INTERNATIONAL MONETARY FUND

Statistics Department

Update of the *External Debt Guide* on Issues Emerging from *BPM6*[1]

April 2009

Abstract

The paper contains a brief description of the changes in methodology or recording in the new *Balance of Payments and International Investment Position Manual* (*BPM6*) and the appropriate corresponding change in the *External Debt Statistics: Guide for Compilers and Users* (the *External Debt Guide*). Work on an update (rather than a rewrite) of the *External Debt Guide* will be initiated in 2011, with the objective of having the next *External Debt Guide* ready by 2013, ten years after the current *External Debt Guide* was published. The paper is intended to provide clarification to external debt statistics compilers and users on the upcoming changes in the *External Debt Guide* resulting from the adoption of *BPM6*. Other than to give an example (paragraphs 92–93), the paper does not identify changes that may be made to the *External Debt Guide* that are unrelated to the adoption of *BPM6*. The paper has been endorsed by the Inter-Agency Task Force on Finance Statistics (TFFS)[2] during its March 2009 meeting in Basel.

[1] Prepared by Eduardo Valdivia-Velarde, IMF Statistics Department, Balance of Payments Division. The views expressed herein are those of the author and should not be attributed to the IMF, its Executive Board, or its management.

[2] The TFFS comprise the Bank for International Settlements (BIS), the Commonwealth Secretariat (ComSec), the European Central Bank (ECB), Statistical Office of the European Communities (Eurostat), the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), Paris Club Secretariat, United Nations Conference on Trade and Development (UNCTAD), and the World Bank. It is chaired by the Statistics Department of the IMF.

Contents **Page**

Appendices

ACRONYMS

2008 SNA	System of National Accounts, 2008
BPM5	*Balance of Payments Manual*, Fifth Edition (1993)
BPM6	*Balance of Payments and International Investment Position Manual*
DIE	Direct investment enterprises
External Debt Guide	*External Debt Statistics: Guide for Compilers and Users* (2003)
FISIM	Financial Intermediation Services Indirectly Measured
GDDS	General Data Dissemination System
IIP	International investment position
IMF	International Monetary Fund
JEDH	Joint External Debt Hub
NPISH	Nonprofit institutions serving households
Reserves template	Data Template on International Reserves and Foreign Currency Liquidity
STA	IMF Statistics Department
SDDS	Special Data Dissemination Standard
QEDS	Quarterly External Debt Statistics
SDRs	Special drawing rights
SPE	Special purpose enterprise
TFFS	Inter-Agency Task Force on Finance Statistics

Update of the *External Debt Guide* on Issues Emerging from *BPM6*

I. Introduction

1. The IMF Statistics Department (STA), in close consultation with compilers and data users worldwide, has finalized the preparation of the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*). The IMF Committee on Balance of Payment Statistics adopted *BPM6* at its annual meeting in November 2008. *BPM6* addresses important developments that have occurred in the international economy since *BPM5* was released in 1993. *BPM6* was prepared in parallel with the update of the *System of National Accounts*, and takes into account improved recording and methodological treatments contained in other manuals prepared by STA, including *External Debt Statistics: Guide for Compilers and Users* (2003)[1], *Monetary and Financial Statistics Manual* (2000), and *Government Finance Statistics Manual* (2001).[2] In turn, these manuals will be revised to reflect the revisions made in *BPM6* and 2008 *SNA*. *BPM6* was posted in December 2008 on the IMF external website at http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm. The hardcopy, including minor editorial changes, is expected to be published in 2009. Translation into several other languages will become available in 2009-2010.

2. The Fund, in consultation with the TFFS agencies, has prepared this paper to identify the main changes in *BPM6* affecting the *External Debt Guide*, for which advice to external debt compilers on the appropriate methodological and/or recording treatment would need to be provided in order to be consistent with *BPM6*. The TFFS agreed to publish the paper on the TFFS website[3]. The paper reflects comments/suggestions received within STA and from other TFFS agencies.

3. The 2003 *External Debt Guide* remains largely consistent with the new standards.[4] Only a limited number of changes in *BPM6* will require methodological changes in the *External Debt Guide*, while most changes in *BPM6* will imply either minor modifications in concepts/classification, and/or clarifications to the methodological treatment.

4. This paper identifies the main changes in *BPM6* that will affect the *External Debt Guide*, grouped under the following categories: (a) major methodological changes, (b) other methodological changes, (c) presentational issues, and (d) clarifications. In addition, the

[1] *External Debt Statistics: Guide for Compilers and Users* (*External Debt Guide*) is posted on the IMF website at http://www.imf.org/external/pubs/ft/eds/Eng/Guide/index.htm.

[2] The Handbook on Securities Statistics (BIS, ECB, and the IMF) may also provide further clarifications and methodological treatments. A draft of Part one of the Handout is posted on the external IMF website (http://www.imf.org/external/np/sta/wgsd/index.htm).

[3] TFFS website is available at www.tffs.org.

[4] *BPM6* has incorporated definitions and methodological treatments included in the *External Debt Guide*, including domestic vs. foreign currency (*BPM6*, 3.93-3.99), short positions (*BPM6*, paragraph 7.28), and currency unions (*BPM6*, paragraph 3.95), among others.

paper identifies changes that need to be made to the *External Debt Guide*, although not directly affecting the gross external debt position. For each relevant change, a short description of the corresponding *BPM6* recommendation and of the appropriate treatment/modification in the *External Debt Guide* is provided.

II. MAIN CHANGES AFFECTING THE GROSS EXTERNAL DEBT POSITION

A. Major Methodological Changes

1) Arrears—Shown in the original instrument

5. According to *BPM6*, when arrears occur, no transactions should be imputed and the arrears should continue to be shown in the same instrument until the liability is extinguished (*BPM6*, paragraph 3.56), rather than recording arrears as a repayment of the original liability and the creation of a new short-term debt liability (*BPM5*, paragraph 458). Arrears remain with the original instrument, unless the terms and conditions change when an instrument go into arrears. Arrears are defined as amounts that are both unpaid and past the due date for payment (*BPM6*, paragraph 5.99). Arrears may be recorded as a supplementary category in total and under the specific financial asset or liability class affected (*BPM6*, paragraph 5.101).

<u>Proposed actions</u>

6. The *External Debt Guide* would need to be amended reflecting that arrears are to be included under the specific financial liability class affected, rather than its present recommendation that arrears be separately identified under other debt liabilities—short-term (*External Debt Guide*, paragraphs 2.29-2.30). Appendix I of this paper presents the current and new treatments of arrears both in Table 4.1 (*Gross External Debt Position by Sector*) and Table 5.1 (*Gross External Debt Position: Public and Publicly-Guaranteed Debt and Nonguaranteed Private Sector Debt*).

7. When there is evidence of high or rapidly rising value of arrears, a memorandum table on arrears in line with *BPM6* (see Appendix II of this paper) might be included along with the presentation of the gross external debt position in Table 4.1 and/or Table 5.1. This memorandum table would be additional to the four memorandum tables set out in the *External Debt Guide* (paragraphs 4.5 and 4.7).[5] In addition, including a memorandum item on arrears to Table 4.1 and Table 5.1 may also be considered.

8. To reduce burden, the TFFS agreed to consider dropping the memorandum table on periodic interest costs that have accrued and are not yet payable (*External Debt Guide,* Chapter 4, Table 4.2).

[5] Currently, five SDDS subscribers are reporting arrears to the Quarterly External Debt Statistics Database (SDDS/QEDS, Table 1.4), which is available at www.worldbank.org/qeds.

2) Processing of goods—Change of ownership no longer imputed

9. In *BPM6*, manufacturing services on physical inputs owned by others—known as goods for processing—covers processing, assembly, labeling, packing, etc., undertaken by enterprises that do not own the goods concerned but are paid a fee by the owner. In these cases, the ownership of the goods does not change, so no general merchandise transaction is recorded between the processor and the owner (*BPM6*, paragraph 10.62). Therefore, the imputed entries in the financial account previously recommended (*BPM5*, paragraphs 198-199) are eliminated because there is no longer an imputation of a change of ownership of the goods.

10. Proposed action: The *External Debt Guide* would need to be amended reflecting that external debt liabilities recorded under trade credit and advances are no longer required for goods for processing. Previously, there was an imputation of change in ownership of the goods (*External Debt Guide*, Appendix I, Part 2, *Processing of goods*).

3) Merchanting of goods—Included under goods

11. Merchanting is defined as the purchase of goods by a resident of the compiling economy from a nonresident combined with the subsequent resale of the goods to another nonresident without the goods being present in the compiling economy (*BPM6*, paragraph 10.41). Merchanting of goods is shown separately in the international accounts of the economy of the merchant because they are of interest in their own right and they are not covered by the customs system of that economy.

12. For goods under merchanting, the acquisition of goods and the sales of goods are recorded at the time the change in economic ownership of goods occur (*BPM6*, paragraph 3.46). The difference between sales over purchases of goods for merchanting is shown as the item "net exports of goods under merchanting". This item includes merchants' margins, holding gains and losses, and changes in inventories of goods under merchanting (*BPM6*, paragraph 10.44). Previously, the difference between the value of merchanting of goods when acquired and the value when sold was recorded as the value of merchanting services (*BPM5*, paragraph 262).

13. Proposed action: The *External Debt Guide* would need to address the treatment of merchanting of goods, because external debt liabilities may arise from the external financing of goods under merchanting. A reference to merchanting of goods should be made in the *External Debt Guide*, Appendix I, Part 2, *Merchanting of goods*.

4) Reserve-related liabilities

14. The term "reserve-related liabilities" is introduced in *BPM6*. Reserve-related liabilities are defined as foreign-currency liabilities of the monetary authorities that can be considered as direct claims by nonresidents on the reserve assets of an economy (*BPM6*, paragraphs 6.115). Although not identified as such in the standard components of the balance of payments and IIP (they are included mainly under portfolio and other investment), reserve-related liabilities are important to monitor. Reserve-related liabilities are shown as a

memorandum item to the IIP on a short-term remaining maturity basis (*BPM6*, paragraph 7.71 and Appendix 9 Table V).

Proposed actions

15. The *External Debt Guide* should make a reference to reserve-related liabilities in paragraph 3.38 and should include the definition of reserve-related liabilities in Appendix III, *Reserve-related liabilities*.

16. The reserve-related liabilities to nonresidents on a short term remaining maturity basis could be included as a memorandum item in the *External Debt Guide'*s Table 7.2 (*Short-term external debt position at remaining maturity—by sector*).

5) SDR allocation—A new debt liability

17. In *BPM6*, SDR holdings by IMF members are recorded as an asset, while the allocation of SDRs is recorded as the incurrence of a debt liability of the member receiving them (as there is a requirement to repay the allocation in certain circumstances and also interest accrues). SDR allocations are recorded under other investment as a separate item (*BPM6*, paragraphs 5.35, 6.61, and 7.70). In *BPM5*, SDR holdings did not have any corresponding liability (*BPM5*, paragraph 440).

18. The value of the SDR allocation is included in reserve-related liabilities (*BPM6*, paragraph 6.116). See item 4 above on reserve-related liabilities.

Proposed actions

19. The *External Debt Guide* would need to include the SDR allocation as a new debt instrument (*External Debt Guide*, paragraphs 2.11, 3.35, 7.47, Appendix I, Part I, and Appendix IV, paragraph 20).

20. It is recommended that the SDR allocation be attributed to the central bank—other debt liabilities (long-term) unless detailed information is available to identify whether it is included as a liability in the balance sheet of the general government. Appendix I of this paper includes proposed presentations of the gross external debt position by sector (Table 4.1) and by public and publicly-guaranteed debt and nonguaranteed private sector debt (Table 5.1), which include the SDR allocation as a long-term other debt liability.

6) Insurance, pension, and standardized guarantee schemes

21. In *BPM6*, "insurance, pension, and standardized guarantee schemes" has been identified as a new debt instrument category under other investment (*BPM6*, paragraphs 5.62 and 6.61). These reserves, entitlements, and provisions represent liabilities of the insurer, pension fund, or issuer of standardized guarantees, and a corresponding financial asset of the policyholders or beneficiaries (*BPM6*, paragraphs 5.63-5.68).

22. This new instrument can potentially be classified by maturity; however, if data are not available, a convention that it has a long-term maturity can be adopted (*BPM6*, paragraph

5.103). Probably this new instrument category would largely be related to positions between residents (except for reinsurance), and, hence, may not be material for external debt purposes.

Proposed actions

23. The *External Debt Guide* would need to include this new debt instrument category in other assets/other liabilities (*External Debt Guide*, paragraph 3.35 and others). In the *External Debt Guide*, other assets/other liabilities covers items other than trade credits, loans, and currency and deposits, and includes, interalia, liabilities of pension funds and life insurance corporations to their nonresident policyholders and claims on nonlife insurance companies.

24. It is recommended that this new debt instrument category be included under other debt liabilities—long-term (unless detailed information is available to make the short-term/long-term attribution) rather than separately identified. Appendix I of this paper includes proposed presentations of the gross external debt position by sector (Table 4.1) and by public and publicly-guaranteed debt and nonguaranteed private sector debt (Table 5.1).

7) Coverage of debt between affiliated financial intermediaries

25. According to *BPM6*, debt between affiliated financial intermediaries (except insurance corporations and pension funds) is not classified as direct investment because it is not considered to be so strongly connected to the direct investment relationship (*BPM6*, paragraph 6.28). According to *BPM5*, only nonpermanent debt between selected affiliated financial intermediaries (and financial auxiliaries) was excluded from direct investment (*BPM5*, paragraph 372).

26. Proposed action: The *External Debt Guide* would need to be amended reflecting that permanent debt between affiliated financial intermediaries (except insurance corporations and pension funds) is no longer included in the debt position recorded under direct investment, but should be recorded as part of portfolio investment or other investment, as relevant. The usual direct investment definitions apply to the debt recording of captive financial institutions and money lenders, insurance corporations, pension funds, and financial auxiliaries (*External Debt Guide*, paragraph 3.18).

B. Other Methodological Changes

1) Borrowing for fiscal purposes—Special rules are introduced

27. In *BPM6*, special rules are introduced for avoiding a misleading picture of government expenditures/external debt when a special purpose entity (SPE) or other entity owned or controlled by the general government is resident in another territory and borrows for fiscal purposes. Fiscal purposes can be distinguished because, unlike commercial purposes, they are always oriented to serving the objectives for the government's home territory. For example, a government may use a SPE or other entity to issue securities to fund its expenditures (*BPM6*, paragraph 8.24).

28. At the time of borrowing by the SPE, a government's external debt liability to the SPE is imputed equal to the amount of the SPE borrowing, with the contra-entry of the government's equity in the SPE. The government's equity (government asset) is reduced if the funds are passed to the government or they are passed to a third party. These entries are made symmetrically for both the government and the borrowing entity. The imputations do not affect the transactions or positions between the borrowing entity and its creditors, which are recorded as they occur with no imputations (*BPM6*, paragraph 8.25).

29. Proposed action: The *External Debt Guide* would need to address the treatment of borrowing for fiscal purposes reflecting that at the time of borrowing by the SPE, a government's external debt liability to the SPE is imputed, which is only extinguished when the SPE repays its debt. A reference to borrowing for fiscal purposes should be made in the *External Debt Guide*, Appendix I, Part 2, *Borrowing for fiscal purposes*.

2) Financial intermediaries—Change in the definition

30. In *BPM6*, a specific definition of financial intermediaries is provided. Financial intermediaries are defined as institutional units that collect funds from depositors or lenders and transform or repackage them (with respect to maturity, scale, risk, etc.) in ways that suit the requirements of borrowers. Financial intermediaries consist of deposit-taking corporations, other financial intermediaries, insurance corporations, and pension funds. Excluded are financial auxiliaries (i.e., enterprises that do not take ownership of the financial assets and liabilities they handle) and captive financial institutions and money lenders (*BPM6*, paragraph 4.64).

31. Proposed action: The *External Debt Guide* would need to include the definition of financial intermediaries (*External Debt Guide*, perhaps around paragraph 3.9).

3) Debt securities—Small change in classification

32. In *BPM6*, the detailed classification of financial assets/liabilities is harmonized with the 2008 *SNA*. Consequently, debt securities are classified as short-term and long-term (*BPM6*, paragraphs 5.44 and 5.103) rather than money market instruments and bonds and notes, respectively (*BPM5*, paragraph 389-391).

33. Proposed action: The *External Debt Guide* would need to include the new classification of debt instruments (*External Debt Guide*, paragraphs 3.19-3.22). Appendix I of this paper includes proposed presentations of the gross external debt position by sector (Table 4.1) and by public and publicly-guaranteed debt and nonguaranteed private sector debt (Table 5.1).

4) Deposits jointly held by residents and nonresidents

34. Some financial instruments have owners who are residents of different economies. *BPM6* suggests the adoption of a convention to treat the deposits of emigrant workers in their home economies—that are freely usable by family members in the home economies—as either being held by residents of the home economy or as being held by residents of the host

economy. Compilers may adopt another treatment if better information is available (*BPM6*, paragraph 4.145).

35. Proposed action: A reference to the treatment of deposits jointly held by residents and nonresidents should be made in the *External Debt Guide*, Appendix I, Part 2, *Deposits jointly held by residents and nonresidents*.

5) Progressive payments on capital goods

36. The production of high-value capital goods such as ships, heavy machinery, and other structures may take several months or years to complete. In *BPM6*, when a contract of sale is agreed in advance for the construction of such products, a progressive change of ownership occurs for the work-in-progress. When the contract calls for stage payments (progress payments), the transaction values may often be approximated by the value of the stage payments made each period, although a difference in timing between the change of ownership and progress payment may give rise to trade credit and advances (*BPM6*, paragraphs 3.44, 5.71, 10.28, and 10.107). The *External Debt Guide* rather assumes that the change of ownership occurs at completion; therefore, the part-payments should be recorded as trade credit debt of the exporter, which would be extinguished when the purchaser takes delivery of the good (*External Debt Guide*, Appendix I, part 2, *part-payments for capital goods*).

Proposed action: The *External Debt Guide* would need to be amended reflecting that progressive payments are no longer to be recorded as trade credit debt of the exporter, unless there is a difference in timing between the change of ownership and progress payments. (*External Debt Guide*, Appendix I, part 2, *part-payments for capital goods*).

C. Presentational Issues

1) Focus on central bank rather than monetary authorities

37. In line with the sector classification presented in the *2008 SNA*, the monetary authorities sector is replaced by the (more narrowly defined) central bank sector (*BPM6*, Table 4.2, Classification of institutional sectors, and Appendix 9, Standard components). The central bank sector includes: (a) central banks, (b) currency boards or independent currency authorities that issue national currency that is fully backed by foreign exchange reserves, and (c) government-affiliated agencies that are separate institutional units and primarily perform central bank activities. If an institutional unit is mainly engaged in central banking activities, the entire unit is classified in the central bank sector (*BPM6*, paragraph 4.68).The monetary authorities sector remains a functional concept that is essential for defining reserve assets.

38. Monetary authorities encompass the central bank and certain operations usually attributed to the central bank but sometimes carried out by other government institutions or commercial banks. Such operations include the issuance of currency; maintenance and management of reserve assets, including those resulting from transactions with the IMF; and the operation of exchange stabilization funds. In economies where some central banking functions are performed wholly or partially outside the central bank, consideration should be

given to compiling supplementary data for the monetary authorities sector (*BPM6*, paragraph 4.70).

<u>Proposed actions</u>

39. The *External Debt Guide* would need to be consistent with the institutional sectors classification included in *BPM6* (*External Debt Guide*, paragraphs 3.4-3.12). Appendix I of this paper (Table 4.1) presents the current and proposed classification of the gross external debt position by institutional sector, including the replacement of the monetary authorities sector by the central bank sector. Most presentation tables included in the *External Debt Guide* would need to be amended accordingly.

40. A memorandum item—identifying the external debt liabilities of the monetary authorities—should be included in Table 4.1, if applicable. This memorandum item would be additional to the memorandum tables set out in the *External Debt Guide* (paragraph 4.7). The memorandum item might separately identify (i) short-term reserve-related liabilities and (ii) other debt liabilities of the monetary authorities with nonresidents.

2) Banks—Renamed as other deposit-taking corporations

41. "Banks" are renamed "other deposit-taking corporations", but the substance of this institutional sector remains unaffected (*BPM6*, paragraphs 4.714.72).

42. <u>Proposed action</u>: The *External Debt Guide* would need to replace the term "banks" by "other deposit-taking corporations". Appendix I of this paper (Table 4.1) presents the gross external debt position by institutional sector, including the current and new term. Most presentation tables included in the *External Debt Guide* also would need to be amended accordingly.

3) Other sectors—Two rather than three subsectors

43. The other sectors category includes both financial and nonfinancial sectors. In *BPM6*, the other financial corporations subsector is a standard component to be identified separately (*BPM6*, paragraph 4.59). Therefore, other sectors are further broken down into (i) other financial corporations, and (ii) nonfinancial corporations (except intercompany lending), households, and nonprofit institutions serving households-NPISHs (*BPM6*, Appendix 9, Standard components). In contrast, in the *External Debt Guide*, other sectors are broken down into (i) nonbank financial corporations, (ii) nonfinancial corporation, and (iii) households and NPISHs.

44. <u>Proposed action</u>: Other sectors should be disaggregated into two rather than three subsectors for presentation of the gross external debt position (*External Debt Guide*,

paragraph 4.3).[6] Appendix I of this paper (Table 4.1) presents the gross external debt position by institutional sector, including the current and proposed breakdown for "other sectors". Several other presentation tables included in the *External Debt Guide* would need to be adjusted accordingly.

4) Currency and deposits—Short-term/long-term attribution

45. Currency consists of notes and coins that are of fixed nominal values and are issued or authorized by central banks or governments (*BPM6*, paragraph 5.36). Deposits include all claims that are (1) on the central bank, other deposit-taking corporations, and, in some cases, other institutional units; and (2) represented by evidence of deposit (*BPM6*, paragraph 5.39). In *BPM6*, currency and deposits are recognized to be either a short-term or a long-term asset/liability (*BPM6*, paragraph 103 and Appendix 9, Standard components, IIP). In *BPM5*, currency and deposits did not have a short-term/long-term attribution.

46. Currency and deposits have been also included for nonfinancial sectors, such as the general government, and nonfinancial corporations, households, and NPISHs (*BPM6*, Appendix 9, Standard components, IIP statement).

Proposed actions

47. Although the *External Debt Guide* recognizes the short-term/long-term attribution of currency and deposits, some references to the IIP statement would need to be amended reflecting that *BPM6* provides now the short-term/long-term attribution (*External Debt Guide*, paragraph 3.34, footnote 6, and several tables).

48. A proposed classification of the gross external debt position that includes the extension of currency and deposits to nonfinancial sectors is presented in Appendix I of this paper (Table 4.1). Most presentation tables included in the *External Debt Guide* would also need to be amended accordingly.

5) Trade credit and advances—New title of the term

49. "Trade credit and advances" replaces the term "trade credits". Trade credit and advances—defined similarly to trade credits in the *External Debt Guide* (but see item 12 above, progressive payments on capital goods)–comprises (1) credit extended directly by the suppliers of goods and services to their customers and (2) advances for work that is in progress (or yet to be undertaken) and prepayment by customers for goods and services not yet provided (*BPM6*, paragraph 5.70).

---

[6] Currently, 20 SDDS subscribers are reporting the other sectors' breakdown to the Quarterly External Debt Statistics Database (SDDS/QEDS, Table 1.2), which is available at www.worldbank.org/qeds.

50. Trade credits and advances have been also included for financial institutions, such as the central bank, other deposit-taking corporations, and nonbank financial corporations (*BPM6*, Appendix 9, Standard components, IIP statement).

Proposed actions

51. The *External Debt Guide* would need to rename the term trade credits (*External Debt Guide*, paragraph 3.27 and others).

52. A proposed classification of the gross external debt position that includes the extension of trade credit and advances to financial institutions is presented in Appendix I of this paper (Table 4.1). Most presentation tables included in the *External Debt Guide* would also need to be amended accordingly.

6) Interbank positions

53. Interbank positions—asset and liability positions that banks have with other banks—can be shown as a separate component of deposits. As a convention, to assure symmetry, all interbank positions (other than securities and accounts receivable/payable) are classified under deposits (*BPM6*, paragraph 5.42).

54. Proposed action: The *External Debt Guide* would need to make a reference to the treatment of interbank positions in the *External Debt Guide*, Appendix III, *Interbank deposits*.

7) Direct investment—Investment between fellow enterprises

55. In *BPM6*, direct investment is classified according to the relationship between the investor and the entity receiving the investment, namely: (i) investment by a direct investor in its direct investment enterprise, whether in an immediate relationship or not; (ii) reverse investment by a direct investment enterprise in its own immediate or indirect direct investor; and (iii) investment between resident and nonresident fellow enterprises (*BPM6*, paragraph 6.37). The category of direct investment between fellow enterprises is introduced in *BPM6*.

56. Proposed action: The *External Debt Guide* would need to be amended to explicitly include the investment between resident and nonresident fellow enterprises (*External Debt Guide*, paragraphs 3.14, 4.3, Tables 3.1, 4.1-4.2, 5.1-5.2, and most tables in Chapter 7). Appendix I of this paper presents Table 4.1 (*Gross External Debt Position by Sector*) and Table 5.1 (*Gross External Debt Position: Public and Publicly-Guaranteed Debt and Nonguaranteed Private Sector Debt*), including the current and new classification of direct investment-intercompany lending.

D. Clarifications

1) Multiterritory enterprises—Possible treatments are stated

57. The term multiterritory enterprises is introduced in *BPM6*. A multiterritory enterprise has substantial activity in more than one economy and it run as an indivisible operation with

no separate accounts or decisions, so that no separate branches can be identified. Such enterprises may have operations including shipping lines, airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels, and undersea cables (*BPM6*, paragraph 4.41).

58. For multiterritory enterprises, it is necessary to prorate the total operations of the enterprise into the individual economies. The factor used for prorating should be based on available information that reflects the contributions to actual operations; including equity shares, equal splits, or splits based on operational factors such as tonnage or wages (*BPM6*, paragraph 4.43). This treatment is an extension to multiterritory enterprises of the treatment granted in *BPM5* to enterprises operating mobile equipment (*BPM5*, paragraph 82). Compilers in each of the territories involved are encouraged to cooperate in order to develop consistent data, avoid gaps, and minimize respondent and compilation burden, as well as assist counterparties to report bilateral data on a consistent basis (*BPM6*, paragraph 4.44).

59. Proposed action: The *External Debt Guide* should include the treatment of multiterritory enterprises identifying the implications of prorating the enterprise's gross external debt outstanding into the individual economies in which the enterprise operates. The factor used for prorating should be based on available information that reflects the contributions to actual operations; including equity shares, equal splits, or splits based on operational factors such as tonnage or wages. A reference to multiterritory enterprises should be made in the *External Debt Guide*, paragraph 2.18, and in Appendix I, Part 2, *Multiterritory enterprises*.

2) Currency of denomination—New term

60. The currency of denomination is determined by the currency in which the value of flows and positions is fixed as specified in the contract between the parties (*BPM6*, paragraph 3.98).

61. The *External Debt Guide* does not include the term currency of denomination. Nevertheless, it refers to the terms currency of reporting and currency of transaction (*External Debt Guide*, Appendix III).

62. Proposed action: The *External Debt Guide* would need to introduce and clarify the term currency of denomination in Appendix III, *Currency of denomination*.

3) Unallocated gold accounts

63. In *BPM6*, gold accounts, allocated and unallocated, are introduced in the definition of monetary gold. Unallocated gold accounts represent a claim against the account operator to deliver gold. Unallocated gold accounts liabilities are classified as deposits (*BPM6*, paragraph 5.77).

64. Proposed action: The *External Debt Guide* would need to further clarify the classification of unallocated gold accounts (*External Debt Guide*, paragraph 3.34).

4) Overnight deposits

65. Overnight deposits (or sweep accounts) involve funds that are moved back and forth overnight. In some cases, these overnight accounts are held in another economy. Positions should be measured after the funds are moved from the first to the second economy at the end of the day and not after they are returned to the first economy (*BPM6*, paragraph 7.62).

66. Proposed action: The *External Debt Guide* would need to clarify the treatment of overnight deposits by including a reference in the *External Debt Guide*, Appendix I, Part 2, *Overnight deposits*.

5) Margin payments

67. Margins are payments of cash or deposits of collateral that cover actual or potential obligations. Repayable margin consists of cash or other collateral deposited to protect a counterparty against default risk. Ownership of the margin remains with the unit that deposited the collateral. Repayable margin payments in cash are classified as deposits (if debtor's liabilities are included in broad money) or in other accounts receivable/payable. When a repayable margin payment is made in a noncash asset, no transaction is recorded because no change in economic ownership has occurred (*BPM6*, paragraph 5.94).

68. Proposed action: The *External Debt Guide* would need to include a reference clarifying that repayable margin payments in cash should be classified as deposits (where these are liabilities of deposit-taking corporations) or in other accounts payable (*External Debt Guide*, Appendix II, paragraph 10).

6) Debt defeasance

69. Debt defeasance occurs when a debtor (whose debts are in the form generally of debt securities and loans) pairs and removes from its balance sheet certain liabilities and assets of equal value (*BPM6*, paragraph 8.30). Defeasance may be carried out (a) by placing the paired assets and liabilities in a trust account within the institutional unit concerned or (b) by transferring them to another institutional unit. In the second case, debt defeasance leads to a change in the outstanding debt of the original debtor.

70. Proposed action: The *External Debt Guide* would need to clarify that when defeasance is carried out by transferring the paired assets and liabilities to another unit, it affects the outstanding debt of the original debtor (*External Debt Guide*, Appendix I, Part 2, *Defeasement*).

7) Fees on security lending and gold loans

71. Securities (equity or debt) and monetary gold are financial instruments, and thus, the fees for securities lending without cash collateral and gold loans are payments for putting a financial instrument at the disposal of another institutional unit. Accordingly, fees on securities lending and gold loans accrued to the security/gold owner are treated as interest (*BPM6*, paragraph 11.68). The ability of the "borrower" to on-sell the securities (or gold)

reflects that legal ownership is transferred to the borrower, while the economic risks and benefits of ownership remain with the lender (original owner). In return, the "lender" receives a fee from the "borrower" for the use of the security (*BPM6*, paragraph 11.67). However, fees on securities lending and gold loans, treated as interest by convention, are included under other accounts receivable/payable, rather than with the instrument to which they relate (*BPM6*, paragraph 5.73).

72. Proposed action: The *External Debt Guide* would need to clarify the treatment of fees on securities lending and gold loans as interest by including a reference in the *External Debt Guide*, Appendix, I, Part 2, *Fees on securities lending and gold loans*.

8) Gold swaps

73. A gold swap involves an exchange of gold for deposits with an agreement that the transaction be reversed at an agreed date at an agreed gold price. The gold taker (cash provider) will not usually record the gold in its balance sheet while the gold provider (cash taker) will not usually remove the gold from its balance sheet. Gold swaps are similar to security repurchase agreement, except that the collateral is gold. Therefore, they should be recorded as a collateralized loan or deposit (*BPM6*, paragraph 5.55).

74. Proposed action: The *External Debt Guide* would need to clarify that the gold swaps can be classified as a loan or a deposit (*External Debt Guide*, paragraph 3.31, and Appendix I, Part 1, *Gold swap*).

III. OTHER CHANGES AFFECTING THE *EXTERNAL DEBT GUIDE*

1) Recording of dividends—New treatment

75. According to *BPM6*, dividends are recorded at the time when the shares go ex dividend (*BPM6*, paragraphs 3.48 and 11.31), rather than when the dividends are declared payable as in *BPM5 (paragraph 121)* and the *External Debt Guide*. The ex-dividend date is the date the dividends are excluded from the market price of shares (*BPM6*, paragraph 3.48).

76. Proposed action: The *External Debt Guide* would need to be amended reflecting the creation of a debt liability from the ex-dividend date rather than from the date dividends are declared payable. (*External Debt Guide*, paragraphs 2.24, 2.36, 3.35, and 16.10).

2) Introduction of FISIM

77. In line with 2008 *SNA*, the concept of financial intermediation service charges indirectly measured (FISIM) is introduced in *BPM6*. Actual interest can be seen as including both an income element and a charge for a service. FISIM is the financial service compensated for by the margin between interest rate payable and the reference rate on loans and deposits involving financial corporations, even when lending their own funds. Therefore, actual interest payable by borrowers is partitioned between a pure interest charge at the reference rate and the implicit service charge made by financial intermediaries. By

convention, FISIM applies only to loans and deposits provided by, or deposited with, financial corporations (*BPM6*, paragraphs 10.126-10.132).

78. *BPM6* recommends that accrued interest not yet paid should be included in the outstanding amount of the financial asset or liability, rather than being classified separately (such as in other accounts receivable/payable). Accrued interest not yet paid also includes FISIM accrued and not yet paid. (*BPM6*, paragraph 7.40).

79. Proposed action: No references to FISIM are made in the *External Debt Guide*. The *External Debt Guide* would need to clarify that FISIM does not affect the gross external debt position by including a reference in the *External Debt Guide*, Appendix, I, Part 2, *FISIM*.

3) Debt assumption as a form of debt reorganization

80. According to *BPM6*, the four main types of debt reorganization are: (a) debt forgiveness, (b) debt rescheduling or refinancing, (c) debt conversion and debt prepayment, and (d) debt assumption and debt payments on behalf of others (*BPM6*, paragraphs 8.42-8.45, and Appendix 2, paragraph A2.5).

81. Proposed action: The *External Debt Guide* should explicitly include debt assumption as one of the types of debt reorganizations (*External Debt Guide*, paragraphs 8.3 and 8.7)

4) Loans with concessional interest rates

82. In *BPM6*, loans with concessional interest rates could be seen as providing a current transfer equal to the difference between the actual interest rate and the market equivalent interest rate. If such transfer were recognized, it would be recorded as current international cooperation and the interest recorded would be adjusted by the same amount. However, the means of incorporating the impact within the 2008 *SNA* and the international accounts have not been fully explored, although various alternatives have been advanced. Accordingly, until the appropriate treatment of concessional debt is agreed, information on concessional debt could be provided through supplementary information. The supplementary information should show the benefits arising from concessional debt as one-off transfers at the point of loan origination equal to the difference between the nominal value of the debt and its present value using a relevant market discount rate (*BPM6*, paragraph 12.44, and Appendix 2, *Debt Reorganization and Related Transactions, A2.67-A2.69*).

83. Proposed action: The *External Debt Guide* should include the treatment of concessional debt in the *External Debt Guide* (perhaps in Chapter 8).

5) Value of impaired loan assets

84. In *BPM6*, memorandum and supplementary items for the effect of impaired loan assets are introduced, showing fair values of loans, the values of nonperforming loans, and loan loss provisions. While nominal value is the primary valuation method for loans and other nonnegotiable assets, it is recognized that this valuation provides an incomplete view of the financial position of the creditor, particularly when instruments are impaired.

Consequently, additional items are included for these instruments to give additional information (*BPM6*, paragraphs 7.45-7.54).

85. Proposed action: The definitions of fair value, nonperforming loans, and loan loss provisions for impaired loan assets should be included in the *External Debt Guide*, Appendix III.

6) Ownership of land—Extension of treatment

86. In *BPM6*, when land located in a territory is owned by a nonresident, a notional resident unit is identified for statistical purposes as being the owner of the land. A notional unit is also identified for a lease of land and/or buildings by a nonresident for long periods. The notional resident unit is also treated as the owner of any buildings, structures, and other improvements on that land that belong to the same nonresident owner. The nonresident is treated as owning the notional resident unit, rather than owning the land or structures directly (*BPM6*, paragraph 4.34).[7] In *BPM6*, a notional resident unit may also be identified for ownership of other natural resources (subsoil assets, noncultivated biological resources, and water) and long-term rights to use these assets through a lease or other permits (*BPM6*, paragraph 4.35).

87. Proposed action: The *External Debt Guide* would need to be amended extending the treatment of notional units for land to the ownership of other natural resources and to the lease of land and/or buildings by a nonresident for long periods; i.e., the financial claim of the nonresident on the notional resident unit is treated as a direct investment—equity (*External Debt Guide*, Appendix I, Part 1, *Land ownership*). Given the extension, this entry could be moved to Appendix I, Part 2.

7) Other equity not included in direct investment

88. Other equity is equity that is not in the form of securities (*BPM6*, paragraph 5.26). It can include equity in notional units for ownership of real estate and other natural resources, and equity in some international organizations. Other equity not included in direct investment or in reserves is included in “other investment” (*BPM6*, paragraph 6.62).

89. According to the *External Debt Guide*, “other investment” covers “all financial instruments other than those classified as direct investment, portfolio investment, financial derivatives. or reserve assets”. When owed to nonresidents, all components of “other investment” are included in the gross external debt position (*External Debt Guide*, paragraph 3.26).

90. Proposed action: The *External Debt Guide* would need to clarify that equity included under other investment in the IIP should not be included in the gross external debt position. The treatment of other equity could be further specified in the *External Debt Guide*

[7] Nevertheless, international transactions in land arise when there are acquisitions and disposals of land for enclaves of international organizations and foreign governments (*BPM6*, paragraph 13.10).

(paragraphs 3.26, 3.35 and Tables 3.4, 4.1, 5.1-5.2, and most tables in Chapter 7 in which it is stated that other debt liabilities are the same as other liabilities in the IIP).

8) Branches—Requirements for recognizing a branch

91. The definition of branches (as separate institutional units) requires indications of substantial operations over a significant period that can be identified separately from the rest of the entity. Most importantly, either a complete set of accounts, including a balance sheet, exists or it is possible and meaningful to compile a complete set of accounts if they were to be required (*BPM6*, paragraph 4.26-4.27).

Proposed action: The *External Debt Guide* would need to amend the requirements for recognizing a branch (*External Debt Guide*, paragraph 2.16).

9) Changes in the *External Debt Guide* unrelated to the adoption of *BPM6*

92. As noted in the Abstract, this document does not identify changes in the *External Debt Guide* that are unrelated to the adoption of *BPM6*. An example of an important potential change being considered that does not result from the adoption of *BPM6* is the reporting of data in standard tables. The current *External Debt Guide* recommends that "debt instruments traded (or tradable) in organized and other financial markets be valued at both nominal and market value" (paragraph 2.42), and this advice is unchanged with the adoption of *BPM6*. Unfortunately, partly because the *External Debt Guide* does not fully articulate the valuation basis that is to be used in most of the standard tables, many economies disseminate traded debt instruments data only on a single valuation basis (either nominal or market value basis). As a consequence, inconsistencies arise in macroeconomic analysis and cross-country data comparisons on external debt.

93. Proposed action: The *External Debt Guide* would need to clarify how data on appropriate types of debt instruments are to be reported on both a nominal and a market value basis, by revising/augmenting the standard tables contained in the *External Debt Guide*

Appendix I.

Table 4.1 Gross External Debt Position: By Sector	
External Debt Guide, 2003	***External Debt Guide, BPM6***
General Government	**General Government**
Short-term	**Short-term**
Money market instruments[1]	Debt securities[1]
Loans	Loans
Trade credits[2]	Currency and deposits[5 6]
Other debt liabilities[3]	Trade credit and advances[2]
Arrears	Other debt liabilities[3 7]
Other	**Long-term**
Long-term	Debt securities[1]
Bonds and notes[1]	Loans
Loans	Currency and deposits[5 6]
Trade credits[2]	Trade credit and advances[2]
Other debt liabilities	Other debt liabilities[7]
Monetary Authorities[4]	**Central Bank**[4]
Short-term	**Short-term**
Money market instruments[1]	Debt securities[1]
Loans	Loans
Currency and deposits	Currency and deposits[6]
Other debt liabilities[3]	Trade credit and advances[2]
Arrears	Other debt liabilities[3 7]
Other	**Long-term**
Long-term	Debt securities[1]
Bonds and notes[1]	Loans
Loans	Currency and deposits[6]
Currency and deposits	Trade credit and advances[2 8]
Other debt liabilities	Other debt liabilities[7 9]

[1] Debt securities are disaggregated between short-term and long-term rather than between money market instruments and bonds and notes (*BPM6*, paragraphs 5.44 and 5.103).

[2] "Trade credits" are now renamed "trade credit and advances" (*BPM6*, paragraph 5.70).

[3] Arrears are not longer included in other debt liabilities (short-term) but recorded under the original instrument (*BPM6*, paragraph 3.56).

[4] The monetary authorities sector is replaced by the central bank sector (*BPM6*, Table 4.2, Classification of institutional sectors). In economies where some central banking functions are performed wholly/partially outside the central bank, consideration should be given to compiling supplementary data for the monetary authorities sector (*BPM6*, paragraph 4.70).

[5] In addition to deposit-taking corporations, currency and deposits are now also included for general government, nonfinancial corporations, households, and NPIHS (*BPM6*, Appendix 9, Standard components).

[6] Currency and deposits are disaggregated in short term and long term (*BPM6*, paragraph 103).

[7] Other debt liabilities include from the IIP statement (*BPM6*, Appendix 9): other accounts payable; SDR allocation (long term); and insurance, pension, and standardized guarantee schemes (long-term), unless detailed information is available to make the short-term/long-term attribution (*BPM6*, paragraph 5.103).

[8] Trade credit and advances are included central bank, other deposit corporations, and nonbank financial corporations, (*BPM6*, Appendix 9, Standard components).

[9] SDR allocation is attributed to the central bank (long-term) unless detailed information is available to identify whether SDR allocation is included as a liability in the balance sheet of the general government.

Table 4.1 Gross External Debt Position: By Sector	
External Debt Guide, 2003	***External Debt Guide, BPM6***
Banks[10]	**Other Deposit-Taking Corporations**[10]
Short-term	**Short-term**
Money market instruments[1]	Debt securities[1]
Loans	Loans
Currency and deposits	Trade credit and advances[2 8]
Other debt liabilities[3]	Currency and deposits[6]
Arrears	Other debt liabilities[3 7]
Other	**Long-term**
Long-term	Debt securities[1]
Bonds and notes[1]	Loans
Loans	Trade credit and advances[2 8]
Currency and deposits	Currency and deposits[6]
Other debt liabilities	Other debt liabilities[7]
Other Sectors	**Other Sectors**
Short-term	**Short-term**
Money market instruments[1]	Debt securities[1]
Loans	Loans
Trade credits[2]	Trade credit and advances[2]
Currency and deposits	Currency and deposits[6]
Other debt liabilities[3]	Other debt liabilities[3 7]
Arrears	**Long-term**
Other	Debt securities[1]
Long-term	Loans
Bonds and notes[1]	Trade credit and advances[2]
Loans	Currency and deposits[6]
Trade credits[2]	Other debt liabilities[7]
Currency and deposits	**Other financial corporations**
Other debt liabilities	**Short-term**
Nonbank financial corporations	Debt securities[1]
Short-term	Loans
Money market instruments[1]	Trade credit and advances[2 8]
Loans	Currency and deposits[6]
Currency and deposits	Other debt liabilities[3 7]
Other debt liabilities[3]	**Long-term**
Arrears	Debt securities[1]
Other	Loans
Long-term	Trade credit and advances[2 8]
Bonds and notes[1]	Currency and deposits[6]
Loans	Other debt liabilities[7]
Currency and deposits	
Other debt liabilities	

[10] "Banks" are now denominated "other deposit-taking corporations" (*BPM6*, paragraphs 4.71-4.72).

Table 4.1 Gross External Debt Position: By Sector

External Debt Guide, 2003	*External Debt Guide, BPM6*
Nonfinancial corporations	**Nonfinancial corporations, households, and NPISHs**[11]
Short-term	**Short-term**
Money market instruments[1]	Debt securities[1]
Loans	Loans
Trade credits[2]	Trade credit and advances[2]
Other debt liabilities[3]	Currency and deposits[5 6]
Arrears	Other debt liabilities[3 7]
Other	
Long-term	**Long-term**
Bonds and notes[1]	Debt securities[1]
Loans	Loans
Trade credits[2]	Trade credit and advances[2]
Other debt liabilities	Currency and deposits[5 6]
	Other debt liabilities[7]
Households and NPISHs[11]	**Direct investment: Intercompany lending**[3 12]
Short-term	Debt liabilities of DIE to direct investors[13]
Money market instruments[1]	Debt liabilities of direct investors to DIE[13]
Loans	Debt liabilities between fellow enterprises
Trade credits[2]	
Other debt liabilities[3]	**Gross External Debt Position**
Arrears	
Other	
Long-term	
Bond and notes[1]	
Loans	
Trade credits[2]	
Other debt liabilities	
Direct investment: Intercompany lending	
Debt liabilities to affiliated enterprises[3]	
Arrears	
Other	
Debt liabilities to direct investors[3]	
Arrears[3]	
Other	
Gross External Debt Position	

[11] NPISHs = Nonprofit institutions serving households.

[12] Intercompany debt liabilities breakdown according to *BPM6*, paragraph 6.37, Box 6.4, and Appendix 9, IIP.

[13] DIE = Direct investment enterprises.

Table 5.1. Gross External Debt Position: Public and Publicly-Guaranteed Debt and Nonguaranteed Private Sector Debt	
External Debt Guide, 2003	***External Debt Guide, BPM6***
Public and Publicly-Guaranteed Debt	**Public and Publicly-Guaranteed Debt**
Short-term	**Short-term**
Money market instruments[1]	Debt securities[1]
Loans	Loans
Currency and deposits	Currency and deposits
Trade credits[2]	Trade credit and advances[2]
Other debt liabilities[3]	Other debt liabilities[3 4]
Arrears	**Long-term**
Other	Debt securities[1]
Long-term	Loans
Bonds and notes[1]	Currency and deposits
Loans	Trade credit and advances[2]
Currency and deposits	Other debt liabilities[4]
Trade credits[2]	**Direct investment: Intercompany lending**[3 5]
Other debt liabilities	Debt liabilities of direct investors to DIE[6]
Direct investment: Intercompany lending	Debt liabilities of DIE to direct investors[6]
Debt liabilities to affiliated enterprises[3]	Debt liabilities between fellow enterprises
Arrears	
Other	**Nonguaranteed Private Sector Debt**
Debt liabilities to direct investors[3]	**Short-term**
Arrears[3]	Debt securities[1]
Other	Loans
	Currency and deposits
Nonguaranteed Private Sector Debt	Trade credit and advances[2]
Short-term	Other debt liabilities[3 4]
Money market instruments[1]	**Long-term**
Loans	Debt securities[1]
Currency and deposits	Loans
Trade credits[2]	Currency and deposits
Other debt liabilities[3]	Trade credit and advances[2]
Arrears	Other debt liabilities[4]
Other	**Direct investment: Intercompany lending**[3 5]
Long-term	Debt liabilities of direct investors to DIE[6]
Bonds and notes[1]	Debt liabilities of DIE to direct investors[6]
Loans	Debt liabilities between fellow enterprises
Currency and deposits	
Trade credits[2]	**Gross External Debt Position**
Other debt liabilities	
Direct investment: Intercompany lending	
Debt liabilities to affiliated enterprises[3]	
Arrears	
Other	
Debt liabilities to direct investors[3]	
Arrears[3]	
Other	
Gross External Debt Position	

[1] Debt securities are disaggregated between short-term and long-term rather than between money market instruments and bonds and notes (*BPM6*, paragraphs 5.44 and 5.103).

Notes (continued)

[2] "Trade credits" are now denominated "trade credit and advances" (*BPM6*, paragraph 5.70).
[3]Arrears are no longer included in other debt liabilities (short-term) but recorded under the original instrument (*BPM6*, paragraphs 3.56).
[4] Other debt liabilities include from the IIP statement (*BPM6*, Appendix 9): other accounts payable; SDR allocation (long term); and insurance, pension, and standardized guarantee schemes (long-term), unless detailed information is available to make the short-term/long-term attribution (*BPM6*, paragraph 5.103)
[5] Intercompany debt liabilities breakdown according to *BPM6*, paragraph 6.37, Box 6.4, and Appendix 9, IIP.
[6] DIE = Direct investment enterprises.

Appendix II.

Gross External Debt Position: Arrears by Sector[1 2]	**End-Period**
General Government	
Central Bank	
Other Deposit-Taking Corporations	
Other Sectors	
Other Financial Corporations	
Nonfinancial Corporations, Households, and NPISHs [3]	
Direct Investment: Intercompany Lending	
Gross External Debt Position: Arrears	

[1] Additional memorandum table to be included in the *External Debt Guide*, Chapter 4, presenting outstanding arrears by sector. Data should comprise arrears of principal, arrears of interest, and interest on arrears of principal and interest, as encouraged in the *External Debt Guide*, paragraph 4.5. Dissemination of quarterly data with one-quarter lag is recommended. Table is in line with *BPM6*. A table with a breakdown by principal, interest, and interest on arrears is included in the SDDS/QEDS database (Table 1.4).

[2] Specify whether arrears traded in secondary markets (as sometimes occurs) are valued at nominal or market value. See *External Debt Guide*, paragraph 2.44

[3] NPISHs = Nonprofit institutions serving households.