The Comprehensive Restructuring of the International Economic Accounts

Changes in Definitions, Classifications, and Presentations

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IN JUNE 2014, the Bureau of Economic Analysis (BEA) will release new table presentations of the U.S. international economic accounts resulting from a comprehensive restructuring of the accounts. This restructuring represents the most significant change to the international accounts since 1976. It is the culmination of a multiyear process to modernize the accounts by introducing changes that bring BEA's statistics into closer alignment with new international statistical guidelines for compiling balance of payments and international investment position (IIP) statistics, including the International Monetary Fund's *Balance of Payments and International Investment Position Manual, 6th edition* (*BPM6*).[1] Between June 2009 and June 2013, BEA introduced several changes in definitions and classifications that could be accommodated in the current presentation, but it delayed changes in presentation until this year to minimize disruptions for data users.[2] The new presentation of the U.S. international transactions accounts (ITAs) and the IIP accounts will increase the overall quality and usefulness of the accounts to BEA's customers.

This article describes the new presentation of the international accounts and the upcoming changes. In addition, it will briefly describe some changes that BEA continues to pursue and plans to introduce in future annual revisions.

The *BPM6* was developed in coordination with the *System of National Accounts 2008 (SNA 2008)*, which

1. *Balance of Payments and International Investment Position Manual, 6th edition,* International Monetary Fund, Washington, DC, 2009.

2. For the changes that have already been introduced, see Kristy L. Howell and Kyle L. Westmoreland, "Modernizing and Enhancing BEA's International Economic Accounts: A Progress Report and Plans for Implementation," SURVEY OF CURRENT BUSINESS 93 (May 2013): 44–67; Kristy L. Howell, "Modernizing and Enhancing BEA's International Economic Accounts: A Progress Report," SURVEY 92 (May 2012): 37–50; 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 and Robert E. Yuskavage, "Modernizing and Enhancing BEA's International Economic Accounts: Recent Progress and Future Directions," SURVEY 90 (May 2010): 6–20.

Comprehensive Restructuring of the International Accounts

What is the comprehensive restructuring?

- The most significant change to the international accounts since 1976
- Restructured presentation of the international transactions accounts (ITAs) and the international investment position (IIP) accounts
- More extensive information about international trade and investment

What's new and improved?

- New categories of investment, reflecting the functions and characteristics of investment
- Standardized presentation of financial transactions, positions, and investment income
- Additional detail on financial transactions and investment income by sector and maturity
- Market valuation of direct investment featured in the IIP accounts
- Direct investment presented on an asset/liability basis
- Removal of "balance of payments signs"
- More timely and more detailed information on trade in services
- New definition of trade in travel services
- Expanded gross recording of transactions

What are the benefits of the restructured accounts?

- Improvement in the comparability to statistics of other countries, allowing for improved bilateral comparisons
- Improvement in the comparability with other U.S. macroeconomic statistics
- Consistency with balance sheet concepts
- Greater, more complete information about trade in services and the global financial picture
- More precise measures of rates of return as a result of the standardized presentation of positions and investment income

provides recommendations for compiling the national economic accounts, to promote consistency across macroeconomic statistics.[3] Additional international standards focusing on specific aspects of the international economic accounts were also developed in coordination with *BPM6*. The comprehensive restructuring will bring the international accounts into closer alignment with these additional international standards, including the Organisation for Economic Co-operation and Development's *Benchmark Definition of Direct Investment, 4th edition,* which provides detailed guidance on compiling direct investment statistics, and the United Nations *Manual on Statistics of International Trade in Services 2010,* which provides detailed guidance on compiling trade in services statistics.[4]

The international standards provide recommendations for compiling and presenting economic accounts. The standards are not only designed to be consistent across macroeconomic statistics, by providing a common framework, but they are also designed to promote consistency across countries. This is particularly important for international economic statistics where international transactions between any two countries should be mirrored in each other's bilateral statistics; for example, country A's exports of services to country B should be mirrored in country B's imports of services from country A. Bilateral comparisons can provide valuable insights into the completeness and quality of the statistics and help identify areas of concern, but only if the two countries' statistical methodology and data sources are comparable.

The *BPM6* is the first update to the *Balance of Payments Manual* since 1993. It clarifies or provides new recommendations for compiling statistics in light of global economic and financial developments since 1993. For example, it clarifies the classification of digitally delivered services and provides new guidance for identifying the residence and treatment of activities of special purpose entities that hold assets in a country but have little or no physical presence in that country. It also provides guidance for implementing innovations in measurement developed by economic account compilers to close data gaps or to overcome shortcomings in the existing methodology. For example, the *BPM6* provides new guidelines for recording sales of intellectual property products that reflect the new guidelines provided in *SNA 2008* for recording expenditures on research and development (R&D) as investment rather than as an expense. These new guidelines will result in statistics that allow better measurement of the effects of innovation and intangible assets on the economy. Finally, the *BPM6* reflects the increased emphasis on using balance sheet analysis to understand international economic developments. The balance sheet approach provides a systematic framework for analyzing balance sheet weaknesses of an economy. By providing information on the composition and size of assets and liabilities by functional category of investment (for example, direct investment or portfolio investment), by instrument, and by maturity, a country's balance sheet provides important insights into how vulnerable its economy is to external market conditions. As a result, the *BPM6* also provides more detailed guidance on the IIP than previous manuals. While bringing BEA's statistics into closer alignment with the international standards improves the international accounts in several ways, BEA considered the needs of its customers and modified its presentation from the recommendations in the *BPM6* as needed to maintain important data series and to increase the usefulness of these series to its customers.

3. 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).

4. *Benchmark Definition of Foreign Direct Investment, 4th edition,* (Paris: OECD, 2008). *Manual on Statistics of International Trade in Services 2010,* (United Nations: New York, 2012).

Implementation: Timing and Outreach

On June, 4, 2014, statistics on goods and services will be released on the restructured basis in the joint release of "U.S. International Trade in Goods and Services, April 2014" and in "U.S. International Trade in Goods and Services, Annual Revision for 2013" by the Bureau of Economic Analysis (BEA) and the Census Bureau. On June 18, 2014, the international transactions accounts will be released on the restructured basis in BEA's "U.S. International Transactions: First Quarter 2014 and Annual Revisions." On June 30, 2014, the international investment position (IIP) will be released on the restructured basis in "U.S. International Investment Position: End of First Quarter 2014, Year 2013, Annual Revisions."

An update to the guide covering the concepts, methods, and data sources that BEA uses to prepare the international accounts will also be available on www.bea.gov in June 2014.

In addition to this article and other notices on the Web site, BEA will conduct outreach efforts before the new presentation is introduced to ensure that the major changes in the accounts are well understood by stakeholders. Information about these outreach activities will be posted to www.bea.gov and included in listserv e-mails.

For more information, users can contact BEA's Balance of Payments Division at InternationalAccounts@bea.gov.

This article first describes the restructuring of the accounts—the changes in the table structures and the overarching changes in presentation that affect multiple tables. It then provides additional detail on each of the main accounts. Table A provides a summary of the major changes to be introduced in June and the primary benefits.

Restructuring the International Accounts

One of BEA's goals for the comprehensive restructuring is to make the ITAs and the IIP accounts easier for customers to use and understand. This section first describes the new table structure of the ITAs and the IIP accounts, and then it describes the length of time series that will be available for the various components of the accounts.

Table structure

BEA will introduce new tables for the ITAs and the IIP in June 2014. Table B summarizes the new tables and shows a correspondence to the tables in the current presentation (on pages 5 and 6). The ITA tables will be grouped into sections; for example, section 1 will consist of three tables showing summary information for the international transactions. Table 1.1, which will provide a summary of the major aggregates in the ITAs, will be useful for understanding the general framework of the ITAs and for examining broad trends in international transactions. ITA table 1.2 will provide additional detail for the current, capital, and financial accounts. ITA table 1.3 will provide information at the same level of detail as in ITA table 1.2 but by area and by country. The rest of the ITA tables will provide additional detail on specific accounts in the order that they appear in table 1.2; that is, section 2 will cover trade in goods, section 3 will cover trade in services, and so on. All of these tables will be available on a quarterly basis.

The new presentation of the IIP will feature the same drill down approach used for the ITAs. IIP table 1.1, which will also be published quarterly, will show the main aggregates; this table will be useful for examining broad trends in the IIP accounts. IIP table 1.2, which will also be published quarterly, will provide additional detail by instrument. IIP table 1.3, which will be published annually, will attribute changes in the

Table A. Summary of the Major Changes to the International Economic Accounts and the Major Benefits—Continues

Components	Major changes	Major benefits: Improve comparability with other macroeconomic statistics	Major benefits: Improve comparability with other countries' statistics and international standards	Major benefits: Provide additional detail	Major benefits: Close data gap or improve measurement
Multiple Accounts					
Primary income, financial transactions, and international investment position	Classify these accounts by the following functional categories: direct investment, portfolio investment, financial derivatives, reserve assets, and other investment.	X	X	X	
Direct investment income, financial transactions, and positions	Present these accounts on an asset/liability basis rather than a directional basis.	X	X	X	
Current Account					
Trade in goods	Categorize into major aggregates: general merchandise, net exports of goods under merchanting (only exports), and nonmonetary gold. Expand end-use categories for general merchandise trade to 77 categories for exports and to 69 categories for imports. Reclassify net exports of goods under merchanting from services to goods.	X	X	X	
Trade in services	Classify services by Extended Balance of Payments Services Classification, reflecting major changes in the delivery of services and new types of services.	X	X	X	X
Travel services	Broaden the definition of travel to include travel for health and education and expenditures by short-term workers (previously in other private services). Provide new statistics on business and personal travel.		X	X	
Insurance services	Provide quarterly detail on primary insurance, reinsurance, and auxiliary insurance.			X	

yearend positions to financial account transactions, price changes, exchange-rate changes, and other changes in volume and valuation. IIP table 2.1, which will be published quarterly, will reconcile the direct investment positions on an asset/liability basis measured at market value with the direct investment positions on a directional basis measured at historical cost. IIP table 3.1 will present additional information on U.S. liabilities to foreign official agencies on a quarterly basis.

Time series

BEA's goal is to provide as long a time series as possible for the restructured accounts. However, some series cannot be carried back beyond a given date because of a lack of source data. For example, some of the detail in the financial account and the IIP accounts will only be available beginning in 2011. To avoid limiting all the time series to the series with the shortest span, BEA will vary the start dates of each series so that each series can be carried back as far as possible. Generally speaking, more aggregate series will be available for a longer time series, while the length of the more detailed series will be limited by the availability of source data. BEA has posted table templates on its Web site that also provide information on time series availability.

Availability of New Table Templates

Table templates for the restructured presentations of the international transactions accounts and the international investment position have been posted on BEA's Web site at www.bea.gov to give users an opportunity to preview the changes that will be introduced in June 2014. The Web site will also include information on the earliest quarter and year for which statistics will be available in each table.

BEA will provide statistics based on the current presentation through the first quarter of 2014. This will provide users with a statistical overlap period, or bridge, that will allow them to evaluate relationships between the new series and the old series.

Table A. Summary of the Major Changes to the International Economic Accounts and the Major Benefits

Components	Major changes	Major benefits: Improve comparability with other macroeconomic statistics	Major benefits: Improve comparability with other countries' statistics and international standards	Major benefits: Provide additional detail	Major benefits: Close data gap or improve measurement
Current Account					
Financial services	Provide quarterly detail on securities brokerage, underwriting, and related services; financial management, financial advisory, and custody services; credit card and other credit-related services; and securities lending, electronic funds transfers, and other services.			X	
Charges for the use of intellectual property	Provide quarterly detail on charges for the use of computer software, trademarks and franchise fees, audio visual and related products, and "other" intellectual property.			X	
Primary income	Provide detail by type of investment income (on equity and investment fund shares or interest), by maturity, and by sector.	X	X	X	
Secondary income (previously current unilateral transfers)	Record on a gross basis and provide additional detail by type of transfer.	X	X	X	
Capital Account					
Capital account	Present on a gross basis.	X	X		
Financial Account					
Portfolio investment	Provide detail by instrument, by sector, and by maturity.	X	X	X	
Other investment	Provide detail by instrument, by sector, and by maturity.	X	X	X	X
Reserve assets	Provide detail on currency and deposits, securities, financial derivatives, and other claims.	X	X	X	
International Investment Position Accounts					
Direct investment	Value direct investment position at market value.	X	X	X	
Financial derivatives	Present over-the-counter contracts and exchange-traded contracts. For over-the-counter contracts, provide detail for single-currency interest-rate contracts, foreign exchange contracts, and other contracts.			X	

Overarching Changes in Presentation of the Restructured Accounts

Several changes in presentation affect multiple tables. These changes are discussed below.

Sign convention

In the new presentation of the ITAs, the uniform use of negative signs for debit entries will be eliminated. Previously, credits (exports, income receipts, transfers received, reductions in assets, and increases in liabilities) were presented as positive numbers, while debits (imports, income payments, transfers made, increases in assets, and decreases in liabilities) were presented as negative numbers. The balance of payments sign convention proved to be a source of confusion to users. In the new presentation, positive signs will be used to show exports and imports, income receipts and payments, transfers made and received, and increases in assets and in liabilities. Negative signs will only be used to indicate negative income (losses) and decreases in assets or in liabilities (for example, when investments are sold).[5] Current-account and capital-account balances will be calculated as the difference between underlying gross credit and debit flows, such as exports less imports.[6] For the financial account, net lending or net borrowing will be calculated as the difference between the net acquisition of assets and the net incurrence of liabilities.[7] These new conventions should make the ITAs more intuitive to understand and to interpret as well as make it easier to relate financial-account transactions to the corresponding changes in

5. Exceptions may arise in a few highly specialized types of transactions. However, these are likely to be manifested only rarely in published totals. For example, merchanting transactions (goods bought and resold abroad by U.S. residents without the goods ever physically entering or leaving the United States) may in certain circumstances, result in negative entries under exports.

6. The terms "transactions" and "flows" are used interchangeably in this article.

7. 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.

Table B. New Presentation of the International Accounts—Continues

New table number	New table title	Statistics previously published in these tables
	U.S. International Transactions Accounts	
	Section 1. U.S. International Transactions	
1.1	U.S. International Transactions	1. U.S. International Transactions
1.2	U.S. International Transactions, Expanded Detail	1. U.S. International Transactions
1.3	U.S. International Transactions, Expanded Detail by Area and Country	12. U.S. International Transactions by Area and Country
	Section 2. U.S. Trade in Goods	
2.1	U.S. International Trade in Goods	2a. U.S. Trade in Goods, part C, trade in goods by principal end-use category on a balance of payments basis
2.2	U.S. International Trade in Goods by Area and Country, Seasonally Adjusted Detail	**New table**
2.3	U.S. International Trade in Goods by Area and Country, Not Seasonally Adjusted Detail	2a. U.S. Trade in Goods, part B, trade in goods by area and country on a balance of payments basis
2.4	U.S. International Trade in Goods, Balance of Payments Adjustments	2a. U.S. Trade in Goods, part A, balance of payments adjustments to Census Bureau trade data
	Section 3. U.S. Trade in Services	
3.1	U.S. International Trade in Services	3a. Private Services Transactions
3.2	U.S. International Trade in Services by Area and Country, Seasonally Adjusted Detail	**New table**
3.3	U.S. International Trade in Services by Area and Country, Not Seasonally Adjusted Detail	12. U.S. International Transactions by Area and Country
	Section 4. Primary Income	
4.1	U.S. International Transactions in Primary Income	4. Investment Income
4.2	U.S. International Transactions in Primary Income on Direct Investment	7a. Direct Investment: Income, Financial Flows, Royalties, and License Fees, and Other Private Services, income
4.3	U.S. International Transactions in Primary Income on Portfolio Investment by Sector	4. Investment Income
4.4	U.S. International Transactions in Primary Income on Other Investment by Sector	4. Investment Income
	Section 5. Secondary Income	
5.1	U.S. International Transactions in Secondary Income	1. U.S. International Transactions, unilateral current transfers
	Section 6. Direct Investment	
6.1	U.S. International Financial Transactions for Direct Investment	7a. Direct Investment: Income, Financial Flows, Royalties, and License Fees, and Other Private Services, financial flows

asset and liability positions presented in the IIP accounts.

Expanded use of gross recording of transactions

In the comprehensive restructuring, BEA will expand the use of gross recording. Under gross recording of transactions, the underlying flows are shown at their full credit or debit values rather than as the net of credits and debits. Gross recording is preferable for current- and capital-account transactions in the ITAs to show the magnitude of the underlying flows, which can be obscured when shown on a net basis. It does not change the balances.

The most prominent examples are current transfers and the capital account, which are currently shown on a net basis. In the new presentation, they will be shown on a gross basis. In addition, current transfers will be shown in the secondary income account as recommended in the *BPM6;* this change will be discussed further below.

Consistent classification by functional category

The *BPM6* defines five functional categories for classifying financial transactions, positions, and income: (1) direct investment, (2) portfolio investment, (3) financial derivatives, (4) reserve assets, and (5) other investment. The functional categories are distinguished by the motivation behind the investment and the relationship between the parties. Direct investment involves a significant degree of control or influence by a resident of one country over the management and operations of a business in another country, and it usually involves a close and lasting relationship between the parties. Portfolio investment is defined as cross-border transactions involving debt or equity securities. Portfolio investors typically exert much less influence over the operations of the enterprise than direct investors, and portfolio investors may make short-term investments.

Financial derivatives as a functional category coincides with financial derivatives as a financial instrument class because of their unique nature. Financial derivatives are instruments in which risk is traded through financial markets, but unlike other financial instruments, they generate no financial or other resources. Unlike other functional categories, no

Table B. New Presentation of the International Accounts

New table number	New table title	Statistics previously published in these tables
	U.S. International Transactions Accounts	
	Section 7. Portfolio Investment	
7.1	U.S. International Financial Transactions for Portfolio Investment	5. U.S. Official Reserve Assets and Foreign Official Assets in the United States, part B, foreign official assets in the United States 8a. Transactions in Long-Term Securities 9a. Claims on and Liabilities to Unaffiliated Foreigners Reported by U.S. Nonbanking Concerns Except Securities Brokers 10a. Claims on Foreigners Reported by U.S. Banks and Securities Brokers 11a. Liabilities to Foreigners, Except Foreign Official Agencies, Reported by U.S. Banks and Securities Brokers
	Section 8. Other Investment	
8.1	U.S. International Financial Transactions for Other Investment	5. U.S. Official Reserve Assets and Foreign Official Assets in the United States, part B, foreign official assets in the United States 9a. Claims on and Liabilities to Unaffiliated Foreigners Reported by U.S. Nonbanking Concerns Except Securities Brokers 10a. Claims on Foreigners Reported by U.S. Banks and Securities Brokers
	Section 9. Addendum Table	
9.1	U.S. International Financial Transactions for Liabilities to Foreign Official Agencies	5. U.S. Official Reserve Assets and Foreign Official Assets in the United States, part B, foreign official assets in the United States
	U.S. International Investment Position Accounts	
	Section 1. U.S. International Investment Position	
1.1	U.S. Net International Investment Position at the End of the Period	1. International Investment Position of the United States at the End of the Period
1.2	U.S. Net International Investment Position at the End of the Period, Expanded Detail	1. International Investment Position of the United States at the End of the Period
1.3	Change in the Yearend U.S. Net International Investment Position	2. International Investment Position of the United States at Yearend
	Section 2. Direct Investment	
2.1	U.S. Direct Investment Positions at the End of the Period	**New table**
	Section 3. Addendum Table	
3.1	U.S. International Investment Position for Liabilities to Foreign Official Agencies at the End of the Period	1. International Investment Position of the United States at the End of the Period

primary income accrues to financial derivatives; any amounts that accrue under the contract are classified as revaluations.

Reserve assets are those assets available to, and controlled by, monetary authorities for meeting balance of payments financing needs, for currency intervention, or for other related purposes, such as maintaining confidence in the currency. Other investment is all investment not included in the other four functional categories; for example, it includes currency and deposits, loans, trade credit and advances, nonlife insurance technical reserves, and special drawing rights allocations.

The structure of the new tables will provide a consistent presentation of financial transactions, positions, and investment income by functional category and by instrument and by maturity and by sector, where relevant, across the primary income and financial accounts and the IIP accounts. Section 4 of the ITA tables will include detailed tables on the primary income account (see table B). ITA table 4.1 will present detailed statistics on the primary income account as a whole. The remaining tables will provide additional detail: ITA table 4.2 on direct investment income; ITA table 4.3 on portfolio investment income; and ITA table 4.4 on other investment income. This structure will also be followed in the tables for financial-account transactions: ITA table 6.1 will present detailed statistics on direct investment, ITA table 7.1 will present detailed statistics on portfolio investment, and ITA table 8.1 will present detailed statistics on other investment. This structure of the tables will also be followed in the IIP accounts to make it easier for customers to use the tables and to make comparisons across the primary income account, the financial account, and IIP accounts.

Direct investment presented on an asset/liability basis

The *BPM6* and *BD4* recommend recording aggregate direct investment income, financial flows, and positions on an asset/liability basis rather than on the directional basis recommended in earlier international guidance. On the directional basis, which BEA currently uses, direct investment statistics in the primary income account, the financial account, and the IIP accounts are organized according to whether the direct investment is outward or inward (that is, whether the investor is a domestic resident or a foreign resident). On an asset/liability basis, direct investment statistics are organized according to whether the investment relates to an asset or a liability.

As a result of the implementation of the asset/liability basis, some transactions that are netted in the directional presentation are not netted in the new presentation. This primarily affects the recording of intercompany debt between parents and affiliates. Instead of netting U.S. parents' debt claims on their foreign affiliates against their debt liabilities to their foreign affiliates, as is done currently under the directional presentation, the former will be recorded as assets and the latter as liabilities. Similarly, U.S. affiliates' debt claims on their foreign parent groups will be recorded as assets and their debt liabilities to their foreign parent groups will be recorded as liabilities. Corresponding adjustments will be made to the interest income on direct investment in the current account and to the direct investment debt positions in the IIP accounts.

Recording investment and income on an asset/liability basis brings direct investment into line with the other functional categories and increases the use of gross recording in the international accounts. It also facilitates balance sheet analysis and is consistent with other macroeconomic statistics.

Nevertheless, the presentation of direct investment on a directional basis is still useful for analyzing direct investment, such as identifying the foreign countries in which U.S. multinational companies are investing or the U.S. industries in which foreign direct investors are investing. Accordingly, the *BD4* recommends that presentation by geography or by industry be shown on the directional basis rather than on the asset/liability basis. Therefore, direct investment transactions will be presented on an asset/liability basis in ITA table 1.1, which only shows aggregate flows. ITA table 6.1 will show direct investment on an asset/liability basis as well as the conversion to the directional basis, then provide detail on direct investment by industry on a directional basis. Similarly, ITA table 4.2 will show the aggregate direct investment income receipts and payments on both an asset/liability basis and a directional basis. Direct investment income and financial flows in ITA table 1.3, which shows detail by area and country, are shown on a directional basis rather than on an asset/liability basis. This presentation has the additional advantage of continuing to provide the direct investment series on a directional basis for customers who prefer that measure.

Current Account

This section discusses changes that will affect the current account, notably improved distinctions between goods and services, expansion of detail for trade in goods and for trade in services, and the introduction of the terms “primary income” and “secondary income.”

Distinction between goods and services

International guidelines recommend separating goods and services transactions to the extent possible, given the information available in the source data used to compile the accounts. Previously, several categories in the ITAs commingled goods and services. A clearer separation of goods and services more closely aligns BEA’s goods and services statistics with international economic accounting concepts and improves the comparability of statistics for trade and domestic production. As part of the June 2010 annual revision of the ITAs, BEA reclassified certain exports and imports of military-related goods from services to goods.[8] In addition, BEA reclassified goods procured by air and ocean carriers in foreign ports from services to goods.

In June 2014, the distinction between goods and services will be further refined as net exports of goods under merchanting will be reclassified from services to goods. U.S. net exports of goods under 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 of the goods and the cost of acquiring the goods sold, which are collected as “net merchanting receipts” on BEA’s surveys of selected services. The net receipts from merchanting will be reclassified from services to the new merchanting category under trade in goods.

Trade in goods

Trade in goods will be categorized in three major aggregates: general merchandise, “net exports of goods under merchanting” (exports only), and nonmonetary gold. Additional commodity detail classified by end-use category will be reported under general merchandise. In the new trade in goods table, ITA table 2.1, this detail will be expanded from 59 categories to 77 categories for exports and from 56 categories to 69 categories for imports. (The full end-use detail will continue to be reported in supporting tables that can be downloaded from the BEA Web site.) The structure of the end-use system will be unchanged; however, nonmonetary gold and certain gold coins that meet the definition of nonmonetary gold will be removed from industrial supplies and materials and from consumer goods and will be reclassified under the new “nonmonetary gold” category.[9] Nonmonetary gold that is not included in Census Bureau basis data but that is added to goods exports and imports through a balance of payments adjustment, will also be included in “nonmonetary gold.”[10]

In the new presentation, commodity detail by one-digit end-use category will be presented in ITA table 1.2 and in ITA table 1.3, which presents trade in goods by country and area. In the current presentation, only total goods exports and imports are presented in these two tables.

Statistics on trade in goods will be presented in four tables, which are similar in structure to the current table 2a. ITA table 2.1 will present statistics on the major goods aggregates—general merchandise, net exports of goods under merchanting, and nonmonetary gold—and will present end-use commodity detail for general merchandise exports and imports. ITA tables 2.2 and 2.3 will present total goods exports and imports by geographic area. ITA table 2.2 will present seasonally adjusted statistics for 12 countries and 2 world areas; these statistics are based on a new methodology developed jointly by BEA and the Census Bureau to seasonally adjust trade data by geographic area or country rather than by commodity. ITA table 2.3 will present not seasonally adjusted statistics, which will continue to be provided for more areas and countries. ITA table 2.4 will show the reconciliation between Census Bureau basis goods data and balance of payments basis goods data, including identification of the various balance of payments adjustments.

Trade in services

The new international standards for trade in services provide new guidance in light of the major changes in how services are delivered and growth in the trade of new types of services. The international standards also reflect the recognition of expenditures on research and development (R&D) and on artistic originals as fixed investment. These changes are reflected in the Extended Balance of Payments Services (EBOPS) Classification presented in the updated *Manual on Statistics of International Trade in Services.* In June 2014, BEA will introduce a new presentation of trade in services

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8. Further refinements to this reclassification were made as part of the June 2013 annual revision of the ITAs. See Barbara H. Berman and Jeffrey R. Bogen, “Annual Revision of the U.S. International Transactions Accounts,” Survey 93 (July 2013): 47.

9. Nonmonetary gold and gold coins will continue to be classified in industrial supplies and materials and consumer goods, respectively, in the source data on trade in goods from the U.S. Census Bureau. These data are adjusted by BEA for coverage, timing, valuation, and classification to a balance of payments basis.

10. These transactions involve gold that is purchased by foreign official residents and that is shipped to the Federal Reserve Bank of New York, where it is held in custody for foreign official accounts (exports) and gold that is sold by foreign official agencies to private purchasers out of stock held at the New York Federal Reserve (imports). No export or import documents are filed for this gold.

that will follow the EBOPS classification as closely as possible. These changes in classification will reflect not only the changes in the *BPM6* but also recommendations that had been made in earlier international standards that BEA had not yet adopted. BEA will continue to pursue ways to implement the EBOPS classification more fully.

One major change recommended in the *BPM6,* recording merchanting in the goods account rather than in the services account, was discussed above. BEA will not be implementing another recommendation, a new treatment of manufacturing services on physical inputs owned by others ("goods for further processing") at this time. (See the box "Manufacturing Services in the International Transactions Accounts.")

The classification of services is largely product-

Manufacturing Services in the International Transactions Accounts

The Bureau of Economic Analysis (BEA) continues to investigate methods for measuring the trade in services category "manufacturing services on physical inputs owned by others" from the *Balance of Payments and International Investment Position Manual (BPM6).* This category includes a new treatment of goods sent abroad for processing without a change in ownership. Under the *BPM6* treatment, goods sent abroad for processing without a change in ownership should be excluded from statistics on trade in goods and 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 when 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.[1] Currently, detailed information on the processing fees received and paid by U.S. firms for manufacturing services and on the underlying goods transactions 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 collected on several surveys related to goods for processing and manufacturing services. To understand the activities of U.S. multinational companies related to manufacturing services, BEA added questions on purchases and performance of manufacturing services to its 2009 Benchmark Survey of U.S. Direct Investment Abroad and the 2012 Benchmark Survey of Foreign Direct Investment in the United States. 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 that could be examined further 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 of Trade in Selected Services and Intellectual Property With Foreign Persons to determine whether respondents can identify the revenue from, or the costs of, the manufacturing services they provided or purchased as well as the destination of the goods after processing.[2]

To determine the feasibility of adjusting the merchandise trade statistics to remove goods that cross the border without a change in ownership, BEA is working 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 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, including intellectual property, but that 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 from sales of goods produced by manufacturing services providers.[3] 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 with other statistical agencies to ensure that changes are made consistently throughout the economic accounts and throughout the U.S. statistical system.[4]

1. For more information, see "Goods and Services Account," in *BPM6,* chapter 6, sections 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).

2. 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.

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

4. For more information, see "Economic Classification Policy Committee Recommendation for Classification of Outsourcing in North American Classification System Revisions for 2012" at www.bea.gov.

based, meaning that the services are classified by the type of service provided rather than by the type of unit providing or consuming it. However, there are a few items that are transactor-based: travel, construction, and government goods and services n.i.e. (not included elsewhere). The new presentation of services is discussed in detail below. Particular attention is given to identifying changes in coverage or definition for familiar items.

Detailed statistics on trade in services are currently presented in table 3a of the ITAs and are limited to trade in private services excluding transactions by the U.S. government. In the current presentation, BEA presents five major categories of private services: (1) travel, (2) passenger fares, (3) other transportation, (4) royalties and license fees, and (5) other private services. In the new presentation, nine major categories of total services will be presented in ITA table 3.1: (1) maintenance and repair services n.i.e.; (2) transport; (3) travel (for all purposes including education); (4) insurance services; (5) financial services; (6) charges for the use of intellectual property n.i.e.; (7) telecommunications, computer, and information services; (8) other business services; and (9) government goods and services n.i.e (table C). In addition to ITA table 3.1, BEA will produce two additional ITA tables, tables 3.2 and 3.3, that will present seasonally and not seasonally adjusted statistics, respectively, on total services exports and total services imports by area and country.

In addition to the quarterly ITA release, BEA also releases monthly statistics on trade in services. The detail available on a monthly basis will increase from seven major categories of services to the nine major categories of services listed above. BEA releases its most detailed trade in services statistics annually. These statistics, which are posted to BEA's Web site in

Table C. Comparison of the Current Presentation of Exports of Services With the New Presentation

Line	Current Structure of Table 3a
1	**Exports of private services**
2	Travel
3	Passenger fares
4	Other transportation
5	Freight
6	Port services
7	Royalties and license fees
	By type:
8	Industrial processes
9	Other
	By affiliation:
10	U.S. parents' receipts from their foreign affiliates
11	U.S. affiliates' receipts from their foreign parent groups
12	U.S. receipts from unaffiliated foreigners
13	Other private services
	By type:
14	Education
15	Financial services
16	Insurance services
17	Telecommunications
18	Business, professional, and technical services
19	Other services
	By affiliation:
20	U.S. parents' receipts from their foreign affiliates
21	U.S. affiliates' receipts from their foreign parent groups
22	U.S. receipts from unaffiliated foreigners

Line	New Structure of Table 3.1
1	**Exports of services**
2	Maintenance and repair services n.i.e.
3	Transport
4	Sea transport
5	Freight
6	Port
7	Air transport
8	Passenger
9	Freight
10	Port
11	Other modes of transport
12	Travel (for all purposes including education)
13	Business
14	Expenditures by border, seasonal, and other short-term workers
15	Other business travel
16	Personal
17	Health related
18	Education related
19	Other personal travel
20	Insurance services
21	Direct insurance
22	Reinsurance
23	Auxiliary insurance services
24	Financial services
25	Securities brokerage, underwriting, and related services
26	Financial management, financial advisory, and custody services
27	Credit card and other credit-related services
28	Securities lending, electronic funds transfer, and other services
29	Charges for the use of intellectual property n.i.e.
30	Industrial processes
31	Computer software
32	Trademarks and franchise fees
33	Audio-visual and related products
34	Other intellectual property
35	Telecommunications, computer, and information services
36	Telecommunications services
37	Computer services
38	Information services
39	Other business services
40	Research and development services
41	Professional and management consulting services
42	Technical, trade-related, and other business services
43	Government goods and services n.i.e

mid-October and published in the October SURVEY OF CURRENT BUSINESS, provide the most detailed statistics by type of service and by country and area. A new annual presentation will be released in October 2014, and the number of detailed services will increase from 33 to 49. However, information on trade in services between affiliated parties will only be published annually in October, not quarterly.

Maintenance and repair services n.i.e. The *BPM6* recommends reclassifying maintenance and repair services from trade in goods to trade in services. Because BEA currently includes maintenance and repair services in its "other" private services category, the aggregate measures of trade in goods or in services will not be affected by the new guidelines for this category. BEA will separately identify maintenance and repair services n.i.e. in the new presentation.

Transport. In the restructured presentation, the new category "transport" will cover the current categories "other transportation" and "passenger fares." Transport will be further broken into "sea transport," "air transport," and "other modes of transport." Passenger fares, which cover fares for air travel, will still be shown as "passenger air transport" under "air transport."

Travel. The international standards recommend using a broader definition of travel than that currently used by BEA. The broader definition includes education-related and health-related travel and the expenditures on goods and services by border, seasonal, and other short-term workers. In the new presentation, these transactions, which are currently included in "other" private services, will be reclassified to travel. To distinguish the new broader category from the current measure, the new category will be called "travel (for all purposes including education)" (table C). The new presentation will show business travel expenditures and personal travel expenditures. Under business travel, the new presentation will show expenditures by border, seasonal, and other short-term workers and "other" business travel. Under personal travel, the new presentation will show health-related travel, education-related travel, and "other" personal travel.

This new presentation provides two benefits. First, education-related travel, currently shown as education under "other" private services, will remain available to BEA's data users. Second, users will be able to reconstruct the current measure of travel by adding "other" business travel and "other" personal travel.

The new presentation will also improve the comparability of BEA's travel statistics with those of other countries. The broader definition of travel was recommended in earlier versions of the international standards, and it was widely adopted by other countries then. Improved comparability of statistics is useful in evaluating potential data sources and changes in methodology. For the past few years, BEA has been reassessing its methodology and data sources for compiling travel statistics. As part of this work, performing bilateral comparisons has provided valuable insights into different sources and methods. A future article in the *Survey* will describe the revised methodology for compiling travel statistics that BEA will implement in June.

Insurance services. The *BPM6* recommends a new method for measuring insurance services that BEA has introduced in stages in 2003, 2004, and 2009.[11] As a result, the current measurement of insurance services will not change. However, ITA table 3.1 will provide more quarterly detail on insurance services than is currently available. Total trade in insurance services will be disaggregated into direct insurance, reinsurance, and auxiliary insurance services. Previously, this information was just presented annually in the release of international services statistics in the October *Survey.*

Financial services. In June 2014, no changes will be introduced in the coverage or definitions for measuring financial services in the ITAs. However, ITA table 3.1 will provide more quarterly detail than is currently available. Total trade in financial services will be disaggregated into four categories: (1) securities brokerage, underwriting, and related services; (2) financial management, financial advisory, and custody services; (3) credit card and other credit-related services; and (4) securities lending, electronic funds transfer, and other services.

The *BPM6* recommends including the values of two implicitly priced services in the measure of financial services: (1) financial intermediation services indirectly measured (FISIM) and (2) dealers' and market-makers' margins on financial instruments. Financial intermediaries implicitly charge for services by paying a lower interest rate on deposits than they charge on loans. The resulting net receipts are used to defray expenses and provide profits. It is important to capture FISIM in the estimates of trade in financial services because this return may change. For example, if some financial institutions begin to charge for services implicitly that they had previously charged explicitly,

11. For details, see Christopher L. Bach, "Annual Revision of the U.S. International Transactions, 1992–2002," SURVEY 83 (July 2003): 32–45; Christopher L. Bach, "Annual Revision of the U.S. International Transactions," SURVEY 84 (July 2004): 52–64; and Anne Flatness, Erin M. Whitaker, and Robert E. Yuskavage, "Annual Revision of the U.S. International Accounts," SURVEY 89 (July 2009): 35–47.

financial services excluding FISIM would show slower growth than if there had been no change in practices. In addition, including FISIM promotes international comparability as financial institutions in some countries may charge explicitly for services that are charged implicitly in other countries. BEA is still exploring methods for estimating FISIM and plans to introduce FISIM into the accounts in a future annual revision.

Dealers and market-makers in financial instruments may be reimbursed in full or in part for their market-making services by the margin between buying and selling prices. The existence of the buy/sell or bid/ask spread is an indication that these dealers are providing market-making services, similar to wholesalers, by providing liquidity and holding inventory. It is important to include these implicitly priced services in the measure of financial services to provide a complete picture of the services being traded. BEA includes margins on bond trading in brokerage services and has begun to explore possible data sources and methodology for estimating these implicitly priced services for other financial instruments.

Charges for the use of intellectual property n.i.e. In the new presentation, "charges for the use of intellectual property" will replace royalties and license fees. In June 2014, the definitions or coverage of this item will not change, but the quarterly detail by type of intellectual property will be expanded from industrial processes to include computer software, trademarks and franchise fees, audio-visual and related products, and "other" intellectual property in ITA table 3.1 (table C). Audio-visual and related products include films and television programs, broadcasting and recording of live events, and books, records and tapes.

The *BPM6* recommends other changes to the treatment of charges for the use of intellectual property that BEA will not be implementing at this time. To implement the new treatment of expenditures on R&D and artistic originals as investment, the *BPM6* recommends distinguishing rights to use intellectual property, rights to reproduce or distribute intellectual property, and outright sales and purchases of intellectual property, and the classification of each depends on the type of intellectual property. Transactions in rights to reproduce or distribute intellectual property and some transactions in rights to use intellectual property should be classified under "charges for the use of intellectual property n.i.e." Transactions related to the outright sale of intellectual property and certain transactions related to its use should be reclassified to the respective services categories.[12] 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, and transactions in 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 enables the recommended measurement of domestic R&D investment in the national income and product accounts, which is defined as domestic R&D output plus imports of R&D services less exports of R&D services. Currently, transactions in the rights to use intellectual property and 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 voluntary 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. 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 has reviewed these data and found 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

Acknowledgments

The International Economic Accounts Modernization and Enhancement Steering Committee at the Bureau of Economic Analysis contributed significantly to this article. Steering committee members are Sarahelen Thompson, Associate Director for International Economics; Paul W. Farello, Chief of the Balance of Payments Division (BPD); Maria Borga (chair), Assistant BPD Chief for Research and Analysis; Kristy L. Howell, Assistant BPD Chief for Goods and Services Trade; Christopher A. Gohrband, Chief of BPD's Financial Accounts Branch; and Daniel R. Yorgason, Chief of BPD's Methodology and Special Studies Branch. Others who reviewed and contributed to the article include Patricia E. Abaroa, Barbara K. Hubbard, Michael A. Mann, Elena L. Nguyen, and Douglas B. Weinberg.

12. However, the outright sales of marketing assets—such as trademarks, brands, logos, and franchises—should still be recorded in the capital account because they are still treated as nonproduced, nonfinancial assets.

property, the rights to reproduce or distribute) were much more prevalent than outright sales and purchases of intellectual property. BEA is considering making the questions mandatory so that it can implement the *BPM6* in a future annual revision.[13]

Telecommunications, computer, and information services. The *BPM6* introduces this category by combining two types of services—telecommunications and computer and information services—that were previously treated separately in EBOPS. BEA currently includes these items in "other" private services, and telecommunications is shown separately on a quarterly basis. ITA table 3.1 will show the aggregate category and its three components: telecommunications services, computer services, and informations services. This presentation will continue to provide statistics on telecommunications as well as to provide information on computer and information services not currently available on a quarterly basis.

Other business services. This category is the combination of three EBOPS categories: "other business services," "construction," and "personal, cultural, and recreational services." The EBOPS category "other business services" covers a wide variety of services, such as R&D services, management and consulting, advertising, legal services, and industrial engineering. "Personal, cultural, and recreational services" cover a variety of services, including fees related to the production of motion pictures, radio and television programs, and musical recordings; payments or receipts for renting audiovisual and related products, downloaded recordings and manuscripts; telemedicine; online education; and receipts or payments for cultural, sporting, and performing arts activities. BEA has good coverage of "other business services." However, the coverage of "personal, cultural, and recreational services" is not complete enough to be shown separately; BEA is working to improve coverage of these services and plans to show these items separately in the future.

ITA table 3.1 will present the aggregate category "other business services" and its components: R&D services, professional and management and consulting services, and technical, trade-related, and other business services.

Government goods and services n.i.e. This category is defined by the transactor rather than by the type of service. It consists of goods and services supplied by and to embassies, consulates, and military bases; goods and services acquired by diplomatic and military personnel in the host economy; and services supplied by and to governments not included in other categories of services. This category combines transactions currently shown under "transfers under U.S. military agency sales contracts," "direct defense expenditures," and "U.S. government miscellaneous services." BEA has recently identified specific types of goods and services being supplied by and to government agencies and personnel and reclassified most of them from the general government goods and services categories to the specific goods and services categories. These reclassifications ensure that BEA's trade statistics provide as much information as possible on the specific types of goods and services being traded.

Primary income

In the new presentation, the income account, which includes investment income and compensation of employees, will be renamed "primary income." The *BPM6* introduces this term to be consistent with the "allocation of primary income" account in the *System of National Accounts 2008*. In the new presentation, ITA table 4.1 will provide detailed statistics on primary income. The coverage of ITA table 4.1 will be broader than that of table 4 in the current presentation because it will include compensation of employees as well as investment income.

Under the new presentation, the split between government and private income receipts and payments will no longer be the primary way of organizing investment income. In the new presentation, investment income will be restructured to classify transactions first according to functional category—direct investment, portfolio investment, other investment, and reserve assets—and then by the type of income—income on equity and investment fund shares and interest income. Direct investment income flows will be presented on an asset/liability basis. These changes are described elsewhere in this article as they relate to income, financial transactions, and positions. Income on reserve assets, including interest earned on foreign currency debt instruments and on special drawing rights accounts at the International Monetary Fund (IMF), which were previously commingled in government receipts, will be

13. There is a another impact of treating R&D expenditures as investment in the international accounts. Multinational companies are important producers of R&D, and capitalizing R&D would affect direct investment income receipts and payments. BEA is not yet ready to implement this treatment in the international accounts. However, BEA's surveys of multinational companies have been used to develop experimental estimates of the effects of capitalizing R&D on direct investment income; because both direct investment income receipts and payments are raised by the new treatment, the effect on the direct investment income surplus is positive but small, about 1 percent. See Daniel R. Yorgason, "Treatment of International R&D as Investment: Issues and Estimates," BEA/National Science Foundation R&D Satellite Account Background Paper (Washington, DC: BEA, October 2007); www.bea.gov under Research at BEA.

recorded separately. Table D compares the table stubs in the current ITA income table, table 4, with those of the new primary income table, ITA table 4.1.

In the new presentation, ITA table 4.2 will provide additional information on direct investment income. It will show the aggregate investment income receipts and payments on an asset/liability basis as well as the conversion to the directional basis before providing detail on direct investment income by industry. Under the directional presentation, direct investment interest receipts are U.S. parents' receipts of interest from their foreign affiliates less U.S. parents' payments of interest to their foreign affiliates. Similarly, direct investment income payments are U.S. affiliates' interest payments to their foreign parent groups less U.S. affiliates' interest receipts from their foreign parent groups. In the asset/liability presentation, income is classified solely based on whether that income is associated with an asset or a liability. Hence, direct investment interest receipts are U.S. parents' receipts of interest from their foreign affiliates plus U.S. affiliates' interest receipts from their foreign parent groups. Similarly, direct investment interest payments are U.S. affiliates' interest payments to their foreign parent groups plus U.S. parents' interest payments to their foreign affiliates. Although this increases the value of direct investment income receipts and payments, it has no effect on the balance on direct investment income.

In the new presentation, ITA table 4.3 will provide information on portfolio income by sector and by maturity. Interest income on portfolio debt will be recorded as short-term or long-term debt where short term relates to debt with maturity of 1 year or less and long term relates to debt with maturity of more than 1

Table D. Comparison of the Current Presentation of Income With the New Presentation of Primary Income

Line	Current Structure in Table 4	Line	New Structure in Table 4.1
1	**Income receipts on U.S.-owned assets abroad**	1	**Primary income receipts**
2	Direct investment receipts	2	**Investment income**
3	Earnings	3	Direct investment income
4	Interest	4	Income on equity
5	Other private receipts	5	Dividends and withdrawals
6	Income on foreign securities	6	Reinvested earnings
7	Dividends	7	Interest
8	Interest	8	U.S. parents' receipts
9	Interest on claims reported by banks and securities brokers	9	U.S. affiliates' receipts
10	For own claims	10	Portfolio investment income
11	For customers' claims	11	Income on equity and investment fund shares
12	Interest on claims reported by nonbanking concerns	12	Dividends on equity other than investment fund shares
13	U.S. government receipts	13	Income attributable to investment fund shareholders
14	**Income payments on foreign-owned assets in the United States**	14	Interest on debt securities
15	Direct investment payments	15	Short term
16	Earnings	16	Long term
17	Interest	17	Other investment income
18	Other private payments	18	Interest
19	Income on U.S. corporate securities	19	Income attributable to insurance policyholders
20	Dividends	20	Reserve asset income
21	Interest	21	Interest
22	Interest on liabilities reported by banks and securities brokers	22	**Compensation of employees**
23	For own liabilities	23	**Primary income payments**
24	For customers' liabilities	24	**Investment income**
25	Interest on liabilities reported by nonbanking concerns	25	Direct investment income
26	U.S. government payments	26	Income on equity
	Memorandum:	27	Dividends and withdrawals
27	Balance on investment income (line 1 minus line 14)	28	Reinvested earnings
		29	Interest
		30	U.S. affiliates' payments
		31	U.S. parents' payments
		32	Portfolio investment income payments
		33	Income on equity and investment fund shares
		34	Dividends on equity other than investment fund shares
		35	Income attributable to investment fund shareholders
		36	Interest on debt securities
		37	Short term
		38	Long term
		39	Other investment income
		40	Interest
		41	Income attributable to insurance policyholders
		42	**Compensation of employees**
		43	**Balance on primary income (line 1 less line 23)**

year. Investment fund shares will be identified at the aggregate level, which allows income attributable to investment fund shares to be distinguished from other dividends. In the new presentation, ITA table 4.4 will provide information on other investment income by sector. The additional detail on portfolio and other investment was made possible by new data collections by the U.S. Department of the Treasury.

Secondary income

Current unilateral transfers will be renamed "secondary income" in the new presentation and will be presented on a gross basis.[14] In the new presentation, ITA table 5.1 will provide additional information on the types of secondary income. Transfers received and paid will be classified by the sector (either government or private) receiving or providing the transfers, respectively. This table will provide users with information on personal transfer payments, often referred to as "remittances," from U.S. resident immigrants to foreign residents that were previously reported separately only in a supplemental table published on BEA's Web site.

Capital Account

In the new presentation, the only changes will be that gross flows will be presented in the capital account; previously, only net flows were shown. Under "capital transfer receipts and other credits" and "capital transfer payments and other debits," transactions are classified as capital transfers, which include U.S. debt forgiveness and other transfers not related to current production and acquisitions/disposals of nonproduced nonfinancial assets, such as the acquisition/disposal of land for an enclave of an international organization or foreign government.[15]

Financial Account

This section discusses changes to the financial account: the use of new terminology, the classification of financial transactions by major functional category and by instrument, additional detail by sector and maturity, direct investment presented on an asset/liability basis, portfolio investment by type of instrument and by U.S. sector, other investment also by type of instrument and by sector, and additional detail on reserve assets.

New terminology

The new presentation reflects significant changes to the presentation of the financial account, including the use of new terminology that is more consistent with international standards. "U.S.-owned assets abroad" will be renamed "net acquisition of financial assets," and "foreign-owned assets in the United States" will be renamed "net incurrence of liabilities." Both will exclude transactions in financial derivatives, which will continue to be shown on a net basis.

Classification by major functional category and by instrument

Financial account transactions will be classified in five functional categories—direct investment, portfolio investment, other investment, reserve assets, and financial derivatives—and then by type of instrument within the functional category. This consistent structure will replace the current financial-account structure, which is a mix of classification by U.S. sector, by sector of the foreign counterparty, by reporter, and by instrument. Table E compares the table stubs from the current presentation of the financial account with those of the new presentation.

In the new presentation, the classification of the foreign counterparty (either foreign official or private foreigner) will no longer be the primary way of organizing liabilities. However, statistics on the incurrence of liabilities to foreign official agencies will continue to be provided in ITA table 9.1.

Additional detail by sector and by maturity

The new presentation will also introduce 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 two subsectors—"other financial corporations" and "nonfinancial corporations, households, and NPISHs" (nonprofit institutions serving households). BEA has eliminated the summary category "other sectors" and presents the two subsectors in its place. In some cases these two subsectors will be combined when source data do not allow transactions to be disaggregated. Two basic changes to the nomenclature will also be made in the new presentation. First, the term "corporations" will be replaced with the term "institutions" in order to include enterprises such as

14. Current transfers include, for example, government grants, institutional and personal remittances, cross-border fines and penalties, withholding taxes, and transfers associated with insurance.

15. Transactions in nonproduced, nonfinancial assets occur infrequently and include transactions such as receipts of the U.S. State Department for the sale of land to foreign countries, such as when the State Department sold land in London that had previously housed the U.S. embassy, and other infrequent transactions, such as receipts of U.S.-based sports leagues for the establishment of franchises in Canada and payments for the purchase of rights to negotiate with foreign athletes.

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 will use the label "nonfinancial institutions." Detailed statistics on portfolio investment by sector will be provided in ITA table 7.1, and detailed statistics on other investment by sector will be provided in ITA table 8.1. A consistent presentation by sector should also enhance comparability with the national accounts.

The *BPM6* also introduces a greater focus on the maturity of financial instruments. Portfolio debt will be recorded as short-term or long-term debt in ITA table 1.2. Short-term securities are disaggregated from bank- and nonbank-reported assets and liabilities to derive statistics on short-term debt securities, which will be classified as portfolio investment. Detailed statistics on portfolio investment by maturity will be provided in ITA table 7.1. In addition, certain other investment transactions—including currency and deposits, loans, and trade credits and advances—will be identified as short term or long term in ITA table 8.1.

Direct investment presented on an asset/liability basis

As discussed above, the *BPM6* and the *BD4* recommend recording direct investment financial transactions on an asset/liability basis rather than on a directional basis. On a directional basis, the financial account includes in "U.S.-owned assets abroad," a direct investment abroad account that includes transactions related to U.S. parent companies' investments in their foreign affiliates as well as transactions related to

Table E. Comparison of the Current Presentation of the Financial Account With the New Presentation

Line	Current Structure in Table 1	Line	New Structure in Table 1.2
40	**U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (–))**	**61**	**Net U.S. acquisition of financial assets excluding financial derivatives (net increase in assets/financial outflow (+))**
41	U.S. official reserve assets	62	Direct investment assets
42	Gold	63	Equity
43	Special drawing rights	64	Debt instruments
44	Reserve position in the International Monetary Fund	65	Portfolio investment assets
45	Foreign currencies	66	Equity and investment fund shares
46	U.S. government assets, other than official reserve assets	67	Debt securities
47	U.S. credits and other long-term assets	68	Short term
48	Repayments on U.S. credits and other long-term assets	69	Long term
49	U.S. foreign currency holdings and U.S. short-term assets	70	Other investment assets
50	U.S. private assets	71	Currency and deposits
51	Direct investment	72	Loans
52	Foreign securities	73	Insurance technical reserves
53	U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns	74	Trade credit and advances
54	U.S. claims reported by U.S. banks and securities brokers	75	Reserve assets
55	**Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+))**	76	Monetary gold
56	Foreign official assets in the United States	77	Special drawing rights
57	U.S. government securities	78	Reserve position in the International Monetary Fund
58	U.S. Treasury securities	79	Other reserve assets
59	Other	80	Currency and deposits
60	Other U.S. government liabilities	81	Securities
61	U.S. liabilities reported by U.S. banks and securities brokers	82	Financial derivatives
62	Other foreign official assets	83	Other claims
63	Other foreign assets in the United States	**84**	**Net U.S. incurrence of liabilities excluding financial derivatives (net increase in liabilities/financial inflow (+))**
64	Direct investment	85	Direct investment liabilities
65	U.S. Treasury securities	86	Equity
66	U.S. securities other than U.S. Treasury securities	87	Debt instruments
67	U.S. currency	88	Portfolio investment liabilities
68	U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns	89	Equity and investment fund shares
69	U.S. liabilities reported by U.S. banks and securities brokers	90	Debt securities
70	**Financial derivatives, net**	91	Short term
		92	Long term
		93	Other investment liabilities
		94	Currency and deposits
		95	Loans
		96	Insurance technical reserves
		97	Trade credit and advances
		98	Special drawing rights allocations
		99	**Financial derivatives other than reserves, net transactions**

foreign affiliates' investments in their U.S. parents. Because investments by affiliates in their parents represent financial obligations (liabilities) of the parents, transactions related to these "reverse investments" are netted against those related to the parent companies' investments in foreign affiliates, which represent financial claims (assets) of the parents.

In contrast, on an asset/liability basis, the financial-account category "net U.S. acquisition of financial assets" contains (as described in the *BPM6*) a direct investment asset account that includes only transactions related to assets. Consequently, this account includes transactions related to U.S. parent companies' investments in their foreign affiliates, but not those related to the foreign affiliates' investments in their U.S. parents, which are recorded in a direct investment liabilities account along with transactions related to foreign residents' direct investments in their U.S. affiliates. Direct investment recorded under "net U.S. acquisition of financial assets" also includes U.S. affiliates' "reverse investments" in their foreign parent groups. Although this change increases the level of transactions for direct investment assets and liabilities, it has no effect on net transactions.

In the new presentation, ITA table 6.1 will provide additional detail on direct investment financial transactions. It will show aggregate transactions on an asset/liability basis, the conversion to the directional basis, and detail on direct investment transactions by industry.

Portfolio investment

New 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 financial flows attributable to investment fund shares to be distinguished from other equity. The new Treasury Department data also provide 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. Table F shows the instrument, sector, and maturity detail that will be presented in the new portfolio investment table, ITA table 7.1.

Other investment

In the new presentation, other investment transactions will be presented in ITA table 8.1. New data from the Treasury Department provide detailed information that will allow BEA to present other investment by type of instrument and by U.S. sector. Other investment consists of currency and deposits, loans, trade credit and advances, nonlife insurance technical reserves, and allocations of special drawing rights. Insurance technical reserves consists of prepayments of insurance premiums and claims that have been incurred but not yet paid. These reserves are assets of the policyholders; thus, changes in these reserves during the period should be included in the financial account. The Treasury Department redesigned its surveys to improve reporting of these items beginning with the fourth quarter of 2013. ITA table 8.1 will include lines for insurance technical reserves because BEA plans to introduce these statistics in a future annual revision. Table 8.1 will also include lines showing detail on maturity of instruments. Some of the information on maturity depends on new data from the Treasury Department that may not be available in time for the release in June 2014. If it is not available, BEA will introduce this detail in a future annual revision.

Additional detail on reserve assets

Transactions by type of reserve asset are recorded in the financial account. The presentation of this information will be largely unchanged from the current presentation. However, additional transactions will

Table F. Additional Detail by Sector and Maturity in the New Presentation

Line	Detail on Portfolio Investment Liabilities in Table 7.1
	Liabilities by sector of U.S. issuer
46	**Net U.S. incurrence of portfolio investment liabilities**
47	**Deposit-taking institutions except central bank**
48	Equity and investment fund shares
49	Debt securities
50	Short term
51	Long term
52	**Other financial institutions**
53	Equity and investment fund shares
54	Debt securities
55	Federally sponsored agency securities
56	Short term
57	Long term
58	Other securities
59	Short term
60	Long term
61	**Nonfinancial institutions except general government**
62	Equity and investment fund shares
63	Debt securities
64	Short term
65	Long term
66	**General government**
67	Debt securities
68	U.S. Treasury securities
69	Short term
70	Long term
71	State and local government long-term securities

now be shown under "other reserve assets," currently labeled "foreign currencies," and will include information on currency and deposits, securities, financial derivatives, and other claims.

Financial derivatives

Transactions in financial derivatives will continue to be shown on a net basis given the absence in the source data of information on gross flows.

International Investment Position

The *BPM6* provided more detailed guidance on the compilation of the IIP accounts than previous manuals, reflecting an increased interest in using balance sheet analysis to understand an economy's vulnerability to financial crises. The financial structure of economies—the composition and size of the liabilities and assets on the economy's financial balance sheet—can be a critical source of vulnerability to crises. Financial weaknesses, such as a high level of short-term debt, can be a trigger for domestic and external investors to reassess their willingness to finance an economy. The IIP accounts show the value and composition of residents' claims on and liabilities to nonresidents at a given point in time. The composition of the IIP accounts also sheds light on the vulnerability of the economy to changes in external market conditions.

Given the increased importance of the IIP accounts in analyzing financial vulnerability, the IMF required members reporting under its Special Data Dissemination Standard to publish their IIP accounts on a quarterly basis by 2014. On March 26, 2013, BEA released quarterly IIP account statistics for the first time.

Classification by functional category

The *BPM6* recommends presenting assets and liabilities in the IIP accounts by functional category and by instrument to facilitate comparisons with the primary income and financial accounts, including calculation of rates of return. The classification by functional category is also important for balance sheet analysis as implications for the vulnerability of the economy differ among different functional categories and instruments. For example, liabilities in direct investment depend on the performance of the debtor. In contrast, the returns to creditors on debt liabilities in portfolio investment do not depend on the performance of the debtor and hence, pose a greater risk to the economy.

BEA has decided to maintain the presentation of foreign holdings of Treasury securities as these are important series of broad interest even though this classification is not suggested in the *BPM6*. In the new presentation of the IIP accounts, IIP tables 1.1 and 1.2 will identify positions in Treasury bills and certificates under short-term debt in portfolio investment and will identify Treasury bonds and notes under long-term debt in portfolio investment. Similarly, although the classification of the foreign counterparty (either foreign official or private foreigner) will no longer be the primary way of organizing liabilities, information on the incurrence of liabilities to foreign official agencies will continue to be provided in IIP table 3.1.

Direct investment on an asset/liability basis and measurement at market value

The *BPM6* and *BD4* recommend presenting direct investment on an asset/liability basis rather than on a directional basis in the IIP accounts. Under the directional presentation, U.S. parents' liabilities to their foreign affiliates are netted against U.S. parents' assets under total U.S. assets, and U.S. affiliates' claims on their foreign parent groups are netted against U.S. affiliates' liabilities under total U.S. liabilities. Under the asset/liability presentation, all assets associated with direct investment are shown under U.S. assets, and all liabilities are shown under U.S. liabilities, with no regard for the direction of the investment. Although this increases the recorded value of direct investment assets and liabilities, it has no effect on the net direct investment position. IIP table 2.1 will show the aggregate direct investment asset and liability positions on an asset/liability basis and the conversion to the directional basis.

The *BPM6* and the *BD4* recommend valuing direct investment at market value for two main reasons. First, to ensure that the IIP accounts are consistent with the national balance sheet, the flow of funds accounts, and the integrated macroeconomic accounts and measures of national wealth, the IIP accounts should feature market valuations for all financial assets. Consistency between the IIP accounts and these other accounts is also another reason to present the direct investment positions on an asset/liability basis rather than on the directional basis. Quarterly IIP statistics that report the values of debt and equity (financial assets) at market value through time enable analysis of the consequences of economic cycles and financial crises. Second, valuing all assets at market value promotes comparability across positions. Valuing direct investment positions at market value will make these positions comparable to the measures of portfolio investment in the IIP accounts, which are also measured at market value. In addition to promoting comparability with other macroeconomic statistics, measuring direct investment at market value promotes comparability with other countries that increasingly provide market value measures of direct investment as they implement the *BPM6* and the *BD4* recommendations.

In June 2014, BEA will begin to feature its market-value measures of direct investment positions in the IIP accounts. Measuring direct investment at market value is challenging because often there is no observable market price for the equity investments in direct investment enterprises. The *BPM6* and the *BD4* recommend a few alternative methods of measuring the market value of direct investment positions. BEA's method is based on the historical-cost values of the positions reported to BEA on its surveys of direct investment. These historical-cost values largely reflect the price levels of earlier periods. BEA's market-value estimates revalue the historical-cost values of the equity portion of direct investment positions using various indexes of stock market prices.[16]

In addition to the historical-cost and market-value estimates of the direct investment positions, BEA currently produces "current-cost" estimates of the position and features this measure in the presentation of the IIP accounts. The current-cost estimates of the direct investment positions revalue tangible assets—property, plant, equipment, and inventories—to current-period prices. For the reasons discussed above, BEA believes that the market-value measures should instead be the featured measure. After June 2014, BEA will discontinue production and publication of the current-cost measures of the direct investment positions.[17] The current-cost measures have some advantages over the market value measures including being less effected by market noise and being roughly comparable to BEA's statistics on U.S. domestic tangible assets. However, BEA does not believe these advantages outweigh the costs of producing and publishing the current-cost estimates, which include data items collected on BEA's surveys solely for the purpose of producing current-cost estimates. In addition, the current-cost estimates closely track the historical-cost estimates and hence, do not provide much additional information than those measures.

Additional detail on reserve assets

As with financial transactions, additional detail will be provided for reserve asset positions in the IIP accounts. Under "other reserve assets," instrument detail will be provided for currency and deposits, securities, financial derivatives, and other claims.

Financial derivatives by risk category

The new presentation of the IIP accounts will include expanded detail for financial derivatives. Financial derivatives will be separated into over-the-counter contracts and exchange-traded contracts. Within over-the-counter contracts, detail will be shown for single-currency interest-rate contracts, foreign exchange contracts, and other contracts. This detail will indicate the influence that interest-rate contracts have on the movements in U.S. assets and U.S. liabilities.

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16. For U.S. direct investment abroad, 13 country-level indexes and 2 world aggregate indexes are used. For foreign direct investment in the United States, the Standard & Poor's 500 Index is used.

17. BEA will continue to make a current-cost adjustment to direct investment income in order to make the measure of this income comparable with the measure of corporate profits in the national income and product accounts.