

**GUIDELINE (EU) 2020/1554 OF THE EUROPEAN CENTRAL BANK****of 14 October 2020****amending Guideline ECB/2011/23 with regard to the frequency of reporting to the European Central Bank on the quality of external statistics (ECB/2020/52)**

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to the Statute of the European System of Central Banks and of the European Central Bank, and in particular Articles 3.1, 3.3, 5.1, 12.1, 14.3 and 16 thereof,

Having regard to Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank <sup>(1)</sup>, and in particular Article 4 thereof,

Whereas:

- (1) The quality assessment of the data in the field of external statistics is performed in accordance with the Statistics Quality Framework of the European Central Bank (ECB), and includes a regular report submitted by the Executive Board to the Governing Council of the ECB. Monitoring of data quality is critical and should be carried out in a timely manner.
- (2) However, the right balance should be achieved between the need for monitoring and the frequency of the reporting of the relevant information to the Governing Council. It is, therefore, necessary to update the frequency with which the Executive Board reports on the quality of external statistics to the Governing Council. In order to allow for quality analysis, the Executive Board should submit the first quality report to the Governing Council after the adoption of this Guideline by end 2022.
- (3) The concepts underlying the collection and compilation of external statistics are sound and well anchored in the sixth edition of the International Monetary Fund's Balance of Payments and International Investment Position Manual (BPM6) <sup>(2)</sup>. However, these concepts frequently require clarifications, some of which are particularly important for an accurate compilation of euro area aggregates. It is, therefore, necessary to update the financial account and international investment position concepts set out in Annex III to Guideline 2012/120/EU of the European Central Bank (ECB/2011/23) <sup>(3)</sup>.
- (4) When severe data quality issues are identified, it is appropriate to afford the Executive Board the facility of providing additional reports as it deems necessary to the Governing Council. For the same reason, it is also appropriate to provide that the Executive Board be able to exercise this discretion as of 2022.
- (5) In line with the ECB's Statistics Quality Framework, it is appropriate that certain information from such reports be made publicly available.
- (6) As of 1 March 2021, Guideline (EU) 2018/1151 of the European Central Bank (ECB/2018/19) <sup>(4)</sup> prescribes that the Executive Board is to report yearly to the Governing Council on the quality of the external statistics. In order to achieve the right balance the need for monitoring and the frequency of the reporting of the relevant information to the Governing Council, the frequency laid down in Guideline ECB/2011/23 should be further extended to biennial reporting. Hence, for reasons of transparency, sufficient time should be provided between the application of the requirement to report yearly pursuant to Guideline (EU) 2018/1151 and the application of the latest requirement to report biennially pursuant to this Guideline. Therefore, national central banks (NCBs) and the Executive Board should be required to comply with this Guideline as of 1 July 2021.

<sup>(1)</sup> OJ L 318, 27.11.1998, p. 8.

<sup>(2)</sup> Available at: <https://www.imf.org/>

<sup>(3)</sup> Guideline 2012/120/EU of the European Central Bank of 9 December 2011 on the statistical reporting requirements of the European Central Bank in the field of external statistics (ECB/2011/23) (OJ L 65, 3.3.2012, p. 1).

<sup>(4)</sup> Guideline (EU) 2018/1151 of the European Central Bank of 2 August 2018 amending Guideline ECB/2011/23 on the statistical reporting requirements of the European Central Bank in the field of external statistics (ECB/2018/19) (OJ L 209, 20.8.2018, p. 2).

(7) Therefore, Guideline ECB/2011/23 should be amended accordingly,

HAS ADOPTED THIS GUIDELINE:

*Article 1*

**Amendments**

Guideline ECB/2011/23 is amended as follows:

(1) in Article 6, paragraph 1 is replaced by the following:

- '1. Without prejudice to the ECB's monitoring tasks as laid down in Annex V, the NCBs shall, in cooperation with other competent authorities as mentioned in Article 4 where relevant, ensure the monitoring and the assessment of the quality of statistical information made available to the ECB. The ECB assesses these data in a similar and timely manner.

The Executive Board of the ECB shall report biennially to the Governing Council of the ECB on the quality of the external statistics made available to the ECB. That report shall be submitted by the Executive Board to the Governing Council by the end of the year following each relevant biennial period. The first biennial report shall be submitted by the end of 2022. The Executive Board may make that report, or an extract thereof, available to the public.;

(2) in Article 6, the following paragraph 5 is added:

- '5. From 1 January 2022, where the Executive Board observes severe data quality issues, it may provide the Governing Council with additional reports as necessary.;

(3) Annex III is amended in accordance with the Annex to this Guideline.

*Article 2*

**Taking effect and implementation**

1. This Guideline shall take effect on the day of its notification to the national central banks of the Member States whose currency is the euro.
2. The Eurosystem central banks shall comply with this Guideline from 1 July 2021.

*Article 3*

**Addressees**

This Guideline is addressed to all Eurosystem central banks.

Done at Frankfurt am Main, 14 October 2020.

*For the Governing Council of the ECB*  
*The President of the ECB*  
Christine LAGARDE

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## ANNEX

Section 1, subsection 'C. *Financial account and international investment position*' of Annex III to Guideline ECB/2011/23 is replaced by the following:

'C. *Financial account and international investment position*

In general, the financial account records transactions in financial assets and liabilities between resident and non-resident institutional units. However, to ensure the correct compilation of euro area aggregates, all exchanges between resident institutional units of financial instruments issued by non-residents and between non-resident institutional units of financial instruments issued by residents should be recorded as financial transactions, i.e. strictly following the debtor/creditor approach.

The financial account shows transactions in net terms: net acquisitions of financial assets correspond to acquisitions of assets less reductions in assets.

The international investment position (IIP) shows, at the end of each quarter, the value of financial assets of residents of an economy that are claims on non-residents, and the liabilities of residents of an economy, to non-residents, plus gold bullion held as reserve assets. The difference between the assets and liabilities is the net position in the IIP, and represents either a net claim on or a net liability to the rest of the world.

The value of the IIP at the end of a period results from positions at the end of the previous period, transactions in the current period, and other changes that arise from reasons other than transactions between residents and non-residents, that may be attributed to other changes in volume and revaluations due to changes in exchange rates or prices.

According to the functional subdivision, cross-border financial transactions and positions are classified as direct investment, portfolio investment, financial derivatives (other than reserves) and employee stock options, other investment, and reserve assets. Cross-border financial transactions and positions are further classified by type of instrument and institutional sector.

Market prices are the basis for the valuation of transactions and positions. Nominal valuation is used for positions in non-negotiable instruments, namely loans, deposits and other accounts receivable/payable. However, any transactions in these instruments are valued at market prices. To account for the inconsistency between the market valuation of transactions and nominal valuation of positions, the seller records revaluations due to other price changes during the period in which the sale occurs, equal to the difference between the nominal and the transaction value, whilst the buyer records an opposite amount as revaluations due to other price changes. A similar recording occurs for transactions and positions in direct investment equity where the positions reflect own funds at book value (see next section).

The financial account of the balance of payments and the IIP includes offsetting entries for accrued income on the instruments classified in the respective functional categories.

### 6.1. Foreign direct investment

Direct investment is associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Following international standards (BPM6), the direct or indirect ownership of 10 % or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship. Based on this criterion, a direct investment relationship can exist between a number of related enterprises, regardless of whether the linkage involves a single or a number of chains. It can extend to a direct investment enterprise's subsidiaries, sub-subsidiaries and associates. Once the direct investment is established, all subsequent financial flows/holdings between the related entities are recorded as direct investment transactions/positions.

Equity capital comprises equity in branches as well as all shares in subsidiaries and associates. Reinvested earnings consist of the offsetting entry to the direct investor's share of earnings not distributed as dividends by subsidiaries or associates, and earnings of branches not remitted to the direct investor and that are recorded under "investment income" (see 3.2.3).

Direct investment equity and debt are further disaggregated according to the type of relationship between entities and according to the direction of the investment. Three types of direct investment relationships can be distinguished:

- (a) Direct investors' investment in direct investment enterprises. This category includes investment flows (and stocks) from the direct investor to its direct investment enterprises (regardless of whether it is directly or indirectly controlled or influenced).
- (b) Reverse investment. This type of relationship covers investment flows (and stocks) from the direct investment enterprises to the direct investor.
- (c) Between fellow enterprises. This covers flows (and stocks) between enterprises that do not control or influence each other, but that are both under the control or influence of the same direct investor.

With regard to the valuation of direct investment positions, the equity stocks listed in stock exchanges are valued at market prices. Conversely, in the case of unlisted direct investment companies, equity stocks are valued on the basis of book values using a common definition comprising the following accounting items:

- (i) paid-up capital (excluding own shares and including shares premium accounts);
- (ii) all types of reserves (including investment grants when accounting guidelines consider them as company's reserves);
- (iii) non-distributed profits net of losses (including results for the current year).

For equity shares of unlisted companies, the transactions recorded in the financial account may differ from the own funds at book value recorded in the IIP. Such differences are recorded as revaluations due to other price changes.

It is recommended as a best practice that all Member States should start compiling foreign direct investment equity stocks and reinvested earnings on the basis of the results of foreign direct investment surveys to be collected at least annually (\*).

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(\*) The following unacceptable practices should be abandoned: (i) leaving the choice of the valuation criterion to reporting agents (market values or book values); (ii) the application of a perpetual inventory method/accumulation of BOP flows to compile stocks.

## 6.2. Portfolio investment

Portfolio investment includes transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets. Portfolio investment includes equity securities, investment fund shares and debt securities, unless they are categorised either as direct investment or as reserve assets. Transactions as repurchase agreements and securities lending are excluded from portfolio investment. Portfolio investment transactions and positions are valued at market prices. In case of portfolio investment in unlisted securities, however, differences in the valuation of transactions and positions may occur as in the case of direct investment in unlisted shares. Also in this case, such differences should be recorded as revaluations due to other price changes.

A common approach for the collection of data on portfolio investment is defined in Annex VI.

### 6.2.1. EQUITY SECURITIES

Equity consists of all instruments representing claims on the residual value of a corporation or quasi-corporation, after the claims of all creditors have been met. In contrast to debt, equity does not generally provide the owner with a right to a predetermined amount or an amount determined according to a fixed formula. Equity securities consist of listed shares and unlisted shares.

Listed shares are equity securities listed on a recognised stock exchange or any other form of secondary market. Unlisted shares are equity securities not listed on an exchange.

### 6.2.2. INVESTMENT FUND SHARES

Investment fund shares are issued by investment funds. They are known as "units" if the fund is a trust. Investment funds are collective investment undertakings through which investors pool funds for investment in financial and/or non-financial assets. Investment fund shares have a specialised role in financial intermediation as a kind of collective investment in other assets, so they are identified separately from other equity shares. Additionally, the treatment of their income differs because reinvested earnings have to be imputed.

### 6.2.3. 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 normally traded in the financial markets. Transactions and positions in debt securities are divided by original maturity into short and long-term.

#### 6.2.3.1. SHORT-TERM DEBT SECURITIES

Short-term debt securities are payable on demand or issued with an initial maturity of 1 year or less. They generally give the holder the unconditional right to receive a stated, fixed sum of money on a specified date. These instruments are usually traded, at a discount, in organised markets; the discount depends on the interest rate and the time remaining to maturity.

#### 6.2.3.2. LONG-TERM DEBT SECURITIES

Long-term debt securities are issued with an initial maturity of more than 1 year or with no stated maturity (other than on demand, which is included in short-term). They generally give the holder (a) the unconditional right to a fixed monetary income or contractually-determined variable monetary income (payment of interest being independent from the earnings of the debtor), and (b) the unconditional right to a fixed sum in repayment of principal on a specified date or dates.

The recording of transactions in balance of payments takes place when the creditors or debtors enter the claim or liability in their books. Transactions are recorded at the effective price received or paid, less commission and expenses. Thus, in the case of securities with coupons, the interest accrued from the last payment of interest is included and, in the case of securities issued at discount, the interest accumulated since the issue is included. Inclusion of interest accrued is required for both the financial account of the balance of payments and for the IIP; these recordings need to have offsetting entries in their respective income accounts.

### 6.3. Financial derivatives (other than reserves) and employee stock options

A financial derivative contract is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (such as interest rate risk, foreign exchange risk, equity and commodity price risks, credit risk, and so on) can be traded in their own right in financial markets. This category is identified separately from other categories 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. Net flows associated with interest rate derivatives are recorded as financial derivatives, not as investment income. Transactions and positions in financial derivatives are treated separately from the values of any underlying items to which they are linked. In the case of options, the full premium (i.e. the purchase/sale price of the options and the implied service charge) is recorded. Repayable margin payments consist of cash or other collateral deposited to protect a counterpart against default risk. They are classified as deposits under other investment (if the debtor's liabilities are included in broad money) or in other accounts receivable/payable. Non-repayable margin payments (also known as variation margin) reduce the financial liability created through a derivative; therefore they are classified as transactions in financial derivatives.

The valuation of financial derivatives should be performed on a marked-to-market basis. Changes in the prices of derivatives are recorded as holding gains or losses (revaluations due to price changes). The recording of transactions in financial derivatives takes place when the creditors and debtors enter the claim or liability in their books. Owing to practical problems involved in separating the asset and liability flows for some derivative instruments, all financial derivatives transactions in the euro area balance of payments are recorded net. Financial derivative asset and liability positions in the IIP statistics are recorded on a gross basis, with the exception of those financial derivatives falling into the category of reserve assets, which are recorded on a net basis. For practical reasons, embedded derivatives are not distinguished from the underlying instrument to which they are linked.

Employee stock options are options to buy the equity of a company offered to employees of the company as a form of remuneration. If a stock option granted to employees can be traded on financial markets without restriction, it is classified as a financial derivative.

#### 6.4. Other investment

Other investment is a residual category that includes positions and transactions other than those included in direct investment, portfolio investment, financial derivatives and employee stock options or reserve assets. To the extent that the following classes of financial assets and liabilities are not included under direct investment or reserve assets, other investment includes: (a) other equity; (b) currency and deposits; (c) loans (including use of IMF credit and loans from the IMF); (d) insurance, pension and standardised guarantee schemes; (e) trade credit and advances; (f) other accounts receivable/payable; and (g) special drawing rights (SDR) allocations (SDR holdings are included in reserve assets).

For loans, deposits and other accounts receivable/payable sold at a discount, the transaction values recorded in the financial account may differ from the nominal values recorded in the IIP. Such differences are recorded as revaluations due to other price changes.

##### 6.4.1. OTHER EQUITY

Other equity includes equity not in the form of securities, therefore it is not included in portfolio investment. Participation in the capital of some international organisations is not in the form of securities and thus is classified as other equity.

##### 6.4.2. CURRENCY AND DEPOSITS

Currency and deposits include currency in circulation and deposits. Deposits are standardised, non-negotiable contracts generally offered by deposit-taking institutions, allowing the placement and the later withdrawal of a variable amount of money by the creditor. Deposits usually involve a guarantee by the debtor to return the principal amount to the investor.

The distinction between “loans” and “currency and deposits” depends on the nature of the borrower. This implies that, on the assets side, money granted by the resident money-holding sector to non-resident banks is to be classified as “deposits” and money granted by the resident money-holding sector to non-resident non-banks (i.e. institutional units other than banks) is to be classified as “loans”. On the liabilities side, money taken by resident non-banks, i.e. non-monetary financial institutions (MFIs) is always to be classified as “loans”. Finally, this distinction implies that all transactions involving resident MFIs and non-resident banks are to be classified as “deposits”.

##### 6.4.3. LOANS

Loans are financial assets that are (a) created when a creditor lends funds directly to a debtor, and (b) evidenced by documents that are not negotiable. This category includes all loans, including mortgages, financial leases and repo-type operations. All repo-type operations, i.e. repurchase agreements, sell/buy-back operations and securities lending (with exchange of cash as collateral), are treated as collateralised loans, not as outright purchases/sales of securities, and are recorded under “other investment”, within the resident sector that carries out the operation. This treatment, which is also in line with the accounting practice of banks and other financial corporations, is intended to more accurately reflect the economic rationale behind these financial instruments.

##### 6.4.4. INSURANCE, PENSION SCHEMES, AND STANDARDISED GUARANTEE SCHEMES

This includes the following: (a) non-life insurance technical reserve; (b) life insurance and annuity entitlements; (c) pension entitlements, claims of pension funds on pension managers, and entitlements to non-pension funds; and (d) provisions for calls under standardised guarantees.

##### 6.4.5. TRADE CREDITS AND ADVANCES

Trade credit and advances are financial claims arising from the direct extension of credit by the suppliers of goods and services to their customers, and advances for work that is in progress or is yet to be undertaken, in the form of prepayment by customers for goods and services not yet provided. Trade credit and advances arise when payment for goods or services is not made at the same time as the change in ownership of a good or provision of a service.

#### 6.4.6. OTHER ACCOUNTS RECEIVABLE/PAYABLE

This category consists of accounts receivable or payable other than those included in trade credit and advances or other instruments. It comprises financial assets and liabilities created as counterparts to transactions where there is a timing difference between these transactions and the corresponding payments. It includes liabilities for taxes, purchase and sale of securities, securities lending fees, gold loan fees, wages and salaries, dividends, and social contributions that have accrued but have not yet been paid.

#### 6.4.7. SPECIAL DRAWING RIGHTS (SDR) ALLOCATIONS

The allocation of SDRs to IMF members is shown as a liability incurred by the recipient under SDRs in other investment, with a corresponding entry under SDRs in reserve assets.

### 6.5. Reserve assets

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 manage the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, or serving as a basis for foreign borrowing). Reserve assets must be foreign currency assets, claims vis-à-vis non-residents and assets that actually exist. Potential assets are excluded. Underlying the concept of reserve assets are the notions of “control” and “availability for use” by the monetary authorities.

The reserve assets of the euro area consist of the Eurosystem’s reserve assets, i.e. the reserve assets of the ECB and the reserve assets held by the national central banks (NCBs) of the euro area.

Reserve assets must (i) be under the effective control of a monetary authority of the Eurosystem, i.e. either the ECB or an NCB of the euro area, and (ii) be highly liquid, marketable and creditworthy claims held by the Eurosystem on non-euro area residents denominated in convertible currencies other than the euro, plus monetary gold, reserve positions in the IMF and SDRs.

This definition expressly excludes foreign currency claims on residents of the euro area, and claims denominated in euro, from being considered to be reserve assets either at the national or at the euro area level. Likewise, foreign exchange positions of central governments and/or the ministries of finance are not included in the definition of reserve assets for the euro area in accordance with the institutional arrangements in the Treaty on the Functioning of the European Union.

Reserve assets of the ECB are pooled in accordance with Article 30 of the Statute of the European System of Central Banks and thus considered to be under the direct and effective control of the ECB. As long as no further transfer of ownership takes place, reserve assets retained by the NCBs are under their direct and effective control and are treated as reserve assets of each individual NCB.

The Eurosystem’s reserves are compiled on a gross basis without any netting-off of reserve-related liabilities with the exception of those reserve assets included in the sub-category “financial derivatives”, which are recorded on a net basis.

The valuation is based on market prices by using (a) for transactions, the prevailing market prices at the time when the transaction takes place and (b) for holdings, the closing mid-market prices at the end of the reference period. Prevailing market exchange rates at the time when the transaction takes place and closing mid-market exchange rates at the end of the reference period are respectively used for the conversion of transactions and holdings of foreign currency-denominated assets into euro.

The view that other foreign currency liquidity not included in the reserve assets item of the balance of payments and international investment position statistics might also be an important indicator of a country’s ability to meet its foreign exchange obligations has become more widespread and has been adopted in the IMF’s Special Data Dissemination Standard. To calculate foreign currency liquidity, data on gross reserves need to be supplemented with information about other foreign currency assets and reserve-related liabilities. Accordingly, monthly data on (gross) reserve assets of the Eurosystem are supplemented with information on other foreign currency assets and predetermined and contingent short-term net drains on the gross reserve assets classified according to residual maturity. Moreover, a currency distinction between gross reserve assets denominated in SDR currencies (in total) and other currencies (in total) with a quarter’s lag is also required.

#### 6.5.1. MONETARY GOLD

Monetary gold is gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as reserve assets. It includes gold bullion and unallocated gold accounts with non-residents that give title to claim the delivery of gold.

Holdings of monetary gold should remain unchanged in all reversible gold transactions (gold swaps, repos, loans and deposits).

6.5.1.1. **Gold bullion** takes the form of coins, ingots, or bars with a purity of at least 995 parts per 1 000, including such gold bullion held in allocated gold accounts.

6.5.1.2. **Unallocated gold accounts** represent a claim against the account operator to deliver gold. For these accounts, the account provider holds title to a reserve base of physical allocated gold and issues claims to account holders denominated in gold. Unallocated gold accounts not classified as monetary gold are included as currency and deposits in other investment.

#### 6.5.2. SDRS

SDRs are international reserve assets created by the IMF and allocated to members to supplement existing official reserves. SDRs are held only by the monetary authorities of IMF members and by a limited number of international financial institutions that are authorised holders.

#### 6.5.3. RESERVE POSITION IN THE IMF

This is the sum of (a) the “reserve tranche” that is, the foreign currency, including SDR, amounts that a member country may draw from the IMF at short notice; and (b) any indebtedness of the IMF under a loan agreement in the General Resources Account that is readily available to the member country.

#### 6.5.4. OTHER RESERVE ASSETS

These comprise currency and deposits, securities, financial derivatives and other claims. Deposits refer to those available on demand. Securities include liquid and marketable equity and debt securities issued by non-residents, including investment funds shares or units. Financial derivatives are recorded in reserve assets only if the derivatives pertaining to the management of the reserve assets are integral to the valuation of such assets. Other claims include loans to non-resident non-banks, long-term loans to an IMF Trust account and other financial assets not included previously but that meet the reserve assets definition.’

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