

## II

(Acts whose publication is not obligatory)

## EUROPEAN CENTRAL BANK

## GUIDELINE OF THE EUROPEAN CENTRAL BANK

of 1 December 1998

on the statistical reporting requirements of the European Central Bank in the field of balance of payments and international investment position statistics

(ECB/1998/17)

(1999/294/EC)

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

Having regard to the Statute of the European System of Central Banks and of the European Central Bank (hereinafter referred to as the 'Statute') and in particular to Articles 5.1, 12.1 and 14.3 thereof,

- (1) Whereas, for the fulfilment of its tasks, the European System of Central Banks (ESCB) needs to compile comprehensive and reliable monthly, quarterly and annual balance of payments statistics and annual international investment position statistics showing the main items affecting monetary conditions and exchange markets in the participating Member States, when the latter are seen as one economic territory;
- (2) Whereas the Statute requires the European Central Bank (ECB), assisted by the national central banks (NCBs), to collect either from the competent national authorities or directly from economic agents the statistical information necessary in order for it to undertake the tasks of the ESCB; whereas Article 5.2 of the Statute stipulates that the NCBs shall carry out, to the extent possible, the tasks described in Article 5.1 of the Statute;
- (3) Whereas, as stipulated in recital 12 of the Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank, in the early years of the single currency area cost-effectiveness may require the ECB's statistical reporting requirements

to be satisfied through transitional procedures due to existing constraints on the collection systems; whereas this may imply in particular that, in the case of the financial account of the balance of payments, data on cross-border positions or transactions of the participating Member States seen as one economic territory may be compiled using all positions or transactions between residents of a participating Member State and residents of other countries;

- (4) Whereas the present data on positions and transactions in the assets and/or liabilities of residents of participating Member States *vis-à-vis* residents of other participating Member States will continue to be reported after the start of Stage III of Economic and Monetary Union in accordance with national requirements or established practices; whereas this information is necessary, in the early years of the single currency area, for the fulfilment of the ECB's statistical requirements; whereas this does not create an additional reporting burden on the reporting population;
- (5) Whereas in some Member States, according to established national practices, the actual reporting population does not report to the NCB but to another competent national statistical authority; whereas, in order to meet the statistical requirements of the ECB, the NCBs of these Member States and the other competent national statistical authorities shall cooperate with each other as laid down in the recommendation of the European

Central Bank of 1 December 1998 on the statistical reporting requirements of the European Central Bank in the field of balance of payments and international investment position statistics (ECB/1998/NP21);

- (6) Whereas the transmission from the NCBs to the ECB of confidential statistical information shall take place to the extent and in the detail necessary for the exercise of the tasks of the ESCB; whereas the confidentiality regime is laid down in Article 8 of Council Regulation (EC) No 2533/98;
- (7) Whereas, in accordance with Articles 12.1 and 14.3 of the Statute, ECB guidelines form an integral part of Community law,

HAS ADOPTED THIS GUIDELINE:

### *Article 1*

#### **Definitions**

For the purposes of this guideline:

- ‘participating Member State’ shall mean a Member State which has adopted the single currency in accordance with the Treaty,
- ‘resident’ and ‘residing’ shall mean having a centre of economic interest in the economic territory of a country, as described in Annex A to the Council Regulation (EC) No 2533/98,
- ‘cross-border transaction’ shall mean any transaction that creates or redeems, in full or in part, claims or debts or any transaction that implies the transfer of a right over an object between residents of participating Member States seen as one economic territory and residents of non-participating Member States and/or residents of third countries. ‘Cross-border positions’ shall mean the stock of financial claims on and financial liabilities to residents of non-participating Member States and/or residents of third countries. Cross-border positions also encompass land, other real property and other immovable assets physically located outside the economic territory of the participating Member States and owned by residents of participating Member States and/or located inside the economic territory of the participating Member States and owned by residents of non-participating Member States and/or residents of third countries; and monetary gold and special drawing rights (SDRs) owned by residents of participating Member States. However, until 31 December 2005, to the extent necessary for the compilation of the direct and portfolio investment accounts and the investment income account within balance of payments and international investment position statistics covering the economic territory of the participating Member States, the terms ‘cross-border positions’ and ‘cross-border transactions’ also comprise positions and transactions in the assets and/or liabilities of residents of participating Member States *vis-à-vis* residents of other participating Member States,
- ‘balance of payments’ shall mean the statistical statement that reports with the appropriate breakdown cross-border transactions during the monthly, quarterly or annual calendar period under review,
- ‘international investment position’ shall mean the annual balance sheet of the stock of cross-border financial assets and liabilities at a reference date.

### *Article 2*

#### **Statistical obligations of the NCBs**

1. The NCBs shall make available to the ECB the cross-border positions and the cross-border transactions necessary to enable the ECB to compile the aggregated balance of payments and international investment position of the economic territory of the participating Member States.
2. The required statistical information shall be made available to the ECB as laid down in Annexes I, II and III to this guideline, which conform to current international standards, notably the fifth edition of the International Monetary Fund (IMF) *Balance of Payments Manual* (BPM5).
3. The required statistical information shall be made available on the balance of payments for monthly, quarterly and annual calendar periods and on the international investment position as at the end of the calendar year under review.

### *Article 3*

#### **Timeliness**

1. Key items in the monthly balance of payments of the economic territory of the participating Member States shall be made available to the ECB by the close of business on the 30th working day following the end of the month to which the data relate.
2. The quarterly detailed breakdown for the balance of payments of the economic territory of the participating Member States shall be made available to the ECB within three months of the end of the quarter to which the data relate.
3. The annual data of an aggregated balance of payments of the economic territory of the participating Member States shall be made available within three months of the end of the year to which the data relate with the same breakdowns as for the quarterly data.
4. The data on the international investment position shall be made available to the ECB within nine months of the year-end date to which the data relate.

5. The national collection of these data shall be organised with a view to meeting these deadlines.

*Article 4*

**Transmission standard**

1. The required statistical information shall be made available to the ECB in a form which meets the requirements as laid down in Annex IV to this guideline.

2. The NCBs shall use the facility provided by the ESCB, which relies upon the telecommunications network ('ESCB-Net'), for the electronic transmission of the balance of payments and international investment position statistical information required by the ECB. The statistical message format developed for this electronic exchange of statistical information is the 'Gesmes/CB' format. This requirement does not prevent the use of some other means of transmitting statistical information to the ECB as an agreed fall-back solution.

*Article 5*

**Quality of the statistical information**

1. Without prejudice to the ECB's monitoring tasks as laid down in Annex V to this guideline, the NCBs shall

monitor the quality and reliability of statistical information made available to the ECB.

2. This process may include the transmission of revisions made by the NCBs, first, in order to include the latest assessment of the statistical information, thereby improving the quality, and, second, to ensure as far as possible consistency between the corresponding balance of payments items for each of the different frequencies.

*Article 6*

**Final provisions**

1. This guideline is addressed to the national central banks of participating Member States.

2. This guideline shall be effective as of 1 January 1999.

3. This guideline shall be published in the *Official Journal of the European Communities*.

Done at Frankfurt am Main, 1 December 1998.

*On behalf of the Governing Council of  
the ECB*

Willem F. DUISENBERG

## ANNEX I

## STATISTICAL REQUIREMENTS OF THE EUROPEAN CENTRAL BANK

## 1. Balance of payments and international investment position statistics

The ECB requires balance of payments statistics at three different frequencies: monthly, quarterly and annually in respect of the corresponding reference calendar periods.

1.1. *Monthly balance of payments statistics — key items*

## Objective

The objective is a monthly balance of payments of the economic territory of the participating Member States showing the main items affecting monetary conditions and exchange markets.

## Requirements

It is essential that the data are suitable for use in the calculation of the balance of payments of the economic territory of the participating Member States.

For the purposes of monetary policy and foreign exchange operations, the ECB's requirement for monthly balance of payments statistics is confined to broad categories of transactions or 'key items' (see Annex II, Table 1). The short deadline for the provision of the monthly key items, their highly aggregated nature and their use for monetary policy purposes and foreign exchange operations allow some departure from international guidelines, where unavoidable. Recording on a full accruals' or transactions' basis is not required. In agreement with the ECB, national central banks (NCBs) of the participating Member States may provide data on the current and financial account on a settlement basis. Where necessary to meet the deadline, estimates or preliminary data will be accepted.

The requirement for each broad category of transaction is assets and liabilities (or credits and debits for current account items). This requires NCBs of the participating Member States, within external transactions, to distinguish between transactions with residents of other participating Member States and transactions outside the economic territory of the participating Member States, and each NCBs of the Member State shall do so consistently. NCBs in the participating Member States are required to implement this change when participation of further Member States is decided.

In order to permit a meaningful aggregation for the economic territory of the participating Member States on a monthly basis in the area of portfolio investment and direct investment, a split is required between transactions in securities and other financial flows issued by residents of participating Member States and securities and other financial flows issued by residents of all other countries. For the purpose of making this distinction, it is necessary to identify separately whether or not the issuer of the security is a resident of a participating Member State. The net transactions in portfolio and direct investment assets of the economic territory of the participating Member States are compiled by aggregating reported net transactions in securities issued by non-residents. Net transactions in portfolio and direct investment liabilities of the economic territory of the participating Member States are compiled by aggregating reported net transactions in securities issued by residents of the economic territory of the participating Member States.

1.2. *Quarterly and annual balance of payments*

## Objective

The objective of the quarterly and annual balance of payments of the economic territory of the participating Member States is to provide more detailed information to permit further analysis of external transactions. These statistics will notably contribute to the financial account in preparation and to the joint publication of EU/MU balance of payments in cooperation with the Commission of the European Communities (Eurostat).

## Requirements

Quarterly and annual balance of payments statistics required by the ECB conform to the greatest extent possible to the standards set in the BPM5 (see Article 2(2) of this guideline). The breakdown of quarterly and annual balance of payments statistics required by the ECB is presented in Annex II, Table 2. Special European harmonised concepts and definitions of the capital and financial account are set out in Annex III to this guideline.

The breakdown of the quarterly/annual current account is similar to the requirement for the monthly figures. Only key items are required for goods, services and transfer payments. For income, a detailed breakdown is needed.

For the financial account, the requirements of the IMF standard components of the BPM5 are followed with the following adjustments:

- for direct investment only a split between inward and outward investment is needed,
- the other investment item is simplified. This simplification includes the removal of a distinction between loans and deposits on each side of the balance sheet, the removal of the maturity breakdown and a change in the presentation of the breakdown (i.e. sector as first priority). This sectoral breakdown is compatible but not identical with the BPM5 where instruments have priority.

Member States are expected to distinguish in their quarterly and annual balance of payments statistics between transactions with other participating countries and all other external transactions. As for the monthly data, a split between transactions in securities and other financial flows issued by residents of participating Member States and securities and other financial flows issued by residents of all other countries is required for quarterly and annual data in the areas of portfolio and direct investment.

For the balance of payments of the economic territory of the participating Member States, accrued investment income data are required on a quarterly basis. In line with the System of National Accounts, the BPM5 recommends that interest should be recorded on an accruals' basis. This recommendation affects the current account (investment income) as well as the financial account. Recording on an accruals' basis requires some national central banks in the participating Member States to develop new calculation and estimation methods.

## 2. International investment position statistics

### *Objective*

The objective is an annual statement of the external assets and liabilities of the economic territory of the participating Member States as a whole, for monetary policy and exchange market analysis. The ECB requires international investment position statistics in respect of end-of-calendar-year stocks level. This statistical information may also assist in the compilation of balance of payments flows.

### *Requirements*

The international investment position data required by the ECB conform to the greatest extent possible to the standards set in the BPM5. The ECB compiles the international investment position for the economic territory of the participating Member States as a whole. The breakdown of the international investment position for the economic territory of the participating Member States is presented in Annex II, Table 3.

The ECB may require items of particular significance for the conduct of monetary policy, specifically those items within the other investment account which are currently provided to the Bank for International Settlements (BIS) for its statistics on international banking, on a quarterly basis.

The international investment position shows financial stocks at the end of the reference period, valued at end-period prices. As such, part of the change in the value of stocks during the reference period will be due to the financial transactions that have taken place and been recorded in the balance of payments. Likewise, part of the changes in positions at the beginning and at the end of a given period will be caused by changes in the prices of the financial assets and liabilities shown. In the event that stocks are denominated in currencies other than the unit of account used for the international investment position, changes in the exchange rates *vis-à-vis* other currencies will also affect the values of those stocks. Finally, any other change in stocks which is not due to the aforementioned factors will be considered as other adjustments.

A proper reconciliation between the financial flows and stocks of the economic territory of the participating Member States would require these changes in value owing to price, exchange rate changes and other adjustments to be reflected separately. However, for practical reasons, at the start of Stage III of Economic and Monetary Union, these changes will be shown together as a lump sum under a single heading and the international investment position will be compiled on a net basis relying on aggregate national data. In addition, specific rules may be applied for the valuation of equity capital in direct investment, notably in the case of unquoted shares.

Coverage of the international investment position is as close as possible to that for quarterly/annual balance of payments flows. The concepts, definitions and breakdowns are in line with those used for quarterly/annual balance of payments flows. However, for the direct investment account a further breakdown into equity and other capital is requested. Stocks compiled for the economic territory of the participating Member States' international investment position are requested to be compatible with other statistics such as money and banking statistics and financial accounts, which are also compiled by the ECB, and national accounts. These stocks encompass direct investment position data compiled by the Commission of the European Communities (Eurostat).

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## ANNEX II

## REQUIRED BREAKDOWNS

Table 1

**Monthly key items for the balance of payments of the economic territory of the participating Member States**

(Credits and debits in current and capital account, assets and liabilities in financial account separately)

**I. Current account (credits and debits)**

- Goods
- Services
- Income
- Current transfers

**II. Capital account****III. Financial account (assets and liabilities)**

- Direct investment
  - abroad
  - in the reporting economy
- Portfolio investment
  - equity securities
  - debt securities
    - of which: — bonds and notes
    - money market instruments
- Other investment
  - MFIs (excluding Central Banks)
    - of which: — long-term
    - short-term
  - general government
  - monetary authorities
  - other sectors
- Financial derivatives (net)
- Reserve assets

**Errors and omissions** (adjustments resulting from imbalances)

Table 2

**Quarterly and annual balance of payments of the economic territory of the participating Member States**

(Credits and debits in current and capital account, assets and liabilities in financial account separately)

**I. Current account (credits and debits)**

- Goods
- Services

## Income

- Compensation of employees
- Investment income
  - direct investment
    - income on equity
    - income on debt (interest)
  - portfolio investment
    - income on equity (dividend)
    - income on debt (interest)
      - bonds and notes
      - money market instruments
  - other investment
- Current transfers

**II. Capital account (credits and debits)**

(No further breakdown requested)

**III. Financial account (assets and liabilities)**

- Direct investment
  - direct investment abroad
  - direct investment in the reporting economy
- Portfolio investment
  - Assets
    - equity securities
      - monetary authorities
      - general government
      - MFIs (excluding central banks)
      - other sectors
    - debt securities
      - bonds and notes
        - monetary authorities
        - general government
        - MFIs (excluding central banks)
        - other sectors
      - money market instruments
        - monetary authorities
        - general government
        - MFIs (excluding central banks)
        - other sectors
  - Liabilities
    - equity securities
      - MFIs (excluding central banks)
      - other sectors



- debt securities
  - bonds and notes
    - monetary authorities
    - general government
    - MFIs (excluding central banks)
    - other sectors
  - money market instruments
    - monetary authorities
    - general government
    - MFIs (excluding central banks)
    - other sectors

Other investment

Assets

- monetary authorities
  - loans/currency and deposits
  - other assets
- general government
  - trade credits
  - loans/currency and deposits
  - other assets
- MFIs (excluding central banks)
  - loans/currency and deposits
  - other assets
- other sectors
  - trade credits
  - loans/currency and deposits
  - other assets

Liabilities

- monetary authorities
  - loans/currency and deposits
  - other liabilities
- general government
  - trade credits
  - loans
  - other liabilities
- MFIs (excluding central banks)
  - loans/currency and deposits
  - other liabilities
- other sectors
  - trade credits
  - loans
  - other liabilities

Financial derivatives (net)
— monetary authorities
— general government
— MFIs (excluding central banks)
— other sectors
Reserve assets
monetary gold
special drawing rights
reserve position in the International Monetary Fund
foreign exchange
currency and deposits
with monetary authorities
with MFIs (excluding central banks)
Securities
equity
bonds and notes
money market instruments and financial derivatives <sup>(1)</sup>
Other claims
<b>Errors and omissions</b> (adjustments resulting from imbalances)

*Table 3***Annual international investment position of the economic territory of the participating Member States****1. Direct investment**

- 1.1. Abroad
  - 1.1.1. Equity capital and reinvested earnings
  - 1.1.2. Other capital
- 1.2. In reporting economy
  - 1.2.1. Equity capital and reinvested earnings
  - 1.2.2. Other capital

**2. Portfolio investment**

- 2.1. Assets
  - 2.1.1. Equity securities
    - (i) Monetary authorities
    - (ii) General government
    - (iii) MFIs (excluding central banks)
    - (iv) Other sectors

<sup>(1)</sup> The possibility to report on financial derivatives in a separate item within reserve assets is discussed at the IMF level and within the ECB Statistics Committee.

**2.1.2. Debt securities****2.1.2.1. Bonds and notes**

- (i) Monetary authorities
- (ii) General government
- (iii) MFIs (excluding central banks)
- (iv) Other sectors

**2.1.2.2. Money market instruments**

- (i) Monetary authorities
- (ii) General government
- (iii) MFIs (excluding central banks)
- (iv) Other sectors

**2.2. Liabilities****2.2.1. Equity securities**

- (iii) MFIs (excluding central banks)
- (iv) Other sectors

**2.2.2. Debt securities****2.2.2.1. Bonds and notes**

- (i) Monetary authorities
- (ii) General government
- (iii) MFIs (excluding central banks)
- (iv) Other sectors

**2.2.2.2. Money market instruments**

- (i) Monetary authorities
- (ii) General government
- (iii) MFIs (excluding central banks)
- (iv) Other sectors

**3. Other investment****3.1. Assets****3.1.1. Monetary authorities**

- 3.1.1.1. Loans/currency and deposits
- 3.1.1.2. Other assets

**3.1.2. General government**

- 3.1.2.1. Trade credits
- 3.1.2.2. Loans/currency and deposits
- 3.1.2.3. Other assets

**3.1.3. MFIs (excluding central banks)**

- 3.1.3.1. Loans/currency and deposits
- 3.1.3.2. Other assets

**3.1.4. Other sectors**

- 3.1.4.1. Trade credits
- 3.1.4.2. Loans/currency and deposits
- 3.1.4.3. Other assets

- 3.2. Liabilities
  - 3.2.1. Monetary authorities
    - 3.2.1.1. Loans/currency and deposits
    - 3.2.1.2. Other liabilities
  - 3.2.2. General government
    - 3.2.2.1. Trade credits
    - 3.2.2.2. Loans
    - 3.2.2.3. Other liabilities
  - 3.2.3. MFIs (excluding central banks)
    - 3.2.3.1. Loans/currency and deposits
    - 3.2.3.2. Other liabilities
  - 3.2.4. Other sectors
    - 3.2.4.1. Trade credits
    - 3.2.4.2. Loans
    - 3.2.4.3. Other liabilities
- 4. **Financial derivatives**
  - 4.1. Assets
    - 4.1.1. Monetary authorities
    - 4.1.2. General government
    - 4.1.3. MFIs (excluding central banks)
    - 4.1.4. Other sectors
  - 4.2. Liabilities
    - 4.2.1. Monetary authorities
    - 4.2.2. General government
    - 4.2.3. MFIs (excluding central banks)
    - 4.2.4. Other sectors
- 5. **Reserve assets**
  - 5.1. Monetary gold
  - 5.2. Special drawing rights
  - 5.3. Reserve position in the International Monetary Fund
  - 5.4. Foreign exchange
    - 5.4.1. Currency and deposits
      - 5.4.1.1. With monetary authorities
      - 5.4.1.2. With MFIs (excluding central banks)
    - 5.4.2. Securities
      - 5.4.2.1. Equities
      - 5.4.2.2. Bonds and notes
      - 5.4.2.3. Money market instruments and financial derivatives<sup>(1)</sup>
  - 5.5. Other claims

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<sup>(1)</sup> The possibility to report on financial derivatives in a separate item within reserve assets is discussed at the IMF level and within the ECB Statistics Committee.

## ANNEX III

**CONCEPTS AND DEFINITIONS TO BE USED IN THE BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION STATISTICS TO BE REPORTED TO THE EUROPEAN CENTRAL BANK**

In order to construct meaningful aggregated balance of payments statistics for the economic territory of the participating Member States, concepts and definitions have been defined in the field of balance of payments statistics (capital and financial accounts) and international investment position. These requirements are based on the so-called Implementation Package (July 1996) and additional documents endorsed by the Governing Council of the ECB in September 1998. Current international standards, such as the IMF *Balance of Payments Manual* (BPM5), have been used as reference in formulating these concepts and definitions. The most important harmonisation proposals are listed below. Further guidance is available in the corresponding reports to which reference codes are provided in brackets. These useful references do not form part of the legal text.

**1. Concepts and definitions of investment income and items in the financial account****1.1. Investment income (ST/SC/BP/INCO9801)****Definition**

Investment income incorporates income derived from a resident entity's ownership of a foreign financial asset and, symmetrically, income derived from a non-resident entity's ownership of a domestic financial asset.

**Coverage**

Investment income includes receipts and payments on direct investment, portfolio investment and other investment income and receipts on reserve assets. For monthly key items the ECB will require only a total of income (comprising investment income and compensation of employees). The quarterly and annual balance of payments requirements are almost identical to IMF standard components as defined in the BPM5. The main difference is that the ECB will not require a breakdown of direct investment income on equity into distributed and undistributed profits.

**Time of recording**

Interest income is recorded on an accruals' basis (this is not required for the monthly data). Dividends are recorded as of the date on which they become payable.

**1.2. Capital account (STA/WGS/BOP/CAPITAL96)****Definition**

The new definition of the capital account covers capital transfers and the acquisition/disposal of non-produced non-financial assets. Current transfers are to be recorded in the current account.

**Coverage**

The standard components of the new capital account consist of a sectoral breakdown into the items general government and other sectors, with a further breakdown thereafter. The ECB will compile only a lump-sum capital account, within which no breakdown is required. The separation between current and capital transfers is important and generally depends, in practice, upon the use of the transfer by the recipient country.

**1.3. Direct investment (STA/WGS/BOP/DI95)****Definition**

According to international standards (IMF/OECD), (direct or, where available, indirect) ownership of 10 % or more of the equity of an enterprise constitutes a direct investment relationship. Member States using 20 % or another criterion adopt 10 % in significant cases.

#### Coverage

Special purpose entities (SPEs) are considered as regular direct investors and/or direct investment enterprises. Those NCBs of the participating Member States which are not in a position to follow this recommendation provide data on SPEs separately.

In order to avoid discrepancies and in line with both the recommendations of the IMF and Eurostat/OECD guidelines, direct investment relationships are recorded using the 'directional' principle. In order to achieve consistency in the compilation of reinvested earnings, the calculation method and the time of recording are agreed.

Inter-company financial transactions, including trade credits, are regarded as direct investment capital.

#### 1.4. *Portfolio investment (STA/WGS/BOP/PORT95)*

##### Definition

The following criteria are used to judge whether a financial instrument should be considered as a security; one criterion alone may not be decisive:

- (a) guidelines drawn from the BPM5 and from the System of National Accounts (1993);
- (b) provision of an ISIN code;
- (c) accounting rules and banking regulations;
- (d) market practice (derived from reports by the International Securities Market Association).

##### Coverage

Investments in equity securities, debt securities and money market instruments are included, with the exception of transactions in these instruments which fall into the category of either direct investment or reserve assets.

##### Time of recording

The recording of transactions in financial items takes place when both creditor and debtor enter the claim and liability, respectively, in their books (in accordance with the BPM5). Recommendations for methods of recording the balance of payments on a full accruals' basis have been agreed (STA/WGS/BOP/ACC9711). For the balance of payments of the economic territory of the participating Member States, accrued investment income is required only on a quarterly and/or annual basis. Recording on a full accruals' basis is not a requirement for the monthly key items balance of payments.

#### 1.5. *Other investment (STA/WG/BOP/OTH95)*

##### Definition

Other investment is defined as a residual category that includes all financial transactions not covered in direct investment, portfolio investment, or reserve assets accounts.

##### Coverage

Other investment covers trade credits, loans/currency and deposits and other assets/other liabilities (in accordance with the BPM5). The sectoral coverage/breakdown comprises monetary authorities, general government, banks and other sectors. The monetary authorities sector is defined as including 'central bank institutional units and operations attributed to the central bank but sometimes carried out by other government institutions, i.e. issues of currency, maintenance of reserves' (IMF definition). With this exception, 'banks' will coincide with the sub-sector monetary financial institutions.

##### Time of recording

The principles of 'transfer of ownership', 'time of settlement' and 'time of payment' all conform with the IMF recommendations.

In order to achieve consistent aggregate data for the economic territory of the participating Member States, no distinction is made between loans and deposits within each sector and no maturity breakdown is used. A sectoral presentation of the breakdown, compatible with the IMF standard components, is used in quarterly and annual data. Member States may add detail in national statistics.

For the monthly key items, a split between short-term and long-term flows in the banking sector is required.

#### Repurchase agreements and bond lending (February 1996)

The accounting practice of banks is the guiding principle for the balance of payments treatment of repurchase agreements, sell/buy-back transactions and bond lending, rather than the 'transfer of ownership' criterion. Where there is no accepted international accounting standard, a common practice which would meet statistical needs is adopted in agreement with the ECB.

This recommendation leads to the recording of genuine repurchase agreements, sell/buy-back transactions and bond lending as collateralised loans.

### 1.6. *Financial derivatives (April 1997, October 1997, April 1998: STA/WG/BOP/SG59802)*

#### Definition

Financial derivatives are financial instruments that are linked to a specific financial instrument, indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right. Transactions in financial derivatives are treated as separate transactions rather than as integral parts of the value of underlying transactions to which they may be linked.

#### Coverage

Transactions and positions in options, futures, swaps, forward foreign exchange contracts, credit derivatives and embedded derivatives are recorded in the balance of payments and international investment position.

Initial margin payments are regarded as changes in deposits and should be recorded, if identifiable, in the other investment account. The treatment of variation margin payments depends on the form of the variation margin: options-style variation margins are regarded, in principle, as changes in deposits and should be recorded, if identifiable, under the item other investment. Futures-style variation margin payments are regarded, in principle, as transactions in derivatives and should be recorded in the financial derivatives account.

In the case of options, the full premium (i.e. the purchase/sale price of the options and the implied service charge) should be recorded in the financial account.

The net stream of settlement flows associated with interest rate derivatives should be recorded as financial derivatives.

Embedded derivatives should be recorded together with the underlying financial instrument and should not be recorded and valued separately in balance of payments statistics and the international investment position.

The classification of specific instruments of credit derivatives should be decided upon on a case-by-case basis.

The valuation of financial derivatives should be conducted on a marked-to-market basis.

#### Time of recording

The recording of transactions in financial items takes place when both creditor and debtor enter the claim and liability, respectively, in their books (in accordance with the BPM5). Owing to practical problems involved in separating the asset and liability flows in a meaningful way for some derivative instruments, all financial derivatives transactions in the balance of payments of the economic territory of the participating Member States are being recorded on a net basis for the time being. Financial derivative asset and liability positions in the international investment position are recorded on a gross basis.

### 1.7. *Reserve assets*

In accordance with the BPM5, reserve assets consist of those external assets issued by non-residents that are readily available to and controlled by monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitude of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes.

The reserve assets of the ESCB consist of the ECB's reserve assets and the reserve assets held by NCBs of the participating Member States. The ECB will be provided by the NCBs with foreign reserve assets other than Member States' currencies, IMF reserve positions and special drawing rights, up to an amount equivalent to EUR 50 000 million (adjusted downwards by deducting the shares in the ECB's capital subscription key of those EU central banks which will not participate in the euro area from the outset).

As a result, the composition of reserve assets for Economic and Monetary Union has been agreed: MU reserve assets are the ECB's and NCBs' financial claims denominated in foreign currency on non-residents of the economic territory of the participating Member States, provided that they meet the liquidity and marketability criteria required by the aforementioned BPM5 definition plus gold, SDRs and the reserve positions in the IMF of the participating NCBs.

The pooling of reserve assets will be conducted in the form of outright transfers of ownership.

## 2. Implementation methods for geographical allocation (STA/WGS/BOP/GEO96)

Difficulties in the compilation of geographically broken-down balance of payments and international investment position statistics are resolved by means of a step-by-step approach. This approach involves three steps towards meeting data requirements which are progressively more demanding.

### 2.1. *Direct investment*

#### Step 1

Compilation method at the MU level: addition of national total net direct investment transactions/positions.

(Implemented in 1998).

#### Step 2

Compilation method at the MU level: addition of net transactions/positions in claims issued by or on non-residents of the economic territory of the participating Member States for direct investment abroad. Addition of net transactions/positions in total national net direct investment in the reporting economy and transactions/positions in securities issued by residents for direct investment in the reporting economy. No geographical breakdown into extra-Monetary Union transactions is required.

Data requirements at the NCBs' level: transactions/positions in direct investment abroad broken down into transactions/positions in MU investments (securities and other financial instruments issued by residents of participating Member States) and non-MU investment. To achieve this, it is necessary to identify the issuer (debtor) of the security or other financial instrument in order to establish whether the issuer is a resident of the participating Member States or a non-resident. For the item direct investment in the reporting economy only the national total net transactions/positions are required. A figure for net transactions/positions in direct investment in the reporting economy originating from other participating Member States is requested as a memorandum item.

Deadline for implementation: the beginning of Stage III of Economic and Monetary Union, i.e. 1 January 1999, for direct investment flows. (To be agreed for direct investment stocks).

#### Step 3

Compilation method at the MU level and data requirements at the national central banks' Member State level: similar to Step 2 with the addition of a geographical breakdown within extra-MU transactions/positions. This is only necessary for quarterly and annual statistics.

(Deadline for implementation: to be agreed).

### 2.2. *Portfolio investment*

#### Step 1

Compilation method at the MU level: addition of national total net portfolio investment transactions/positions. No split into assets and liabilities is required.

(Implemented in 1998).

#### Step 2

Compilation method at the MU level: addition of net transactions/positions in securities issued by non-residents for portfolio investment assets. Addition of net transactions/positions in total national net liabilities and transactions/positions in securities issued by residents of the participating Member States for portfolio investment liabilities. No geographical breakdown into extra-Monetary Union transactions is required.

Data requirements at the NCBs' level: transactions/positions in portfolio investment assets broken down into transactions/positions in MU securities (issued by residents of participating Member States) and non-MU securities. To achieve this it is necessary to identify the issuer (debtor) of the security in order to



establish whether the issuer is a resident of one of the participating Member States or a non-resident. For transactions/positions in portfolio investment liabilities, only national total net figures are required.

Precondition: full harmonisation of breakdowns, coverage, definitions, valuation and timing principles for portfolio investment flows (as outlined above).

Deadline for implementation: the beginning of Stage III of Economic and Monetary Union, i.e. 1 January 1999, for portfolio investment flows. (To be agreed for portfolio investment stocks).

#### Step 3

Compilation method at the MU level and data requirements at the national central banks' Member State level: Similar to Step 2 with the addition of a geographical breakdown within extra-MU transactions/positions. This is only necessary for quarterly and annual statistics.

Precondition: full harmonisation of breakdowns, coverage, definitions, valuation and timing principles for portfolio investment flows.

(Deadline for implementation: to be agreed).

### 2.3. *Other investment*

#### Step 1

Compilation method at the MU level: addition of national total net other investment transactions/positions.

(Implemented in 1998).

#### Step 2

Compilation method at the MU level: addition of net transactions/positions in other investment with non-residents for other investment assets and liabilities.

Data requirements at the national central banks' level: MU/non-MU split distinguishing transactions between residents of the participating Member States and transactions with residents of other countries (non-Monetary Union).

Deadline for implementation: the beginning of Stage III of Economic and Monetary Union, i.e. 1 January 1999, for other investment flows. (To be agreed for other investment stocks).

#### Step 3

Compilation method at the MU level and data requirements at the Member State level: similar to Step 2 with the addition of a geographical breakdown within extra-MU transactions/positions. This is only necessary for quarterly and annual statistics.

(Deadline for implementation: to be agreed).

### 2.4. *Financial derivatives*

#### Steps 1 and 2

Compilation method at the MU level: Addition of national total net transactions/positions in financial derivatives.

(Implemented in 1998).

#### Step 3

A geographical breakdown within extra-MU transactions/positions in financial derivatives. This is only necessary for quarterly and annual statistics.

(Deadline for implementation: to be agreed).

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*ANNEX IV***TRANSMISSION OF THE DATA TO THE EUROPEAN CENTRAL BANK**

The exchange of the statistical information needed by the ECB relies upon the facility provided by the ESCB-Net. All exchanges of data within the ESCB use the same conceptual data model.

National central banks shall observe the recommendations listed below in order to ensure that data transmission functions satisfactorily, in particular with regard to the following items:

- completeness: national central banks shall report all balance of payments series keys. To report no series keys or non-listed series keys would be considered as incomplete reporting. Should an observation be missing, the omission shall be recorded using the corresponding observation status flag. In addition, when revisions are made to only a sub-set within the balance of payments, the validation rules should be applied to the whole balance of payments,
- sign convention: national central banks should apply the agreed sign convention in all data which are to be reported to the ECB. The IMF standard sign convention was adopted. Under this sign convention, credits and debits must be reported using the same sign in the current and capital account and in the financial account (credits are to be marked with a plus sign, debits with a minus sign),
- accounting identities of the data: the complete validation rules which were distributed and which are available on request must be implemented by the national central banks before the data are transmitted to the ECB.

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*ANNEX V***MONITORING OF STATISTICAL COMPILATION METHODS**

The ECB will monitor the compilation methods used for the reporting on the balance of payments and international investment position statistics, as well as the concepts and definitions applied on a regular basis by the Member States participating in the euro area. The monitoring will be carried out in connection with updating and maintaining of the document entitled 'European Union Balance of Payments (Capital and financial account) Statistical Methods' (BOP Book), and by the six-monthly review procedure.

The BOP Book contains information on the structure of balance of payments statistical data for all EU countries. There are detailed descriptions of data compilation methods and of the concepts and definitions applied, as well as information on departures from the agreed definitions for the balance of payments and international investment position statistics in the Member States.

The BOP Book will be updated on annual basis in close cooperation with the Member States.

The six-monthly review forms part of the process of updating the BOP Book. The six-monthly review procedure is based on reports to be endorsed by the Governing Council of the ECB covering the statistical treatment of the investment income account and the financial account in the balance of payments and international investment position statistics and forms a basis for the ECB to assess the quality of the data provided to the ECB for the balance of payments statistics.

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