

Other Private Investment Income

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Coverage and definitions

The other private income accounts (lines 15 and 32) cover receipts of income by private U.S. residents on U.S. assets abroad and payments of income on foreign private assets in the United States, excluding income payments on obligations issued by the U.S. Treasury and U.S. government-sponsored enterprises (which are often referred to as U.S. government agencies). Other private investment income includes dividends and interest received and paid on securities, interest received and paid on claims and liabilities of banks, and interest received and paid on claims and liabilities of nonbanks. Investment income flows covered in these accounts result from investments between *unaffiliated* entities, that is, entities that hold less than 10 percent of the voting securities in

another entity. This criterion differentiates these income flows from those that result from investments between *affiliated* entities, that is, entities that hold 10 percent or more of the voting securities of another entity, and therefore, are considered as having a direct investment relationship with one another. The major exception is income flows by banks and brokers, which include all interest receipts and payments of U.S. banks and brokers, regardless of the type of affiliation among the entities. A much smaller exception is the inclusion of interest flows between nonbank financial corporations and their foreign financial affiliates.

The account covering receipts is distinguished on the basis of ownership of assets abroad by U.S. private entities. The account covering payments is distinguished on the basis of the types of assets held by foreign residents in the United States—that is, securities and obligations issued by U.S. private entities.

Estimation methods overview

Receipts and payments of income on holdings of *long-term securities* are estimated by multiplying representative dividend or current interest yields by average positions. Positions are based on annual and benchmark survey positions, advanced by monthly transactions summed to quarters and valuation adjustments from indexes of market prices, with special adjustments by BEA to account more completely for positions in selected issues. Positions and transactions data are based on monthly, annual, and benchmark surveys conducted by the U.S. Treasury Department.

Receipts and payments of income on claims and liabilities of *banks and securities brokers* are estimated by multiplying representative market interest yields

by average positions. Positions data for banks and securities brokers are based largely on monthly and quarterly surveys conducted by the U.S. Treasury Department.

Receipts and payments of income on claims and liabilities of *nonbanks* are estimated partly by multiplying representative current interest yields by average positions from U.S. Treasury Department surveys. However, most of the estimates are based on source data from foreign central banks and the U.S. Federal Reserve System, from BEA's direct investment surveys and insurance surveys, and from industry data.

Income receipts and payments are estimated on an accrual basis. Under the accrual basis, as interest accrues, the amount of debt outstanding increases; that is, accrued interest not yet paid becomes part of the amount of debt owed to the creditor.

1 Other Private Income Receipts on U.S. Assets Abroad (line 15)

2 Other Private Income Payments on Foreign Assets in the United States (line 32)

These accounts measure income received by private U.S. residents on U.S. investments abroad, excluding direct investment, and income paid by U.S. residents on foreign private investments in the United States, excluding direct investment.

For income receipts, estimates are prepared for interest and dividends received from foreigners on U.S. holdings of foreign long-term debt and equity securities, interest received by banks and securities brokers from foreigners, and interest received by U.S. nonbanks from foreigners (see [table 11](#)).

For income payments, estimates are prepared for interest and dividends paid to foreigners on U.S. long-term debt and equity securities issued by private U.S. residents, interest paid by U.S. banks and securities brokers to foreigners, and interest paid by U.S. nonbanks to foreigners (see [table 11](#)).

1.1 Income on foreign securities and privately issued U.S. securities

Bonds

1.1.1 Interest received and paid on foreign bonds and U.S. corporate bonds is estimated by use of a current yield that reflects coupon interest flows. Use of other interest rates, such as yield to maturity which was previously used in the accounts, is not appropriate because it includes both coupon interest flows and future gains or losses on debt securities on the assumption that they were held to maturity. Use of the current yield is the same measure of interest used in the U.S. national income and product accounts and the same as in International Monetary Fund guidelines, which recommend estimating interest on debt securities on a debtor basis, or the actual coupon payments made by debtors.

1.1.2 Annual interest flows are based on annual and benchmark surveys of cross-border investment conducted by the Treasury Department. Face values of debt securities held, as reported by custodians in the surveys, are multiplied by coupon rates on debt securities. The computation is performed on a security-by-security basis. The resulting interest receipts and payments are aggregated across all debt securities by country of foreign issuer for foreign securities and by country of foreign holder for U.S. securities. Market values of securities holdings are also reported in the surveys.

1.1.3 BEA adjusts this information in three steps. First, in order to calculate a current yield, it divides annual interest receipts or interest payments by the market value of bond holdings. Second, in order to estimate a current yield on a quarterly basis between annual surveys when income data are unavailable, the annual current yield is advanced by holding interest income constant and revaluing the market value of bond holdings by weighted average price indexes. For *U.S. holdings of foreign bonds*, Merrill Lynch price indexes, stated in dollar terms, for six major currencies are used to advance the market value of bonds, and

implicitly the current yields, each quarter for both foreign-currency-denominated and dollar-denominated bonds. The indexes are weighted by the distribution of currencies on the latest annual or benchmark survey. For *foreign holdings of U.S. bonds*, Merrill Lynch price indexes for U.S. long-term corporate debt and for eurobonds (denominated in both dollars and foreign currencies) are used to advance the market value of bonds, and implicitly the current yields, each quarter.

1.1.4 Third, current quarterly yields are multiplied by an average of two quarter-end positions to estimate total interest receipts and total interest payments. Positions are based on annual and benchmark survey positions, advanced quarterly by monthly transactions summed to quarters from U.S. Treasury Department surveys (TIC Form S) and by valuation adjustments from indexes of market prices, with special adjustments by BEA to account more completely for positions in selected issues. At the time of BEA's annual revisions, preliminary estimates of interest paid are revised based on updated monthly transactions data and on revised positions and current interest yields reported on the latest annual and benchmark surveys of the U.S. Treasury Department.

1.1.5 Separate estimates of interest receipts and interest payments are prepared for U.S. holdings of foreign corporate and foreign sovereign debt combined, and for foreign holdings of U.S. long-term corporate debt.

1.1.6 Interest receipts on U.S. private holdings of foreign long-term corporate and foreign sovereign debt securities are entered in line 15, and interest payments on foreign holdings of U.S. long-term corporate debt are entered in line 32. (Interest receipts on U.S. government official reserve and nonreserve assets, and on U.S. government credits, are entered in line 16, and U.S. government interest payments on foreign holdings of U.S. Treasury bonds, notes, bills, and U.S. government agency obligations are entered in line 33 (see the chapter "U.S. Government Investment Income").

Equities

1.1.7 Dividends earned and paid on equities are estimated by multiplying an average of two quarter-end positions by market dividend yields by major country and area. The results are aggregated to country totals and global totals. Positions are based on annual and benchmark survey positions, advanced quarterly by monthly transactions summed to quarters from U.S. Treasury Department surveys (TIC Form S) and by valuation adjustments from indexes of market prices, with special adjustments by BEA to account more completely for positions in foreign issues. Adjustments to positions in U.S. stocks are not made because the transactions and valuation adjustments generally account for a very high percentage of changes in positions. At the time of BEA's annual revisions in June, preliminary estimates of dividends are revised based on updated monthly transactions data and on revised positions and dividend yields reported on the latest annual and benchmark surveys of the U.S. Treasury Department.

1.1.8 The dividend yields for *foreign equities* are Morgan Stanley Capital Indexes of dividend yields stated in dollar terms. Seven country and two regional indexes are used for developed markets abroad, and two indexes derived from several country indexes and one regional index are used for emerging markets. The nine developed market yields are combined to create a weighted average yield for the developed markets; the weighted yield is applied to holdings of foreign equities, averaged over two quarter-end positions, for all developed countries to estimate dividend receipts. The three emerging market yields are combined to create a weighted average yield for emerging markets; the weighted yield is applied to holdings of foreign equities, averaged over two quarter-end positions, for all emerging market countries to estimate dividend receipts. The weights are based on the country distribution of holdings in the latest annual or benchmark survey.

1.1.9 The dividend yield for *U.S. equities* is the yield on the S&P 500 index; it is multiplied by an average of

two quarter-end positions, advanced by monthly holdings and valuation adjustments in U.S. equities, to estimate dividend payments. Only a single index is necessary because the composition of holdings in the annual and benchmark surveys of the U.S. Treasury Department is very similar to the composition of equities included in the S&P 500 index.

1.1.10 Dividends received on U.S. private holdings of foreign equities are entered in line 15, and dividends paid on foreign holdings of U.S. equities are entered in line 32.

1.2 Income on claims and liabilities reported by U.S. banks and securities brokers

1.2.1 This item measures income receipts and payments on claims and liabilities reported by banks, bank holding companies, financial holding companies, and securities brokers on Treasury International Capital (TIC) B forms. U.S. banks includes affiliates, branches, agencies, and subsidiaries of foreign banks located in the United States, and foreign banks includes affiliates, branches, agencies, and subsidiaries of U.S. banks located abroad. Income flows are distinguished between those for banks' and brokers' own accounts and those for customers' accounts; they are further distinguished between income flows denominated in U.S. dollars and in foreign currencies. Major types of claims and liabilities are interbank loans and borrowings, other claims (mainly loans) and deposits, resale agreements, negotiable CDs, and other short-term financial instruments.

1.2.2 Representative interest yields (mainly U.S. money market and eurodollar yields) by major type of claim, liability, or financial instrument are multiplied by quarterly averages of outstanding claims, liabilities, or instruments by major type. Foreign money market rates are used for foreign-currency-denominated claims and liabilities. The results are aggregated to country totals and global totals. The procedure is applied separately to banks' and brokers' own claims and liabilities and to banks' and brokers' customers' claims and liabilities, and is applied separately to dollar-denominated and foreign-currency-denominated claims and liabilities. The choice of representative interest yields applied to outstanding claims and liabilities

is based largely on the type of claim, liability, or financial instrument.

1.2.3 Interest received by U.S. banks and securities brokers is entered in line 15, and interest paid is entered in line 32.

1.3 Income on claims and liabilities reported by U.S. nonbanks

1.3.1 This item measures income receipts and payments on claims and liabilities of U.S. nonbanks. Nonbanks include exporters, importers, industrial and commercial corporations, and nonbank financial institutions. The source data and estimation procedures reflect both the large number of nonbanks and the numerous types of international transactions carried out by them. Transactions of nonbanks have also evolved rapidly in recent years, especially those of large multinational corporations and nonbank financial institutions. A very large share of these transactions is with financial institutions and financial affiliates abroad. Given this complexity, multiple approaches to measurement are necessary to achieve acceptable coverage of nonbank transactions.

1.3.2 Six data sources are used to estimate nonbank income receipts and payments. The estimates are based partly on claims and liabilities reported by U.S. nonbanks on Treasury International Capital (TIC) C forms. However, most of the estimates are based on source data from the U.S. Federal Reserve, from foreign central banks, from BEA's direct investment surveys, from industry data on asset-backed securities, and from BEA's insurance surveys.

1.3.3 Quarterly estimates of income receipts and payments are made by multiplying representative yields (mainly U.S. money market and eurodollar yields) by quarterly averages of outstanding claims, liabilities, or instruments by major type obtained from Treasury Department surveys (TIC Form C). Foreign money market yields are used for foreign-currency-denominated claims and liabilities. The results are aggregated to country totals and global totals. Most claims and liabilities are loans to, or borrowings from, banks and nonbanks abroad and deposits placed with, or withdrawn from, these institutions. Income also

includes receipts and payments on holdings of resale and repurchase agreements and other short-term financial instruments. The choice of representative interest yields is based largely on the type of claim, liability, or short-term financial instrument.

1.3.4 Nonbank income also includes interest received from and paid to foreign banks on their claims and liabilities vis-à-vis U.S. nonbank concerns; these estimates are based on data that cover transactions not captured in regular reports to the U.S. Treasury. Foreign banks are the counterparties to many U.S. nonbank concerns' claims and liabilities; thus, foreign banks' liabilities to U.S. nonbanks are a measure of U.S. nonbank concerns' claims on foreign banks and foreign banks' claims on U.S. nonbanks are a measure of U.S. nonbank concerns' liabilities to foreign banks. The data come from the U.S. Federal Reserve System covering branches of U.S. and foreign banks in Caribbean financial centers, from the Bank for International Settlements covering banks in the Netherlands, and from central banks in the United Kingdom, Germany, and France covering banks in their jurisdictions. These data are adjusted to remove double counts of data reported directly by U.S. nonbank reporters and of data reported directly by U.S. banks and securities brokers on U.S. Treasury reports. Interest received and paid on these claims and liabilities is estimated by multiplying representative short-term and long-term interest yields by quarterly average positions.

1.3.5 An additional source of nonbank income includes receipts and payments for transactions of certain financial firms that have a direct investment relationship with financial affiliates abroad (that is, between U.S. parents and their foreign affiliates or between U.S. affiliates and their foreign parent groups), where both the U.S. and foreign firms are classified in a finance industry, but the firms are neither banks nor securities brokers. The rationale for classification of

the intercompany debt transactions and related interest flows of these affiliated financial corporations with unaffiliated transactions and flows is that the underlying activity of these intercompany debt transactions is closer to that of financial intermediation than to activity typical in a direct investment relationship. Interest received and paid is reported on BEA's quarterly and benchmark direct investment surveys.

1.3.6 Another source of nonbank income is interest received on U.S. intercompany debt claims on foreign direct investors related to U.S. affiliates' issues of asset-backed securities. BEA's direct investment surveys did not adequately capture the positions and income of U.S. affiliates related to these securities, which began to become sizeable early in 2004. To properly reflect these transactions in the international accounts, BEA supplemented its regular survey-based sources with position data from industry sources. Interest received on U.S. affiliates' claims is estimated by multiplying short-term commercial paper yields by quarterly average positions.

1.3.7 A final source of nonbank income is receipts and payments from insurance premium supplements. In addition to premiums received from policyholders, insurance companies cover the cost of providing insurance services through the investment of reserves; interest earned on these reserves is deemed to be the property of the policyholders and is returned to them in the form of lower premiums. These implicitly charged services are included in the other private services receipts or payments accounts, offset by income receipts or payments in the nonbank income accounts. Estimates are based on BEA's insurance surveys and industry data.

1.3.8 Interest received by U.S. nonbanks is entered in line 15, and interest paid is entered in line 32.

Table 11. Other Private Investment Income, 2009 (Line 15 and Line 32)

[Millions of dollars; credits +, debits -]

Other private income receipts on U.S.-owned assets abroad (line 15)	234,458
Income on foreign securities	182,818
Dividends	107,408
Interest	75,410
Interest on claims reported by U.S. banks and securities brokers	31,531
For own claims	24,691
For customers' claims	6,840
Interest on claims reported by U.S. nonbank concerns	20,108
Other private income payments on foreign-owned assets in the United States (line 32)	-218,020
Income on U.S. securities	-186,203
Dividends	-59,304
Interest	-126,898
Interest on liabilities reported by U.S. banks and securities brokers	-22,146
For own liabilities	-14,373
For customers' liabilities	-7,773
Interest on liabilities reported by U.S. nonbank concerns	-9,671