Chapter 2

New International Guidelines

2.1. National statistical organizations compiling economic accounts attempt to adhere closely to guidelines developed by the international statistical community to improve the accounts, promote consistency, and facilitate international comparability. BEA has a strong tradition of actively participating with other countries and international organizations in the development of new and updated guidelines for the preparation of economic accounts. Periodic updates to international statistical guidelines serve several purposes, including making countries' economic accounts more informative and relevant, improving the validity of cross-country comparisons, and promoting statistical integration efforts within countries by coordinating updates for related international, national, industry, and regional accounts.

2.2. In 2009, the International Monetary Fund (IMF) released the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6).* This update, the first since 1993, was coordinated with an update in 2008 of the *System of National Accounts (SNA 2008)* in order to maximize consistency between these two key sets of international guidelines for economic accounts. In addition, in 2008 the Organisation for Economic Co-operation and Development (OECD) updated its *Benchmark Definition of Foreign Direct Investment (BD4),* and in 2010 guidance was provided in manuals for statistics on merchandise trade and services trade. These manuals include *International Merchandise Trade Statistics: Concepts and Definitions 2010* and *Manual on Statistics of International Trade in Services 2010*.

2.3. The new international statistical guidelines were developed in response to important economic developments that arose after the last set of updates in 1993. Some of these developments include the increased globalization of economic activity, rising innovation and complexity in financial markets, and an increased emphasis on the balance sheet as a tool for understanding economic activity. Adopting new guidelines and other improvements that respond to new economic developments allows BEA's economic accounts to retain their relevance in an evolving global economy. While a wide variety of new recommendations were made in both *BPM6* and *BD4,* some of the recommendations were particularly noteworthy for their impact on the U.S. international economic accounts. These include the following:

- Trade in goods and services should be more strictly defined on a change-of-ownership basis to increase consistency with the treatment of the related financial flows and the treatment of domestic transactions and to more clearly identify global outsourcing of manufactured goods.

- Direct investment should be presented on an asset/liability (gross) basis, and the related income flows should be defined on a receipts/payments basis, instead of both being presented on a directional (net) basis. This change facilitates comparisons with related balance sheet and financial flow statistics.

- Financial intermediation services that are not explicitly charged—but are implicit in transactions and can be measured indirectly—should be recognized in order to account more completely for the different ways that financial services are priced and delivered.

- Research and development (R&D) results should be treated as produced assets and included in the current account with other produced assets rather than treated as nonproduced assets recorded in the capital account. This change better reflects the role of R&D results as assets that contribute to current production.

2.4. Changes to the international economic accounts that affect definitions, classifications, methodology, and presentation are typically made by BEA as part of annual revisions that BEA releases each June, primarily to allow the changes to be made for as many time periods as possible in order to ensure time series consistency. Because of the broad scope of the changes, BEA adopted a phased approach to implementing the new international guidelines that took into account the feasibility of implementation due to factors such as source data availability, resource requirements, and consistency with BEA's national, industry, and regional accounts. BEA considered not only the economic and statistical significance of changes but also factors such as information technology (IT) requirements, estimation needs, and implications for publication tables and data dissemination. The timetable also recognized the resources impact of other important BEA initiatives, such as a major long-term effort to significantly upgrade and improve BEA's IT systems.

2.5. In June 2014, BEA introduced restructured presentations of the international economic accounts. Revised statistics were presented as a consistent quarterly time series back to 1999 for most series. In general, before June 2014 BEA introduced changes that did not require changes to the presentation of the accounts. These earlier changes are described in appendix A.

2.6. In June 2014, BEA also introduced selected changes in treatment recommended by the international guidelines. These additional changes in definitions, classifications, and methodology were described in the March 2014 issue of the Survey of Current Business. Revised statistics were presented as a consistent quarterly time series back to 1960 for the highest levels of aggregation, back to 1999 for most current account detailed series, and back to 2003 for most other detailed series. While BEA attempted to implement each of the major *BPM6* recommendations, not all were feasible at this time. Major departures from *BPM6* are described in Part III and in appendix B.

Changes in presentation

2.7. One of BEA's principal objectives in adopting the new international guidelines was to bring its standard presentation into closer alignment with the presentation recommended by *BPM6.* BEA's previous presentation of the international economic accounts differed in several significant ways even from the prior IMF guidelines based on the fifth edition of the *Balance of Payments Manual (BPM5),* particularly for the financial account and the International Investment Position (IIP) Accounts. Adopting the *BPM6*-recommended presentation ensures that statistics from the U.S. international economic accounts are more clearly identified, better understood by customers, and easier to compare with similar statistics from other countries.

2.8. Several aspects of the restructured international economic accounts represent major changes from BEA's long-standing presentation. The major changes, which are briefly described below, include changes in sign convention and income presentation, the use of functional investment categories and sector detail, and the presentation of direct investment on an asset/liability basis.

2.9. ***Sign convention.*** The uniform use of negative signs for debit entries is eliminated. Previously, credits (exports, income receivable, transfers received, reductions in assets, and increases in liabilities) were presented as positive numbers, and debits (imports, income payable, transfers made, increases in assets, and reductions in liabilities) were presented as negative numbers. Although this convention facilitated some types of aggregation across accounts it has proven to be a source of confusion for a significant number of data users.

2.10. Under the new presentation, positive signs are used to show exports and imports, income receipts and payments, transfers made and received, and increases in assets and liabilities. Negative signs are used only to indicate negative investment income (losses) and decreases in assets or in liabilities (as occur, for example, if investments are sold off). Current-account and capital-account balances are calculated as the difference between the underlying gross flows (exports minus imports, for example). For the financial account, net lending/borrowing is calculated as the difference between the acquisition of assets and the incurrence of liabilities. These new conventions should not only make the International Transactions Accounts (ITAs) easier to understand and interpret, but should also simplify understanding their relationship to the corresponding changes in asset and liability positions in the IIP accounts.

2.11. ***Income presentation.*** The new tables adopt the nomenclature of primary income and secondary income introduced for the current account in *BPM6.* Primary income is income generated from current production and is equivalent to income receipts and income payments as shown in BEA's previous presentation. Secondary income is equivalent to current transfers and is presented on a gross basis—that is, secondary income receipts and secondary income payments are shown separately rather than combined and presented on a net basis.

2.12. ***Functional categories.*** The new presentation reflects significant changes to the presentation of the financial account and the IIP accounts. Financial account transactions and positions in the IIP accounts are classified according to five functional categories—direct investment, portfolio investment, other investment, reserve assets, and financial derivatives other than reserves—and then according to the type of instrument. Investment income in the current account is also classified by functional category.

2.13. ***Sector detail.*** The new presentation introduces additional detail on portfolio investment and, in the future, other investment by sector. *BPM6* defines four main sectors: central bank, deposit-taking corporations except the central bank, general government, and "other sectors," which includes the two subsectors "other financial corporations" and "nonfinancial corporations, households, and NPISHs" (nonprofit institutions serving households). BEA has eliminated the summary category "other sectors" and presents the two subsectors in its place.

2.14. Two basic changes to the names in the new presentation have been made. First, the term "corporations" is replaced with the term "institutions" to include enterprises such as partnerships that belong in this category but that are not organized as publicly held corporations. Second, because BEA has little source data on the transactions of households and NPISHs with foreign residents, BEA uses the label "nonfinancial institutions."

2.15. ***Asset/liability basis.*** Direct investment is presented on the asset/liability basis recommended by *BPM6,* to the extent that source data allow, in addition to the directional basis recommended by earlier guidelines. On the directional basis, direct investment statistics are organized according to whether the direct investment is outward (U.S. direct investment abroad) or inward (foreign direct investment in the United States). On the asset/liability basis, direct investment statistics are organized according to whether the investment relates to an asset or a liability. This treatment primarily affects the recording of intercompany debt between parents and affiliates. Under the asset/liability basis, U.S. parents' debt claims are no longer netted against their debt liabilities to their foreign affiliates, and U.S. affiliates' debt claims are no longer netted against their debt liabilities to their foreign parent groups.

2.16. Difficulties with full implementation of the asset/liability basis are related to the treatment in the new guidelines of reverse investment and fellow enterprises. Reverse investment represents direct investment by affiliates in their parents. Fellow enterprises are enterprises with no direct investment relationship with one another but that have a common direct investor. As a result of the data limitations described below, the asset/liability basis can only be approximated using the information that BEA collects.

2.17. BEA collects information on reverse intercompany debt investment, which allows this type of investment to be shown in the new presentation on a full asset/liability basis. Therefore, instead of netting U.S. parents' liabilities to their foreign affiliates against their claims on these affiliates, the former are recorded as liabilities and the latter as assets. Similarly, U.S. affiliates' claims on

their foreign parent groups are recorded as assets, and their liabilities to their foreign parent groups are recorded as liabilities. Corresponding adjustments are made to direct investment interest income in the current account.

2.18. BEA collected data on reverse equity investment by foreign affiliates in their U.S. parents on the 2009 benchmark survey of U.S. direct investment abroad and found the amounts to be negligible. BEA will continue to collect these data on benchmark surveys to assess their significance. BEA also collected information on U.S. affiliates' reverse equity investment in their foreign parents on the 2012 benchmark survey of foreign direct investment in the United States. These data are under review. Given the empirical results so far, BEA will not record reverse equity investment as called for in the new guidelines.

2.19. BEA's current data collection system for direct investment does not collect debt investment between fellow enterprises according to the definitions in *BPM6.* Fellow enterprises are enterprises with no direct investment relationship with one another but that have a common direct investor. First, BEA's data collection system covers only majority-owned fellow enterprises while the guidelines call for covering all fellow enterprises that meet the 10-percent ownership criterion. Second, the guidelines call for classifying transactions between fellow enterprises based on the location of the ultimate investor. However, transactions between fellow enterprises cannot be separately identified in the source data for U.S. direct investment abroad.