

## **Revision of Balance of Payments Related Statistics**

### **Introduction**

The Bank of Japan, in cooperation with the Ministry of Finance, will implement a major revision of balance-of-payments related statistics, focusing on “Financial Account” and its components, such as direct investment and portfolio investment. The revision will go into effect for transactions undertaken in January 2005 and thereafter. The forthcoming revision includes changes in the compilation methodology, the dissemination of new and more detailed statistical series, and integration of closely related statistics. The revision is designed to respond to the needs of statistical users and to achieve a higher level of consistency with the IMF’s Balance of Payments Manual, 5th edition (BPM5)<sup>1</sup>, the international standard for balance of payments statistics. In this paper, for the convenience of statistical users, we will elaborate on the background and summary of the revision, as well as on the new components and items that will be compiled and disseminated.

### **1. Background and Summary of Revision**

#### **(1) Background of the Forthcoming Revision**

More than eight years have already passed since Japan implemented a full revision of its Balance of Payments Statistics in 1996 following the adoption of BPM5. During these eight years, no major changes were made in the Balance of Payments Statistics with the exception of revisions in the “Income Account” and “Financial Account”<sup>2</sup> due to revisions made in the recording methodology for financial derivatives. However, during the same period, financial and economic conditions as well as accounting standards have significantly changed. In turn, these changes have altered the needs of statistical users. Also, there is now a clearer appreciation of the need to make adjustments in closely related statistics to support user convenience. For these reasons, the decision was taken to review Japan’s Balance of Payments Statistics (Appendix 1) in step with the introduction of a new electronic reporting system, which will be described later in this paper. The background to the forthcoming revision can be better understood against the following three elements.

---

<sup>1</sup> The IMF BPM5 constitutes the international standards for balance of payments transactions and international investment position. It sets forth a conceptual framework common to both series. To ensure that statistics accurately reflect changing economic and financial conditions, the methodology applicable to balance of payments statistics is revised roughly every 15 years. The current version, BPM5, was completed in 1993. In Japan, BPM5 based statistics were introduced in January 1996.

<sup>2</sup> The IMF partially amended the BPM5 in 2000 to review the methodology for recording financial derivatives. To reflect the amendment, Japan adopted a revised methodology for financial derivatives in January 2002 (for details, see Bank of Japan Research Monthly of March 2002 <in Japanese>).

The first element pertains to the continued advance of economic globalisation. This process has augmented the magnitude of international capital flows and has had an increasing impact on the economies and financial markets of individual countries. The resulting need to gain a more speedy and accurate understanding of domestic and international capital flows has created a growing demand for more detailed data, primarily in the area of capital and financial transactions.

Secondly, since the revision of 1996, there have been some significant changes with respect to accounting standards for financial products, such as the introduction of mark-to-market accounting of securities. Consequently, a large number of investors have generally switched to a contract-based management of their securities transactions. Under the current system, both contract- and settlement-based statistics are compiled and disseminated for portfolio investment. From the perspective of reducing the administrative burden of reporters, it is desirable to bring the statistics more in line with actual accounting practices. Moreover, the recording of transactions at the time of the contract is also consistent with the accrual principle recommended by BPM5.

Thirdly, two sets of closely related, but conceptually distinct flow data pertaining to direct investment and portfolio investment have been compiled and disseminated. One set is based on Japan's own standards, while the other conforms to an international standard, i.e. the requirements of BPM5. This situation tends to create some misunderstanding among users and also poses a practicality issue. Regarding this point, the decision was made to give precedence to balance of payments statistics, in conformity with international standards of BPM5. As for the existing closely related statistical series, which offer detailed components, it was deemed appropriate to integrate them into balance of payments statistics and expand the scope of components and items for dissemination. Regarding contract-based portfolio investment statistics, the decision was taken to maintain this series in light of strong user needs for prompt release of data and to bring the definitions of this series in line with those of the balance of payments statistics (see below for details).

Starting from January 2005, reports submitted via the Bank of Japan under the provisions of the Foreign Exchange and Foreign Trade Law (Foreign Exchange Law) may be done electronically<sup>3,4</sup>. As previously mentioned, reports submitted in accordance with the Foreign Exchange Law-related ordinances are used as source data for the compilation of statistics. In many instances, the revision of statistics requires changes to the reporting formats themselves and involves accrued reporting burden on respondents, for instance, in terms of systems maintenance. The reporting burden was reduced by implementing a revision of the reporting format and introducing electronic reporting at the same time. In lowering the costs associated

---

<sup>3</sup> Electronic reporting was launched as part of the "Action Plan for the Promotion of Electronic Filing of Ministry of Finance Applications and Notifications" pursuant to the provisions of the "Basic Law on the Formation of an Advanced Information and Telecommunications Network Society" (so-called IT Basic Law). Under Foreign Exchange Law and its regulations of enforcement, applications and notifications directly accepted by the Ministry of Finance will be received through the "Ministry of Finance Electronic Application System," while those handled by the Bank of Japan, as delegated to it by the Minister of Finance, will be received through the "Bank of Japan On-Line System for Foreign Exchange Law Procedures" developed by the Bank of Japan. All types of reports on foreign exchange transactions undertaken in January 2005 and thereafter can be filed electronically (for details, see Bank of Japan website: <http://www.boj.or.jp/>).

<sup>4</sup> The need to revise ordinances pertaining to reporting, including revision of reporting formats, was promulgated in July 2002 following solicitation of public comment. (Ministry of Finance Ordinance No. 43 dated July 12, 2002: "Ministerial Ordinance concerning the Partial Revision of Ordinance concerning Reports on Foreign Exchange")

with overhauling and maintaining the electronic system, both reporters and statistics compilers benefited from the simultaneity of the required changes.

## **(2) Summary of the Forthcoming Revision**

The forthcoming revision can be generally summarised under the following four headings: (a) expanding the scope of components and items of disseminated direct investment and portfolio investment series, (b) increasing the frequency and timeliness of dissemination, (c) integration of closely related statistics, and (d) achieving higher level of consistency with BPM5. The specific components affected are as follows (details of the changes are presented in the next chapter).

### **(a) Expanding the Scope of Components and Items of Direct Investment and Portfolio Investment Series**

- In “Balance of Payments,” the following data will start to be disseminated: Portfolio investment “by sector of issuer” (both assets and liabilities); Portfolio investment assets “by currency” (both series to be disseminated on a monthly basis); Direct investment “by region – by industry<sup>5</sup>” (both assets and liabilities: quarterly release).
- The current 32 categories of countries/regions under portfolio investment will be increased to 45 countries/regions.

----The coverage of countries/regions will be increased to include all countries/regions covered in balance-of-payments related statistics (balance of payments statistics, “Securities Investment at Home and Abroad” [contract basis]) and “Securities Investment at Home and Abroad” [settlement basis]).

- In “International Investment Position of Japan,” the following data will start to be disseminated: Balance of Portfolio Investment assets “by region - by holder;” Balance of Direct Investment “by region - by industry.” Regarding the balance of portfolio investment assets, currency categories under “by currency - by type of security” will start to be disseminated.

### **(b) Increasing the Frequency and Timeliness of Dissemination**

- Regional breakdowns of “Balance of Payments” will be disseminated on a quarterly basis (currently disseminated semi-annually). The dissemination date will be brought forward by roughly one month, so that statistics for a given month will be disseminated in the second month of the second quarter, counting from the quarter to which the month belongs.
- Regional breakdowns of direct investment and portfolio investment will be disseminated on a monthly basis separately from the above series.

---

<sup>5</sup> “By region – by industry” data for direct investment will cover all countries/regions (maximum of 237 countries/regions) in which direct investments (including disinvestments) were made during the pertinent period. However, to preserve data confidentiality, any country/region or industry item containing less than three entries will be put together under unclassified and included in the total amount of direct investment.

- As previously mentioned, the breakdowns of direct investment assets and liabilities “by region - by industry” will be disseminated on a quarterly basis as a part of the “Balance of Payments.”

**(c) Integration of Closely Related Statistics, and Unification of Methodological Standards**

- The standards for the classification of inward and outward portfolio investments in “Securities Investment at Home and Abroad” (contract basis) will be changed from currency of denomination basis to residence of issuer basis to bring it in line with balance of payments statistics.
- “Securities Investment at Home and Abroad” (settlement basis) and “Foreign Direct Investment” will be integrated into the “Balance of Payments.”

---- As balance of payments statistics comply with the international standards set forth in the IMF Manual, closely related statistics will be integrated into the “Balance of Payments” to eliminate the inconvenience to statistical users.

---- Concurrently, the collection of source data will be revamped to reduce the burden on reporters.

Note: Hereinafter, “Securities Investment at Home and Abroad” (contract and settlement basis) shall be referred to as “Inward/Outward Portfolio Investments” (contract basis) and “Inward/Outward Portfolio Investments” (settlement basis), respectively.

**(d) Achieving Higher Level of Consistency with BPM5**

- The timing of recording for portfolio investments in the “Balance of Payments” will be changed from settlement date to contract date (to conform to the accrual principle recommended by BPM5).
- In the “International Investment Position of Japan,” the balance of inward direct investment will be amended to include capital reserves, and the balance of financial derivatives will be changed to include futures and forward transactions.

The new “Balance of Payments” reflecting the above changes is compared to the current format in Table 1 below.

**Table 1: Comparison of New and Old Balance of Payments Related Statistics**

- Shaded areas indicate changes to be made.

Current Statistics	New Balance of Payments Related Statistics	First Dissemination
A. Balance of Payments* 1. Current Account 2. Financial Account (1)Provisional (monthly) (a)Direct Investment  (b)Portfolio Investment    (c)Financial Derivatives (d)Other Investment (2)Revised (monthly)** (a)Direct Investment  (b)Portfolio Investment (c)Financial Derivatives (d)Others (3)Regional breakdown (semi-annual)  (a)Direct Investment (b)Portfolio Investment (c)Financial Derivatives (d)Other Investment	A. Balance of Payments * 1. Current Account 2. Financial Account (1) Provisional (monthly) (a) Direct Investment • By region <increased dissemination frequency> (b) Portfolio Investment (contract basis) <integration of closely related statistics; unified recording standards> (Appendix table) • By region <expanded scope of dissemination item> • By sector of investor (assets only) <new dissemination item> • By sector of issuer <new dissemination item> • By currency (assets only) <new dissemination item> (c) Financial Derivatives (d) Other Investment (2) Revised (monthly)** (a) Direct Investment • By region – by industry (quarterly totals) <expanded scope of dissemination item> (b) Portfolio Investment (c) Financial Derivatives (d) Others (3)Regional breakdown (quarterly, disseminated at “Provisional” + 1 month) <increased dissemination frequency, earlier dissemination> (a) Direct Investment (b) Portfolio Investment (c) Financial Derivatives (d) Other Investment	March 2005 (statistics for January)
		August 2005 (statistics for January-March)
B. Inward/Outward Portfolio Investments  (1)Contract basis (weekly)  (2) Contract basis (monthly) • By type of investor (outward investment only) (3)Settlement basis (monthly) • By region • By investor (outward investment only)	B. Contracts on Inward and Outward Investments in Securities (Balance of Payments Statistics basis) (1) Weekly basis  (2) Monthly basis • By type of investor (assets only)  (Terminated)	3 <sup>rd</sup> week of January 2005 (statistics for 2 <sup>nd</sup> week of January) February 2005 (statistics for January)
C. Foreign Direct Investment (monthly) • By industry (semi-annual total)	(Terminated)	
D. International Investment Position (annual) (1)Direct Investment (2)Portfolio Investment • By holder (assets) • By sector of issuer (liabilities)  (3)Financial Derivatives (4)Other Investment (5)By region	D. International Investment Position (annual) (1) Direct Investment (capital reserves newly included) (2) Portfolio Investment • By holder (assets) • By sector of issuer (liabilities) • By currency – by type of securities (assets) (3) Financial Derivatives (4) Other Investment (5) By region • Direct Investment, by industry • Portfolio Investment, by holder (assets)	May 2006 (statistics for year-end 2005)
D'. International Investment Position (quarter-end estimates) • Direct Investment, Portfolio Investment, Other Investment, Reserve Assets	D'. International Investment Position (quarter-end estimates) • Direct Investment, Portfolio Investment, Other Investment, Reserve Assets	
E. External Debt (quarterly)	E. External Debt (quarterly)	
F. External Assets and Liabilities of Banks, etc. (monthly)	F. External Assets and Liabilities of Banks, etc. (monthly)	

Notes: “Capital Account” and “Changes in Reserve Assets,” to which no changes will be made, are not shown on the table.

\*\*Statistics for each of the three months in the quarter are disseminated in the first month of the second quarter, counting from the quarter to which the month belongs.

## **2. Details of Revisions**

In this section, the changes to be made to Japan's balance of payments related statistics (shaded areas in Table 1 above) are explained in greater detail. The explanations will follow the order of components in Table 1.

### **A. Balance of Payments Statistics**

#### **(1) Provisional Statistics**

##### **(a) Direct Investment: regional breakdown (increased frequency of dissemination)**

The regional breakdown of direct investment is currently disseminated on a semi-annual basis as a part of the "Regional Balance of Payments." In response to the growing user need for regional data on direct investment, these data will be disseminated on a monthly basis in the "Balance of Payments" (provisional and revised) beginning with transactions undertaken in January 2005. The same 32 countries/regions will be covered as currently covered in the "Regional Balance of Payments."

##### **(b) Portfolio Investment (higher level of consistency with BPM5)**

Beginning with transactions undertaken in January 2005, the time of recording portfolio investment will be changed from the settlement basis to *contract basis*.

---- Receivable and payable amounts resulting from adjustments made for timing differences in contract and settlement will be dealt with through corresponding entries under "Other Assets/Liabilities", which are the components of "Other Investment" in the financial account.

The source data for Japan's balance of payments statistics originate in reports filed under the provisions of the Foreign Exchange Law, a law enacted for the purpose of foreign exchange control. Because of this historical background, as a rule, reporters are required to adopt the point of settlement as the time of recording. This explains why Japan's balance of payments statistics have traditionally been compiled on a settlement basis. However, BMP5 states that "Transactions in financial items are considered to have taken place when both creditor and debtor have entered the claim and liability, respectively, in their books" (paragraph 123), thus stipulating that transactions are to be recorded in the statistics at the time of accrual, and not at the time of settlement. Therefore, the timing of recording applied in Japan's statistics was not in strict compliance with the principles of BPM5.

A similar trend can be observed on the side of reporters. That is, as a result of changes to the accounting of financial products, it has become general practice to record portfolio investment transactions on a contract basis. Consequently, settlement-based reporting has become inconsistent with investors' financial accounting practices and has become a source of additional reporting burden.

The forthcoming changes will bring the timing of recording portfolio transactions in line with that stipulated in BPM5, and will, it is hoped, also contribute to reducing reporting burden.

**(b)-1 Portfolio Investment, Appendix Table, Regional Breakdown**

First, the regional breakdown of portfolio investment is currently disseminated semi-annually (calendar year basis) as part of the “Regional Balance of Payments.” As in the case of the regional breakdown of direct investment discussed above, the frequency of dissemination of regional breakdown for portfolio investment will be increased to monthly as a new appendix table.

In addition to the above, statistical series will be expanded in the following two ways. First, the number of countries/regions covered will be increased from 32 to 45 in the new appendix table. To maintain users’ convenience, those countries/regions that are not yet covered by the “Balance of Payments” but by the Ministry of Finance’s “Inward/Outward Portfolio Investments” (settlement basis) will be incorporated into the presentation of “Balance of Payments” once the Ministry’s statistics are terminated.

The following 13 countries/regions will be added to the regional breakdown of portfolio investment in the “Balance of Payments.”

**Newly Added 13 Countries/Regions (Portfolio Investment)**

Central & South America	• Argentina, Bahamas, Bermuda, British Virgin Islands, Dutch Antilles (5 countries/regions)
Western Europe	• Austria, Denmark, Finland, Greece, Ireland, Norway, Portugal (7 countries)
Middle East	• Bahrain

Secondly, debt securities will be broken down into “Bonds and Notes” and “Money Market Instruments.” To meet user needs, it was also deemed appropriate to provide detailed data on the regional breakdown of portfolio investment and bring this component in line with the rest of the balance of payments statistics.

**(b)-2 Portfolio Investment, Appendix Table, Breakdown by Type of Investor (assets only)**

In the “Portfolio Investment - assets” (outward portfolio investment), the statistics under the “Balance of Payments” currently account for only three categories of investors, i.e. public sector, banks, other sectors. For their part, the series disseminated by the Ministry of Finance “Inward/Outward Portfolio Investments” (settlement basis) subsume more detailed breakdowns, i.e. “life insurance companies,” “non-life insurance companies,” “banks,” “trust banks (total and “banking accounts” as an element), “investment trusts companies,” “official sector,” and “others.”

In the forthcoming revisions and the scheduled termination and integration of the above-mentioned statistics of the Ministry of Finance, the practicality for users will be further improved by increasing the categories of investors in “Portfolio Investment, assets” in “Balance of Payments.”

---- “Securities companies” will be added to the categories for types of businesses currently displayed in the Ministry of Finance statistics. This item will represent the sum of dealing by securities companies and brokerage undertaken on behalf of other securities companies. In addition to this, debt securities will be broken down into “Bonds and Notes” and “Money Market Instruments.”

**Balance of Payments Statistics:  
Outward Portfolio Investment by Category of Investor**

Current categories	Public Sector, Banks, Other Sectors	
Revised categories	Public Sector	“Public sector”
	Banks	“Banks,” “trust banks (banking accounts)”
	Other Sectors	“Banks (trust accounts <sup>6</sup> ),” “securities companies,” “life insurance companies,” “non-life insurance companies,” “investment trusts companies,” “others”

**(b)-3 Portfolio Investment, Appendix Table, Breakdown by Sector of Issuer**

Currently, outward portfolio investment is broken down into the product categories of equity securities, bonds and notes, and money market instruments. In response to the growing needs expressed by users, a new issuer category of “sovereign bonds” is added. This category is an aggregate of foreign government bonds, government agency bonds and local government bonds, and will be in addition to the categories of bonds and notes, and money market instruments. Data on sovereign bonds will be broken down into the following 12 countries/regions and others, which constitute major counterparties.

**Country/Regional Breakdown of Sovereign Bonds**

Australia, Canada, Denmark, France, Germany, Hong Kong, Italy, the Netherlands, Sweden, Switzerland, United Kingdom, United States, and total of others

Currently, inward portfolio investment is broken down by type of issuer (public sector, banks, other sectors) for each type of product category, i.e. equity securities, bonds and notes, and money market instruments. In addition to sectoral information, the following five series of data for bonds and notes, and money market instruments will be compiled and disseminated based on the type of issuer.

<sup>6</sup> Sum of trust banking accounts of banks and trust banks.

## **Breakdown of Inward Portfolio Investment by Type of Issuer**

Government bonds, government agency bonds, local government bonds, other bonds, other securities

### **(b)-4 Portfolio Investment, Appendix Table, Breakdown by Currency (assets only)**

Currently, neither the “Balance of Payments” nor “Inward/Outward Portfolio Investments” (contract and settlement basis) contain any data informing the currency of denomination for investment instruments. However, in light of the strong demand for analytical data, data on the currency of denomination of equity securities, bonds and notes, and money market instruments will be compiled and disseminated. The data will cover the following ten major currencies and the total of all other currencies.

#### **Breakdown by Currencies of Denomination of Portfolio Investment (Assets)**

U.S. dollar, Canadian dollar, Euro, British pound, Swiss franc, Danish krone, Swedish krone, Hong Kong dollar, Australian dollar, Japanese yen, others

## **(2) Revised Statistics**

### **(a) Direct Investment: Breakdown by Region - by Industry (expansion of statistical items, termination and integration of closely related statistics)**

Currently, two closely related series of statistics are available on direct investment. These include direct investment in the “Balance of Payments,” and the Ministry of Finance’s “Foreign Direct Investment.”

The first series generally conforms to the principles of BPM5, while the latter is based on Japan’s own standards derived from the Foreign Exchange Law. As a result, the two series are based on significantly different definitions and vary in their treatment of disinvestments and the recording of reinvested earnings (Appendix 2). The existence of parallel statistical series based on different definitions has caused some misunderstanding among users. Therefore, “Foreign Direct Investment” will be integrated into the “Balance of Payments” in the forthcoming revisions.<sup>7</sup>

“Foreign Direct Investment” can be more useful than the current Balance of Payments Statistics in the following respects: (1) regional data are compiled and disseminated for all countries/regions of investment; (2) statistics are broken down by industry (semi-annual fiscal year basis). In order to maintain and improve user convenience, these data will be added to the “Balance of Payments.”

In this context, the following specific changes will be made. The breakdown of direct investment by region and industry will be disseminated in the “Balance of

<sup>7</sup> Scheduled to be terminated with the dissemination of FY 2004 statistics.

Payments – Revised” on a quarterly basis. A total of 24 industry categories will be adopted for both inward and outward direct investment. These will consist of the categories of the current “Foreign Direct Investment” plus those selected by taking into account the Japan Standard Industrial Classification, the United Nations’ International Standard Industrial Classification and past investments (Table 2).

---- In principle, country/regional breakdown of direct investment data will be compiled and disseminated for all countries/regions in which direct investments were made (including the disinvestments) during the pertinent period. This will ensure that the same volume of information will be provided as contained in “Foreign Direct Investment.” However, to preserve the confidentiality of specific transaction information, items containing less than three source-data entries will be put together under “unclassified,” and data by region - by industry will not be released.

**Table 2: Direct Investment: New Industry Categories for Breakdown by Region and Industry**

Industry categories in new statistics (24 industries)	Changes from current “Foreign Direct Investment”	
	Outward Direct Investment	Inward Direct Investment
Food		
Textile		
Lumber and Pulp		New item
Chemicals and Pharmaceuticals		
Petroleum	New item	
Rubber and Leather	New item	
Glass and Ceramics	New item	
Iron, Non-Ferrous, and Metals	(“Metals” is newly added)	(“Iron” and “Non-Ferrous” are newly added.)
General Machinery	(“Precision Machinery” is separated from “General Machinery.”)	
Electric Machinery		New items: “Machinery” is subdivided
Transportation Equipment		
Precision Machinery	New item	
Other Manufacturing	(“Petroleum,” “Rubber and Leather,” “Glass and Ceramics” are separated from “Other Manufacturing.”)	(“Lumber and Pulp” is separated from “Other Manufacturing.”)
Farming and Forestry		New item
Fishery and Marine Products		New item
Mining		New item
Construction		
Transportation	(“Communications” is separated.)	
Communications	New item	
Wholesale and Retail		(Renamed)
Finance and Insurance		
Services		
Real Estate		
Other Non-Manufacturing		(“Farming and Forestry,” “Fishery and Marine Products,” “Mining” are separated from “Other Non-Manufacturing.”)

### **(3) Breakdown by Region (quarterly)**

“Regional Balance of Payments” is currently disseminated on a semi-annual basis, with statistics for the first half of the year released in December of the same year and statistics for the second half of the year released in June of the following year. However, this timing of release is not as prompt as in the United States and some other countries.

In this context, two changes will be made as part of the forthcoming revisions. First, the “Regional Balance of Payments” will be released on a quarterly basis. Second, the dissemination timeliness will be shortened by one month. Consequently, the “Regional Balance of Payments” will be released in February, May, August, and November. The data are released one month after the dissemination of “Balance of Payments - Revised” that is disseminated in the month following the end of the next quarter.

---- For example, regional statistics for the first half of the year (January-June) are currently disseminated in December. Beginning in 2005, regional statistics will be disseminated in August for the January-March quarter, and in November for the April-June quarter.

As previously mentioned, the regional breakdowns of portfolio investment and direct investment, and the country/regional breakdown of sovereign bonds will be disseminated on a monthly basis as part of “Balance of Payments - Provisional.” Furthermore, direct investment by region – by industry will be disseminated on a quarterly basis (simultaneous to the dissemination of “Balance of Payments - Revised”). As a result, the regional data of the “Balance of Payments” will be significantly improved in terms of frequency, timeliness of disseminated data, as well as in terms of range of disseminated components.

### **B. Inward/Outward Portfolio Investments**

The Ministry of Finance series “Inward/Outward Portfolio Investments” are currently disseminated in two forms: (1) contract basis (weekly and monthly), (2) settlement basis (monthly).

These statistical series are based on Japan’s national standards, and inward and outward investments are differentiated according to the currency of denomination. For example, “inward securities investments” in the statistics represent transactions in yen-denominated securities as defined under the Foreign Exchange Law, while “outward securities investments” represent transactions in foreign currency-denominated securities.<sup>8</sup> The definitions differ from those used for the compilation of balance of payments statistics, which follow the recommendations of BPM5.

---- For example, Samurai bonds (yen-denominated bonds issued in Japan by non-residents) are classified as yen-denominated bonds under the provisions of the Foreign Exchange Law. The purchase (acquisition) of the bonds by Japanese residents is therefore classified as inward securities investments in “Inward/Outward Portfolio Investments” (contract, settlement basis). Yet, the

---

<sup>8</sup> Note that euro-yen is treated as a foreign currency under the Foreign Exchange Law.

item portfolio investment in “Balance of Payments” records the purchase (acquisition) of the bonds by Japanese residents as outward portfolio investment because they are issued by non-residents.

As in the case of direct investment, the existence of two series of portfolio investment statistics based on different definitions undermines user practicality. Against this background, “Inward/Outward Portfolio Investments” (settlement basis) will be integrated into the “Balance of Payments” statement as part of the forthcoming revision.

The series “Inward/Outward Portfolio Investments” (contract basis) offer some clear advantages in terms of speed and timing of dissemination although they have a different coverage definition and provide a total amount for a group of designated major investors. That is, weekly results are released in the following week, and monthly results are released roughly one month earlier than settlement-based statistics and portfolio investment in the “Balance of Payments.” For this reason, the decision was made to continue this series, while changing the classification of “Inward/Outward Portfolio Investments” to correspond to those of the balance of Payments Statistics. Furthermore, a more detailed breakdown will be available in monthly statistics by financial instrument (“Money Market Instruments” will be added as a new item) and in Outward Securities Investments by type of investor.<sup>9</sup>

As a result of these changes, “Inward/Outward Portfolio Investments” (contract basis, weekly, monthly)<sup>10</sup> will serve as the provisional version of portfolio investment in the new “Balance of Payments.”

## **C. International Investment Position**

### **(1) Direct Investment**

In Japan’s statistics, capital reserves are included in the “Balance of Payments Statistics” - inward/outward direct investment - and in the “International Investment Position of Japan” - balance of outward direct investment. However, due to constraints on the availability of source data (linked to the reporting format),<sup>11</sup> the “International Investment Position of Japan” - balance of inward direct investment includes equity capital, but does not include capital reserves. The latter is unavailable because the reporting format used by the corresponding respondents does not mandate this information.

When defining the components of direct investment, however, BPM5 (paragraph 369) stipulates that capital reserves should be included in equity capital.<sup>12</sup> Therefore, as part of the forthcoming revision, the pertinent reporting format will be reviewed and capital reserves will be included in the balance of inward direct investment

---

<sup>9</sup> See investor categories in outward portfolio investment in “Balance of Payments” above (page 8).

<sup>10</sup> It is to be renamed “Contracts for Inward and Outward Investments in Securities.”

<sup>11</sup> Ministerial Ordinance: Appendix Format No. 52, “Report concerning retaining of direct investment related earnings by domestic companies.”

<sup>12</sup> Paragraph 369 states: “Equity capital comprises equity in branches, all shares in subsidiaries and affiliates ... and other capital contributions.”

beginning in the international investment position for the end of 2005 (to be disseminated in May 2006).<sup>13</sup>

## **(2) Portfolio Investment: Breakdown by Currency – By Type of Securities**

In 1997, the IMF launched the Coordinated Portfolio Investment Survey (CPIS)<sup>14</sup> for the purpose of reducing the inconsistencies in global data on portfolio investment and for improving the accuracy of data pertaining to the balance of portfolio investments. The CPIS Guidelines recommend the submission of data to the IMF on the breakdown of the balance of portfolio investment by currency – by type of securities. Responding to this recommendation, Japan submitted these data on the asset side for the end of calendar years 2001 and 2002. In light of strong user demand for these data, as part of the forthcoming revisions, data by currency – by type of securities will also be compiled and disseminated for the balance of portfolio investments in Japan’s international investment position.

## **(3) Financial Derivatives**

Japan’s statistical coverage of the balance in financial derivatives is currently limited to the following items: premiums on option transactions (sum of premium payments and receipts derived from unexpired or unexercised options, and options without opposite trades) and warrants.

The Financial Derivatives Supplement to BPM5 (published in 2000) states that asset and liability positions of forward transactions should also be recorded in the international investment position (paragraph 470). For this reason, the reporting format<sup>15</sup> will be partly revised and the end-of-year position in forward contracts will be added as a new reporting item. Data thus collected will be used to include the mark-to-market value of futures and forward positions in the financial derivatives statistics of the international investment position beginning at the end of 2005 (to be disseminated in May 2006).

## **(4)-1 Direct Investment: Breakdown by Region –by Industry**

Following the example of the “Balance of Payments,” new statistics on both the asset and liability sides of direct investment will be compiled and disseminated in the “International Investment Position of Japan” based on the same industry categories of direct investment as in the flow data (see Table 2 above).

---

<sup>13</sup> For details, see pages 13 and 16 of “Differences in Treatment of Direct Investment in the Balance of Payments Statistics and the International Investment Position.” (Bank of Japan Working Papers Series December 16, 2003; <http://www.boj.or.jp/en>).

<sup>14</sup> CPIS is an IMF-led project for determining the details of cross-border securities holdings of countries. The project aims to use data given by regional breakdown for portfolio investment prepared by individual countries to determine the cause of data inconsistencies on a global basis, and to improve the accuracy of statistics. Japan has participated in this project from the outset. Data for participating countries can be accessed through the IMF website (<http://www.imf.org>).

<sup>15</sup> Ministerial ordinance concerning foreign exchange transactions reporting: Appendix Format No. 27, “Reporting format for derivatives transactions.”

#### **(4)-2 Portfolio Investment (assets): Breakdown by Region, by Sector of Holders**

As previously mentioned, in response to the implementation and expansion of IMF's CPIS, the decision was made to expand the range of holder categories for securities on the asset side under the portfolio investment item of the "International Investment Position of Japan." Thus, as part of the forthcoming revision, data on 32 countries/regions will be broken down into three sectors of holders, i.e. public sector, banks, and other sectors.

### **3. Conclusion**

As outlined in this paper, the forthcoming revision should significantly improve the usefulness of statistics for users by broadly expanding the range of statistical components and items disseminated, by improving the timing and speed of dissemination and by rationalising and consolidating closely related statistics.

It is expected that users will express increased interest for data that accurately reflect economic and financial conditions. Renewed interest stems from international organisations that emphasise balance sheet analysis. In addition, the current revision of BPM5 and the improvement to the IMF's CPIS over the most recent period may further raise users' needs for high quality statistics. While paying due attention to the burden of reporters, the Bank of Japan intends to respond to the needs of statistical users by improving and developing highly usable balance of payments related statistics.

## Japan's Balance of Payments Related Statistics

Japan's balance of payments related flow statistics currently comprise the following: "Balance of Payments," conforming to BPM5 and recording cross-border transactions of goods, services, financial products and others; and, "Securities Investment at Home and Abroad" (hereinafter referred to as Inward/Outward Portfolio Investments) and "Foreign Direct Investment," based on Japan's national standards.\*

\* Japan's national standards are primarily based on the Foreign Exchange and Foreign Trade Law (Foreign Exchange Law), which defines inward/outward portfolio investments and direct investment, etc. See Appendix 2 for details.

Japan's balance of payments related statistics currently comprise the following: "International Investment Position of Japan," recording Japan's international outstanding positions in assets and liabilities; "External Debt," conforming to the "External Debt Statistics: Guide for Compilers and Users," the international standard for external debt statistics; and, "External Assets and Liabilities of Banks, etc.," compiled from the "Report of external assets and liabilities of banks, etc." based on the provisions of the Foreign Exchange Law. The forthcoming revision of disseminated statistics affects the contents of all of these series, which in this paper are referred to as "balance of payments related statistics."

Balance of payments statistics are mandated by the Foreign Exchange Law and its application ordinances, which include the "Foreign Exchange Order" and the "Ministerial Ordinance Concerning Reports on Foreign Exchange Transactions, etc." (hereinafter referred to as Reporting Ordinance). Source data for these statistics comprise the reports and notifications submitted to the Finance Minister via the Bank of Japan, and materials submitted in accordance with the provisions of the Reporting Ordinance Article No. 33. The task of compiling statistics is delegated to the Bank of Japan by the Finance Minister based on the provisions of the Foreign Exchange Law and its implementation regulations.\*\* "Balance of Payments," "External Debt," and "External Assets and Liabilities of Banks, etc." are jointly disseminated under the names of the Ministry of Finance and the Bank of Japan, while other balance of payments related statistics are disseminated under the name of the Ministry of Finance.

\*\* The Foreign Exchange Law mandates the Finance Minister to compile statistics on Japan's international assets and liabilities and on its balance of payments, and to report them to the Cabinet. However, the administrative tasks of receiving related reports and notifications and using them to compile statistics are delegated to the Bank of Japan, in accordance with the provisions of the Foreign Exchange Law and its regulations of enforcement.

## Differences between “Foreign Direct Investment” and the “Balance of Payments”

		Foreign Direct Investment	Balance of Payments
Overview	Time lag for the dissemination of monthly data	Two months later at mid-month	<ul style="list-style-type: none"> <li>• Two months later at mid-month (provisional data)</li> <li>• 3–6 months later as sum for quarter (revised data)</li> </ul>
	Data features		
	Components	Acquisition of equities/shares, loans, establishment/expansion of branches (outward direct investment only)	Equity capital, reinvested earnings, other capital
	No. of cases	○(monthly)	n.a.
	By industry	○(semi-annual, fiscal year)	n.a.
	By region	○(semi-annual, fiscal year)	○(semi-annual, calendar year)
Source Data and Recording Methodology	Recording Methodology	<ul style="list-style-type: none"> <li>• One-way, fiscal year, contract basis, which excludes disinvestment amounts (based on pre-notification or post-reporting)</li> <li>• Resident foreign companies (criteria: foreign equity ratio &gt; 50%) are defined as foreign investors (Therefore domestic transactions are included in inward foreign investment.)</li> </ul>	<ul style="list-style-type: none"> <li>• Equity capital, other capital</li> <li>• Two-way, calendar year, settlement basis, which includes disinvestment amounts (based on payment or receipt of payment)</li> <li>• Reinvested earnings included</li> <li>• For earnings retained by subsidiaries, amounts corresponding to equity share of parent company are included (calendar year, imputation method)</li> </ul>
	Main Source Data		
	Outward Direct Investment	<ul style="list-style-type: none"> <li>• Report on Acquisition of Securities related to Outward Direct Investment (Reporting Ordinance<sup>1</sup> Appendix Format No. 16)</li> <li>• Report on Funds Lending Contract related to Outward Direct Investment (Reporting Ordinance Appendix Format No. 17)</li> <li>• Report on Payments for Establishment or Expansion of Overseas Branches related to Outward Direct Investment (Reporting Ordinance Appendix Format No. 18)</li> <li>—Transactions over ¥100 million are applicable</li> <li>—In addition to reports, notifications and applications are also used as source data</li> </ul>	<ul style="list-style-type: none"> <li>• Payment Reports, etc. (Reporting Ordinance Appendix Formats Nos. 1 – 4 &lt;reporting threshold amount: ¥30 million or more&gt;)</li> <li>• Report of Retained Earnings of Foreign Companies related to Inward Direct Investment (Reporting Ordinance Appendix Formats Nos. 50, 51 &lt;reporting threshold amount: ¥1 billion capital subscription&gt;)</li> </ul>
Inward Direct Investment	<ul style="list-style-type: none"> <li>• Report on Acquisition of Equity and Shares (Inward Investment Order<sup>2</sup> Appendix Format No. 11)</li> <li>• Report on Transfer of Equity and Shares (Inward Investment Order Appendix Format No. 12)</li> <li>• Report on Funds Lending Contract (Inward Investment Order Appendix Format No. 16)</li> <li>• Report on Acquisition of Corporate Bonds (Inward Investment Order Appendix Format No. 17)</li> <li>—No minimum reporting threshold amount</li> <li>—In addition to reports, notifications are also used as source data</li> </ul>	<ul style="list-style-type: none"> <li>• Payment Reports, etc. (Appendix Formats Nos. 1 – 4)</li> <li>• Report on Retained Earnings of Domestic Companies related to Inward Direct Investment (Reporting Ordinance Appendix Format No. 52 &lt;reporting threshold amount: ¥1 billion capital or more&gt;)</li> </ul>	

<sup>1</sup> Ministerial Ordinance Concerning Reports on Foreign Exchange Transactions, etc.

<sup>2</sup> Ordinance Concerning Inward Direct Investment, etc.

### Comparison of “Inward/Outward Portfolio Investments” and the “Balance of Payments”

	Inward/Outward Portfolio Investments	Balance of Payments
Coverage	<ul style="list-style-type: none"> <li>• General transactions in equities and bonds and notes</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive securities transactions (In addition to general transactions, issuance, redemption and securities lending transactions are included)</li> </ul>
Criteria for classification of inward and outward investments*	<ul style="list-style-type: none"> <li>• By currency of denomination (foreign currency securities or yen-denominated securities)</li> <li>— Classification based on Foreign Exchange Law</li> </ul>	<ul style="list-style-type: none"> <li>• By residence of issuer</li> <li>— Classification based on IMF Balance of Payments Manual (BPM5)</li> </ul>
Definition of outward securities investment	<ul style="list-style-type: none"> <li>• Cross-border transactions of foreign currency denominated securities</li> <li>— Euro-yen bonds are treated as foreign currency securities</li> </ul>	<ul style="list-style-type: none"> <li>• Cross-border transactions in securities issued by non-residents</li> </ul>
Definition of inward securities investment	<ul style="list-style-type: none"> <li>• Cross-border transactions of yen-payment securities</li> </ul>	<ul style="list-style-type: none"> <li>• Cross-border transactions in securities issued by residents</li> </ul>
Type of data	<ul style="list-style-type: none"> <li>• Contract basis</li> <li>• Settlement basis</li> </ul>	<ul style="list-style-type: none"> <li>• Settlement basis</li> </ul>
Survey method	<ul style="list-style-type: none"> <li>• Survey of designated major investors (contract basis)</li> <li>• Comprehensive survey (settlement basis)</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive survey</li> </ul>
Dissemination frequency	<ul style="list-style-type: none"> <li>• Weekly (contract basis only)</li> <li>• Monthly (contract basis and settlement basis)</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly</li> </ul>

\* For example, yen-payment securities issued by non-residents (yen-denominated foreign bonds <samurai bonds>) are treated as inward portfolio investment in the “Inward/Outward Portfolio Investments” and as outward portfolio investment in the “Balance of Payments Statistics.”