



Update on Revision of International Guidelines: International Transactions Accounts & International Investment Position

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Revision Activities

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- IMF's Balance of Payments Manual (*BPM5*) is the principal international standard for compiling statistics on international transactions and on international investment positions. Last major revision was in 1993.
 - This revision seeks consistency not only with the concurrent revision of the SNA, but also with the OECD's work on the Benchmark Definition of Direct Investment.



Revision Activities

- Under the general supervision of the IMF.
- Major groups:
 - IMF Balance of Payments Committee
 - OECD Workshop on International Investment Statistics
 - IMF/OECD Direct Investment Technical Expert Group
 - IMF Currency Union Technical Expert Group
 - IMF BOP Technical Expert Group
- Planned release of IMF Manual – 2008.
- Planned Coordinated Direct Investment Survey – 2009.
- More information:
www.imf.org/external/np/sta/bop/bopman5.htm
www.bea.gov/bea/about/advisory.htm



Valuing positions: Loans

- How should nonperforming loans be valued – at nominal (face) value or market value?
 - Nominal value – Data are easy to collect; promotes bilateral symmetry.
 - Market value – Consistent with valuation of most other assets and liabilities; better consistency with transactions data; more useful analytically. But hard to accurately measure.



Valuing positions: Loans

- What is the current status of discussion?
 - *BPM5* currently recommends:
 - Creditors value loans based on market value, using secondary market quotations if appropriate.
 - Debtors show the amounts of principal that they are contractually required to repay – the nominal value of loans.
 - Creates asymmetry in the accounts.
 - Resolution being embraced is to require that nominal values be reported by both creditors and debtors.
 - Since this would provide misleading information in some circumstances, supplementary information on market values would be required as memorandum items.



Valuing positions: Direct investment

- How should direct investment equity positions be measured – at book value or market value?
 - Book values promote bilateral symmetry; data are relatively easy to collect.
 - Market values are hard to accurately measure. BEA uses two different methods:
 - Current-cost measure which uses a perpetual inventory model to calculate the replacement cost of tangible assets.
 - Market-value measure which uses stock market prices to revalue owners' equity.



Valuing positions: Direct investment

- What is the current status of discussion?
 - Recognition that the current-cost measure depends critically on data that measure investments in plant and equipment, inventories, and land.
 - Most countries do not have the rich source data (balance sheet information from financial and operating surveys) that BEA has, especially for outward investment.



Valuing positions: Direct investment

- What is the current status of discussion? (con't)
 - Most discussion has focused on methods to value the owner's equity share of direct investment using indexes of stock market prices.
 - Three major difficulties:
 - Only a small share of all companies are actively traded on stock exchanges.
 - Listed companies are concentrated in only selected industries and are not representative of the industry composition of the unlisted companies.
 - Listed companies are mainly the very largest companies, whereas most unlisted companies are of medium or small size.



Residence

- What is the residency of individuals who work abroad for a year or more?
 - India software engineers who work in the United States under long-term visas. Is the U.S. purchasing services from India, or is this a domestic U.S. payment?
 - Recommendation:
 - Not likely to change from the present guideline.
 - If the intent at time of departure is to stay abroad more than one year (as evidenced perhaps by type of visa or length of contract), the worker is considered a resident of the host country.



Residence

- How should foreign students who reside in the U.S. for more than one year for study purposes be regarded? Are they a foreign or domestic resident? Is their tuition a U.S. export of education services, or a domestic transaction?
- Recommendation:
 - No change from present guideline; maintain current exception to the one year rule.
 - Most compilers are in favor of retaining this exception to the one-year rule. Although a program of study might last several years, factors that indicate a tie to the home country are spouse and children living abroad, payments sent to the home country, savings and investment accounts in the home country, visa status, and taxation.



Questions for the Advisory Committee

- What is your opinion regarding the proposed approach to valuing nonperforming loans in the international investment position (i.e., at nominal values, with supplementary information on market values)?
- What is your opinion about the desirability of using stock market indexes to revalue equity of unlisted companies?
- In regard to residence, what is your opinion about retaining the existing rules (i.e., generally following a one-year rule, but allowing an exception for students who reside outside of their home country for more than one year of study abroad)?