out as prescribed under the directional principle (BPM5 standard). In addition, investment between fellow enterprises has now been introduced, while in BPM5 it was spread across the other functional categories, depending on the nature of the investment.

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