

Frequently Asked Questions (FAQ) on Conversion from BPM5 to BPM6

As of April 2015, the Central Bank of Brazil (CBB) will start publishing the Balance of Payments (BP) and International Investment Position (IIP) statistics in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6), International Monetary Fund (IMF)¹, published in 2009. Since 2001, these statistics are being published by the CBB according to the Fifth Edition of the Balance of Payments Manual (BPM5), 1993.

The implementation of BPM6 will allow the improvement of the national statistical standard, aligning it with the best international practices, and will ensure consistency with the System of National Accounts (SNA 2008)², the new methodology of national accounts that will be adopted by the Brazilian Institute of Geography and Statistics (IBGE), also in 2015.

In order to provide more details about the changes in the statistical standard, in its transition to BPM6, CBB makes available a list of frequently asked questions, organized in three sessions:

- (i) methodology and impact of the implementation of BPM6 in BP accounts;
- (ii) presentational changes;
- (iii) database standard.

¹ BPM6 is available on the IMF website at <http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>.

² SNA 2008 is available in several languages on the United Nations Statistics Division website <http://unstats.un.org/unsd/nationalaccount/sna2008.asp>.

Methodology

1. What will be the impact of BPM6 conversion on major BP 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? In addition, what will be the impact of BPM6 conversion on major IIP aggregates (assets, liabilities, and net IPP)?

In general, the changes recommended by the BPM6 are:

- (i) “merchanting” was reclassified from services to goods;
- (ii) “manufacturing services on physical inputs owned by others” (“goods for processing” in BPM5) and “maintenance and repair services n.i.e.”³ (“repairs on goods” in BPM5) were reclassified from goods to services;
- (iii) “migrants’ transfers” is no longer classified in “other capital transfers”⁴, in the capital account;
- (iv) “reverse investment” in “direct investment” was reclassified so as to present assets and liabilities on a gross basis in the BP and IPP. The changes are explained in greater detail in the FAQs below.

In general, BPM6 provides enhanced clarification, elaboration, and level of detail to the BP/IIP framework. The impact on many major aggregates and balancing items may be limited for many economies. Nonetheless, in the BP, 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, but this is not the case in Brazil. 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 #4) will result in substantial increases in both

³ Not included elsewhere (n.i.e.).

⁴ Migrants transfers should not be included in the BP accounts, according to BPM6, because there is no change of ownership between a resident and a nonresident. Since it is the residence of the owner that changes, but not the ownership of any of his/her assets, the volume change in cross-border assets (such as bank balances and real estate ownership) and liabilities between economies are to be recorded as reclassifications in the “other changes in volume” section of the IIP. Financial assets and liabilities of persons changing residence are discussed in BPM6, paragraphs 9.21-9.23.

IIP assets and IIP liabilities for many economies under BPM6, although the net IPP is not affected by this change.

2. 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>.

3. 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, while workers’ remittances are a part of personal transfers. 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.

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

4. 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 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, while Brazilian direct investment (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 intermediaries⁵ 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.

According to the methodology of BPM6, both the presentational (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.

In the case of Brazil, however, the modifications related to reverse direct investment are restricted to the BOP flows. The IIP direct investment stocks already considers assets and liabilities on a gross basis.

⁵ 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.

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; while the coverage of debt between selected affiliated financial corporations is discussed in BPM6, paragraph 6.28.

5. 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 nonperforming loans at nominal value (supplementary item, or memorandum item if fair value of impaired loans is unavailable);
- c. Supplementary detail on the remaining maturity of debt liabilities;
- d. Increased emphasis and guidance on use of Market valuation for direct investment positions;
- e. Short-term reserve-related liabilities on a remaining maturity basis (memorandum item);
- f. 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);
- g. Holdings of sovereign wealth funds not included in the reserve assets functional category (supplementary IIP item).

Presentational Changes

6. 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.

The balance of payments of Brazil, however, will remain distinguishing disbursements from amortizations, inflows from outflows, for the vast majority of the financial account items.

In BPM6, the financial account is now consistent with the SNA and the GFS (Government Finance Statistics) presentations and, furthermore, eliminates the balance of payments practice of presenting an increase in assets as a negative entry (debit).

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 [net lending (+)/ net borrowing (-)] in BPM6 | Is calculated as change in assets <u>minus</u> change in liabilities | Is calculated as change in assets <u>plus</u> change in liabilities |

7. 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 SNA 2008.

8. 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. Finally, in BPM6, the sector "Banks", from BPM5, is replaced by "Banks, except the Central Bank", in line with the SNA 2008.

Statistical Data Publications

9. What is, and what is the status of, development of SDMX basis codes for BPM6 basis data?

The Statistical Data and Metadata eXchange (SDMX) is an initiative to foster standards for the Exchange of statistical information. In mid-2011, the seven international organizations sponsoring the SDMX initiative released the SDMX Action Plan 2011 to 2015 (available on the SDMX website at <http://SDMX.org>). It indicates that contributing international organizations will release a draft SDMX encoding structure, known as a Data Structure Definition (DSD), for BP and other external sector statistics by the Q2 2012; this work has been completed. Further work is led by five SDMX sponsoring organizations which are completing the codification structure for the DSD.

Starting early-July 2012, the SDMX DSD for balance of payments has been made available for comments to member countries that participate in various external sector domain groups, such as the IMF Committee on Balance of Payments Statistics. It is expected that, shortly thereafter, the DSD will be made available on the SDMX website for economies to get familiar with the preferred reporting format for balance of payments and international investment position statistics. The SDMX website is also the best way to get access to freely available tools that facilitate the implementation of SDMX standards.