Joint 25th Meeting of the Advisory Expert Group on National Accounts and 43rd Meeting of the IMF Committee on Balance of Payments Statistics

Inter-secretariat Working Group on National Accounts

Remote Meeting

SNA/M1.25/05

20 February 2024

Recording Uncompensated Asset Seizures in Macroeconomic Statistics

Discussion Note: Recording Uncompensated Asset Seizures in Macroeconomic Statistics[1]

The current macroeconomic statistical manuals contain clear guidance on the treatment of asset seizures for the entities directly involved, but not for the entities that are indirectly involved. This note recommends that uncompensated asset seizures should always be recorded via other price changes (as opposed to other changes in volume) for entities that are only indirectly impacted through their ownership of entities that have had their assets seized. The note also includes a proposal for specific guidance to be included in the Balance of Payments and International Investment Position Manual, seventh edition (BPM7)*, and potentially other macroeconomic statistical manuals.*

Note to AEG

When reviewing this note, please take into consideration the following:

BOPCOM has already approved, through written consultation, the recommendations in this Discussion Note with unanimous support.

Paragraph 13.120 of the draft 2025 SNA (paragraph 12.114 of the 2008 SNA) states the following:

"For other forms of equity, holding gains are calculated in a manner similar to the way in which the value of the equity is calculated. For example, for a quasi-corporation where the value of other equity is derived as the balance of assets less liabilities, holding gains are calculated as the sum of holding gains on assets less the holding gains on liabilities".

This is inconsistent with the guidance on foreign direct investment in the Discussion Note, which basically groups all changes in equity, which are not related to transactions (and specific events related to the equity, such as seizures of the equity itself), as revaluations (i.e., holding gains and losses).

Consequently, in view of the Discussion Note, one would also need to conclude that the guidance in the SNA with respect to the distinction of other flows between other changes in the volume of assets and liabilities versus revaluations needs to be changed as well, basically saying that any change in value of equity which is not due to transactions or other changes in the volume related to the equity itself, would need to be treated as revaluations.

[1] Prepared by the *BPM7* and *2025 SNA* editorial teams as a response to a question on the treatment of partial asset seizures from the editorial team behind the update of the *OECD Benchmark Definition of Foreign Direct Investment*.

THE ISSUE

1. **The current macroeconomic statistical manuals contain clear guidance on the treatment of asset seizures for the entities directly involved, i.e., the entities that have had their asset seized or seized the assets.** Paragraph 9.11 of the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)* describes uncompensated asset seizures and their statistical treatment in the following way: "*Governments or other institutional units may take possession of the assets of other institutional units, including nonresident units, without full compensation for reasons other than the payment of taxes, fines, or similar levies. If the compensation falls substantially short of the values of the assets as shown in the balance sheet, the difference should be recorded in other changes in volume as an increase in assets for the institutional unit doing the seizing and a decrease in assets for the institutional unit losing the asset.*" Similar guidance is included in paragraph 12.48 of the *2008 System of National Accounts*, paragraph 10.62 of the *Government Finance Statistics Manual 2014*, and paragraph 5.21c of the *Monetary and Financial Statistics Manual and Compilation Guide 2016*.

2. **However, the current macroeconomic statistical manuals do not contain clear guidance on the treatment of asset seizures for the entities indirectly involved, i.e., the entities that own entities that have had their assets seized.** For instance, a direct investment enterprise may have some of its external assets seized, which would be recorded as an other change in volume and would reduce the value of the enterprise. In this context, the manuals do not explicitly state whether the direct investor that owns (directly or indirectly) the direct investment enterprise should record the change in the value of this enterprise as an other change in volume or as an other price change.

DISCUSSION

CASE STUDY: PARTIAL UNCOMPENSATED ASSET SEIZURES

3. **An example can be used as a case study**. Consider the example where Company A in Country A has 100% ownership of Company B in Country B. Company B, in turn, has 100% ownership of Company C and Company D that are incorporated and operating in Country C and Country D, respectively. If Company D is seized by the government of Country D with no compensation, Country B should reduce the value of this direct investment equity asset in Country D to zero via other changes in volume.[2] The asset seizure will likely lead to a decrease in the value of Company B. The question is how this action should be recorded by Country A since Company A will be indirectly impacted by the asset seizure through its ownership of Company B. The case study is also illustrated in the Annex.

CONCEPTUAL CONSIDERATIONS

4. **On the one hand, it could be argued that Company D is, in effect, taken from Company A since Company A is the ultimate controlling parent.** From this perspective, it would be appropriate for Country A to reflect the change in the value of Company B as an other change in volume. This would also

[2] At the same time, Country D should now include the value of Company D in the government balance sheet through other changes in volume.

be consistent with the way that multinational enterprise (MNE) groups usually present their consolidated financial statements.

5. **On the other hand, this treatment would violate one of the fundamental principles of macroeconomic statistics, which are based on institutional units and residence, since institutional units are never consolidated across economies.** Therefore, it would not be appropriate to change the perspective and look at the whole MNE group as a single statistical entity operating in multiple economies when considering other flows.

6. **Moreover, the types of other flows recorded by Company B for certain instruments on the asset side should not necessarily be carried over and be matched by the types of other flows recorded for its equity on the liability side.** In the case study, Company B loses its shares in Company D and records this as an other change in volume. However, the number of shares in Company B would remain the same, and it would thus be incorrect from a conceptual point of view to record an other volume change for its equity on the liability side. Instead, the action would affect the value of the equity of Company B and should be recorded as an other price change.[3] Many factors could affect the value of an enterprise, and these factors should jointly be considered other price changes.

7. **There is implicit support in the current macroeconomic statistical manuals for recording other price changes for entities indirectly impacted by other flows.** Paragraph 239 of the *OECD Benchmark Definition of Foreign Direct Investment, fourth edition (BD4)* describes the treatment of exchange rate changes along ownership chains: "*A direct investment enterprise may have assets or liabilities expressed in a currency other than its local currency. Changes in exchange rates will have an impact on the value of the direct investment enterprise's assets and/or liabilities. These changes are likely to impact on the market valuation of the direct investment enterprise itself. The change in the asset value of the direct investment enterprise to its direct investor is recorded as an "other price change."*" Similarly, paragraph 9.32 of *BPM6* includes the following description: *"In other cases of equity, there is no imputation of income or financial account transactions to the owners on account of retained earnings. The result is that the increase in the value of the equity caused by the accumulation of retained earnings is reflected in increased value in the IIP without a transaction and is, therefore, shown as a result of revaluation."* In other words, when a flow is not picked up in the standard recording of equity, it will be included as a residual under revaluations (other price changes).

PRACTICAL CONSIDERATIONS

8. **In practice, it can be extremely difficult to disentangle the different types of other flows along ownership chains, particularly when they are long and complex.** For portfolio investment equity, which primarily takes the form of listed equity, it would be virtually impossible for most compilers to separate the factors that influence share prices since this should potentially be done for millions of cases. Trying to track such factors through ownership chains would be a further complication. Therefore, the

[3] In the case study, if it is assumed that the government of Country D only seizes some assets from Company D rather than the entire company, both Country A and Country B would record the effect as other price changes since Company B would no longer be directly involved in the asset seizure. The same recording should be made in the extreme case where the government of Country D seizes all existing assets of Company D, but where Company B keeps ownership of Company D and decides to resume its activities.

current standard practice for compilers is to use the prices from stock exchanges to calculate other price changes (and exchange rate changes if the stock prices are denominated in a foreign currency).

RECOMMENDATION

9. **This note recommends that uncompensated asset seizures should always be recorded via other price changes (as opposed to other changes in volume) for entities that are only indirectly impacted through their ownership of entities that have had their assets seized.** It is recommended to include text along the following lines after paragraph 9.31 in the updated *BPM*:[4]

Implications of other flows along ownership chains*:*

Other flows will sometimes impact the value of an entity. For instance, the value of a direct investment enterprise may change due to exchange rate movements if it has external assets and liabilities denominated in foreign currencies. These changes should be recorded as exchange rate changes by the economy of the direct investment enterprise. The value of a direct investment enterprise is also likely to change if its financial assets in a specific economy are seized with no compensation. These changes should be recorded as other changes in volume by the economy of the direct investment enterprise. Conversely, the economy of the direct investor should record such changes in the value of (directly or indirectly owned) direct investment enterprises as other price changes. The economy of an investor should only record exchange rate changes if there is a change in the equity value resulting directly from the currency denomination of the direct investment enterprise's equity. Similarly, it should only record other volume changes when there is change in the value of its equity holdings that is neither due to transactions nor due to revaluations, e.g., if the shares it holds in the direct investment enterprise have been seized.

CONSULTATION

Questions for members of the IMF Committee on Balance of Payments Statistics and the Advisory Experts Group on National Accounts

1) *Do members agree that uncompensated asset seizures should be recorded via other price changes for entities that are only indirectly impacted through their ownership of entities that have had their assets seized?*
2) *Do members agree that* BPM7 *should contain explicit guidance on these aspects? Do members have comments on the proposed text?*

[4] The examples in proposed text focus on the external accounts, but an adjusted version of the text could potentially also be included in other macroeconomic statistical manuals and compilation guides.

Annex II. Illustration of Case Study