Chapter 9

Classification of Transactions and Positions

9.1. The international economic accounts disaggregate and classify resident-nonresident transactions and positions in various ways to provide greater insight into their economic significance and to present the statistics in the broader context of integrated economic accounts. Classifications are used to group similar components and to separate components with different characteristics. This chapter describes important classifications of transactions that distinguish activities in the current and capital accounts, the key characteristics of financial assets and liabilities and related classifications, and the functional categories that are used to classify positions, income flows, and financial account transactions. Some of these classifications also apply to BEA's statistics on the Activities of Multinational Enterprises (AMNE).

Current and capital accounts

9.2. The current account of the International Transactions Accounts (ITAs) consists of resident-nonresident transactions in produced assets, primary income, and secondary income (current transfers). The capital account of the ITAs consists of resident-nonresident transactions in nonproduced nonfinancial assets and capital transfers. Major current account classifications include goods vs. services and primary income vs. secondary income (current transfers). Distinctions between goods and services, between current and capital transfers, and between primary income and services are not always straightforward. This section discusses important cross-cutting classification issues that affect the current and capital accounts.

Goods vs. services

9.3. In economic accounts, goods and services are the two major categories of outputs of productive activities. Goods are physical items with ownership rights that can be exchanged among institutional units through transactions. The production of a good can be separated from its subsequent sale or resale. Services are the result of activities that change the condition of the consumer or that facilitate the exchange of products and financial assets. In general, ownership rights cannot be established for services and they cannot be separated from their production. Exceptions occur for some intellectual property products, such as computer software and audio-video recordings, that can be traded separately from their production.

9.4. In the ITAs, the valuation of goods includes transport services within the exporting economy, as well as wholesale and retail services embedded in the price of the goods. Cross-border transport and insurance services for goods are included in services. Certain services include the value of goods, such as travel, construction, and government goods and services n.i.e. (not included elsewhere). Moreover, some services, particularly manufacturing services, repairs, and freight transport, are closely related to the production or transport of new and used goods.

Primary income vs. services

9.5. Primary income includes both investment income such as interest, dividends, and reinvested earnings and compensation of employees. An important issue for distinguishing compensation of employees from services trade is the existence of an employer-employee relationship between a resident and nonresident. Provision of certain types of services may pose classification problems because firms may choose to purchase a service, such as legal services, from a self-employed person or may hire an employee to provide the service. If an employer-employee relationship exists between the worker and the producing entity, the payment represents compensation of employees. If an employer-employee relationship does not exist, the payment constitutes a purchase of services.

9.6. Another cross-cutting issue regarding classifications between primary income and services concerns dividends paid by the affiliates of multinational enterprises (MNEs) to their parents. In some cases, parents provide management and administrative services to their affiliates without an explicit charge and account for these services as revenue for the parent and an expense for the affiliate. If these types of intra-firm services transactions are not recognized for accounting purposes, then the measured flow of dividends between the parent and the affiliate would be affected. These distinctions are important for proper measurement of both the international and the national economic accounts.

9.7. Disproportionately large values of services between affiliated enterprises—for example large fluctuations that do not reflect actual changes in the services provided—may indicate the existence of disguised dividends. Financial reporting and income tax minimization strategies may provide incentives for firms to characterize unpriced services transactions between affiliated enterprises as business expenses rather than as dividends.

Current vs. capital transfers

9.8. Secondary income in the current account consists of current transfers between residents and nonresidents. The capital account includes capital transfers along with transactions in nonproduced nonfinancial assets. Unlike an exchange, a transfer is a transaction that provides a good, service, or asset to another institutional unit without a corresponding return of economic value (quid pro quo). Capital transfers represent change in ownership of an asset between parties. Current transfers include items such as personal remittances, government grants, cross-border fines and penalties, and institutional remittances. Capital transfers include debt forgiveness, non-life insurance payments resulting from catastrophic events, and investment grants.

9.9. Current transfers directly affect the level of disposable income and savings and influence the consumption of goods or services. That is, current transfers reduce income and consumption possibilities of the donor country and increase income and consumption possibilities of the recipient country. As a result, current transfers are closely related to the goods, services, and financial assets exchanged and are included in the current account.

9.10. Entries for current transfers offset transactions with nonresidents that involve real resources or financial assets recorded in the goods, services, income, or financial accounts. Because a transfer is the counter entry to an actual resource flow, the value of the transfer equals the value of the corresponding flow. In general, transfers are recorded at the time of delivery of goods, performance of services, or disbursement of cash. The valuation of noncash transfers generally corresponds to the value of the goods or services for which they are offsets.

Financial assets and liabilities

9.11. Financial assets are a type of economic asset identified in economic accounts. Economic assets are resources over which ownership rights are enforced and from which future economic benefits may flow to the owner. They include fixed assets, such as equipment and outcomes of research and development, that are used repeatedly or continuously in production over more than one year. Economic assets also include inventories, valuables, nonproduced assets, and financial assets. Aggregate economic accounts usually distinguish produced and nonproduced assets among the universe of economic assets. In the international economic accounts, transactions in produced assets are recorded in the current account, nonproduced nonfinancial assets in the capital account, and financial assets and liabilities in the financial account.

9.12. Financial instruments, which consist of the full range of financial contracts between institutional units, may give rise to financial claims. A claim is a financial instrument that leads to an economic asset with a counterpart liability. Claims arise from contractual relationships under which one institutional unit promises to provide funds or other resources to another in the future. The only financial instrument that does not give rise to a claim is gold bullion, which is included in monetary gold.

9.13. Each claim is a financial asset that has a corresponding liability. The existence of two parties to a claim implies that it can arise in a cross-border situation. Nonfinancial assets do not have a corresponding liability. Financial assets, which consist of claims and the gold bullion component of monetary gold, include equity and investment fund shares, debt instruments, financial derivatives other than reserve assets, and monetary gold.

Classification by type of instrument

9.14. Three broad categories of financial assets and liabilities are identified for the U.S. international economic accounts: (1) equity and investment fund shares, (2) debt instruments, and (3) other financial assets and liabilities. More detailed classifications of financial assets and liabilities are also provided that are based primarily on the legal characteristics of the relationship between the involved parties. The classification system provides broad categories that allow for international comparability and the inclusion of new instruments arising from financial innovation. BEA's financial instrument detail closely follows but does not exactly match the detail recommended by *BPM6.* Departures from *BPM6* guidelines are described below.

Equity and investment fund shares

9.15. Equity and investment fund shares have the distinguishing feature that the holders own a residual claim on the assets of the institutional unit that issued the instrument. Equity represents the owners' funds in the institutional unit and is treated as a liability of the issuing institutional unit. In contrast to debt, equity generally does not provide the owner with a right to a predetermined amount or an amount determined by a fixed formula. Investment fund shares have a specialized role in financial intermediation as a type of collective investment in other assets. Investment funds include money market funds (MMF) and non-MMF investment funds. Equity securities excluding investment fund shares include common stocks, preferred stocks, restricted stocks, and depository receipts. Investment fund shares include shares in money market, equity, and bond mutual funds, real estate investment trusts, index-linked equity unit investment trusts, and limited partnership interests.

Debt instruments

9.16. Debt instruments require the payment of principal and/or interest at some future point. Debt instruments consist of International Monetary Fund (IMF) special drawing rights (SDRs), currency and deposits, debt securities, loans, insurance technical reserves, pension and related entitlements, provision for calls under standardized guarantees, and other accounts receivable/payable. The term debt instrument applies to both the liability and the corresponding claim. Some instruments, such as currency and certain deposits, pay no interest. Debt securities are negotiable instruments that include asset-backed securities, collateralized debt obligations, and collateralized mortgage obligations.

9.17. Debt instruments differ from equity and investment fund shares in the nature of the liability and risk. While equity provides a residual claim on the assets of the entity, a debt instrument involves an obligation to pay an amount of principal and/or interest, usually according to a predefined formula. As a result, the creditor usually has a more limited risk exposure than with equity. In contrast, the return on equity largely depends on the economic performance of the issuer. Unlike financial derivatives, debt instruments have a principal amount typically associated with the supply of financial or other resources.

9.18. The U.S. international economic accounts include detailed statistics for a variety of debt instruments in portfolio investment, other investment, and reserve assets in the ITAs and in the International Investment Position (IIP) Accounts. Below are descriptions for each of the published types of debt instrument.

9.19. ***Debt securities*.** Debt securities are negotiable instruments serving as evidence of a debt. They include bills, bonds, notes, negotiable certificates of deposit, commercial paper, debentures, asset-backed securities, money market instruments, and similar instruments traded in financial markets.

9.20. Debt securities include corporate bonds and notes both in registered and in bearer form, convertible debt, zero coupon debt, index-linked debt securities, medium-term notes, note issuance facilities, floating rate notes, asset-backed securities, sovereign debt of foreign governments and their political subdivisions, and debt issued by international and regional financial institutions. Debt securities also include U.S. Treasury securities, federally-sponsored agency securities, and securities issued by state and local governments.

9.21. Asset-backed securities include collateralized mortgage obligations, collateralized bond obligations, collateralized loan obligations, collateralized debt obligations, other securities backed by pools of mortgages, credit card receivables, automobile loans, consumer and personal loans, and commercial and industrial loans.

9.22. ***Currency and deposits*.** Currency consists of notes and coins with fixed nominal values and that are issued or authorized by central banks or governments. Deposits include all claims on deposit-taking institutional units that are represented by evidence of deposit. The nominal value of deposits is usually fixed in the currency of denomination.

9.23. ***Loans*.** Loans are financial assets that are established when a creditor lends funds directly to a debtor and that are evidenced by documents that are not negotiable. This category includes installment loans, hire-purchase loans, and trade credit finance. Loans also include securities repurchase agreements and financial leases. Financial leases are contracts under which the lessor of an asset conveys substantially all the risks and rewards of ownership to the lessee. This is equivalent to a loan from the lessor to the lessee.

9.24. Some types of debt instruments may be classified as deposits or as loans. *BPM6* recommends that "interbank positions" (transactions between U.S. banks and foreign banks) be classified as deposits. Because the Treasury International Capital source data used by BEA provide a breakdown of interbank positions between loans and deposits, BEA provides "interbank transactions" as a subset of transactions by deposit-taking institutions except central bank for both other investment assets and other investment liabilities. These interbank transactions may include deposits or loans.

9.25. Securities repurchase agreements, which are a widely used type of financial instrument in the U.S. economy, may also be classified as deposits or as loans. BEA follows the *BPM6* recommendation that the supply and receipt of funds under a securities repurchase agreement is generally a loan, but this activity is classified as a deposit if it involves liabilities of a deposit-taking institution and is included in national measures of broad money.

9.26. ***Insurance technical reserves*.** These reserves consist of reserves for unearned nonlife insurance premiums due to prepayment of premiums and reserves against outstanding nonlife insurance claims, which are amounts identified by insurance companies to cover expected payouts from actual events for which claims have not been settled. Insurance technical reserves arise for both nonlife direct insurance and reinsurance.

9.27. ***Trade credit and advances*.** Trade credit and advances consist of credit extended directly by the suppliers of goods and services to their customers and advances for work in progress and prepayment by customers for goods and services not yet provided. Trade credit and advances arise when payment for goods and services is not made at the same time as the change in ownership of the good or provision of a service.

9.28. ***Special drawing rights*.** SDRs are international reserve assets created by the IMF and allocated to members to supplement existing official reserves. SDR holdings represent unconditional rights to obtain foreign exchange or other reserve assets from other IMF members.

9.29. ***Reserve position in the IMF.*** A country's reserve position in the IMF equals the sum of the reserve tranche plus any indebtedness of the IMF in the General Resources Account that is readily available to the member country. The reserve tranche represents the member's unconditional drawing right on the IMF.

Other financial assets and liabilities

9.30. For the U.S. international economic accounts, other financial assets and liabilities include (1) financial derivatives other than reserves and (2) monetary gold.

9.31. ***Financial derivatives other than reserves*.** In *BPM6,* this item is defined as financial derivatives and employee stock options. Financial derivatives and employee stock options have similar features in that both transfer risk, but employee stock options are also designed to be a form of compensation. However, BEA is not able at this time to estimate cross-border transactions in employee stock options. A financial derivative contract is a financial instrument that is linked to another specific financial instrument, indicator, or commodity, and through which specific financial risks can be traded in financial markets. Transactions and positions in financial derivatives are treated separately from the values of underlying linked items.

9.32. ***Monetary gold*.** Monetary gold is gold for which the monetary authorities have title and is held as reserve assets. Gold includes gold bullion and unallocated gold accounts with nonresidents. All monetary gold is included in reserve assets or is held by international financial organizations. In contrast to monetary gold, which is a financial asset, nonmonetary physical gold is classified as a good. Monetary gold is treated differently because of its role as a means of international payments and a store of value for use in reserve assets.

Classifications by maturity, currency, and sector

9.33. The maturity of a debt instrument is classified as either short-term or long-term. Short-term is defined as payable on demand or with a maturity of one year or less. Long-term is defined as having a maturity of more than one year or with no stated maturity (other than on demand, which is included in short-term). This classification provides information on the liquidity dimensions of debt. Currency is included in short-term maturity. Maturity may relate to original maturity or remaining maturity.

9.34. A financial asset or liability can also be classified as domestic currency or foreign currency, depending on its unit of account, denomination, or settlement. The currency of denomination is determined by the currency in which the value of the positions is fixed as specified in the contract between the parties. The currency of settlement may differ from the currency of denomination, and its use means that a currency conversion is required each time a settlement occurs.

9.35. Classification of financial assets and liabilities by sector can provide useful insights into how financial transactions and positions are distributed across the U.S. economy. For the U.S. international economic accounts, sectors include central bank, deposit-taking institutions except central bank, other financial institutions, nonfinancial institutions except general government (including households and nonprofit institutions), and general government. Financial assets are classified by the sector of the U.S. holder and financial liabilities are classified by the sector of the U.S. issuer. Classifications by sector and by type of instrument provide even further insight into the distribution of asset and liability positions in the U.S. economy. (See chapter seven for more detailed information about institutional sectors.)

Functional categories

9.36. In the U.S. international economic accounts, functional categories are the primary classification used for financial transactions, positions, and income. Five functional categories of investment are identified in the accounts: direct investment, portfolio investment, other investment, reserves, and financial derivatives other than reserves.

9.37. While the functional categories are based on the classification of financial assets and liabilities discussed above, they also take into account aspects of the relationship between the transactors and the motivation for the investment. The functional categories are designed to facilitate analysis by distinguishing categories that demonstrate different motivations and behavior patterns. For example, a loan can appear under direct investment or other investment, but the different nature of the relationship between the parties is important because the risks and motivations underlying the transaction may be different. A different relationship exists between the counterparties for portfolio investors vs. direct investors.

9.38. *Direct investment* is related to control or a significant degree of influence and is usually associated with a lasting relationship. In contrast, portfolio investors typically have a much smaller role in the operations of the enterprise, with potentially important implications for future flows and for the volatility of the price and volume of positions.

9.39. *Portfolio investment* differs from other functional categories because it provides a direct way for investors to access financial markets and thus can provide liquidity and flexibility. It is associated with financial markets and with their specialized service providers, such as exchanges, dealers, and regulators.

9.40. *Other investment* is a residual category that includes positions and transactions other than those included in direct investment, portfolio investment, reserve assets, and financial derivatives other than reserves. Other investment includes the large volume of international transactions intermediated by large bank and nonbank financial intermediaries through loans and deposits.

9.41. *Reserve assets* are shown separately because they serve a different function and thus are managed in different ways from other assets. Reserve assets include a range of instruments that are shown under other categories when they are not owned by monetary authorities. As reserve assets, however, they have the distinct purpose of meeting balance of payments financing needs and undertaking market intervention to influence the exchange rate.

9.42. The nature of *financial derivatives other than reserves* as instruments through which risk is traded in its own right in financial markets sets them apart from other types of investment. While other instruments may also have risk transfer elements, these other instruments also provide financial or other resources.

Direct investment

9.43. Direct investment is a category of cross-border investment in which a resident in one economy has control or a significant degree of influence over the management of an enterprise resident in another economy. In addition to the equity that leads to control or influence, direct investment also includes investment associated with that relationship, including investment in indirectly influenced or controlled enterprises, investment in fellow enterprises, most debt, and reverse investment.

9.44. The Organisation for Economic Co-operation and Development Framework for Direct Investment Relationships provides criteria for determining whether cross-border ownership results in a direct investment relationship based on control and influence. Control or influence may be achieved directly by owning equity that gives voting power in the enterprise or indirectly by having voting power in another enterprise that has voting power in the enterprise. Immediate direct investment relationships arise when a direct investor directly owns equity that entitles it to 10 percent or more of the voting power in the direct investment enterprise. Control exists if the direct investor owns more than 50 percent of the voting power in the direct investment enterprise.

9.45. Indirect direct investment relationships arise through the ownership of voting power in one direct investment enterprise that owns voting power in another enterprise or enterprises. An entity is thus able to exercise indirect control or influence through a chain of direct investment relationships. For example, an enterprise may have an immediate direct investment relationship with a second enterprise that has an immediate direct investment relationship with a third enterprise. Although the first enterprise has no equity in the third enterprise, it may be able to exercise indirect control or influence.

9.46. U.S. direct investment abroad (outward investment) is the ownership or control, directly or indirectly, by one U.S. entity of 10 percent or more of the voting securities of an incorporated foreign business enterprise, or an equivalent interest in an unincorporated foreign business enterprise. Foreign direct investment in the United States (inward investment) is the ownership or control, directly or indirectly, by one foreign entity of 10 percent or more of the voting securities of an incorporated U.S. business enterprise, or an equivalent interest in an unincorporated U.S. business enterprise.

9.47. For partnerships, the determination of whether a partner and a limited partnership are in a direct investment relationship is based on control of the partnership and not on the percentage of ownership in the partnership's equity. In most cases, the general partner is presumed to control a limited partnership and thus have a direct investment relationship with the limited partnership. In the case of multiple general partners, the partnership is presumed to be controlled equally by each of the general partners, unless a clause to the contrary is contained in the partnership agreement. Limited partners normally do not exercise any control over a limited partnership. Unless a limited partner is granted some control over the partnership in a specific clause in the agreement or the agreement grants voting rights to limited partners, the limited partner is assumed to not be in a direct investment relationship with the partnership.

9.48. Direct investment refers to ownership by a single entity, or group of related entities, not to the combined ownership of all entities in a country. An "entity" is broadly defined to include (1) any individual, branch, partnership, associated group, estate, trust, corporation or other business organization; (2) any government, including a foreign government, the U.S. government, a state or local government, or any division thereof; and (3) any government-sponsored agency or government sponsored investment fund, such as a sovereign wealth fund. An associated group is treated in this definition as a single entity.

9.49. Because direct investment is defined from a single-owner viewpoint, it excludes investment in enterprises in which ownership is so dispersed that no one owner in another economy has an interest of 10 percent or more and the owners do not, or cannot, act in concert to influence management. The single-owner viewpoint also means that investment by a U.S. entity of less than 10 percent in a foreign business enterprise is not considered direct investment, even if another U.S. entity has an interest of at least 10 percent in the enterprise. Thus, if one U.S. entity owns 11 percent and another owns 9 percent, the 11 percent interest is included, but the 9 percent interest is excluded. However, if two or more U.S. entities each hold an interest of at least 10 percent, and are not associated with each other, each such interest is included.

9.50. A direct investment ownership in a foreign business enterprise can result from direct or indirect ownership by a U.S. entity. For outward investment, it is directly held if the U.S. entity itself holds the ownership interest in the foreign business enterprise. It is indirectly held if one or more tiers of ownership exist between the foreign business enterprise and the U.S. entity. For example, a foreign business enterprise may be directly owned by another foreign business enterprise that is, in turn, owned by the U.S. entity.

9.51. A U.S. entity's percentage of indirect voting ownership in a given foreign business enterprise is equal to the direct-voting-ownership percentage of the U.S. entity in the first foreign business enterprise in the ownership chain, times the first enterprise's direct-voting-ownership percentage in the second foreign business enterprise in the chain, times the corresponding percentages for all intervening enterprises in the chain, times the last intervening enterprise's direct-voting-ownership percentage in the given foreign business enterprise.

9.52. For example, suppose there are three related direct investment enterprises: a U.S. parent company (enterprise A), a directly-held foreign affiliate in the Netherlands (enterprise B), and an indirectly-held foreign affiliate in Spain (enterprise C). If enterprise A owns 80 percent of the voting power in enterprise B, which, in turn, owns 50 percent of the voting power in enterprise C, then enterprise A's indirect voting ownership share in enterprise C is 40 percent (80 percent x 50 percent).

9.53. If more than one ownership chain exists, the percentages of direct and indirect ownership in all the chains are summed to determine the U.S. entity's ownership percentage. For inward direct investment, the ownership percentage of a foreign entity in a given U.S. business enterprise is calculated in a parallel manner.

9.54. The direct investor is the entity that has a 10-percent or more direct or indirect ownership interest in a business enterprise located in another country. For outward investment, the direct investor is referred to as the "U.S. parent." If incorporated, the U.S. parent is the fully consolidated domestic U.S. enterprise that consists of (1) the U.S. corporation whose voting securities are not owned more than 50 percent by another U.S. corporation and (2) proceeding down each ownership chain from that U.S. corporation, any U.S. corporation whose voting securities are more than 50 percent owned by the U.S. corporation above it in the chain. All other U.S. corporations and all foreign business enterprises owned by the U.S. parent are excluded from the full consolidation.

9.55. For inward investment, the direct investor is referred to as the "foreign parent," but the concept is defined much more narrowly than that of "U.S. parent" for outward investment. The foreign parent is the first foreign entity outside the United States in a U.S. affiliate's ownership chain that has direct investment in the affiliate. Thus, while for outward investment the parent includes all members of the fully consolidated U.S. enterprise, for inward investment it includes only the first foreign entity outside the United States and excludes all other affiliated foreign entities. However, direct investment statistics include direct transactions of U.S. business entities with all of the affiliated foreign entities that, together with the foreign parent, constitute the "foreign parent group."

9.56. The foreign parent group, which is conceptually analogous to the U.S. parent for outward investment, consists of (1) the foreign parent; (2) any foreign entity, proceeding up the foreign parent's ownership chain, that owns more than 50 percent of the entity below it up to and including the ultimate beneficial owner (the entity that is not owned more than 50 percent by another entity); and (3) any foreign entity, proceeding down the ownership chain of each of these members, that is owned more than 50 percent by the entity above it. Because the members of the foreign parent group may be located in different countries, transactions of a U.S. business entity with members of the foreign parent group are classified in the U.S. international economic accounts by the respective country of each member.

9.57. Affiliates are enterprises that are directly or indirectly owned or controlled by an entity in another country to the extent of 10 percent or more ownership of the voting stock for an incorporated business, or an equivalent interest for an unincorporated business. A business enterprise is any organization, association, branch, venture, or ownership of real estate that exists for profit-making purposes or to otherwise secure economic advantage. A business enterprise may be either incorporated or unincorporated. Unincorporated business enterprises include branches, partnerships, and sole proprietorships.

9.58. Direct investment transactions and positions include the equity that gives rise to control or influence and intercompany lending, that is, debt between affiliated enterprises. However, debt between selected affiliated financial institutions is not classified as direct investment because it is not considered to be so strongly connected to the direct investment relationship. These transactions are classified as other investment because the transactions are more closely connected to financial intermediation. The financial institutions covered by this exception are (1) deposit-taking corporations, (2) investment funds, and (3) other financial intermediaries except insurance enterprises and pension funds.

9.59. Also excluded from direct investment, by definition, are transactions in financial derivatives. These transactions are included as a separate functional category in the international economic accounts. Even when transactions in financial derivatives are conducted by a direct investor or direct investment affiliate, they are considered transactions in financial instruments rather than transactions between a direct investor and an affiliated or unaffiliated entity. No transactions in employee stock options are included in the U.S. international economic accounts because of the lack of appropriate source data.

9.60. Direct investment is presented on the asset/liability basis recommended by *BPM6* to the extent that source data allow in addition to the directional basis recommended by earlier guidelines. On the directional basis, direct investment statistics are organized according to whether the direct investment is outward or inward. On the asset/liability basis, direct investment statistics are organized according to whether the investment relates to an asset or a liability. This primarily affects the recording of intercompany debt between parents and affiliates.

9.61. Under the asset/liability basis, U.S. parents' debt claims are no longer netted against their debt liabilities to their foreign affiliates, and U.S. affiliates' debt claims are no longer netted against their debt liabilities to their foreign parent groups. Because of source data limitations related to the measurement of reverse investment and investment between fellow enterprises, BEA can only approximate the full asset/liability basis. BEA will continue to present direct investment statistics on a directional basis for the purpose of classifying direct investment by partner country and by industry.

Portfolio investment

9.62. Portfolio investment is defined as cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets. Securities are debt and equity financial instruments that have the characteristic feature of negotiability. Negotiability is a way of facilitating trading, allowing securities to be held by different parties during their lives. Negotiability allows investors to diversify their portfolios and to withdraw their investment readily.

9.63. Portfolio investment includes securities traded on organized financial markets. Such investment usually involves financial infrastructure, along with market-making dealers, and a sufficient volume of buyers and sellers. Acquisition of shares in hedge funds, private equity funds, and venture capital are examples of portfolio investment that occur in less public and more lightly regulated markets. Portfolio investment is distinctive because of the nature of the funds raised, the largely anonymous relationship between the issuers and holders, and the degree of trading liquidity in the instruments. Portfolio investment may be classified by instrument, original or remaining maturity, or institutional sector.

Other investment

9.64. Other investment is a residual category that includes positions and transactions other than those included in direct investment, portfolio investment, reserve assets, and financial derivatives other than reserves. To the extent that the following classes of financial assets and liabilities are not included under direct investment or reserve assets, other investment includes: (1) other equity, (2) currency and deposits, (3) loans (including use of IMF credit and loans from the IMF), (4) nonlife insurance technical reserves, life insurance and annuities entitlements, pension entitlements, and provisions for calls under standardized guarantees, (5) trade credit and advances, (6) other accounts receivable/payable, and (7) SDR allocations. (SDR holdings are included in reserve assets.)

9.65. Other equity is included in other investment when it is not direct investment or reserve assets. Other investment may be further classified by type of instrument, original or remaining maturity, or institutional sector. In the U.S. international economic accounts, transactions in other equity and other accounts receivable/payable are not separately reported because of the lack of appropriate source data. Transactions in insurance technical reserves are available only beginning in 2014.

Reserves

9.66. Reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing. Underlying the concept of reserve assets are the notions of “control” and “availability for use” by the monetary authorities. For the United States, the monetary authority is the Federal Reserve Board.

9.67. In general, only external claims actually owned by the monetary authority can be classified as reserve assets. Reserve assets must also be readily available in the most unconditional form. Reserve assets consist of monetary gold, SDR holdings, reserve position in the IMF, currency and deposits, securities (including debt and equity securities), financial derivatives, and other claims (loans and other financial instruments, including repurchase agreements). Monetary gold, SDR holdings, and reserve position in the IMF are considered reserve assets because they are readily available to the monetary authorities in unconditional form. Currency and deposits, securities, and other assets often are equally available and therefore qualify as reserve assets.

Financial derivatives other than reserves

9.68. The functional category financial derivatives other than reserves in the U.S. international economic accounts largely coincides with the corresponding financial instrument class described above; however, no transactions in employee stock options are included in the U.S. accounts because of the lack of appropriate source data.

9.69. This category is identified separately because it relates to risk transfer rather than supply of funds or other resources. Unlike other functional categories, no primary income accrues on financial derivatives. Any amounts accruing under the contract are classified as revaluations and are included in the other changes in assets and liabilities account.

9.70. While *BPM6* encourages the recording of financial derivatives separately for both assets and liabilities, it recognizes that measuring transactions on a gross basis may not be feasible, in which case net reporting is acceptable. In the ITAs, net transactions are reported because measuring transactions on a gross basis is not feasible. In the IIP accounts, however, gross positions are reported for financial derivatives held as assets and as liabilities.