

D.16 Treatment of Retained Earnings

Instruction

For each question, please provide the answer by clicking the relevant check box or by typing in the framed textboxes, which will automatically expand to fit the text.

We recommend providing coordinated answers between the national agencies responsible for the national accounts and balance of payments compilation (for example, National Statistics Office and Central Bank). If only one agency is providing a coordinated answer concerning national accounts and balance of payments, please indicate that in Question 2 (Your response to the questionnaire concerns which area of macroeconomic statistics?). Otherwise, please choose in Question 2 the area of macroeconomic statistics your answer is referring to.

Please note that the survey may reach one or more contacts in your agency; however, only one response is expected. A printable version of the questionnaire is available for your convenience. If you have any questions, please contact STABPM6Update@imf.org or sna@un.org.

We look forward to and highly appreciate your collaboration.

Sincerely,

Direct Investment Task Team Secretariat

1. Please provide your information below:

Country _____
Institution/Organization _____
Name _____
Position/Title _____
Email _____

2. Your response concerns which area of macroeconomic statistics*¹:

- National Accounts
- Balance of Payments
- Both National Accounts and Balance of Payments

(End of Page 1)

This Guidance Note (GN) reflects on the treatment of retained earnings in direct investment. In particular, it presents the different methodological and practical challenges currently faced by compilers and analysts when dealing with reinvestment of earnings (RIE) in direct investment enterprises (DIEs). These challenges stem from the divergence between accounting and statistical definitions of income (net operating surplus) as well as the need to impute RIE generated along the direct investment (DI) ownership chain.

3. Is the compilation approach of RIE is consistent across Balance of Payments and National Accounts?*

This Question is Conditionally Hidden if: (2 ≠ Both National Accounts and Balance of Payments) is selected

- Yes
- No

¹ * means that a response is required.

Definition and Calculation of Reinvestment of Earnings (RIE)

Conceptual Issues/Recommendations

All questions are applicable to all respondents except questions 8 to 11, which are conditional if the answer selected for question 2 is either Balance of Payments or both National Accounts and Balance of Payments

4. Do you agree that *BPM6* paragraphs² describing retained earnings and RIEs should be revised as: “Retained earnings of an enterprise show the net earnings from current production and primary and secondary income transaction that has not been distributed”?

- Yes
- No
- Undecided

5. Please provide arguments in support of your response:

(End of Page 2)

6. Do you agree that the recognition of all the earnings generated down the DI ownership chain as primary income is the best option on a conceptual basis (**Alternative A – status quo**) vis-à-vis the other two options discussed in paragraph 22 of the GN?

- Yes
- No
- Undecided

7. Please provide arguments in support of your response:

² *BPM6* provides following guidance on the calculation of retained earnings and RIE:

- Reinvestment of earnings (paragraph 8.15): “It is the corresponding entry and equal to reinvested earnings”.
- Retained earnings (paragraph 11.34): “Retained earnings of an enterprise shows the net earnings from production and primary and secondary income transactions before attributing reinvested earnings”.
- Reinvested earnings (paragraph 11.40): “The reinvested earnings are the direct investors’ share of the retained earnings of the direct investment enterprise”.

Practical Issues/Recommendations:

8. If the current recording of primary income is maintained, do you agree that the presentation proposed in **Alternative B** (recognizing all of the earnings generated down the DI ownership chain as primary income but report indirect income separately) would be useful to enhance transparency and data comparability across countries?

- Yes
- No
- Undecided

9. Please provide arguments in support of your response:

10. Do you consider it relevant to clarify, either in the updated BPM or in the BPM Compilation Guide, shortcomings in the current compilation of DI income as described in *BPM6* and to include examples of calculation of RIE?

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
In the updated <i>BPM6</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In the updated <i>BPM6</i> Compilation Guide	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Both, BPM and BPM Compilation Guide	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. Please provide arguments in support of your response:

(End of Page 4)

12. Do you agree that a *memorandum item showing the new obligatory provisions for bad loans in the reporting period* would help data users interpret the statistics of RIE for credit institutions?

- Yes
- No
- Undecided

13. Please provide arguments in support of your response:

(End of Page 5)

The GN also addresses the implementation of the investment income attributable to investment fund shareholders following current guidelines in Balance of Payments and International Investment Position Manual, sixth edition (BPM6) and concludes that if RIE should be applied to investment funds (institutional unit), it should be treated equally for all investment funds regardless of the fund characteristics.

Calculation of RIE by Investment Funds

14. Do you agree that RIE and net income should always be compiled regardless of the fund's attributes?

- Yes
- No
- Undecided

15. Please provide arguments in support of your response:

(End of Page 8)

16. Do you agree with the proposed treatment of operating expenses charged **explicitly** in the compilation of investment funds' RIEs? (Choose all that apply).

- Yes
- No
- Undecided

17. Please provide arguments in support of your response:

(End of Page 9)

18. Do you agree with the proposed treatment of operating expenses charged **implicitly** in the compilation of investment funds' RIEs? (Check all that apply).

- Yes
- No
- Undecided

19. Please provide arguments in support of your response:

Practical Issues/Recommendations:

20. From a practical perspective, is your institution able to implement the guidance on **explicit fees**?

- Yes
- No
- Undecided

21. If no, please specify the practical challenges.

22. From a practical perspective, is your institution able to implement the guidance on **implicit fees**?

- Yes
- No
- Undecided

23. If no, please specify the practical challenges.

(End of Page 10)

24. Any other comments/suggestions on the guidance note.

(End of Page 11)
