

## BEA BRIEFING

# Modernizing and Enhancing BEA's International Economic Accounts

## A Progress Report and Plans for Implementation

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IN 2009, the International Monetary Fund (IMF) released updated statistical standards for compiling balance of payments and international investment position (IIP) statistics. The sixth edition of the IMF's *Balance of Payments and International Investment Position Manual (BPM6)* was developed in coordination with the *System of National Accounts 2008 (SNA 2008)*, the statistical standards for compiling national economic accounts, in order to promote statistical integration within and across countries and to ensure that economic statistics remain relevant and informative.<sup>1</sup> The introduction of these new international standards has provided an opportunity for the Bureau of Economic Analysis (BEA) to make changes to its economic accounts to increase the overall quality and usefulness of the accounts.

Some recommendations of the new international guidelines have already been incorporated into the U.S. economic accounts. In 2009, BEA introduced a new classification system for personal consumption expenditures in the national income and product accounts

(NIPAs) that is more consistent with *SNA 2008*. In addition, a new treatment of disaster-related insurance settlements that recognizes the distinctions between current transfers and capital transfers was incorporated into both the NIPAs and the international transactions accounts (ITAs).<sup>2</sup> In July 2013, BEA will incorporate additional changes reflecting the updated guidelines for national accounts into the NIPAs as part of the 14<sup>th</sup> comprehensive revision of the NIPAs. Major revisions to be introduced into the NIPAs include the recognition of research and development (R&D) expenditures as fixed investment and the use of the accrual-based approach to measure defined benefit pension plans.<sup>3</sup>

Several improvements relating to the new international standards for the international accounts have been introduced into the ITAs and the IIP accounts as part of a multiyear effort to modernize and enhance the U.S. international accounts. One of the most significant changes was the introduction of quarterly IIP statistics in March 2013 (see "Quarterly International

1. *Balance of Payments and International Investment Position Manual*, 6<sup>th</sup> ed. (Washington, DC: International Monetary Fund, 2009).

European Commission, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations, and World Bank, *System of National Accounts 2008* (New York: United Nations, 2009).

2. The U.S. international transactions accounts are also known as the U.S. balance of payments accounts.

3. See "Preview of the 2013 Comprehensive Revision of the National Income and Product Accounts: Changes in Definitions and Presentations," SURVEY OF CURRENT BUSINESS 93 (March 2013): 13–39.

### Quarterly International Investment Position

On March 26, 2013, BEA released quarterly international investment position (IIP) statistics for the first time. Previously, BEA had released only annual IIP statistics each June. The new quarterly IIP statistics complement the annual statistics and provide more frequent and more timely information on the U.S. external position. These statistics also satisfy the new statistical guidelines from the IMF Executive Board, which prescribe quarterly IIP reporting for members participating in its Special Data Dissemination Standard.

The first release included data on end-of-quarter posi-

tions from December 2005 to December 2012. These data contain the same account components as the currently published annual IIP statistics and are fully consistent with the currently published ITAs. The quarterly IIP statistics will provide only position data, unlike the more detailed annual IIP statistics, which also include transactions and detailed valuation adjustments. Every June, the quarterly data will be part of a broader release that also includes revised annual IIP statistics and changes in valuation, including revised annual and quarterly statistics for previous periods.

Investment Position”). BEA is working with its source data providers to develop the information needed to implement the new standards. For example, BEA has worked closely with the U.S. Department of the Treasury to implement an accelerated collection of data on financial derivatives, which is necessary for the timely release of the quarterly IIP statistics. In June 2014, BEA will implement many of the remaining recommendations and will introduce changes to its standard presentation of the ITAs and the IIP accounts.

This article is the fourth in a series that has provided updates on BEA’s progress towards modernizing and enhancing the U.S. international economic accounts. The first, published in the May 2010 SURVEY OF CURRENT BUSINESS, summarized the new international standards and provided an overview of BEA’s implementation strategy.<sup>4</sup> Updates in May 2011 and May 2012 reported on BEA’s progress towards implementation and presented prototypes for several key tables.<sup>5</sup> This article previews changes that will be made as part of the June 2013 annual revisions of the ITAs and the IIP accounts, outlines presentation and other changes planned for June 2014, describes longer term efforts to implement more complex changes in definitions and methodologies, and provides further information on BEA’s plans for implementation in 2014. The article also presents prototypes for ITA tables that BEA is developing as part of the new standard presentation of the accounts.

## Progress Report

### Changes scheduled for June 2013

This section describes changes in definitions, classifications, and methodology that are scheduled to be introduced in the ITAs and the IIP accounts with the upcoming June 2013 annual revision.

**Reclassify and adjust reporting of certain military transactions in goods and services.** To align BEA’s trade in goods and services statistics with international standards and to improve the comparability of statistics for trade and production, BEA has previously reclassified certain transactions from trade in services to trade in goods. Historically, BEA classified exports and imports of military-related goods on a transactor basis in the services account. Therefore, exports of goods under the U.S. Foreign Military Sales (FMS) program were classified as services under “transfers under U.S.

military agency sales contracts,” and military imports of goods were classified as services under “direct defense expenditures.” With the 2010 annual revision of the ITAs, exports of goods related to the FMS program and petroleum purchases abroad by the U.S. military were reclassified from services to goods. However, some goods remain classified in services because they are commingled in BEA’s source data.

With the 2013 annual revision, BEA plans to refine further the separation of goods and services by incorporating an improved classification of exports related to the FMS program and by reclassifying military imports of major equipment and nonpetroleum goods from the services account to the goods account. Beginning with statistics for 2007, exports under the FMS program will be classified as goods or services using a more accurate, item-specific classification of the data from the U.S. Department of Defense (DOD). As a result, exports of goods under the FMS program that have remained in the services account in “transfers under U.S. military agency sales contracts” will be moved to the goods account in “exports, n.e.c.” (not elsewhere classified), and certain services transactions that had previously been classified as goods will be reclassified to the services account. Military purchases of major equipment and nonpetroleum goods by DOD will be reclassified to the goods account in “imports, n.e.c.,” beginning with statistics for 1999. Imports, n.e.c. and exports, n.e.c. will be renamed “other goods” under the new presentation. This name change is reflected in the prototype tables presented later in this article.<sup>6</sup>

A related outcome of the research undertaken to improve the classification of military imports is that BEA determined that a balance of payments adjustment that had been used to deduct imports of military goods from U.S. Census Bureau data to avoid double-counting with the imports reported in the DOD data is no longer necessary. After reexamining the source data, BEA determined that as a result of definitional changes since the original methodology was implemented, the two data sources no longer overlap. These reclassifications and the change to the adjustment for military imports are reflected in the prototype tables presented at the end of this article.<sup>7</sup>

**Improve the estimates of expenditures by border, seasonal, and other short-term workers.** BEA will implement an improved methodology for estimating expenditures by short-term workers employed outside their countries of residence that is more rigorous and

4. Kristy L. Howell and Robert E. Yuskavage, “Modernizing and Enhancing BEA’s International Economic Accounts: Recent Progress and Future Directions,” SURVEY 90 (May 2010): 6–20.

5. Kristy L. Howell and Ned G. Howenstine, “Modernizing and Enhancing BEA’s International Economic Accounts: A Progress Report,” SURVEY 91 (May 2011): 26–38 and Kristy L. Howell, “Modernizing and Enhancing BEA’s International Economic Accounts: A Progress Report,” SURVEY 92 (May 2012): 37–50.

6. See for example, table 1, lines 10 and 44.

7. BEA is maintaining a supplemental presentation that shows transfers of total goods and services under the FMS program and direct defense expenditures on goods and services to assist customers who use these series to obtain a complete picture of the contribution of the U.S. military to trade.

uses higher quality source data. Currently, these expenditures are estimated as a fixed percentage of compensation based on historical studies. Baseline expenditures for short-term seasonal workers and foreign professionals will now be derived from the U.S. Department of Labor's Consumer Expenditure Survey. This survey provides detailed statistics on expenditures by income group that BEA will use to calculate average expenditures as a percentage of compensation for each income group. BEA will use the percentages for the compensation levels of seasonal agricultural and non-agricultural workers, border workers, and foreign professionals working less than a year in the United States to calculate baseline estimates for the expenditures of these workers. These baseline estimates will be refined using information from the Department of Labor's National Agricultural Workers Survey (NAWS), H-4 visa statistics from the U.S. State Department, and other studies. The NAWS provides employment and migration profiles for seasonal farm workers that BEA will use to estimate expenditures by seasonal agricultural and nonagricultural workers. The H-4 visa statistics will be used to adjust the baseline estimate for expenditures by foreign professionals (such as engineers, doctors, and computer programmers) who visit the United States to perform high-skilled work. Expenditures by U.S. residents employed abroad for less than a year will be estimated using the same expenditure share of compensation calculated for foreign professionals working in the United States. This methodological change is not reflected in the prototype tables presented at the end of this article.

**Incorporate new estimates for fines and penalties.** BEA will introduce estimates of cross-border fines and penalties in the "unilateral current transfers" account of the ITAs, beginning with statistics for 1999. The estimates use publicly available information—including court documents, press releases, and news reports—to identify cross-border transfers associated with U.S. and foreign government fines related to anti-trust violations and U.S. government fines related to bribery. The estimates will also include cross-border transfers associated with private class action lawsuits related to anti-trust violations. On average, the impact on transfers will be small, but the new estimates close a gap in the ITAs and in general, will reduce the statistical discrepancy for historical periods. In the new presentation of the ITAs, "unilateral current transfers" will be renamed "secondary income" and will be shown on a gross basis rather than on a net basis. This change in presentation is reflected in the prototype tables at the end of this article, but the new estimates of fines and penalties are not.<sup>8</sup>

**Incorporate new source data from the Treasury Department.** BEA recently began receiving new monthly data on cross-border holdings of U.S. and foreign long-term securities collected by the Treasury Department on its Treasury International Capital (TIC) form Aggregate Holdings of Long-Term Securities by U.S. and Foreign Residents (SLT). The SLT surveys U.S. custodians, issuers of U.S. securities, and U.S. end-investors for cross-border holdings of U.S. and foreign equity and long-term debt securities by

8. See table 1, lines 34 and 66.

### International Cooperation

The Bureau of Economic Analysis (BEA) continues its commitment to international cooperation by participating in committees organized by various international organizations to improve the reporting of international economic statistics. For example, BEA participates in the International Monetary Fund's Balance of Payments Committee and the United Nations Interagency Task Force on Statistics of International Trade in Services. These international institutions are responsible for producing standards for international economic accounts, including the *Balance of Payments and International Investment Position Manual* and the *Manual on Statistics*

*of International Trade in Services 2010*.<sup>1</sup> The Balance of Payments Committee and the Interagency Task Force are both currently developing compilation guides to assist nations in their efforts to implement the new guidelines introduced in the latest updates of these manuals, and BEA has reviewed and contributed content to the guides to both manuals.

1. United Nations, International Monetary Fund, Organisation for Economic Co-operation and Development, Statistical Office of the European Union, United Nations Conference on Trade and Development, World Tourism Organization, and World Trade Organization, *Manual on Statistics of International Trade in Services 2010* (New York: United Nations, 2011).

country. With the June 2013 annual revisions of the ITAs and the IIP, the new source data will be incorporated, beginning with statistics for 2012. The new data will improve quarterly IIP estimates for long-term securities that BEA currently projects using transactions data and price changes. The new source data also provide new information that will allow BEA to improve its coverage of financial flows.

### Changes planned for June 2014

In June 2014, BEA will introduce changes to its standard table presentations and related data tables. BEA will also introduce changes in definitions and classifications that could have been introduced earlier but that required a change in presentation. BEA has decided to introduce major changes in presentation at one time to minimize disruptions for users and so that they can be introduced on a consistent time series basis. This section gives an overview of these planned changes in presentation and provides an update on changes in definitions, classifications, and methodologies that will be introduced in June 2014.

### Changes in presentation

BEA first introduced plans to bring its standard presentations of the international accounts into closer alignment with the presentation recommended by the *BPM6* in the May 2010 article in this series. That article described in detail the characteristics of the *BPM6* presentation that represent major changes from BEA's standard presentation of the accounts and introduced prototype tables that presented the accounts as they will appear in the new presentation.<sup>9</sup>

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

The new presentation also introduces additional detail on portfolio investment and other investment by sector. The *BPM6* defines four main sectors—central bank, deposit-taking corporations except the central bank, general government, and “other sectors,” which includes the two subsectors “other financial corporations” and “nonfinancial corporations, households, and nonprofit institutions serving households

(NPISHs).” BEA has eliminated the summary category “other sectors” and presents the two subsectors in its place. Two basic changes to the names in the new presentation will be made. First, the term “corporations” is replaced with the term “institutions” in order to include enterprises such as partnerships that belong in this category but that are not organized as publicly held corporations. Second, because BEA has little source data on the international transactions of households and NPISHs directly with foreigners, BEA uses the label “nonfinancial institutions” without households and NPISHs.

The new SLT data from the Treasury Department provide detailed information that will allow BEA to present portfolio investment by type of instrument and by U.S. sector. Investment fund shares are identified at the aggregate level, which allows dividend income and financial flows attributable to investment fund shares to be distinguished from other equity. The SLT also provides new instrument detail on state and local government securities that can be used to identify financial flows for municipal bonds. Expanded information on the sector of the U.S. holder of foreign securities and the U.S. issuer of U.S. securities allows BEA to attribute financial flows and income to deposit-taking institutions, other financial institutions, nonfinancial institutions, and general government. This new instrument and sector detail for income and financial flows available from the SLT is presented in the prototype tables shown at the end of this article.<sup>10</sup>

### Changes in definitions, classifications, and methodologies

This section provides an update on two additional changes that BEA plans to introduce in June 2014 that are related to changes in presentation but also involve changes in definitions, classifications, and methodologies.

**Improve methodology for travel statistics.** BEA currently estimates cross-border travel expenditures by multiplying the number of travelers by an estimate of average travel expenditures. Although this methodology is fundamentally sound, some limitations of the source data have raised questions about the precision of the statistics. Over the last few years, BEA has examined several alternatives to this approach, including a survey of credit, debit, and charge card issuers to estimate travel expenditures and a onetime survey of international travelers to determine spending by method of payment. Each alternative has a set of limitations.

9. For more information, see the section “Major differences” in Howell and Yuskavage, 14–16.

10. See for example, table 6, lines A3 and B3. Detail that was not available until the introduction of the SLT data is denoted “n.a.” (not available) for years before 2011.

Therefore, BEA now plans to develop improved estimates of average expenditures using a combination of information from (1) the Survey of International Air Travelers administered by the U.S. Department of Commerce International Trade Administration, (2) an improved survey of credit, debit, and charge card issuers conducted by BEA, and (3) other sources of information on travel expenditures. These sources may also allow business travel expenditures to be distinguished from personal travel expenditures.

The definition of travel in the *BPM6* is broader than the definition of travel currently used by BEA. The *BPM6* definition includes health-related travel and education-related travel and encompasses expenditures on goods and services by border, seasonal, and other short-term workers. These transactions, which are currently included in the services account under "other" private services, will be reclassified to travel in the new presentation. These changes in presentation are illustrated in the prototype tables at the end of this article.<sup>11</sup>

In preparation for introducing this broader definition of travel, BEA is improving the methodology for estimating two of the components. The methodology for estimating expenditures by border, seasonal, and other short-term workers will be revised in June 2013, and an improved methodology for estimating health-related travel will be implemented in June 2014. BEA uses a model-based approach to measure health-related travel (or medical services), which covers medical treatment provided to foreigners who travel to the United States for treatment (exports) and medical treatment provided to U.S. residents who travel abroad for treatment (imports). Medical services are currently classified under "business, professional, and technical services." BEA is evaluating several potential sources of information on medical services to update its estimation methodology.

**Reclassify merchanting transactions from services to goods.** U.S. exports of merchanting are the purchase and subsequent resale of goods abroad without substantial transformation and without the goods entering or exiting the United States. BEA currently measures merchanting as the margin between proceeds from the sale and the cost of acquiring the goods sold and records it in the services account. The *BPM6* recommends classifying merchanting as a component of trade in goods under the new category "net exports of goods under merchanting." BEA currently collects net receipts from merchanting on its surveys of selected services. In 2014, the net receipts from merchanting

will be reclassified from services to the new merchanting category under goods. This change is reflected in the prototype tables introduced at the end of this article.<sup>12</sup>

### Longer term research

While the changes that will be introduced by June 2014 will bring BEA into close alignment with the *BPM6*, additional methodological work and data sources will be required for some accounts. New or more detailed source data will be required to fully meet the *BPM6* guidelines for some accounts. In the prototype tables, these accounts are denoted "n.a." (not available) and include items such as "manufacturing services on physical inputs owned by others" (goods for processing).<sup>13</sup> Other accounts, such as "charges for the use of intellectual property," are shown in the prototype tables using statistics based on existing definitions because it is not yet possible to adjust the accounts to match the *BPM6* definitions and concepts. This section provides an update on research being conducted at BEA to determine the feasibility of implementing several major changes in definitions and methodologies that remain outstanding. These and other improvements that BEA may identify in the future will be considered for implementation in a future annual revision. For some of these changes, it is not certain whether implementation will prove feasible.

12. See for example, table 1, line 11.

13. See for example, table 1, lines 14 and 47.

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11. See for example, table 3, lines 15–22 and 66–73.

**Introduce financial intermediation services indirectly measured (FISIM).** FISIM captures the fees implicitly received by financial intermediaries for their lending and deposit-taking services through the margin between interest payable for loans and deposits and a reference rate that represents the cost of funds. BEA continues to evaluate methods for estimating FISIM in the international accounts by incorporating FISIM exports already estimated in the NIPAs and by creating estimates of FISIM imports from data on U.S. loans from, and U.S. deposits placed with, banks abroad. FISIM estimates for the ITAs will result in changes to the BEA estimation methodology for income payments and receipts in the ITAs so that the implicit service and pure interest components sum to the estimated nominal interest flows. BEA plans to introduce FISIM into the international accounts in 2015 or later so that the new methodology can be informed by forthcoming guidance from a panel of international experts on several outstanding measurement issues.<sup>14</sup> In the prototype tables, “FISIM” is denoted “n.a.”<sup>15</sup>

**Reclassify transactions related to intellectual property.** The new international standards recognize expenditures on research and development (R&D) and on artistic originals as investment.<sup>16</sup> Under the new guidelines, transactions for the rights to use intellectual property, the rights to reproduce or distribute intellectual property, and outright sales and purchases of intellectual property should be identified and treated differently in the international accounts. Rights to reproduce or distribute intellectual property and some rights to use intellectual property should be classified under “charges for the use of intellectual property,” a services category that replaces “royalties and license fees.”<sup>17</sup> Transactions related to the outright sale of intellectual property and certain transactions related to its use should be reclassified to the respective services categories.<sup>18</sup> For example, outright sales of the outcomes of R&D, such as the outright sale of a patent or a

copyright, should be recorded in R&D services, while the rights to use the outcomes of R&D should be recorded as charges for the use of intellectual property. Treating outright sales and purchases of the outcomes of R&D as trade in R&D services also enables the recommended measurement of domestic R&D investment in the NIPAs, which is defined as domestic R&D output plus imports of R&D services less exports of R&D services. Currently, transactions for the use of intellectual property and some transactions for the sale of intellectual property are commingled in BEA’s source data and are recorded indistinguishably under “royalties and license fees.”

To determine the feasibility of implementing this new treatment, BEA added questions related to intellectual property to its 2011 Benchmark Survey of Transactions in Selected Services and Intellectual Property with Foreign Persons. Companies were asked to provide their total receipts and total payments for rights to each of the various types of intellectual property, such as industrial processes and products, books and music, and general use computer software. Companies were then asked to disaggregate these totals into three categories as appropriate: rights to use intellectual property, rights to reproduce or distribute, and outright sales and purchases. BEA is in the process of tabulating these results. However, an initial review of the data indicates that for the companies that were able to divide their total receipts and payments into the three categories, transactions for the rights to use intellectual property (and for some types of intellectual property, rights to reproduce or distribute) were much more prevalent than outright sales and purchases of intellectual property. BEA will continue to evaluate the survey responses to determine if they can be used to allocate total reported receipts and payments for intellectual property across the three categories.

**Introduce new financial assets.** The *BPM6* introduces a new class of instruments—“insurance, pension, and standardized guarantee schemes”—which includes insurance technical reserves (prepayments of premiums and reserves against outstanding insurance claims), pension entitlements (the claims of pensioners on their employers or pension funds), and provisions for calls under standardized guarantees (prepayments of net fees and provisions to meet outstanding calls under standardized loan guarantees). BEA is working with the Treasury Department to improve the existing source data for transactions in insurance technical reserves between U.S. residents and unaffiliated foreign residents in order to obtain sufficient coverage so that estimates can be published. Currently, however, the insurance-related transactions cannot be distinguished

14. The United Nations Statistical Commission’s Intersecretariat Working Group on the System of National Accounts has identified FISIM as an area of further research and is expected to provide additional guidance on among other topics, the selection of a reference rate. For more information, see [unstats.un.org](http://unstats.un.org).

15. See for example, table 3, lines 37 and 88.

16. Artistic originals include motion pictures, television and radio programs, musical recordings, and manuscripts.

Previously, the standards recommended that such intellectual property should be treated as nonproduced, nonfinancial assets and that the purchase or sale of these assets should be recorded in the capital account. Receipts and payments for the use of these assets should have been recorded as services under “royalties and license fees.”

17. This name change is reflected in the prototype tables, but the statistics are based on existing definitions. See for example, table 1, lines 21 and 54.

18. However, the outright sales of marketing assets—such as trademarks, brands, logos, and franchises—will still be recorded in the capital account.

from other changes in claims and liabilities reported on Treasury surveys. It is unlikely that BEA will be able to estimate transactions related to pension entitlements and standardized guarantee schemes because of insufficient source data. However, because cross-border transactions in pension entitlements and standardized guarantees are believed to be negligible, their omission does not significantly affect the ITAs. In several of the prototype tables, “insurance, pension, and standardized guarantee schemes” are either denoted “n.a.” or include statistics related to insurance only.<sup>19</sup>

**Identify gross goods transactions related to merchanting.** In addition to reclassifying merchanting from trade in services to trade in goods, the *BPM6* recommends presenting the gross transactions in goods associated with merchanting. BEA's current source data on trade in goods do not cover the gross transactions associated with merchanting, because these goods do not cross the U.S. customs frontier. To determine the feasibility of collecting information on the gross transactions, BEA added questions to the 2011 benchmark survey to identify the value of purchases and subsequent sales of goods under merchanting. BEA is currently tabulating the information and will determine if it can be used to estimate gross transactions. Currently, these transactions are denoted “n.a.” in prototype table 2, lines 13 and 14.

**Introduce manufacturing services on physical inputs owned by others (goods for processing).** BEA continues to investigate options for implementing the new treatment of goods sent abroad for processing without a change in ownership that is recommended in the *BPM6*. Under the *BPM6* treatment, goods sent abroad for processing without a change in ownership should be excluded from statistics on trade in goods; the processing fee charged by the manufacturing services provider should be recorded as trade in services. In addition, goods sent abroad for processing and subsequently sold abroad should be recorded as U.S. exports of goods at the time they are sold, and any inputs purchased abroad by the U.S. firm and processed abroad should be recorded as U.S. imports of goods.<sup>20</sup> Detailed information on the processing fees received and paid by U.S. firms for manufacturing services and on the underlying goods transactions currently either are not available in the U.S. statistical system or are not

identifiable in any of the source data. In the absence of this information, implementing this new standard will be challenging, a situation faced by many other countries.

Despite these challenges, BEA continues to conduct research to determine feasible approaches for implementing this new treatment. BEA has begun evaluating information related to goods for processing and manufacturing services collected on several surveys. To understand the activity of U.S. multinationals with respect to manufacturing services, BEA added questions on purchases and performance of manufacturing services to its 2009 Benchmark Survey of U.S. Direct Investment Abroad. The questions were added to identify a group of firms engaged in manufacturing services that could be used either as a sample frame for a special survey or as a way to identify firms engaged in manufacturing services that could be examined through a data link project with the Census Bureau. In addition, BEA is in the process of tabulating data collected on its 2011 benchmark survey to determine whether respondents can identify the costs of the manufacturing services they provided or purchased as well as the destination of the goods after processing.<sup>21</sup>

To determine the feasibility of adjusting the merchandise trade statistics to remove goods that cross the border without a change in ownership, BEA is also continuing to work with the Census Bureau to explore options for identifying the merchandise trade transactions of U.S. firms that purchase manufacturing services from overseas contractors or that provide manufacturing services to foreigners. The Census Bureau has also added special inquiries to the 2012 Economic Census (1) to collect information at the establishment level to identify “factoryless goods producers,” which are defined as business units that control the entire manufacturing process but that

21. For example, for goods processed in the United States, respondents are asked if the goods remain in the United States after processing, if the goods are exported from the United States, if some of the goods remain and some are exported, or if the destination of goods is unknown to the respondent.

19. See for example, table 1, lines 90 and 119, for which data are not available, and table 4, lines 19 and 43, for which data currently reflect only income attributable to insurance policyholders.

20. For more information, see *BPM6*, chapter 10, “Goods and Services Account,” section 10.65–10.66. For a discussion of the measurement issues related to goods for processing, see chapter 5, “Goods Sent Abroad for Processing,” in *Impact of Globalization on National Accounts* (New York and Geneva: United Nations, 2011).

### Feedback on Planned Changes

Customers can find the latest updates and other background information on the modernization efforts on BEA's Web site at [www.bea.gov/international/modern.htm](http://www.bea.gov/international/modern.htm). BEA encourages its customers to look closely at the proposed changes and to provide comments and suggestions to help guide its efforts. Comments can be sent to [internationalaccounts@bea.gov](mailto:internationalaccounts@bea.gov).

outsource all manufacturing transformation activities, and (2) to assess whether sufficient data can be collected on the value of the manufacturing services and associated revenue on sales of goods produced by manufacturing services providers.<sup>22</sup> A change in the treatment of goods for processing would also have important implications for BEA's national and industry accounts. The treatment of goods for processing is closely connected with an ongoing effort by U.S. statistical agencies to improve the industry classification of factoryless goods producers in the U.S. economic statistics. Because of these implications, BEA is taking a coordinated approach to ensure that changes are made consistently throughout the economic accounts and throughout the U.S. statistical system.<sup>23</sup>

### Prototype Tables

The current set of prototype tables presents annual statistics for 2006–2011 that are based on statistics published in the June 2012 annual revision of the ITAs. These tables present the accounts according to the standard components introduced by the IMF in the *BPM6* and thus represent what BEA's new presentation would look like if all changes were implemented. Whenever possible, adjustments based on current data have been made to existing statistics to align them with the definitions and classifications recommended by the new standards. For some accounts with data cells denoted "n.a.," the required source data are not currently available or transactions included in existing accounts cannot be separately identified. When the new presentation is introduced in 2014, the items that remain unavailable will not be presented.

The main ITA table (table 1) summarizes the current account, capital account and financial account. Additional detail tables provide information on trade in goods (table 2), trade in services (table 3), primary income (table 4), direct investment (table 5), portfolio investment (table 6), other investment (table 7), and transactions with foreign official institutions (table 8). The structures of prototype tables 2, 3, and 5 have not changed from those in last year's article; these tables will replace the current ITA tables 2, 3, and 7 when the new presentation is introduced.<sup>24</sup> Tables that are signif-

icantly changed from those presented in last year's article are discussed below, along with two new tables that are being introduced in this article that provide information supplemental to the "core" tables presented in previous articles, including more detailed information on one or more of the accounts.

**International transactions accounts (table 1).** The structure of this prototype ITA table has been revised to define more clearly the balances derived from the accounts and to bring the presentation into closer alignment with the U.S. national accounts. "Net errors and omissions" are renamed "statistical discrepancy," returning to current practice. In addition, the balance "net financial flows"—calculated as the difference between the acquisition of assets and the incurrence of liabilities—has been renamed "net lending or borrowing derived from the financial account."<sup>25</sup> A second measure of net lending or borrowing, "net lending or borrowing derived from the current account and capital account," is now presented. This allows the statistical discrepancy to be derived as the difference between the two measures of net lending or borrowing.

**Primary income (tables 4 and 4.1).** The prototype table for primary income, table 4, has been reformatted, and some instrument detail has been added as a result of the introduction of the SLT data. In particular, dividend income attributable to investment fund shares is now available, beginning with statistics for 2011. A new supplemental primary income table, table 4.1, provides additional information on income by sector within two of the functional categories of investment—portfolio investment and other investment. Sector breakdowns for dividend and interest income attributable to deposit-taking institutions, other financial institutions, nonfinancial institutions, and general government are available for both receipts and payments, beginning with statistics for 2011. Interest income on banks' own claims and liabilities are included under deposit-taking institutions and interest income on banks' customer claims and liabilities are included under nonfinancial institutions.

**Portfolio investment (table 6).** The structure of the prototype table for portfolio investment has been changed; it now incorporates new information from the SLT, beginning with statistics for 2011. The summary category "other sectors" was removed, and "non-financial institutions" was renamed to exclude general

22. For more information, see Fariha Kamal, Brent R. Moulton, and Jennifer Ribarsky, "Measuring 'Factoryless' Manufacturing: Evidence from U.S. Surveys," presented at the conference "Measuring the Effects of Globalization," Washington, DC, February 28–March 1, 2013.

23. For more information, see "Economic Classification Policy Committee (ECPC) Recommendation for Classification of Outsourcing in North American Classification System (NAICS) Revisions for 2012" at [www.bea.gov](http://www.bea.gov).

24. For the current, official presentation of the ITAs, see for example, tables 1–12 in Sarah P. Scott, "U.S. International Transactions Accounts: Fourth Quarter and Year 2012," *SURVEY* 93 (April 2012): 38–63.

25. Under the *BPM6*, "net lending or borrowing derived from the financial account" takes the opposite sign of "net financial flows" that is currently published in the ITAs. Net lending will be positive whenever the net acquisition of financial assets exceeds the net incurrence of liabilities, a situation that currently results in negative net financial flows.



government. The table now shows instrument detail for investment fund shares and state and local government securities in part A and complete sector detail in part B. The general government sector now includes transactions for municipal bonds.

**Other investment (tables 7 and 7.1).** The prototype table for other investment, table 7, has been reformatted, but the content remains the same. "Other sectors" has been relabeled "other financial institutions and nonfinancial institutions, except general government." A new supplemental table presenting data for other investment, table 7.1, provides additional detail for each sector by instrument, by type of institution, and by currency, similar to data presented in current ITA tables 9, 10, and 11. The table now provides a more comprehensive view of financial intermediation by banks and other sectors. Table 7.1 also identifies interbank activity for the deposit-taking sector and presents resale and repurchase agreements as a component of deposits for the deposit-taking sector and as a component of loans for the "other financial institutions and nonfinancial institutions, except general government" sector, as recommended in the *BPM6*.

**Portfolio and other investment liabilities to foreign official agencies (table 8).** The prototype for this supplemental table presents transactions in U.S. portfolio and other investment liabilities to foreign official institutions, a subset of U.S. liabilities to all foreigners, and incorporates new data from the SLT, beginning with statistics for 2011. In part A, which shows liabilities by instrument, new detail on investment fund shares is presented and state and local government securities have been included in "other securities, including corporate bonds." In part B, liabilities by sector of U.S. issuer, complete sector detail for transactions in liabilities to foreign official agencies is presented. The sector information has also been reformatted to be consistent with the changes to tables 6 and 7.

**Other tables.** The prototype tables presented in this article are part of a broader set of tables that BEA is developing as part of its plans for implementing the new international standards. Two additional tables for the ITAs are currently being developed: (1) a table with geographic detail similar to current ITA table 12, U.S. International Transactions, by Area, and (2) a table reporting selected U.S. federal government transactions that will replace current ITA table 6, Selected U.S. Gov-

ernment Transactions. New presentations are also being developed for the IIP accounts tables and the detailed services tables published in the October SURVEY and on BEA's Web site. Changes to the ITA presentation of goods and services statistics will also affect the tables included in the monthly news release "U.S. International Trade in Goods and Services," which is published jointly with the Census Bureau.

### Implementation Timing and Outreach

BEA will implement most of the *BPM6* recommendations and will introduce the new presentation of the international accounts in June 2014. In early June, goods and services statistics will be published on the new basis in the monthly release, "U.S. International Trade in Goods and Services, April 2014" and in "U.S. International Trade in Goods and Services, Annual Revision for 2013" released jointly by BEA and the Census Bureau. In mid-June, the new presentation of the ITAs will be introduced in BEA's "U.S. International Transactions: First Quarter of 2014" and with the annual revision of the ITAs. Quarterly and annual statistics for the first quarter of 2003 to first quarter of 2014 will be released on the new *BPM6* basis.

Statistics based on the previous edition of the standards will also be published through 2013. This will provide users with a statistical overlap period, or bridge, that will allow them to evaluate relationships between series on the old and new bases. The release of the IIP statistics at the end of June 2014 will also be published on the new basis with a similar overlap period.

BEA will conduct additional outreach efforts before the new presentation is introduced to ensure that the major changes in the accounts are well understood by stakeholders. These outreach efforts will include publishing a series of SURVEY articles in early 2014 describing the new presentations and explaining major changes, meeting with key stakeholders, and providing access to redesigned table templates to data users in advance of each release. As changes are made to the accounts, BEA will continue to update the documentation of its methodology in *U.S. International Transactions Accounts: Concepts and Estimation Methods*, which is available at [www.bea.gov](http://www.bea.gov).

*Tables 1 through 8 follow.*