U.S. International Transactions Accounts

Concepts and Estimation Methods

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Preface

BEA last published a volume on the concepts and estimation methods used to prepare the U.S. international transactions accounts in 1990. Since that time, most major concepts underlying the accounts have changed little, but data collection and estimation methods have changed greatly.

BEA has maintained a thorough presentation of its advances in measurement in the international transactions accounts with technical notes published each June or July in the SURVEY OF CURRENT BUSINESS at the time of the annual revisions to the accounts. Recently, these revisions were catalogued and summarized for 1976 to 2008; the catalog is available in the Methodology Papers section on BEA's Web site. An introductory guide to the accounts is also available in the same section of the Web site.

The current volume on concepts and methods, which is introduced here, updates the 1990 volume and places the descriptions of major estimation methods in one location. Like its predecessor, this volume describes the major concepts and estimation methods account by account, and each account is referenced to its corresponding line number in table 1 of the standard presentation of the accounts.

In addition, in the May 2010 and May 2011 SURVEYS, BEA described its plans for a multiyear effort to modernize and enhance the international accounts to incorporate new international standards and other improvements. Changes in concepts, methods, and presentations associated with this initiative will be described in future articles in the SURVEY and will be incorporated into periodic updates of this volume.

A large share of the estimates in the tables that accompany the text can be updated by consulting the interactive tables of international transactions on BEA's Web site: electronic releases of the estimates occur in March, June, September, and December; the print versions of the estimates appear in the January, April, July, and October issues of the SURVEY. A few tables contain detailed estimates developed specifically for this presentation that are not updated on a regular basis.

The most detailed statements of concepts and methodologies for compilation of international accounts are presented in: International Monetary Fund, *Balance of Payments and International Investment Position Manual*, 6th ed. (Washington, DC: International Monetary Fund, 2009); and Organisation for Economic Co-Operation and Development (OECD), *OECD Benchmark Definition of Foreign Direct Investment*, 4th ed. (Paris: OECD, 2008).

Acknowledgments

Christopher Bach, former chief of the Balance of Payments Division (BPD), prepared this volume. Technical expertise was provided by BPD staff under the direction of **Robert Yuskavage,** Associate Director for International Economics. Overall guidance was provided by **Obie Whichard,** former Associate Director for International Economics.

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The following methodology sections were updated in August 2011:

U.S. Government Miscellaneous Services	Paragraphs 1.1, 2.1.1
U.S. Government Investment Income	Paragraphs 1.1.1, 2.1.1, 2.1.5 (new)
Other Private Services	Paragraphs 1.6.5, 1.7.2
Compensation of Employees	Paragraphs 1.4 (new), 2.4, 2.5
Other Transportation	Paragraphs 1.1.3.1, 2.1.3.1
Royalties and License Fees	Paragraph 1.6

The following methodology sections were updated in August 2012:

Goods	Paragraph 3.8 (5)
Compensation of Employees	Paragraph 2.3
Private Remittances and Other Transfers	Paragraph 1.1.2

The following methodology sections were updated in August 2013:

Other Private Services	Paragraph 1.6.3
U.S. Government Miscellaneous Services	Paragraph 2.1.1
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U.S. Government Pensions and Other Transfers	Paragraphs 1.3 (new)
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Introduction

How fast has the trade deficit risen or fallen? How does the current-account deficit affect gross domestic product (GDP) and income? What is the contribution of recent export growth to the pace of expansion in the economy? How much do U.S. residents earn on their investments in foreign securities, and on their direct investments abroad? How has uncertainty in global financial markets affected the demand for U.S. Treasury securities? What was the total flow of foreign capital into U.S. financial markets in 2010? Such questions are as topical as ever, given the globalizing economy, the financial crisis and deep recession of 2008–2009, and uncertainty about the strength of recovery from the recession. The international transactions accounts (ITAs) and the related international investment position (IIP) accounts—two marquee international economic accounts from the Bureau of Economic Analysis—have long shed light on such questions. Recent economic events simply reaffirm that the answers to these questions remain as important as ever and reinforce the need to properly measure international transactions. This volume sets forth the current definitions, principles, and estimation methods that the Bureau uses to measure international transactions and compile the international accounts.

The International Transactions Accounts (ITAs)

The international transactions accounts (ITAs) record transactions between U.S. and foreign residents over a period of time, usually a quarter. The transactions are grouped broadly into (1) transactions related to the production of assets (such as goods and services), the generation of income (such as income earned from holdings of financial and real assets), and transfers (such as gifts), and into (2) transactions in financial assets and liabilities (which include financial transactions in direct investment, in securities, and in claims and liabilities of banks, nonbanks, and government). The first group of transactions is referred to as the current account and the second group as the financial account of the international transactions accounts. A third, very small, group of transactions is the capital account. The ITAs are used both on a stand alone basis and in combination with the national economic accounts to provide a complete picture of the nation's value and composition of national output and its distribution of income.

Uses of the International Transactions Accounts

The ITAs provide government policymakers, business decision-makers, researchers, and the general public with information that enables them to follow and understand the performance of the U.S. economy. The following are among the principal uses of the ITA estimates.

The ITAs are a critical component of macroeconomic forecasting models. These mathematical models are developed using historical ITA estimates and other variables with the aim of predicting short-term economic activity or long-term economic trends.

The ITAs serve as one of several primary indicators of the current condition of the U.S. economy, particularly as indicators of export growth, which broadly reflects demand abroad for U.S. goods, and of import growth, which broadly reflects U.S. demand for foreign goods.

The ITAs provide critical inputs in the formulation and execution of macroeconomic policy and the assessment of the effects of these policies. They are used by the Federal Reserve Board in the formulation of monetary policy.

The ITAs are used in comparisons of the U.S. economy with economies of other countries. Comparable international statistics facilitate assessments of relative economic performance among countries, and they provide the basis for tracking and analyzing the global economy. The ITAs and related data on activities of U.S. multinational companies (MNCs) are also used to study international competitiveness, as well as in the formulation of trade policy.

The ITAs and related data on activities of U.S. MNCs are used by businesses to assist in their decisions on the location of affiliates abroad, the hiring of foreign labor, and sales and purchases of goods and services abroad.

The ITAs are one component of rapidly expanding programs of risk assessment and regulation of financial institutions.

The ITAs meet some of the macroprudential supervisory needs of institutions such as the Federal Reserve, the European Central Bank, and the International Monetary Fund.

Relation of the International Transactions Accounts to Other National Economic Accounts

The ITAs are an important component of three major sets of accounts which comprise the system of U.S. national economic accounts—the national income and product accounts, the industry accounts, and the flow of funds accounts.

The national income and product accounts (NIPAs), prepared by BEA, display the value and composition of national output and the distribution of incomes generated in production. The international dimension of these productive activities is represented by estimates of sales and purchases of goods and services to and from foreigners, which are obtained from the ITAs. Income flows to and from foreigners, also from the ITAs, represent the international dimension of series such as national income and corporate profits.

The industry accounts, also prepared by BEA, consist of the input-output (I-O) accounts, which trace the flow of goods and services among industries in the production process and which show the value added by each industry and the detailed commodity composition of national output, and the gross domestic product (GDP) by industry accounts, which measure the contribution of each private industry and of government to GDP. International flows of goods and services from the ITAs are crucial to the complete measurement of output at the national level and to the industry composition of that output.

The flow of funds accounts, prepared by the Federal Reserve Board, record the acquisition and sales of nonfinancial and financial assets throughout the U.S. economy, the sources of funds used to acquire those assets, and the value of assets held and of liabilities owed. Data on transactions in nonfinancial and financial assets and liabilities from the ITAs (and amounts outstanding from the international investment position (IIP) accounts) provide the international dimension of transactions (and positions) in these assets and liabilities.

BEA also prepares estimates of the U.S. international investment position (IIP), which in contrast to transactions in the ITAs, measures amounts outstanding of U.S. holdings of foreign assets and of foreign holdings of U.S. assets. Both the transactions and position data are closely related and are based on much of the same source data. BEA also prepares a large set of data on the international activities of U.S. multinational companies, which measure corporate activities such as sales, production, and employment abroad.

BEA also prepares regional accounts, which consist of estimates of gross domestic product (GDP) by state and by metropolitan area, of state personal income, and of local area personal income, but the ITAs are not used in this set of accounts. Finally, the U.S. Bureau of Labor Statistics prepares estimates of productivity for the U.S. economy, which are partly based on BEA's estimates of GDP.

Altogether, the system of U.S. economic accounts presents a coherent, comprehensive, and consistent picture of U.S. economic activity.

Origin and History of the International Transactions Accounts

The Department of Commerce first published the international transactions accounts in 1922 and later carried the estimates back to 1919–1921. The Department's Bureau of Foreign and Domestic Commerce published the estimates throughout the 1930s and World War II. The statistics were much in demand to measure the flow of goods and services abroad during the War. Even greater attention was focused on the accounts published by the Office of Business Economics, the successor agency to the Bureau of Domestic and Foreign Commerce, after the War when the Office played a prominent role in the measurement of financial assistance provided for economic reconstruction in the late 1940s and much of the 1950s.

With the advent of increased currency convertibility and the increased flow of capital internationally, there was considerable disagreement by the late 1960s as to how best to present the accounts. Several "partial" balances, consisting mostly of various components of the current account and some long-term capital transactions, were judged to present an incomplete picture of total payments flows. Financial transactions were not recognized as part of the payments flow of the nation in any of these balances, yet had begun to rise sharply in size. This was especially true with the surge in transactions of U.S. banks in the rapidly developing Eurodollar market. With the free flow of capital, it became impossible to distinguish successfully between transactions in liquid and illiquid assets, as well as to distinguish successfully between financial (particularly short-term) flows that were the flows of the nation's payments and financial flows that were considered as settlement transactions required of monetary authorities under the system of fixed exchange rates.

There was also considerable disagreement on how best to capture, in a single "overall" or "summary" balance, the total payments flows of the nation. Several "overall" balances were published as part of the official presentation of the accounts, but often gave conflicting evidence on the payments flows of the nation for a given quarter or year. Equally important, these "overall" balances were far too volatile in short time periods to provide a reliable gauge of longer run developments in the payments position of the nation.

In the final analysis, the choice of one or several "overall" balances was made more difficult not only by limitations of the statistical reporting system but also by complications resulting from the dollar's role as an international reserve currency.

The choice of several "overall" balances was retained, but improved somewhat, in the 1971 modification of the presentation of the accounts, but the end of the Bretton Woods system of fixed exchange rates in 1973 made the presentation of these balances considerably less relevant. The current presentation of the accounts (by the Bureau of Economic Analysis, successor agency to the Office of Business Economics) originated in 1976, following a review by an expert advisory panel, which recommended that the accounts be presented with no single "overall" or "summary" balance; however, presentation of "partial" balances was appropriate. The presentation has been modified since 1976, but modifications have not altered the basic structure.

By the 1980s, there was widespread agreement on the increased importance of financial transactions in the international accounts, which reflected numerous efforts in the previous decade to integrate explanations of the flow of payments in the real sector with the stock of financial assets and expectations of their future values in the financial sector in determining the nation's international transactions and exchange rate. These efforts, by both theorists and empiricists in the academic community, emphasized the importance of financial transactions and recognized that adjustments in the real and financial sectors were interdependent.

Changes to the Accounts

The ITAs have evolved continuously over the past 25 years in an effort to address gaps in statistical coverage, particularly those arising from the rapid growth, innovation, and changes in international trade, services, and financial markets. The following are examples of some of the major changes that have been introduced to keep the accounts up to date and relevant to the needs of government policymakers and business decision-makers.

In 1989, the ITAs adopted the Harmonized System of commodity classification for goods exports and imports which provided a much improved and more detailed structure upon which to base trade data.

In the late 1980s and early 1990s, and again in the mid–2000s, BEA's current collection system for business services was first developed, then expanded considerably, to capture the rapidly expanding universe of internationally traded services, partly in response to the Trade and Tariff Act of 1984, which established mandatory reporting of U.S. international trade in services and called for benchmark surveys of international services.

In 1994, a new set of monthly services estimates was introduced in response to requests from policymakers for more timely estimates of services transactions.

As a supplement to regularly reported data, counterpart data from foreign statistical authorities have been used since 1993 to expand coverage of nonbank claims and liabilities vis-à-vis foreign banks, and industry data have been used since 2008 to expand significantly coverage of nonbank financial intermediaries' claims associated with the issuance of asset-backed commercial paper.

In 2001–2005, the reorganization and significant expansion of the U.S. Treasury Department's and Federal Reserve System's statistical collection system for transactions in securities and for transactions of banks and nonbanks led to major improvements in coverage, which benefitted not only the financial accounts but also the income accounts.

In 2006 and 2007, the geographic detail available for the complete set of accounts was expanded significantly from 18 to 37 major countries and areas.

In 2007, estimates of transactions in financial derivatives were incorporated into the accounts for the first time, based on a newly developed survey.

Coordination with the International Statistical Community

In addition to the improvements in coverage cited above, BEA has been actively involved in the international statistical community in the development of new and updated guidelines for the preparation of both the NIPAs and the ITAs. New guidelines for the NIPAs were finalized with the release of the *System of National Accounts (2008).* New guidelines for the ITAs were finalized with the release of the IMF's *Balance of Payments and International Investment Position Manual,* 6th edition in 2009, and the OECD's *Benchmark Definition of Foreign Direct Investment,* 4th edition, in 2008. All three volumes have been updated and coordinated so as to produce a harmonized and internally consistent system of economic accounting guidelines.

Publication and Revision Cycle of the International Transactions Accounts

Preliminary quarterly estimates of the ITAs are released in March, June, September, and December, approximately 75 days after the close of the reference quarter. Preliminary estimates are revised the following quarter to incorporate new source data. No further revisions are made until the following June, when annual revisions to the accounts incorporate updated and more complete source data, and when all quarters of the current year are open for revision. In addition, the annual revisions in June include changes to several previous years, usually three or four, to incorporate new estimation methodologies and the results of annual and benchmark surveys.

Availability of International Transactions Accounts Estimates

Interactive tables of the ITAs are available on BEA's Web site, www.bea.gov: electronic releases of the estimates occur in March, June, September, and December; the print versions of the estimates appear in the January, April, July, and October issues of the Survey of Current Business.

Updated values of the estimates in the tables that accompany the text in this volume can be obtained by consulting the interactive tables mentioned above. A few tables contain detailed estimates developed specifically for this presentation that are not updated on a regular basis.

Organization of This Volume

This volume is divided into four parts. The first presents the major concepts definitions, and principles used in construction of the U.S. international transactions accounts and a brief description of the main structure of the accounts. The remaining parts present an account by account description of the major estimation methods used in the construction of each account for the components of the current account, the capital account, and the financial account.

Concepts, Definitions, and Principles

The international transactions accounts (ITAs) record transactions between U.S. and foreign residents over a period of time, usually a quarter. Currently, the transactions are divided into three major categories. The **current account** includes transactions in goods, services, income, and unilateral current transfers. The **capital account** includes transactions in capital transfers and in nonproduced nonfinancial assets. The **financial account** includes transactions in U.S.-owned assets abroad and foreign-owned assets in the United States.

Concept of Economy

For purposes of the ITAs, the **United States** consists of the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands and other territories and possessions, and U.S. foreign trade zones. (The U.S. national income and product accounts use a slightly different definition of the United States which excludes the territories and possessions.) The territories and possessions are included because they have a closer degree of economic association with the United States than with any other country. (Alternatively, this could also be described by saying that the United States is the predominant center of economic interest for these territories and possessions.) U.S. government military, diplomatic, consular, and other nonmilitary installations abroad are considered to be within the U.S. economy, and their operations are regarded as an extension of U.S. government domestic operations.

Concept of Resident

A **U.S. resident** is defined to include (1) **individuals** residing permanently in the United States, (2) **business enterprises and nonprofit organizations** established under U.S. laws, including corporations, partnerships, and proprietorships; and (3) **U.S. federal, state, and local governments,** together with their subdivisions.

Individuals

Individuals who reside or expect to reside in the United States for 1 year or more are considered U.S. residents. An exception is made for U.S. students who study abroad and foreign students who study in the United States; students retain the residency of their home country regardless of their length of stay. U.S. government employees stationed abroad (and their families) such as diplomats, consular officials, and members of the armed forces are also considered as U.S. residents, regardless of their length of stay abroad.

Medical patients, like students, retain the residence of their home country regardless of their length of stay for treatment.

Cross-border workers, seasonal workers, and other short-term workers are considered as residents of the country of their principal dwelling, rather than the territory of employment. Refugees are considered as residents of their country of refuge, rather than their home country, if they have stayed or intend to stay in their place of refuge for 1 year or more.

Crew of ships, aircraft, oil rigs, space stations and other similar equipment that operate outside a territory or across several territories are treated as residents of their home base territory.

International organization staffs are residents of the territory of their principal dwelling. The treatment of international organization staffs is different from that for national diplomats and other government officials mentioned previously because the latter have formal diplomatic status, whereas staffs of international organizations lack formal diplomatic status.

Business enterprises and nonprofit organizations

Business enterprises and nonprofit organizations are considered residents of the country in which they are located, operated, organized, incorporated, or controlled financially. U.S. resident organizations consist of all profit-making and nonprofit organizations established under U.S. laws; their foreign affiliates—subsidiaries, branches, partnerships, and sole proprietorships—are considered residents of the countries in which they are located. Similarly, all affiliates—subsidiaries, branches, partnerships, and sole proprietorships—of foreign profit-making and nonprofit organizations that operate in the United States are considered U.S. residents. A foreign branch is an unincorporated business affiliate established in a foreign country to conduct the business of the parent company in the parent's name; it is not a separate legal entity. A foreign subsidiary is a business affiliate established and incorporated in a foreign country under local laws; it is a separate legal entity from the parent company. Transactions between parent companies and their incorporated and unincorporated affiliates are recorded as transactions between residents and nonresidents.

In some cases, business firms, although organized in the United States, are foreign owned and operate entirely abroad. These firms are treated as residents of the countries of operations, not as U.S. residents. In other cases, the firms may be organized in the United States and controlled by U.S. interests, but operate abroad. Because of control by U.S. interests, these firms are treated as U.S. residents.

Local sales by foreign affiliates of U.S. companies are not recorded in the U.S. international transactions accounts because they represent transactions between nonresidents. Similarly, local sales by U.S. affiliates of foreign companies are not recorded because they represent transactions between residents.

Governments

Federal, state, and local governments and their agencies and subdivisions, operating at home and abroad, are considered as residents of their home country. Thus, U.S. government installations abroad are considered residents of the United States, and foreign government installations located in the United States are considered as residents of their home country.

International organizations

International organizations such as the United Nations, the International Monetary Fund, and the International Bank for Reconstruction and Development are considered residents of an international area beyond national boundaries, rather than residents of the country in which they are located or in which they operate. Transactions include, for example, the administrative expenditures of these organizations in the United States and employment of U.S. residents.

Double-Entry Principle

The ITAs apply a **double-entry system of accounting** in recording transactions: for any entry there must be counterpart entry. Exports of goods and services, income receipts, unilateral current transfers to the United States, capital account receipts, decreases in U.S. assets abroad, and increases in foreign-owned liabilities in the United States are shown as **credits** (with a positive sign). Imports of goods and services, income payments, unilateral current transfers from the United States, capital account payments, increases in U.S. assets abroad, and decreases in foreign-owned liabilities in the United States are shown as **debits** (with a negative sign). For each credit entry there must be an equal and offsetting debit entry, and vice versa. For example, if a foreign resident purchased a U.S. good with a check drawn against its U.S. bank account, the offset to the credit entry for U.S. goods exports would be a debit entry for foreign-owned bank-reported liabilities, reflecting the reduction in foreign-owned assets in the United States.

Time of Recording and Changes in Ownership

The **accrual basis** of accounting is the preferred basis for determination of the time of recording of transactions because it matches the time of recording with the timing of the events giving rise to the actual resource flows. The accrual basis specifies that transactions are to be recorded when a change of ownership occurs in real or financial assets. Generally, this is when real and financial assets are purchased or sold, and the time of recording these transactions is when the purchases or sales are entered on the books of the business entities, irrespective of when cash was paid or was due to be received or paid. This change in ownership principle is the same as that employed throughout the U.S. national economic accounts.

The concept of **economic ownership** refers to the ownership of assets and all of the risks and rewards of ownership. The risks include the potential losses caused by damage, theft, or holding losses; by management, transfer, or maintenance costs that are greater than anticipated; and, in the case of financial assets, by default of the counterparty. The rewards generally refer to the ability to use assets in production, such as buildings or machinery; the generation of services, such as renting produced assets to another entity; the generation of property income, such as interest and dividends received by owners of financial assets; and the potential to sell and thus realize holding gains. Economic ownership is often the same as **legal ownership** and changes in legal ownership are often used as evidence that a change in economic ownership has occurred. However, evidence that legal ownership has changed is sometimes not available in a timely fashion and occasionally differs from the concept of risk and rewards of economic ownership, in which case pragmatic applications need to be employed to gauge the appropriate time of recording of transactions.

The general application of the change in economic ownership principle to the ITAs follows. As a practical matter, the application varies according to the nature of the transactions and source data.

(1) For *goods,* the time at which goods cross the customs boundary is used as an approximation to the time when the change in ownership occurs; the transaction is deemed to have occurred at the time the customs declaration is filed. The same change in economic ownership principle also applies to goods shipped under consignment, goods sent abroad for processing, and goods under merchanting, but in these cases, movements across the customs boundary cannot always be used as a proxy for changes in ownership because ownership does not always change. (2) For *services,* transactions are recorded when the services are performed or provided. The provision of services is recorded in each accounting period as the services are performed, not when payments are made. (3) For *income,* transactions are recorded in the period in which the amounts payable accrue, not when the income is paid or received. Dividends paid by direct investors to their affiliates are recorded at the time they are either received from (paid to), or entered into, intercompany accounts with the foreign affiliate, whichever occurs first. Dividends on securities are recorded, in principle, at the time the shares go ex-dividend, but are estimated as though they accrue continuously. Interest is recorded as accruing on a continuous basis because the financial resources are provided for use continuously.

(4) For *grants* and many other voluntary unilateral current transfers, the change in ownership is generally when the goods, services, or financial assets that are corresponding entries to the transfers are exchanged or transferred. (5) For *U.S. government assets, other than official reserve assets,* transactions are recorded on a cash basis because the government's basic accounting records that serve as source data for these accounts are maintained on a cash basis. (6) For *capital transfers,* the change in ownership generally occurs when the goods, services, or financial assets that are corresponding entries to the transactions are exchanged or transferred, and for *nonproduced nonfinancial assets,* transactions occur when economic ownership of the underlying assets change. (7) For *financial assets,* transactions are recorded at the time the claims are created, extinguished, or exchanged, or are entered on the books of the business entities, which may be governed by legal or contractual requirements that establish the date of the transaction. (8) For *repayments of debt,* transactions are recorded when the debt is extinguished (such as when it is paid, rescheduled, or forgiven by the creditor).

In the special case of shipments between a parent company and its unincorporated affiliate, no legal change of ownership can occur in the strict sense because the parent and foreign affiliate are one legal entity. Nevertheless, the shipments are between residents and nonresidents and are treated in the balance of payments as if ownership had changed, in the same way that shipments between a parent company and its incorporated foreign affiliate—which is a separate legal entity—are treated.

Goods shipped under leasing arrangements are assumed to have changed ownership even though no legal change in ownership has occurred. Goods shipped under leasing arrangements for more than 1 year (capital—or financial—leases), where most of the original cost of the equipment is recovered, are included in the appropriate goods account. Goods shipped under leasing arrangements for periods of less than 1 year (operating leases) are considered temporary shipments and thus are omitted from the goods trade accounts; the lease payments are included in the services accounts.

Valuation

International transactions are usually valued at **market prices,** which is the same principle as that used throughout the U.S. national economic accounts. In theory, that is the price that a willing buyer pays to a willing seller in a purely commercial transaction when the entities are not related and when there are no noncommercial considerations. In practice, these conditions do not always exist, because many international transactions occur between entities affiliated in a business relationship, and because noncommercial considerations often enter into the determination of the price. Nevertheless, adjustments in the reported values are made only in unusual cases.

The general application of the market price principle to the ITAs follows. (1) For *goods,* reported transactions are generally assumed to represent market prices, even for shipments between affiliated enterprises. (2) For *services,* transactions are generally estimated from sample surveys in which reporters are asked to report transactions at market values. (3) For *income on direct investment,* transactions are actual amounts reported by direct investment enterprises, with the exception of reinvested earnings which are calculated as a residual from market values of amounts actually reported. (4) For *other private income,* even when affiliated related financial institutions are involved, transactions are estimated using market prices. (5) For *unilateral current transfers* and *capital transfers,* transactions are usually valued on the basis of the actual cost incurred in providing real and financial assets; for *nonproduced nonfinancial assets,* transactions are valued at market prices. (6) For *securities,* transactions are recorded at acquisitions or sales values. (7) For *claims and liabilities* reported by banks and nonbanks, transactions are based on positions of assets and liabilities stated at book or original values.

When real or financial assets are acquired at one price and sold at another, both transactions are recorded at their market values. Thus, **realized** capital gains and losses, including those due to exchange rate changes, are reflected in the international transactions accounts. In contrast, **unrealized** capital gains and losses that arise from changes in prices of assets are excluded from the accounts because these are **holding** capital gains and losses rather than returns to property or labor. These holding gains and losses are, however, included in the international investment position accounts.

Transactions denominated in foreign currencies are reported at their dollar equivalents, generally converted at exchange rates prevailing at the time of reporting, usually the last business day of the month.

Net and Gross Recording

Transactions in the current account of the ITAs are recorded on a **gross basis i**n order to present a picture of the two-way flow of trade. Transactions in the financial account of the ITAs, however, are presented on a **net basis** for U.S. assets abroad and on a **net basis** for foreign assets in the United States. For example, if the United States had both exports and imports of automobiles in a given period, exports and the imports would be separately recorded. If, in contrast, U.S. residents both sold and purchased foreign bonds in a given period, only the net sales or purchases would be recorded. Net recording of flows in financial assets and liabilities is preferred because of the greater analytical interest in net flows than in gross flows, though gross flows may be of interest in analyzing some aspects of payments positions or financial markets.

At the present time, transactions in current transfers and in capital account transactions have limited source data available to present transactions on a gross basis; therefore, transactions are presented on a net basis. Furthermore, for some outflows, there are no similar or related inflows.

Classification of Assets

Transactions in **produced assets,** in income earned by labor and capital from their contributions to production, and in current transfers are covered in the goods, services, income, and current unilateral transfers components of the current account. Transactions in **nonproduced nonfinancial assets** are covered in the capital account. Transactions in **financial assets** and **financial liabilities** are covered in the financial account.

Classification of Transactions

In general, the international transactions accounts' classification system is designed to group together transactions that respond to similar economic influences and that show similar patterns of behavior. The international transactions accounts (ITAs) have three principal components: (1) the current account, (2) the capital account, and (3) the financial account. The presentation of the accounts is shown in Exhibit 1.

Current account

The current account measures transactions in goods, services, income, and net unilateral current transfers between U.S. residents and nonresidents that relate to current production and to the incomes generated from productive activities. These are the transactions most closely related to current production, consumption, and income. All are also included as part of the foreign sector in the national income and product accounts (NIPAs), though their arrangement in the NIPA framework is somewhat different than that of the ITAs.

Goods refers to tangible commodities, which may be in the form of raw materials, intermediate products, or final products. *Services* refers to economic output that is intangible in nature, that cannot be stored, and that is generally produced and consumed at the same time. In a few cases, the distinction between goods and services is blurred, usually because they are commingled in the source data. *Income* refers to receipts and payments on international investments, such as dividends and interest from holdings of financial assets, and dividends, interest, and reinvested earnings of multinational corporations—all of which are considered returns for the use of capital. Returns to labor in the form of compensation (wages and salaries) are also included. *Unilateral current transfers* are transfers of goods, services, or financial assets without a quid pro quo—such as a government donation of food products to alleviate famine; the country receiving the transfer neither provides nor promises to provide anything of economic value in return. A distinction is made between government transfers, such as foreign assistance to developing countries, and private transfers, such as remittances by philanthropic organizations. Transfers by U.S. residents are netted against transfers from nonresidents in the presentation of the accounts.

Capital account

Capital-account transactions measure transactions between residents and nonresidents in the stock of *nonproduced nonfinancial assets* from purchases and sales of tangible and intangible assets, such as mineral rights, copyrights, and trademarks, and from transactions in *capital transfers,* such as debt forgiveness and insurance payments related to catastrophic losses. Transactions in the components of the capital account result in commensurate changes in the stocks of assets of one or both parties to the transaction without affecting the saving of either party; thus, they do not affect measures of production, disposable income, and savings of an economy. In contrast, transactions in the components of the current account do affect measures of production, disposable income, and savings of an economy.

Financial account

The financial account measures transactions in financial assets and liabilities between residents and nonresidents. None of these transactions are included in the NIPAs. Financial assets may be exchanged for goods, services, and income flows, for other financial assets, or they may represent the offsets to unilateral current transfers or capital account transactions.

The major organizing principle in classifying the financial account is the distinction between *U.S- owned assets abroad* and *foreign-owned assets in the United States.* The sector identification for the accounts is that of the domestic creditor for assets and the domestic debtor for liabilities.

The functional breakdown for U.S.-owned assets abroad distinguishes among U.S. official reserve assets, U.S. government assets other than official reserve assets, and private U.S. assets. Private U.S. assets are classified into direct investment, foreign securities, nonbank-reported claims, and bank-reported claims.

The functional breakdown for foreign-owned assets in the United States distinguishes between assets held by foreign official agencies (primarily foreign monetary authorities) and those held by other foreigners. Foreign official assets are classified into U.S. Treasury securities, other U.S. government securities, other U.S. government liabilities, bank-reported liabilities, and other foreign official assets. Other foreign assets are classified into direct investment, U.S. Treasury securities, U.S. securities other than U.S. Treasury securities, nonbank-reported liabilities, and bank-reported liabilities.

Currency shipments, net, from U.S. banks to foreign banks are classified separately.

Transactions in financial derivatives are reported net in the source data and, therefore, cannot be separated into transactions for U.S.-owned assets abroad and foreign-owned assets in the United States. They are presented as a single line separate from the lines for other financial assets and liabilities.

The statistical discrepancy is the entry necessary to balance recorded credits and debits in the accounts.

Exhibit 1

Table 1. U.S. International Transactions—Continues

[Millions of dollars]

Line	(Credits +; debits –) [1]	2008	2009
	Current account		
1	**Exports of goods and services and income receipts**	**2,635,540**	**2,159,000**
2	Exports of goods and services	1,839,012	1,570,797
3	Goods, balance of payments basis	1,304,896	1,068,499
4	Services	534,116	502,298
5	Transfers under U.S. military agency sales contracts	14,936	17,096
6	Travel	109,976	93,917
7	Passenger fares	31,404	26,424
8	Other transportation	43,714	35,406
9	Royalties and license fees	93,920	89,791
10	Other private services	238,932	238,332
11	U.S. government miscellaneous services	1,234	1,333
12	Income receipts	796,528	588,203
13	Income receipts on U.S.-owned assets abroad	793,484	585,256
14	Direct investment receipts	403,225	346,073
15	Other private receipts	385,353	234,458
16	U.S. government receipts	4,906	4,724
17	Compensation of employees	3,044	2,947
18	**Imports of goods and services and income payments**	**–3,182,368**	**–2,412,489**
19	Imports of goods and services	–2,537,814	–1,945,705
20	Goods, balance of payments basis	–2,139,548	–1,575,443
21	Services	–398,266	–370,262
22	Direct defense expenditures	–28,311	–30,474
23	Travel	–79,726	–73,230
24	Passenger fares	–32,563	–25,980
25	Other transportation	–53,702	–41,586
26	Royalties and license fees	–25,781	–25,230
27	Other private services	–173,686	–168,892
28	U.S. government miscellaneous services	–4,497	–4,871
29	Income payments	–644,554	–466,783
30	Income payments on foreign-owned assets in the United States	–634,190	–456,027
31	Direct investment payments	–115,538	–94,010
32	Other private payments	–352,053	–218,020
33	U.S. government payments	–166,599	–143,997
34	Compensation of employees	–10,364	–10,757
35	**Unilateral current transfers, net**	**–122,026**	**–124,943**
36	U.S. government grants	–36,003	–41,638
37	U.S. government pensions and other transfers	–8,390	–8,874
38	Private remittances and other transfers	–77,633	–74,431
	Capital account		
39	**Capital account transactions, net**	**6,010**	**–140**

See the footnote at the end of the table.

Table 1. U.S. International Transactions—Table Ends

[Millions of dollars]

Line	(Credits +; debits –) [1]	2008	2009
	Financial account		
40	**U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (–))**	**156,077**	**–140,465**
41	U.S. official reserve assets	–4,848	–52,256
42	Gold	0	0
43	Special drawing rights	–106	–48,230
44	Reserve position in the International Monetary Fund	–3,473	–3,357
45	Foreign currencies	–1,269	–669
46	U.S. government assets, other than official reserve assets	–529,615	541,342
47	U.S. credits and other long-term assets	–2,202	–4,069
48	Repayments on U.S. credits and other long-term assets	2,354	2,133
49	U.S. foreign currency holdings and U.S. short-term assets	–529,766	543,278
50	U.S. private assets	690,540	–629,552
51	Direct investment	–351,141	–268,680
52	Foreign securities	197,897	–208,213
53	U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns	421,153	124,428
54	U.S. claims reported by U.S. banks and securities brokers	422,631	–277,087
55	**Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+))**	**454,722**	**305,736**
56	Foreign official assets in the United States	550,770	450,030
57	U.S. government securities	591,381	441,056
58	U.S. Treasury securities	548,653	561,125
59	Other	42,728	–120,069
60	Other U.S. government liabilities	8,912	57,971
61	U.S. liabilities reported by U.S. banks and securities brokers	–153,423	–70,851
62	Other foreign official assets	103,900	21,854
63	Other foreign assets in the United States	–96,048	–144,294
64	Direct investment	328,334	134,707
65	U.S. Treasury securities	161,411	22,781
66	U.S. securities other than U.S. Treasury securities	–166,490	59
67	U.S. currency	29,187	12,632
68	U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns	–36,522	–1,460
69	U.S. liabilities reported by U.S. banks and securities brokers	–411,968	–313,013
70	**Financial derivatives, net**	**–32,947**	**50,804**
71	**Statistical discrepancy (sum of above items with sign reversed)**	**84,991**	**162,497**
71a	*Of which:* Seasonal adjustment discrepancy		
	Memoranda:		
72	Balance on goods (lines 3 and 20)	–834,652	–506,944
73	Balance on services (lines 4 and 21)	135,850	132,036
74	Balance on goods and services (lines 2 and 19)	–698,802	–374,908
75	Balance on income (lines 12 and 29)	151,974	121,419
76	Unilateral current transfers, net (line 35)	–122,026	–124,943
77	Balance on current account (lines 1, 18, and 35 or lines 74, 75, and 76)	–668,854	–378,432

1. Credits, +: Exports of goods and services and income receipts; unilateral current transfers to the United States; capital account transactions receipts; financial inflows—increase in foreign-owned assets (U.S. liabilities) or decrease in U.S.-owned assets (U.S. claims). Debits, –: Imports of goods and services and income payments; unilateral current transfers to foreigners; capital account transactions payments; financial outflows—decrease in foreign-owned assets (U.S. liabilities) or increase in U.S.-owned assets (U.S. claims).

Goods

In this section:

Coverage and definitions

Conceptually, the goods export and import accounts (lines 3 and 20) cover all goods sold, given away, or otherwise transferred from U.S. to foreign ownership and vice versa. The goods are valued at transaction prices—exports at the customs boundary of the United States and imports at the foreign port of export. Transactions are recorded at the time of change of ownership.

In practice, BEA estimates the goods accounts from data compiled by the U.S. Census Bureau, U.S. Department of Commerce. The Census basis data record the physical movement of goods across the U.S. customs boundary but not always the change of ownership. In using the data for the balance of payments accounts, BEA assumes that the movement of goods across the U.S. customs boundary signifies a change in ownership, so that physical possession indicates actual ownership. Goods shipped between affiliated firms in the United States and abroad are assumed to change ownership as well, even though the change-of-ownership rule may not strictly apply in a legal sense for some transactions—as in the case of shipments to an unincorporated foreign affiliate, which may not be a separate legal entity from its parent company.

A similar assumption of ownership change is made for shipments of goods under leasing agreements if the leases are for periods exceeding 1 year, irrespective of whether the leases are financial or operational.[1] Shipments under leases for periods of less than 1 year are excluded from Census basis data, as are other temporary shipments, that is, shipments to be returned within 1 year.

In situations where movement of goods across the U.S. customs boundary does not coincide with the change in ownership, or is not determined by assumption, the primary principle is to record the transactions at the time economic ownership changes. In principle, for goods shipped under merchanting agreements, purchases and resales are recorded at the time the change in economic ownership of the goods occurs. In principle, for goods shipped under consignment, that is, goods intended for sale but not actually sold when the goods cross the customs boundary, transactions are also recorded at the time economic ownership changes. In principle, for goods shipped abroad for processing under the ownership of the same party, no change in economic ownership occurs.

1. A capital—or financial—lease is a financial arrangement in which (1) the leasing term is close to the expected useful life of the equipment; (2) the present value of the lease payments approximates the market value of the equipment; and (3) the ownership of the equipment transfers, or may transfer, to the lessee at the termination of the lease. Payments by the lessee are assumed to be large enough to allow the lessor to recover the original cost of the equipment plus interest and profit. An operating lease does not meet any of the above three conditions, and the lessor generally expects to lease the equipment several times. Payments by the lessee cover interest, administrative expenses, depreciation, and profit.

Note. Line numbers correspond to those in table 1 in the U.S. international transactions electronic data releases in March, June, September, and December; the print version of the data releases is published in the January, April, July, and October issues of the Survey of Current Business (Survey). The same table is reproduced as Exhibit 1 on pages M–11 and M–12 of this volume.

Goods exports and goods imports measure the sale, purchase, or transfer of goods rather than their production. Consequently, the accounts include entries for goods that were produced in previous periods (second-hand goods and inventories) and output of other countries (reexports). Likewise, the goods accounts do not show how enterprises ultimately use goods that they have acquired, such as for intermediate consumption, inventories, or gross fixed capital formation.

Estimation methods overview

The U.S. Census Bureau is the primary source of monthly data for goods exports and goods imports. The Bureau compiles data from three major data collection systems.

Data for U.S. exports to all countries, except Canada, are compiled primarily from data submitted through the Automated Export System (AES), as required by law to be filed by exporters or their agents with the U.S. Census Bureau.

For exports to Canada, the United States substitutes Canadian import statistics for U.S. exports to Canada in accordance with a 1987 Memorandum of Understanding signed by the U.S. Census Bureau, U.S. Customs and Border Protection, Canadian Customs, and Statistics Canada. Similarly, under this Memorandum of Understanding, Canada substitutes U.S. import statistics for Canadian exports to the United States. U.S. exports to Canada destined for third countries by routes passing through Canada and shipments of certain grains and oilseeds to Canada for storage prior to export to a third country are reported through the AES.

Data for U.S. imports are compiled primarily from data submitted through the Automated Commercial System, as required by law to be filed by importers or their agents with U.S. Customs and Border Protection. Data on electricity and natural gas purchased from Canada are obtained from Canadian sources and are included in the Census basis data.

The compiled data, which are based on the Harmonized System of commodity classification, are converted by BEA into an end-use system of commodity classification for presentation, analysis, and interpretation and for inclusion in the U.S. international and national economic accounts. The monthly end-use commodity data are seasonally adjusted at the 5-digit level, which is the maximum commodity detail available. The seasonally adjusted months are then summed to quarters, and the quarterly series are summed to total exports and total imports.

During this process, BEA adjusts the Census basis data to align them with the concepts and definitions used to prepare the international and national economic accounts. Broadly, these adjustments are necessary (1) to supplement coverage of the Census basis data, (2) to eliminate duplication of transactions recorded elsewhere in the international accounts, (3) to value transactions according to standard definitions, and (4) to include certain changes in ownership that occur without goods crossing the customs boundary of the United States.

The characteristics of the Census basis data—coverage, valuation, commodity classification, geographic coverage, exclusions, and geographic attribution—are presented in section 1. The characteristics of BEA's adjustments of the Census basis data to balance of payments concepts and definitions are presented in sections 2 and 3.

1 **Census Basis Data**

1.1 **Coverage**

1.1.1 *Exports* consist of shipments of domestic and foreign goods by U.S. residents to foreign residents, involving both commercial and noncommercial transactions.

1.1.2 *Domestic exports* consist of commodities grown, produced, or manufactured in the United States, and commodities of foreign origin that have been changed from the form in which they were imported, including changes made in a U.S. foreign trade zone from the form in which they were imported, or goods that have been enhanced in value or improved in condition by further processing or manufacturing in the United States.

1.1.3 *Foreign exports* consist of commodities of foreign origin that are substantially in the same condition as when imported into the United States, its territories and possessions, a U.S. Customs and Border Protection bonded warehouse, or a U.S. foreign trade zone. Exports of foreign goods are often referred to as reexports.

1.1.4 *Imports* consist of shipments of foreign goods, and of U.S. goods returned, by foreign residents to U.S. residents, involving both commercial and noncommercial transactions.

1.1.5 *General imports* measure total physical arrivals of goods from foreign countries, whether such merchandise enters consumption channels immediately or is entered into bonded warehouses or foreign trade zones under U.S. Customs and Border Protection's custody. Arrivals are measured at the time goods are physically cleared through U.S. Customs. General imports are used in the U.S. international and national accounts.

1.1.6 *Imports for consumption* are goods for immediate consumption and goods that leave bonded warehouses and foreign trade zones.

1.1.7 A *bonded private warehouse* is used for the storage of goods until duties or taxes are paid and the goods are properly released by U.S. Customs and Border Protection. Bonds must be posted by the warehouse proprietor and by the importer to indemnify the government if the goods are released improperly. Goods entering a bonded warehouse are included in General Imports but not in Imports for Consumption. They are considered Imports for Consumption when they leave the bonded warehouse for domestic consumption.

1.1.8 A *foreign trade zone (FTZ)* is a specially licensed commercial or industrial area in or near ports of entry where foreign and domestic goods, including raw materials, components, and finished goods, may be brought in without being subject to payment of customs duties. Goods brought into these zones may be stored, sold, exhibited, repacked, assembled, sorted, graded, cleaned, or otherwise manipulated prior to reexport or entry into the U.S. customs territory. Goods entering a FTZ are included in General Imports but not in Imports for Consumption. They are considered Imports for Consumption when they leave the FTZ for domestic consumption.

1.1.9 *Goods imports returned* include U.S. goods not accepted by the foreign purchaser because of problems such as damage, defects, and incorrect shipments.

1.1.10 *Temporary shipments,* that is, exports or imports to be returned within 1 year, are excluded from the trade statistics, as are imports in transit through the United States.

1.2 **Valuation**

1.2.1 Exports are valued on a *free alongside ship (f.a.s.)* basis at the U.S. port of export.

1.2.2 The value of exports at the U.S. seaport, airport, or border port of export is based on the transaction price, including inland freight, insurance, and other charges incurred in placing the goods alongside the carrier at the U.S. port of export. The value, as defined, excludes the cost of loading the goods aboard the exporting carrier and also excludes freight, insurance, and charges or transportation costs beyond the port of export. Freight, insurance, and charges beyond the U.S. port of export are assumed to be incurred by the foreign importer; estimates of freight receipts are included in line 8, other transportation receipts, and estimates of insurance receipts are included in line 10, other private services receipts.

1.2.3 Imports are valued on a *customs value* basis at the foreign port of export.

1.2.4 The customs value is the value of imports as appraised by U.S. Customs and Border Protection in accordance with the legal requirements of the Tariff Act of 1930, as amended. The value is generally defined as the price actually paid or payable for goods at the foreign port of export, excluding U.S. import duties, freight, insurance, and other charges incurred in bringing the goods to the United States. Freight, insurance, and charges beyond the foreign port of export are assumed to be incurred by the U.S. importer; estimates of freight payments are included in other transportation payments (line 25), and estimates of insurance payments are included in other private services payments (line 27).

1.3 **Commodity classification**

1.3.1 Exports and imports are organized under several different commodity classification systems, including the Harmonized System and the end-use system. BEA uses primarily the end-use classification system, which was created by the Balance of Payments Division of the former Office of Business Economics in the mid-1950s to make it easier to relate changes in goods trade to production and income data. End-use data were first published by BEA in 1963. More comprehensive data were published in 1970, and further details were made available in 1977.

1.3.2 The end-use system currently in use is based on the Harmonized System (HS) of commodity classification, which is an internationally accepted standard for the commodity classification of internationally traded goods. The HS was adopted in 1989 and has been updated approximately every 5 years since then; the most recent update is for 2007. The current HS consists of approximately 9,000 export commodity categories and 18,000 import commodity categories. The HS organizes transactions by the physical nature of commodities and their stage of processing rather than their end-use.

1.3.3 The broad end-use categories used by BEA and the U.S. Census Bureau are foods, feeds, and beverages; industrial supplies and materials; capital goods, except automotive; automotive vehicles, parts, and engines; consumer goods; and “other” goods. Currently, the end-use classification system includes about 200 subcategories of exports and 200 subcategories of imports.

1.4 **Geographic coverage**

1.4.1 The U.S. customs boundary includes the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and American Samoa and other U.S. territories and possessions, and U.S. foreign trade zones and bonded warehouses. Exports and imports are valued at the time they cross the customs boundary of the United States. This movement is taken as presumptive evidence that a change in ownership has occurred.

1.5 **Exclusions**

1.5.1 The following items are excluded from Census basis goods: (1) goods in transit through the United States from one foreign country to another; (2) shipments (a) between the United States and Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and other U.S. territories and possessions, and (b) between any of these outlying areas; (3) temporary exports or imports, defined as goods shipped for a period of less than 1 year; (4) U.S. goods returned by U.S. Armed Forces for their own use and shipments to U.S. Armed Forces and other U.S. government units abroad for use abroad; (5) purchases of vessels; (6) purchases of fuel and other supplies and equipment by U.S. carriers abroad and by foreign carriers in the United States (see sections 2 and 3 for further details on the treatment of fuel procured in ports by nonresident carriers); (7) electric energy trade with Mexico; (8) personal and household effects of travelers; (9) personal parcels shipped via the U.S. Postal System; and (10) issued monetary coins. (BEA prepares estimates for electric energy trade with Mexico, personal parcel shipments, purchases of vessels, and purchases of fuel in ports by nonresident carriers to supplement the coverage of the Census basis data; see sections 2 and 3).

1.6 **Geographic attribution**

1.6.1 The geographic attribution of *exports* is the country where the goods are to be consumed, further processed, or manufactured, as known to the shipper at the time of exportation. If the shipper does not know the country of ultimate destination, the shipment is credited to the last country the shipper knows that the goods will be in the same form as when exported. The geographic attribution of *imports* is the country of origin. In some instances, those in which goods are produced in several countries and shipped through one or more countries before final shipment to the United States, the country of attribution may, in practice, be the last country of shipment.

1.6.2 The country of destination for goods may frequently differ from the county of payment for the goods. For example, when a foreign resident purchases an aircraft in the United States but leases it to an airline in another country, the country of destination shown on the export declaration may be that of the lessee, not that of the lessor (the owner of the equipment). In this case, the goods accounts include the commodity flow by the country of destination and the financial accounts record the financial flow by the country of payment.

2 **Goods Exports, Balance of Payments Basis** (line 3)

2.1 This account measures the value of domestic and foreign goods (reexports) exported from the United States. As described earlier, the balance of payments estimates are based on export data compiled and published by the U.S. Census Bureau. Definitions of domestic and foreign goods and other characteristics of the U.S. Census Bureau export data, such as sources, coverage, valuation, and commodity classification were also presented earlier.

2.2 The procedures used in making the coverage, valuation, and other adjustments to the Census basis export data to bring them into conformity with balance of payments concepts are described below. Table 1 shows the derivation of goods exports on a balance of payments basis for 2009.

2.3 The largest adjustments are (1) an addition for goods procured in U.S. ports by foreign ocean and air carriers, (2) a deduction for service receipts for repairs and alterations of foreign-owned equipment, and (3) an addition for low-value transactions.

2.4 (1) Beginning with statistics for 1999, an addition is made for goods procured in U.S. ports by foreign ocean and air carriers. At the present time, these purchases are limited to fuel, which are not covered in the Census basis data described in section 1. Data are based on a supplemental report provided by the Census Bureau and on BEA transportation surveys. Prior to 1999, these transactions are included in other transportation receipts (line 10).

2.5 (2) A deduction is made for the value of nonwarranty repairs and alterations of foreign-owned equipment repaired or altered in the United States and subsequently exported. The value of these repairs is combined with other data on equipment repairs from a BEA survey and included in receipts for other private services (line 10). The adjustment is based on Census basis data.

2.6 (3) An addition is made to low-value transactions (estimates below the reporting threshold) included in Census basis data to phase in a revised low-value estimation methodology that was implemented by the Census Bureau beginning with estimates for 2010. The new methodology results in larger values for these transactions.

2.7 (4) Beginning with statistics for 1999, an addition is made for the value of goods transferred under U.S. foreign military sales contracts. The addition reflects the substitution of data on military goods exports reported by the Department of Defense to BEA for data reported to Census on shippers' export declarations. The data reported to BEA are more comprehensive than the data reported to Census. (See the chapter "Military Transactions" for details on the treatment of the goods component of military exports).

2.8 (5) An addition is made for personal parcels shipped via the U.S. Postal Service because Census basis data do not cover these items. The adjustment is based on a survey of postal operations and estimates by BEA. The financial counterpart of this item is included in private remittances and other transfers (line 38). An addition is also made for U.S. mail order shipments to Canada based on data provided by Statistics Canada.

2.9 (6) An addition is made for nonmonetary gold not included in Census basis data. This involves gold that is purchased by foreign official residents and is shipped to the Federal Reserve Bank of New York where it is held in custody for foreign official accounts; no export documents are filed for this gold. The adjustment is based on the monthly average of daily fixings of London gold prices and on data provided by the Federal Reserve Bank of New York. Effective with data for January 1978, other exports of nonmonetary gold (ore, scrap and base bullion, refined bullion, etc.) are included in Census basis data.

2.10 (7) An addition is made for electric energy supplied to Mexico. The adjustment is based on Government of Mexico trade data.

2.11 (8) A deduction is made for exposed motion picture film for sale or rent. These exports are included in receipts for other private services (line 10). The adjustment is based on Census basis data.

2.12 (9) A deduction is made for U.S.-owned grain shipped for storage in Canada and an addition is made for subsequent delivery of U.S.-owned grain from Canadian warehouses to third countries. The net effect is usually close to zero.

3 **Goods Imports, Balance of Payments Basis** (line 20)

3.1 This account measures the value of foreign goods imported into the United States and of U.S. goods returned from abroad. As described earlier, the balance of payments estimates are based largely on import data compiled and published by the U.S. Census Bureau. Definitions of foreign goods and other characteristics of the Census basis data, such as sources, coverage, valuation, and commodity classification were also presented earlier.

3.2 The procedures used in making the coverage, valuation, and other adjustments to the Census basis import data to bring them into conformity with balance of payments concepts are described below. Table 1 shows the derivation of goods imports on a balance of payments basis for 2009.

3.3 The largest adjustments are (1) an addition for goods procured in foreign ports by U.S. ocean and air carriers, (2) an addition for inland freight in Canada and Mexico, and (3) an addition for goods purchased abroad by U.S. military agencies.

3.4 (1) Beginning with statistics for 1999, an addition is made for goods procured in foreign ports by U.S. ocean and air carriers. At the present time, these purchases are limited to fuel, which are not covered in the Census basis data described in section 1. Data are based on a supplemental report provided by the Census Bureau and on BEA transportation surveys. Prior to 1999, these transactions are included in other transportation payments (line 25).

3.5 (2) An addition is made for inland freight charges to transport goods from their point of origin in Canada and in Mexico to the U.S. customs boundary. The adjustment is based on Census basis data.

3.6 (3) An addition is made for nonmonetary gold not included in Census basis data. This involves gold sold by foreign official agencies to private purchasers out of stock held at the Federal Reserve Bank of New York; no import documents are filed for this gold. The adjustment is based on the average of daily fixings of London gold prices and data provided by the Federal Reserve Bank of New York. For 1980 and some prior years, the adjustment also included the value of gold sold at International Monetary Fund auctions out of stocks held in the United States, regardless of whether the purchaser was a U.S. or foreign resident; the valuation was the average bid price. Purchases by foreign official agencies taking immediate delivery were excluded. Effective with data for January 1978, other imports of nonmonetary gold (ore, scrap and base bullion, refined bullion, etc.) are included in the Census basis data.

3.7 (4) Beginning with statistics for 1999, an addition is made for the value of goods purchased abroad by U.S. military agencies. The addition reflects the substitution of data on military goods imports reported by the Department of Defense to BEA for data reported to Census on import declarations. The data reported to BEA are more comprehensive than the data reported to Census. (See the chapter “Military Transactions” for details on the treatment of the goods component of military imports).

3.8 (5) An addition is made to raise the value of selected non-customized computer software to its full market value from the value of the medium (such as CDs, DVDs, and smart cards) on which it is placed, which is the value reported on U.S. Customs and Border Protection import declarations.

3.9 (6) A deduction is made for the value of nonwarranty repairs and alterations of U.S.-owned equipment repaired or altered abroad and subsequently imported to the United States. The value of these repairs is combined with other data on equipment repairs from a BEA survey and included in payments for other private services (line 27). The adjustment is based on Census basis data.

3.10 (7) An addition is made for locomotives and railcars imported from Canada and Mexico which are no longer reported on U.S. Customs and Border Protection import declarations as a result of a change in a U.S. trade law beginning in the late 1990s. The adjustment is based on data from a Statistics Canada survey and from Government of Mexico trade data.

3.11 (8) An addition is made to low-value transactions (estimates below the reporting threshold) included in Census basis data to phase in a revised low-value estimation methodology that was implemented by the Census Bureau beginning with estimates for 2010. The new methodology results in larger values for these transactions.

3.12 (9) An addition is made for the value of electric energy imported from Mexico. The adjustment is based on Government of Mexico trade data.

3.13 (10) A deduction is made for imports of exposed movie film for sale or rent included in Census basis data. These transactions are included in payments for other private services (line 27). The adjustment is based on Census basis data.

3.14 (11) A deduction is made for the value of repairs performed abroad on U.S.-owned vessels included in Census basis data. These transactions are already included in payments for other transportation services (line 25). The adjustment is based on Census basis data.

Table 1. Derivation of U.S. Goods Exports and U.S. Goods Imports, Balance of Payments Basis, 2009 (Line 3 and Line 20)

[Millions of dollars]

Goods exports, Census basis	**1,056,043**
Adjustments	12,456
Goods procured in U.S. ports by foreign ocean and air carriers	10,925
Equipment repair	–4,430
Low-value transactions	3,992
Transfers under U.S. military agency sales contracts	985
Personal parcel shipments	1,014
Gold exports, nonmonetary	0
Other	
Electric energy to Mexico	16
Exposed movie film	–45
Net change in stock of U.S.-owned grains in storage in Canada	0
Goods exports, balance of payments basis (Line 3)	**1,068,499**
Goods imports, Census basis	**1,559,625**
Adjustments	15,818
Goods procured in foreign ports by U.S. ocean and air carriers	8,546
Inland freight in Canada and Mexico	4,026
Gold imports, nonmonetary	0
Imports by U.S. military agencies	2,699
Software revaluation	2,333
Equipment repair	–2,570
Locomotives and railcars	398
Low-value transactions	545
Other	
Electric energy from Mexico	309
Exposed movie film	–342
Vessel repair	–127
Goods imports, balance of payments basis (Line 20)	**1,575,443**

Military Transactions

In this section:

Coverage and definitions

The military accounts (part of line 3 and line 5, and part of line 20 and line 22) cover international transactions in which U.S. government military agencies participate.

Commercial transactions between U.S. private firms and foreign firms or governments, involving military types of goods or services without military agency participation, are not included in the military accounts. Commercial transactions are included in goods (lines 3 and 20), in other private services (lines 10 and 27), or in U.S. government miscellaneous services (lines 11 and 28), depending on the sector of the economy that provides or purchases the services.

In the military accounts, deliveries of goods and services to foreign governments, principally transfers under the Foreign Military Sales (FMS) program and various grant programs, are recorded as receipts, and defense expenditures abroad are recorded as payments. Because military installations abroad are considered within the U.S. economy, receipts include deliveries of military goods and services to foreign governments from U.S. installations abroad, and payments include purchases of goods and services from foreign residents for use at U.S. installations abroad.

Though the goods and services components of deliveries under the FMS program and defense expenditures abroad programs appear in different locations in the accounts, they are described here in a single location because they are governed by the same legislative authorities, and the same conceptual principles underlie the collection of source data.

If the distinction between goods and services is clear, the objective in the construction of the accounts is to combine military goods exports and imports with commercial goods exports and imports, and to place military services exports and imports in the services accounts. When the distinction between goods and services is unclear, or the source data commingle goods and services, those transactions are classified as military services. Thus, beginning with statistics for 1999, military goods transferred to foreigners under the FMS program—such as aircraft, vehicles and weapons, missiles, and communication equipment—are classified as goods exports in line 3, and military goods purchased under direct defense expenditure programs—such as petroleum purchases abroad—are classified with other purchases of petroleum as goods imports in line 20. Military services exports under the FMS program—such as training, supply operations, and technical services—are classified in line 5 in the services accounts, and military services imports under direct defense expenditures abroad—such as payments for contractual services and construction—are classified in line 22 in the services accounts.

U.S. Department of Defense (DOD) reimbursable contractual activities abroad are recorded in both receipts and payments. When a foreign government or an international organization contracts for DOD goods or services, the foreign entity's provision of funds to DOD creates a U.S. liability. DOD, acting as a prime contractor, draws on these funds to pay its agencies, U.S. contractors, and foreign contractors for the delivery of goods and the rendering of services. Delivered goods and services are recorded as exports of goods under U.S. military agency sales contracts (part of line

3) or of services (line 5) and the liability is liquidated. To the extent that foreign goods and services are procured abroad (including those purchased by U.S. contractors) to fulfill DOD contractual obligations, purchases (imports) are recorded as defense expenditures abroad of goods (line 20) or of services (line 22). Net receipts or payments from these reimbursable contractual activities overseas are the difference between total DOD deliveries to fulfill the contracts (transfers under U.S. military agency sales contracts, both goods and services) and expenditures for foreign goods and services used in these contracts (direct defense expenditures, both goods and services). If foreign contractors purchase U.S.-origin goods and services, these purchases are recorded (but not separately identified) in goods exports (line 3).

Direct defense expenditures for goods and services recorded in the U.S. international transactions accounts measure only a portion of the full cost of conducting U.S. military operations abroad. The accounts cover only payments to foreign residents; they do not cover payments to U.S. businesses and personnel. For example, the accounts cover payments to foreign suppliers when constructing U.S. bases abroad and the expenditures of U.S. troops in the local (foreign) economies. But the accounts do not cover the cost of equipment and supplies procured in the United States and shipped abroad. Nor do the accounts include the portion of U.S. military personnel compensation that is not spent abroad.

Estimation methods overview

Estimates are based primarily on data submitted quarterly by U.S. military agencies to BEA as required by Office of Management and Budget (OMB) Directive No. 19. This Directive is supplemented by detailed DOD instructions to its various agencies, especially DOD Financial Management Regulation, Volume 6A, Chapter 13.

1 **U.S. Receipts—Transfers of Goods under U.S. Military Agency Sales Contracts** (part of line 3)

U.S. Receipts—Transfers of Services under U.S. Military Agency Sales Contracts (line 5)

These accounts measure transfers of goods and services to foreign governments under U.S. military agency sales contracts (see table 2). These accounts include (1) transfers under the Foreign Military Sales program, (2) transfers under foreign military grant programs, and (3) other miscellaneous receipts.

Table 2. Transfers Under U.S. Military Agency Sales Contracts, 2009 (Part of Line 3 and Line 5)
[Millions of dollars]

Total	**26,434**

NOTE. Details not available due to security restrictions.

1.1 **Foreign military sales program**

1.1.1 This item measures transfers of goods and services by U.S. government military agencies to foreign governments under foreign military sales (FMS) program contracts. U.S. government military agencies include the military services—Army, Navy, and Air Force—and other DOD agencies. The FMS program is authorized under the provisions of the Arms Export Control Act of 1976 (Public Law 90–629, as amended) and predecessor legislation. Under this program, goods and services are transferred directly to foreign governments and international organizations by the U.S. Department of Defense (DOD). FMS deliveries may be financed by cash, but are often financed by credits or grants under various foreign assistance programs. The delivery is recorded by DOD at the time ownership is transferred to the foreign government or international organization. The transfer may be made abroad or in the United States for shipment abroad or for use in the United States. In the latter case, although the goods physically remain in the United States (for example, equipment to train foreign personnel), ownership is transferred to a foreign government. Transfers may also be made from stocks at U.S. military installations abroad. Transfers under foreign military agency sales contracts also include deliveries of goods and services in fulfillment of DOD reimbursable contracts (see paragraphs 2.3–2.5).

1.1.2 Quarterly reports are submitted under OMB Statistical Directive No. 19. Security restrictions prohibit showing the details of these transactions.

1.2 **Foreign military grant programs**

1.2.1 This item measures transfers of goods and services by U.S. government military agencies to foreign governments under U.S. military grant programs. These receipts cover deliveries by the DOD of military goods and services under programs enacted by the U.S. Congress to provide military assistance for which no payment is expected or for which payment terms are indeterminate. Offsetting entries to these transfers are included in U.S. government grants (line 36). (1) Programs include the Military Assistance Program, the International Military Education and Training Program, the Military-to-Military Contract Program, the Excess Defense Articles program, and the special authority of the President to drawdown DOD stocks of defense articles in the event that a foreign country needs immediate assistance. (2) Additional programs include goods and services delivered by the DOD when U.S. government military agencies are executive agents for non-military assistance (such as humanitarian aid) abroad. Transfers related to U.S.-led humanitarian operations, direct support for anti-narcotics efforts in foreign countries, and cooperative threat reduction activities in the former Soviet Union fall in this category of transfers. (3) Also included, and by far the largest of the three categories, are transfers for reconstruction and to train and equip security forces abroad, such as those associated with the conflicts in Afghanistan and Iraq, which began in 2001 and 2003, respectively.

1.2.2 These items are net of returns of equipment previously transferred (reverse grants) and of supplies and services provided to the U.S. government as part of a mutual assistance program.

1.2.3 Deliveries under these programs are recorded by DOD at the time ownership is transferred to the foreign government.

1.3 **Other miscellaneous receipts**

1.3.1 This item measures miscellaneous non-FMS sales of goods and services by U.S. government military agencies to foreign governments. These receipts cover sales abroad of surplus equipment; sales of materials and services to foreign countries or international organizations under logistical support programs; sales of petroleum products for land, naval, and air operations of foreign governments and international organizations; and sales of goods and services to United Nations peacekeeping operations under treaties specifying reimbursement to the United States. Returns to foreign governments of military equipment borrowed by the United States are also included in receipts. In general, non-FMS deliveries are recorded at the time of the receipt of funds by the U.S. government, which is presumed to occur within 30 days following delivery.

2 **U.S. Payments—Direct Defense Expenditures, Goods** (part of line 20)

U.S. Payments—Direct Defense Expenditures, Services (line 22)

These accounts measure direct defense expenditures incurred abroad by U.S. military agencies (see table 3). These accounts include (1) expenditures by U.S. personnel abroad; (2) payments of wages to foreign residents; (3) construction expenditures abroad; (4) payments for contractual services abroad; (5) procurement of foreign goods; (6) purchases of foreign goods and services for military assistance programs; (7) North Atlantic Treaty Organization (NATO) support project payments; and (8) purchases of foreign goods and services by the U.S. Coast Guard. Construction expenditures abroad, payments for contractual services abroad, and procurement of foreign goods include foreign goods and services procured to fulfill DOD reimbursable contracts abroad (see paragraphs

2.3–2.5). This account also includes returns of leased military equipment to the United States from foreign governments.

This account excludes (1) overseas procurement and import of goods into the United States by U.S. private firms in fulfillment of defense contracts, which are included in commercial goods imports (line 20); (2) expenditures abroad for petroleum, which are included in goods imports (line 20), beginning with statistics for 1999; (3) expenditures abroad by U.S. transportation companies for their own account on cargoes carried for DOD, which are included in other transportation (line 25); (4) expenditures abroad by DOD for certain civil functions, which are included in U.S. government miscellaneous services (line 28); and (5) military pension payments to persons residing outside the United States, which are included in U.S. government pensions and other transfers (line 37). Also excluded are the costs incurred in the United States for the procurement of equipment, materials, and supplies for U.S. troops and installations abroad, because these transactions are between U.S. residents.

Direct defense expenditures are generally recorded on a cash disbursement basis. Payments are presumed to occur within 30 days following receipt of the goods or services.

In addition to data reported under OMB Directive No. 19, estimates of direct defense expenditures are based on data from supplementary sources of information, including reports by the individual military services on their operating strength in foreign locations, DOD reports submitted for a NATO defense expenditure questionnaire, and reports from other U.S. government agencies, including the U.S. Department of the Treasury's Monthly Treasury Statement.

2.1 **Expenditures by U.S. personnel abroad**

This item consists of (1) personal expenditures by U.S. military and DOD civilian personnel stationed abroad, (2) personal expenditures abroad by U.S. naval personnel stationed in the United States, and (3) expenditures by military exchanges and similar facilities abroad.

2.1.1 Personal expenditures

2.1.1.1 The estimates for personal expenditures abroad by military and civilian personnel are based on the amount paid to U.S. personnel and their dependents stationed abroad. These payments include housing and subsistence allowances, claim payments, and allotments disbursed to foreign addresses. The primary source of funds for these expenditures is transfers by DOD to banks or financial institutions, foreign or domestic, for credit to the individual accounts of personnel abroad. Reimbursable expenditures, including per-diem expenditures, by personnel on temporary duty abroad are also included.

2.1.1.2 Because many personal expenditures are made at U.S. installations abroad, the following transactions are deducted because these transactions are between U.S. residents. Deductions are made for personal expenditures by U.S. personnel at U.S. installations abroad, which include (1) sales by foreign-based military exchanges, commissaries, and similar facilities of foreign and U.S. goods and services to U.S. personnel; (2) sales of money orders and stamps, fees collected by military postal facilities, sales of bank money orders, and fees collected by base exchanges; and (3) personal expenditures for dry-cleaning, laundry, and other services. A deduction is also made for the portion of paychecks allotted to dependents in the United States.

2.1.1.3 After these deductions are made, BEA further adjusts these amounts to account for lower spending abroad in certain areas, such as combat zones, where living costs are covered essentially by the U.S. government, and the opportunity to spend money in the local economy on nonessential items is limited. The remainder after all of these deductions is assumed to represent the net amount of funds spent directly in the local economy of each foreign country by U.S. personnel and their dependents stationed abroad.

2.1.2 Expenditures by U.S. personnel on shore leave abroad

2.1.2.1 This item consists of personal expenditures abroad (shore leave) by U.S. naval personnel stationed in the United States. Estimates are based on the number of port calls, average length of stay, and average per capita amount spent in the local economy of each foreign country. This information is obtained by DOD from surveys of personnel returning from shore leave in various countries.

2.1.3 Expenditures by military exchanges and similar facilities abroad

2.1.3.1 This item consists of expenditures by military exchanges and similar facilities abroad. Estimates are based on data on purchases of foreign goods and services by military exchanges and other nonappropriated fund activities, such as officers' clubs and movie facilities located abroad. Expenditures abroad for foreign products by commissaries are included in the category "procurement of foreign goods," which is discussed in paragraph 2.5. If military exchanges purchase goods and services in one foreign country, but sell them in another, the purchases are reported for the country where the goods and services are bought and the sales are recorded for the country where they are later sold.

2.2 **Payments of wages to foreign residents**

2.2.1 This item consists of payments of wages by DOD directly to foreign employees and payments by DOD to foreign governments for the hire of foreign employees. Payments include U.S. government contributions to foreign retirement programs and separation allowances.

2.3 **Construction expenditures abroad**

2.3.1 This item consists of expenditures abroad by U.S. prime contractors and their U.S. and foreign subcontractors, including the U.S. contractors' and subcontractors' personnel, for foreign goods and services in connection with both the construction of installations abroad for DOD use and reimbursable construction undertaken for foreign governments. Payments to U.S. contractors for work abroad are net of expenditures in the United States for U.S. products and services. Data are classified primarily by the country where the installation is located. Payments to foreign prime contractors for construction abroad are also included and are classified by the country where the foreign contractor is incorporated.

2.4 **Payments for contractual services abroad**

2.4.1 This item consists primarily of DOD payments for services performed at U.S. installations abroad by foreigners, such as real property maintenance and repair, and payments for utilities, communications, and transportation. Also included are DOD payments for services under reimbursable contracts. Payments to U.S. contractors for work abroad are net of expenditures in the United States for U.S. products and services.

2.5 **Procurement of foreign goods**

2.5.1 This item consists primarily of DOD expenditures abroad for major equipment and other materials and supplies. Major equipment expenditures abroad are made under appropriations for both the procurement of items, such as aircraft components and parts, and for the repair, transportation, and other services related to major equipment. Included are purchases of (1) foreign products to be used or stockpiled abroad and (2) foreign products imported into the United States by U.S. military agencies on military or commercial carriers. Expenditures for materials and supplies, including foreign food products purchased by U.S. commissaries abroad, are made from both appropriated and nonappropriated funds. Beginning with statistics for 1999, expenditures for petroleum are excluded from this category and included in goods imports (line 20). Payments by DOD to foreign suppliers under reimbursable contracts with foreign governments are also included. Payments made to U.S. contractors are net of expenditures in the United States for U.S. products and services.

2.6 **Military assistance programs**

2.6.1 This item consists of U.S. payments for foreign goods and services in support of various U.S. military assistance programs to develop the military capacity of U.S. allies. The primary programs have been the Military Assistance Program (MAP), which ended in 1994, and the Offshore Procurement Program. Also included are U.S. government payments for its share of NATO international military headquarters expenses.

2.7 **NATO infrastructure projects**

2.7.1 This item consists of payments by the United States for its share of multinational construction costs for airfields, pipelines, and communications and naval facilities under the NATO infrastructure program; the installations may be utilized by the forces of all NATO countries. Also included are U.S. contributions to the multinational acquisition fund for the Airborne Early Warning and Control System; this fund is used by NATO to acquire and maintain special aircraft and ground facilities to monitor, coordinate, and support activities of NATO forces.

2.8 **U.S. Coast Guard expenditures**

2.8.1 This item consists mainly of payments to maintain U.S. Coast Guard installations abroad that provide navigational assistance to the U.S. military and to U.S. maritime commerce. Expenditures abroad by U.S. Coast Guard personnel are also included.

Table 3. U.S. Direct Defense Expenditures, 2009 (Part of Line 20 and Line 22)

[Millions of dollars]

Total	**35,605**
Expenditures by U.S. personnel abroad (line 22)	10,521
Personal expenditures by military and civilian personnel	8,842
Personal expenditures by naval personnel stationed in the United States	153
Expenditures by military exchanges and similar facilities	1,526
Payments of wages to foreign residents (line 22)	1,075
Direct hire	112
Contract hire	963
Construction expenditures abroad (line 22)	1,618
Direct DOD use	1,316
Reimbursable from foreign governments	302
Payments for foreign contractual services and other transactions (line 22)	14,760
Direct DOD use	12,789
Reimbursable from foreign governments	1,971
Procurement of foreign goods (part of line 20 and line 22)	7,284
Direct DOD use (part of line 20 and line 22)	7,273
Major equipment (line 22)	145
Petroleum (excluding the Strategic Petroleum Reserve) (part of line 20)	5,131
Other materials and supplies (line 22)	1,997
Reimbursable from foreign governments (line 22)	11
Military assistance programs (line 22)	40
NATO infrastructure projects (line 22)	268
Coast Guard expenditures (line 22)	39

Travel

In this section:

Coverage and definitions

The travel accounts (lines 6 and 23) cover purchases of goods and services by U.S. travelers abroad and by foreign travelers in the United States (see table 4). Unlike most other services accounts, travel is not a specific type of service but an assortment of goods and services purchased by travelers. Travelers' purchases include expenditures for food, lodging, recreation, gifts, entertainment, and other items incidental to a foreign visit. Expenditures for local transportation in the country of travel are also covered. Passenger fares for travel between the United States and other countries, when paid by U.S. travelers to foreign carriers or paid by foreign travelers to U.S. carriers, are excluded; they are covered in the passenger fares accounts (lines 7 and 24).

A traveler is defined as a person who stays for a period of less than one year in a country of which he or she is not a resident. However, certain groups of persons staying outside their country of residence are not classified as travelers, regardless of their length of stay. Their expenditures are excluded from the travel accounts and included in other international transactions accounts. Expenditures abroad of the U.S. Department of Defense's military and civilian personnel (and their dependents) stationed abroad are included in direct defense expenditures (line 22). Expenditures abroad of U.S. government nonmilitary personnel (and their dependents) stationed abroad are included in U.S. government miscellaneous services (line 28). Expenditures of foreign workers, both private and government, employed temporarily in the United States are included in other private services receipts (line 10) and expenditures of U.S. workers employed temporarily abroad are included in other private services payments (line 27). Education-related expenditures of students and health-related expenditures of medical patients are included as receipts in other private services (line 10) and as payments in other private services (line 27).

Estimation methods overview

The method for estimating the travel accounts for overseas countries (countries other than Canada and Mexico) involves, in general, multiplying data on the number of travelers by estimates of average expenditures. Numbers of travelers are provided by U.S. immigration authorities. Average expenditures are derived from surveys of travelers. For Canada and Mexico, BEA uses data provided by Statistics Canada and the Bank of Mexico, respectively.

1 **U.S. Receipts** (line 6)

1.1 **Overseas countries**

1.1.1 BEA estimates foreign travelers' expenditures in the United States by multiplying the number of foreign travelers by their average travel expenditures. The number of foreign travelers in the United States is based on counts collected by the Department of Homeland Security (DHS), Office of Immigration Statistics, on its I–94 form. The I–94 data include the number of foreign residents arriving in the United States, by country of residence. Average expenditures of foreign travelers in the United States from each major area or country are estimated on the basis of a survey of international air travelers, the Survey of International Air Travelers (SIAT), which is administered by the Office of Travel and Tourism Industries (OTTI), International Trade Administration (ITA), U.S. Department of Commerce. The survey is conducted either in the gate area at airports or aboard a sample of scheduled flights departing the United States. More than 70 U.S. and foreign carriers, which account for more than 95 percent of the passengers in the international travel market, participate in the survey. Sample results are expanded to universe estimates to account for nonresponse of passengers on each sampled flight, for coverage of all flights on each major airline route, and for all international routes. The expansion factor is based on the total number of passengers arriving in the United States, which BEA obtains from the DHS. The airfare paid by nonresidents to U.S. carriers is included in passenger fare receipts (line 7).

1.2 **Canada**

1.2.1 BEA uses estimates provided by Statistics Canada of Canadian travel expenditures in the United States to measure U.S. travel receipts from Canada. The estimates from Statistics Canada are derived from questionnaires completed by Canadian residents returning to Canada from the United States; average expenditures developed from these questionnaires are applied to the number of Canadian residents returning. Travel transactions between the United States and Canada include border transactions, which often result from trips of less than 24 hours.

1.3 **Mexico**

1.3.1 BEA uses estimates provided by the Bank of Mexico of Mexican travel expenditures in the United States as a measure of U.S. travel receipts from Mexico. The Bank of Mexico provides U.S. travel receipts separately for expenditures of Mexican travelers in the interior of the United States and in the U.S. border area. Expenditures in the border area often result from trips of less than 24 hours. The estimates from the Bank of Mexico are derived from questionnaires completed by Mexican residents returning to Mexico from the United States; average expenditures are developed from these questionnaires and applied to the number of Mexican residents returning. Expenditures in the United States of seasonal foreign workers and of Mexican workers who commute to jobs in the U.S. border area are not included in travel receipts; they are included in other private services receipts (line 10).

2 **U.S. Payments** (line 23)

2.1 **Overseas countries**

2.1.1 BEA estimates U.S. travelers' expenditures overseas by multiplying the number of U.S. travelers by their average travel expenditures. The number of U.S. travelers overseas is based on data collected by the DHS, Office of Immigration Statistics on its Advance Passenger Information System (APIS). The APIS data include the number of U.S. citizens departing the United States by country or area of debarkation. To account for multiple country visits, BEA adjusts the APIS data using information from the OTTI Survey of International Air Travelers (SIAT), which is described in paragraph 1.1.1. Average expenditures of U.S. travelers to each major country or area overseas are estimated on the basis of the SIAT. The SIAT asks travelers departing the United States how much they intend to spend while abroad; thus, it is a survey of anticipated expenditures rather than of actual expenditures. Beginning with 1997, the data on anticipated expenditures are adjusted to better represent U.S. travelers' actual expenditures abroad. The adjustment factors, which are ratios of actual to anticipated expenditures by major region, were derived from a one-time survey covering 1998. The survey was distributed to travelers upon their return to the United States. The airfare paid by U.S. residents to foreign carriers is included in passenger fare payments (line 24).

2.2 **Canada**

2.2.1 BEA uses estimates provided by Statistics Canada of U.S. residents' travel expenditures in Canada to measure U.S. travel payments to Canada. The estimates from Statistics Canada are derived from questionnaires completed by U.S. residents returning to the United States from Canada, from which average expenditures are developed and applied to the number of U.S. residents returning. Travel transactions between the United States and Canada include border transactions, which often result from trips of less than 24 hours.

2.3 **Mexico**

2.3.1 BEA uses estimates provided by the Bank of Mexico of U.S. residents' travel expenditures in Mexico to measure U.S. travel payments to Mexico. The Bank of Mexico provides U.S. travel payments separately for expenditures of U.S. travelers in the interior of Mexico and in the Mexican border area. Expenditures in the border area often result from trips of less than 24 hours. The estimates from the Bank of Mexico are derived from questionnaires completed by U.S. residents returning to the United States from Mexico, from which average expenditures are developed and applied to the number of U.S. residents returning.

Table 4. U.S. Travel Receipts and Payments, by Areas and Countries, 2009 (Line 6 and Line 23)

[Millions of dollars]

	Receipts	Payments
Total	**93,917**	**73,230**
Europe	29,376	20,721
European Union	26,674	18,453
United Kingdom	8,753	4,365
Euro area	15,411	12,681
Germany	4,434	2,382
France	3,193	2,256
Canada	12,819	5,909
Latin America and Other Western Hemisphere	23,195	23,565
Mexico	5,991	8,867
Asia and Pacific	24,309	17,069
Japan	9,483	3,570
Middle East	2,726	2,671
Africa	1,492	3,295

Passenger Fares

In this section:

Coverage and definitions

The passenger fare accounts (lines 7 and 24) cover fares paid by residents of one country to airline and vessel operators (carriers) resident in other countries (see table 5). Receipts consist of fares received by U.S. air carriers from foreign residents for travel between the United States and foreign countries and between two foreign points. Payments consist of fares paid by U.S. residents to foreign air carriers for travel between the United States and foreign countries. The passenger fare accounts exclude expenditures for local transportation in the country of travel; these expenditures are included in the travel accounts (lines 6 and 23).

Estimation methods overview

For airfare receipts from and airfare payments to countries and areas other than Canada, BEA multiplies data on the number of travelers by estimates of average fares. Numbers of travelers are obtained from U.S. immigration authorities. Average fares are obtained from surveys of travelers. For airfare receipts from and airfare payments to Canada, BEA uses data provided by Statistics Canada.

1 **U.S. Receipts** (line 7)

1.1 **Overseas countries and Mexico**

1.1.1 BEA estimates air passenger fare receipts from overseas countries and Mexico by multiplying the number of foreign residents arriving in and departing from the United States on U.S. carriers by estimates of average airfares. The number of foreign residents visiting the United States is based on data collected by the Department of Homeland Security (DHS), Office of Immigration Statistics on its I–94 form. The I–94 data include the number of foreign residents arriving in the United States by country of residence. However, the I–94 data do not identify whether the foreign residents arrive on U.S. carriers or on foreign carriers. Therefore, BEA calculates the percentage of foreign residents arriving in the United States on U.S. air carriers using data collected by the DHS from its Advance Passenger Information System (APIS) and published by the Office of Travel and Tourism Industries (OTTI), International Trade Administration (ITA), U.S. Department of Commerce, in its U.S. International Air Travel Statistics report. The APIS data measure the number of U.S. citizen and alien arrivals to the United States on U.S. carriers. The percentages calculated by BEA from this other data set are applied to the I–94 data on numbers of travelers, for each of the balance of payments areas and countries, to derive the number of foreign residents traveling to the United States on U.S. carriers.

1.1.2 Average round trip passenger fares are estimated for each of the balance of payments areas and countries using data collected by the OTTI through its survey of international air travelers, the Survey of International Air Travelers (SIAT). The survey is conducted either in the gate area at airports or aboard a sample of scheduled flights departing the United States. More than 70 U.S. and foreign carriers, which account for more than 95 percent of the international travel market, participate in the survey. Sample results are expanded to universe estimates to account for nonresponse of passengers on each sampled flight, for coverage of all flights on each major airline route, and for all international routes. The expansion factor is based on the total number of passengers arriving in the United States, which is collected by the DHS. Average fares on both U.S. and foreign airlines must be combined in order to develop a reliable measure of average passenger fares, even though, in principle, only the average fare on U.S. airlines should be used in the estimates.

1.1.3 Also included in this account are receipts of U.S. air carriers for transporting passengers between two foreign points and from interline settlements. Interline settlements occur when foreign residents purchase tickets on foreign airlines and transfer to U.S. airlines to reach their final destinations. Estimates for both of these items are based on data obtained from BEA's quarterly BE–37 survey of U.S. airlines, "U.S. Airline Operators' Foreign Revenues and Expenses."

1.2 **Canada**

1.2.1 Passenger fare receipts of U.S. air carriers from Canadian residents are provided by Statistics Canada; the data are based on average passenger fares and the number of Canadian residents returning to Canada from the United States.

2 **U.S. Payments** (line 24)

2.1 **Overseas countries and Mexico**

2.1.1 BEA estimates air passenger fare payments to overseas countries and Mexico by multiplying the number of U.S. residents arriving in and departing from the United States on foreign carriers by estimates of average airfares. The number of U.S. residents traveling to overseas countries and Mexico on foreign carriers is based on data collected by the DHS in its APIS report and published by the OTTI in its U.S. International Air Travel Statistics report. The APIS data include the number of U.S. citizens departing the United States by country or area of debarkation.

2.1.2 Average round trip passenger fares are estimated on the basis of the OTTI Survey of International Air Travelers described in paragraph 1.1.1. Average fares on both U.S. and foreign airlines must be combined in order to develop a reliable measure of average passenger fares, even though, in principle, only the average fare on foreign airlines should be used in the estimates.

2.1.3 Also included in this account are U.S. payments to foreign air carriers for interline settlements. Interline settlements occur when U.S. residents purchase tickets on U.S. airlines and transfer to foreign airlines to reach their final destinations. Estimates of interline settlements are based on data obtained from BEA's quarterly BE–37 survey of U.S. airlines, "U.S. Airline Operators' Foreign Revenues and Expenses."

2.2 **Canada**

2.2.1 Passenger fare payments from U.S. residents to Canadian air carriers are provided by Statistics Canada; the data are based on average passenger fares and the number of U.S. residents returning to the United States from Canada.

Table 5. U.S. Passenger Fare Receipts and Payments, by Areas and Countries, 2009 (Line 7 and Line 24)

[Millions of dollars]

	Receipts	Payments
Total	**26,424**	**25,980**
Europe	8,654	11,616
European Union	7,798	10,708
United Kingdom	2,676	3,417
Euro area	4,627	6,750
Germany	1,138	2,258
France	926	1,384
Canada	3,313	316
Latin America and Other Western Hemisphere	7,434	3,160
Mexico	2,055	702
Asia and Pacific	6,183	8,616
Japan	3,566	1,268
Middle East	375	1,757
Africa	465	515

Other Transportation

In this section:

Coverage and definitions

The transportation accounts (lines 8 and 25) cover U.S. international transactions arising from the transportation of goods by ocean, air, land (truck and rail), pipeline, and inland waterway carriers to or from the United States, and from space transport, such as the launching of space satellites (see table 6). The accounts cover freight charges for transporting exports and imports and cover operating expenses that transportation companies incur in foreign ports. The accounts exclude passenger fare receipts and payments, which are covered in the passenger fare accounts (lines 7 and 24), freight insurance receipts and payments, which are covered in the other private services accounts (lines 10 and 27), and petroleum sales and purchases in ports, which are covered in the goods accounts (lines 3 and 20).

Freight charges are recorded in the U.S. international transactions accounts when shipping services are performed by the residents of one country for residents of other countries. A key convention in estimating U.S. freight receipts and payments is the assumption that shipping services performed on a country's goods exports beyond its borders are services performed for the importing country. Thus, freight charges for transporting U.S. exports are included in the U.S. international transactions accounts as freight receipts if the carriers are U.S. residents; if the carriers are foreign residents, the charges are excluded because the transactions are deemed to be between foreign residents. Similarly, freight charges for transporting U.S. imports are included in the U.S. international transactions accounts as freight payments if the carriers are foreign residents; if the carriers are U.S. residents, the freight charges are excluded because the transactions are deemed to be between U.S. residents.

Port services receipts are the value of the goods and services procured by foreign carriers in U.S. ports (excluding purchases of fuel, which are included in the goods exports account); *port services* payments are the value of goods and services procured by U.S. carriers in foreign ports (excluding purchases of fuel, which are included in the goods imports account).

In estimating ocean freight and port services, the residency of the vessel operator must be determined because it may differ from the country of registry (flag) of the vessel or the residency of the vessel's

Table 6. Other U.S. Transportation Receipts and Payments, 2009 (Line 8 and Line 25)
[Millions of dollars]

	Receipts	Payments
Total	**35,406**	**41,586**
Freight	**17,247**	**29,341**
Ocean	3,244	21,633
Air	10,569	4,687
Truck	1,393	2,486
Rail	1,268	268
Space	439	240
Pipeline	328	....
Great Lakes	6	27
Port services	**18,159**	**12,245**
Ocean	10,335	1,554
Air	7,554	10,638
Rail	244	52
Great Lakes	26	1

owner. For example, many tankers are registered in flag-of-convenience countries such as Panama, Liberia, and Honduras, but are operated by U.S. companies either directly or indirectly through foreign shipping subsidiaries. For direct operation, the foreign-flag U.S.-operated (FUSO) vessels are treated as U.S. residents. For indirect operation, the shipping subsidiaries are treated as foreign residents.

Estimation methods overview

The primary sources of information are four mandatory BEA surveys of U.S. and foreign air and ocean carriers; Census Bureau data on U.S. exports and imports by air; and U.S. Army Corps of Engineers (USACE) data on U.S. exports and imports by water. Three of the BEA surveys are quarterly (U.S. ocean and air carriers and foreign air carriers) and one is annual (foreign ocean carriers). The Census Bureau data and the USACE data are monthly. A variety of methods are used to estimate the transactions covered by the components of the transportation accounts. For some components, the transactions are available from a primary data source, such as a BEA survey. For most components, however, transactions are estimated using multistep methods that include, for example, multiplying the volume of goods transported, based on information from the Census Bureau or USACE, by estimates of freight rates derived from BEA surveys.

1 **U.S. Receipts** (line 8)

1.1 **Freight receipts**

1.1.2 Ocean

1.1.2.1 These receipts measure revenues of U.S. vessel operators for transporting U.S. goods exports from the United States to foreign ports and for transporting goods between foreign ports. The primary sources of information are USACE data on U.S. waterborne exports and BEA's quarterly BE–30 survey "Ocean Freight Revenues and Foreign Expenses of U.S. Ocean Carriers."

1.1.2.2 For U.S. waterborne exports, USACE provides BEA with data on the tonnages transported and the residency of the vessel operator. USACE export data cover both U.S.-flag and foreign-flag vessels providing liner, tanker, and tramp services.

1.1.2.3 The BE–30 survey covers revenues from the transportation of U.S. exports and imports, revenues from the transportation of cargo between foreign ports, expenses incurred by U.S. ocean carriers (both U.S.-flag and foreign-flag vessels) in foreign countries, and charter-hire with crew and space-leasing transactions with foreign residents. All U.S. ocean carriers that have annual revenues or expenses of $500,000 or more in the calendar year are required to report. Other data sources include the Department of Agriculture's P.L. 480 report on subsidies for grain shipments under U.S. government foreign aid programs, the Baltic International Tanker Route Index, and the Baltic Dry Index.

1.1.2.4 Receipts of U.S. vessel operators for carrying U.S. exports are estimated in three steps. First, USACE data on export tonnages carried by U.S.-flag vessels, for each type of service (liner, tanker, and tramp), are multiplied by corresponding freight rates. Freight rates for liner services are estimated using revenue and tonnage data from the BE–30 survey. Freight rates for tanker services are based on the Baltic International Tanker Route Index, an index of global rates in the tanker shipping market. Freight rates for tramp services are based on the Baltic Dry Index, an index of global rates in the dry bulk shipping market. Second, estimates of the export tonnages carried by foreign-flag U.S.-operated (FUSO) vessels, for each type of service, are multiplied by corresponding freight rates; these freight rates are derived from the same sources used to derive the freight rates of U.S.-flag vessels. Third, an adjustment is made to exclude subsidies paid by the U.S. government to U.S. operators of vessels carrying grain under foreign aid programs. Information on subsidies is obtained from monthly reports of the P.L. 480 Operations Division, U.S. Department of Agriculture. Receipts of U.S. vessel operators for carrying U.S. exports equals the sum of the revenues earned by U.S.-flag and FUSO vessels, less the subsidies paid by the U.S. government for P.L. 480 grain shipments.

1.1.2.5 Receipts of U.S.-operated vessels for carrying goods between foreign ports are obtained directly from the BE–30 survey.

1.1.2.6 Also included in ocean freight receipts are receipts of U.S. vessel operators from foreigners for operating leases of transportation equipment with crew for limited periods of time (such as a single voyage) for the carriage of freight and passengers. These receipts are reported in the BE–30 survey. Receipts for the rentals of transportation equipment without crew are included in other private services (line 10). Items exported under financial (capital) lease arrangements are included in goods exports (line 3).[1]

1.1.3 Air

1.1.3.1 These receipts measure revenues of U.S. air carriers for transporting U.S. exports from the United States to foreign points and for transporting goods between foreign points. The primary sources of information are BEA's quarterly BE–37 survey, "U.S. Airline Operators' Foreign Revenues and Expenses" and the Census Bureau's monthly air export tonnage data. The BE–37 survey covers U.S. air carriers' revenues for transporting U.S. exports to foreign points and for transporting freight between foreign points, expenses incurred by U.S. airline operators in foreign countries, and aircraft leasing expenses. All U.S. airline operators that have annual foreign revenues and expenses of $500,000 or more are required to report. BEA uses transport tonnage information in the Census Bureau's air export data to distribute total U.S. air carriers' revenues to each of the balance of payments areas and countries. As of June 2011, beginning with estimates for 1999, receipts by the U.S. Postal Service from foreigners for postal services (largely air transportation services) are included indistinguishably with other air transportation services receipts; previously, U.S. Postal Service receipts were included in U.S. Government Miscellaneous Service Receipts (line 11).

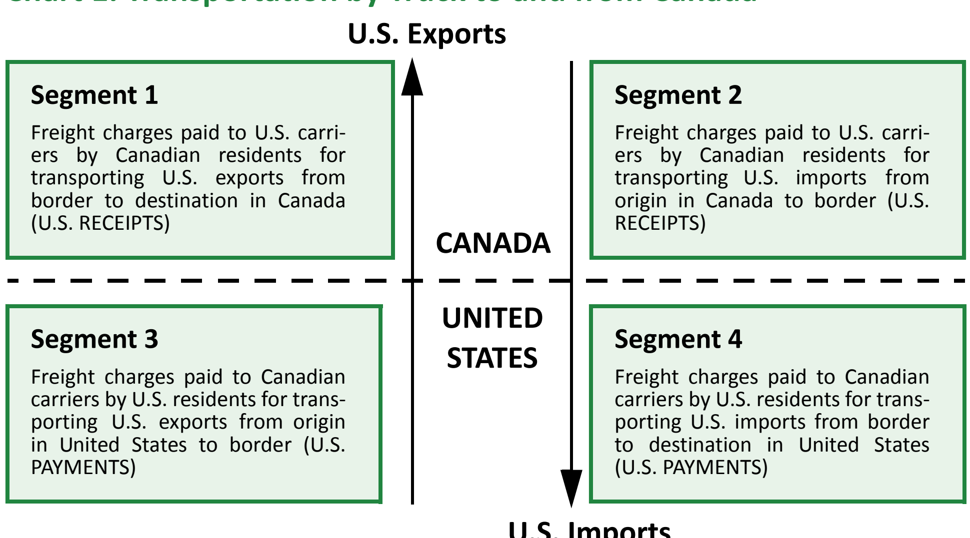
1.1.4 Truck

1.1.4.1 These receipts measure revenues of U.S. truck carriers for transporting U.S. exports from the U.S.-Canadian border to points in Canada and for transporting U.S. imports from points in Canada to the U.S.-Canadian border. Chart 1 presents the conceptual model used to prepare the estimates and illustrates how the estimates are constructed from source data. Freight charges paid to U.S. carriers by Canadian residents (U.S. receipts) are depicted in segments 1 and 2. By convention, it is assumed that the importer pays the freight charges for transportation services from the border to the destination and that the exporter pays the freight charges for transportation services from the point of origin to the border. This convention is adopted by international balance-of-payments compilers to avoid double-counting or misclassifying certain freight charges, that, according to balance-of-payments accounting principles, are included in the value of the goods.

1.1.4.2 Each segment depicted in Chart 1 requires a separate estimation methodology because of the varied nature of the source data. For revenues earned by U.S. carriers for transporting U.S. imports from the

1. A lease is classified as a financial (or capital) lease if the lessor expects to recover all or nearly all of the cost of the item plus interest and profit; the lessee may or may not take possession of the leased item in the future. Items exported or imported under financial lease arrangements are included in the goods accounts because ownership of the item is assumed to change, de facto, from the lessor to the lessee. If the intent is to lease the item for a limited period, after which it is to be returned to the lessor, it is classified as an operating lease and is included in the services accounts.

Chart 1. Transportation by Truck to and from Canada



U.S. Bureau of Economic Analysis

point of origin in Canada to the border (segment 2), data are available that directly measure combined freight receipts of U.S. and Canadian carriers; the data are based on U.S. customs documents and are obtained from the Bureau of Transportation Statistics (BTS), U.S. Department of Transportation. These receipts are multiplied by an estimate of U.S. carriers' share of the market to determine receipts to U.S. carriers.

1.1.4.3 For revenues earned by U.S. carriers for the transportation of U.S. exports from the border to their destination in Canada (segment 1), no data are available that directly measure freight receipts. BEA estimates these receipts by first identifying major trucking routes between the United States and Canada and estimating the average estimated distances traveled on these routes. Then, estimates of freight receipts for the entire trip, based on data from the BTS, are multiplied by an estimate of the portion of the trip that occurs in Canada to determine total receipts to U.S. carriers. A small adjustment is made to segments 1 and 2 to account for U.S. carriers' receipts for transporting goods between two points in Canada and for transporting goods from third countries through the United States to Canada for Canadian residents. Regulations restrict U.S. carriers from transporting goods between two points in Canada, but it is likely that a small amount of this activity exists.

1.1.5 Rail

1.1.5.1 These receipts measure revenues of U.S. rail carriers for transporting (1) Canadian exports to, and imports from, third countries through the United States; (2) U.S. exports from the U.S. customs frontier to interior destinations or to other rail connections in Canada; (3) goods within Canada transported on the U.S. rail carriers' leased trackage in Canada; and (4) foreign-owned goods through the United States en route to another foreign country. Quarterly estimates of receipts for the first three items are interpolated from annual revenue data submitted to BEA by U.S. rail carriers operating in Canada. Estimates of receipts for transporting foreign-owned goods through the United States are based on data obtained from the U.S. Surface Transportation Board, U.S. Department of Transportation.

1.1.6 Space

1.1.6.1 These receipts measure revenues of U.S. launch service providers for launching foreign-operated satellites into space and for transporting foreign residents to the international space station. The primary data source is the Federal Aviation Administration's "Semi-Annual Launch Report."

1.1.7 Pipeline

1.1.7.1 These receipts measure revenues of U.S.-incorporated affiliates of Canadian pipeline companies for transporting oil and gas, unloaded from tankers in Portland, Maine, to destinations in Canada. Transportation of oil en route from one Canadian point to another through pipelines across the northeast region of the United States is also included. Data are obtained each quarter from the U.S. affiliates of Canadian companies that provide such services.

1.1.8 Great Lakes

1.1.8.1 These receipts measure revenues of U.S. vessel operators for transporting U.S. exports from U.S. ports in the Great Lakes to Canadian ports in the Great Lakes. Receipts are calculated by multiplying export tonnages by estimates of average freight rates. Data on export tonnages are obtained, by type of shipping service, from USACE export data. Average freight rates are derived from the BE–30 survey.

1.2 **Port services receipts**

1.2.1 Ocean

1.2.1.1 These receipts measure foreign vessel operators' expenditures in the United States. Expenditures include port call expenses (pilotage, towing, tugboat), cargo handling expenses (stevedoring, container and barge rentals, warehousing), and other expenses (stores, supplies, personnel expenses, agents' and brokers' fees, maintenance of offices). Receipts from sales in the United States, which are paid for abroad, are also included. The primary sources of information are BEA's annual BE–29 survey, "Foreign Ocean Carriers' Expenses in the United States," and USACE's data on U.S. waterborne exports and U.S. waterborne imports. The BE–29 survey covers the expenses incurred by foreign ocean carriers (both those that own and operate vessels and those that operate chartered U.S.-flag and foreign-flag vessels) in U.S. ports. These carriers include foreign affiliates of U.S. companies that operate vessels for their own accounts. All U.S. agents who handle 40 or more port calls by foreign vessels or that have total expenses of $250,000 or more in the calendar year are required to report.

1.2.1.2 Expense rates per ton are developed from the data reported on the BE–29, for each type of port expense. Estimates of total port expenses are calculated by multiplying the average expense per ton by the shipping weight of the U.S. export and import freight handled by the foreign carriers, and summing the results. The estimate of the shipping weight of the freight is based on USACE data on exports and imports carried on foreign-operated vessels. Quarterly estimates of ocean port services receipts are derived by distributing the annual total according to the shipping weights of exports and imports reported in the USACE data.

1.2.1.3 Beginning with statistics for 1999, receipts from foreign vessel operators' expenditures in the United States exclude receipts from U.S. sales of fuel to foreign vessel operators. Receipts from these sales are included in goods exports (line 3) along with other exports of petroleum and petroleum products; petroleum purchased in the United States, but paid for abroad, is included in these receipts. Receipts from the sale of fuel are obtained directly from the Census Bureau's monthly bunker fuel report.

1.2.2 Air

1.2.2.1 These receipts measure foreign air carriers' expenditures in the United States for wages paid to employees in the United States, agents' and brokers' fees, aircraft repair and maintenance, terminal services and maintenance, and other expenses, such as landing fees, catering, and administrative and other office expenses. Receipts from sales in the United States, which are paid for abroad, are also included. The source of information is BEA's quarterly BE–9 survey, "Foreign Airline Operators' Revenues and Expenses in the United States." The BE–9 survey covers the expenses incurred by foreign airline operators in the United States and the revenues of foreign airline operators for transporting freight to and from the United States. All U.S. offices, agents, or other representatives of foreign airlines that have annual revenues or expenses of $5,000,000 or more are required to report.

1.2.2.2 Beginning with statistics for 1999, receipts from foreign air carriers' expenditures in the United States exclude receipts from U.S. sales of fuel to foreign airline operators. Receipts from these sales are included in goods exports (line 3) along with other exports of petroleum and petroleum products; petroleum purchased in the United States, but paid for abroad, is included in these receipts. Foreign air carriers' fuel expenditures in the United States are reported on the quarterly BE–9 survey.

1.2.3 Rail

1.2.3.1 These receipts measure Canadian rail carriers' expenditures in the United States for maintenance, repair, and other supplies. Annual estimates are obtained from Statistics Canada. Quarterly estimates are derived by distributing the annual total evenly across quarters.

1.2.4 Great Lakes

1.2.4.1 These receipts measure Canadian vessel operators' expenditures in U.S. ports in the Great Lakes. Quarterly estimates are estimated by multiplying USACE export and import tonnages transported on Canadian operated vessels by a percentage of the BE–29 derived port rates.

2 **U.S. Payments** (line 25)

2.1 **Freight payments**

2.1.2 Ocean

2.1.2.1 These payments measure revenues of foreign vessel operators for transporting U.S. goods imports from foreign ports to U.S. ports. The primary source of information is USACE's data on U.S. waterborne imports, which includes ocean freight and insurance payments, shipping weights, and the customs value of imports by type of service (liner, tanker, and tramp), by flag of vessel, and by residency of operator. An estimate of insurance payments is removed from the USACE import data and included in other private services payments (line 27).

2.1.2.2 Also included in ocean freight payments are payments by U.S. vessel operators to foreign residents for operating leases of transportation equipment with crew for limited periods of time (such as a single voyage) for the carriage of freight and passengers. These payments are reported in BEA's BE–30 survey. Payments for the rentals of transportation equipment without crew are included in other private services (line 27). Items imported under financial lease arrangements are included in goods imports (line 20).[2]

2.1.3 Air

2.1.3.1 These payments measure revenues of foreign air carriers for transporting U.S. imports from foreign countries to U.S. ports. The primary source of information is the Census Bureau's monthly data on U.S. imports by air, which include freight and insurance charges by residency of operator. An estimate of insurance payments is removed from the Census air import data and included in other private services payments (line 27). As of June 2011, beginning with estimates for 1999, payments by the U.S. Postal Service to foreigners for postal services (largely air transportation services) are included indistinguishably with other air transportation services payments; previously, U.S. Postal Service payments were included in U.S. Government Miscellaneous Service Payments (line 28).

2.1.4 Truck

2.1.4.1 These payments measure revenues of Canadian truck carriers for transporting U.S. exports from points inside the United States to the U.S.-Canadian border and for transporting U.S. imports from the U.S.-Canadian border to points inside the United States. Chart 1 presents the conceptual model used to prepare the estimates and illustrates how the estimates were constructed from source data. Freight charges paid to Canadian carriers by U.S. residents (U.S. payments) are depicted in segments 3 and 4. By convention, it is assumed that the importer pays the freight charges for transportation services from the border to the destination and that the exporter pays the freight charges for transportation services from the point of origin to the border. This convention is adopted by international balance-of-payments compilers to avoid double-counting or misclassifying certain freight charges, that, according to balance-of-payments accounting principles, are included in the value of the goods.

2.1.4.2 Each of the segments depicted in Chart 1 requires a separate estimation methodology because of the varied nature of the source data. For revenues earned by Canadian carriers for transporting U.S. exports from the point of origin in the United States to the border (segment 3), no data are available that directly measure freight payments. BEA estimates these payments by first identifying major trucking routes between Canada and the United States and estimating the average distances traveled on these routes. Then, BEA multiplies an estimate of payments for the entire trip, based on data from the Bureau of Transportation Statistics (BTS), U.S. Department of Transportation, by an estimate of the portion of the trip that occurs in the United States. These payments are multiplied by an estimate of Canadian carriers' share of the market to determine total payments to Canadian carriers.

2.1.4.3 For revenues earned by Canadian carriers for transporting U.S. imports from the border to their points of destination in the United States (segment 4), no data are available that directly measure freight payments. BEA estimates these payments by first identifying major trucking routes between Canada and the United States and estimating the average distances traveled on these routes. Then, freight payments are estimated by multiplying the reported charges from segment 2 (see paragraph 1.1.4.2), by the ratio of the estimated distances traveled in the United States to the estimated distances traveled in Canada on these routes. These payments are then multiplied by an estimate of the Canadian carriers' share of the market to determine total payments to Canadian carriers. A small adjustment is made to segments 3 and 4 to account for Canadian carriers' receipts for transporting goods between two points in the United States, and for transporting goods from third countries through Canada to the United States for U.S. residents. Regulations restrict foreign carriers from transporting goods between two points in the United States, but it is likely that a small amount of this activity exists.

2.1.5 Rail

2.1.5.1 These payments measure revenues of Canadian rail carriers for transporting U.S. imports from third countries through Canada and U.S. goods through Canada en route from one U.S. point to another. Quarterly estimates are based on data from Statistics Canada.

2.1.6 Space

2.1.6.1 These payments measure revenues of foreign launch service providers for launching U.S.-operated satellites into space and for transporting U.S. residents to the international space station. The

2. A lease is classified as a financial (or capital) lease if the lessor expects to recover all or nearly all of the cost of the item plus interest and profit; the lessee may or may not take possession of the leased item in the future. Items imported or exported under financial lease arrangements are included in the goods accounts because ownership of the item is assumed to change, de facto, from the lessor to the lessee. If the intent is to lease the item for a limited period, after which it is returned to the lessor, it is classified as an operating lease and is included in the services accounts.

primary data source is the Federal Aviation Administration's "Semi-Annual Launch Report."

2.1.7 Great Lakes

2.1.7.1 These payments measure revenues of Canadian vessel operators for transporting U.S. imports from Canadian ports in the Great Lakes to U.S. ports in the Great Lakes. Data on freight charges are obtained from USACE's import data.

2.2 **Port services payments**

2.2.1 Ocean

2.2.1.1 These payments measure U.S. vessel operators' expenditures in foreign ports. Expenditures include port call expenses (pilotage, towing, tugboat), cargo expenses (stevedoring, container and barge rentals, warehousing), and other expenses (stores, supplies, advances in foreign ports of wages to crew members, agents' and brokers' fees, maintenance of offices). Expenditures incurred abroad, but paid for in the United States, are also included. Sources of information are USACE's U.S. waterborne exports and U.S. waterborne imports and BEA's quarterly BE–30 survey. Quarterly estimates are derived by multiplying the export and import tonnages carried by U.S. vessel operators, by type of service (liner, tanker, tramp), by an average rate of port expenditures per ton. Export and import tonnages include tonnage carried by U.S.-flag vessels and by foreign-flag U.S.-operated (FUSO) vessels. Average port expenditure rates are derived from data collected in the BE–30 survey.

2.2.1.2 Beginning with statistics for 1999, payments for U.S. vessel operators' expenditures in foreign ports exclude purchases of fuel by U.S. vessel operators. Purchases of fuel are included in goods imports (line 20) along with other imports of petroleum and petroleum products; petroleum purchased abroad, but paid for in the United States, is included in these expenditures. Payments for purchases of fuel abroad are not reported separately on BEA's survey; they are estimated by multiplying total operators' expenditures in foreign ports (which are reported on the survey) by the ratio of fuel receipts to total receipts obtained from foreign ocean carriers' expenditures in U.S. ports.

2.2.2 Air

2.2.2.1 These payments measure U.S. air carriers' expenditures abroad for wages paid to crew members abroad, agents' and brokers' fees, aircraft repair and maintenance, terminal services and maintenance, and other expenses, such as landing fees, catering, and administrative and other office expenses. Expenditures incurred outside the United States are included regardless of whether paid in the United States or not. The source of this information is BEA's quarterly BE–37 survey.

2.2.2.2 Beginning with statistics for 1999, payments for U.S. air carriers' expenditures in foreign ports exclude purchases of fuel in foreign ports. Purchases of fuel are included in goods imports (line 20) along with other imports of petroleum and petroleum products; petroleum purchased abroad, but paid for in the United States, is included in these expenditures. Payments for purchases of fuel abroad are not reported separately on BEA's survey; they are estimated by multiplying total operators' expenditures in foreign ports (which are reported on the survey) by the ratio of fuel receipts to total receipts obtained from foreign air carriers' expenditures in U.S. ports.

2.2.3 Rail

2.2.3.1 These payments measure U.S. rail carriers' expenditures in Canada for maintenance, repair, and other supplies. Annual estimates are obtained from Statistics Canada. Quarterly estimates are derived by distributing the annual total evenly across quarters.

2.2.4 Great Lakes

2.2.4.1 These payments measure U.S. vessel operators' expenditures in Canadian ports in the Great Lakes. Estimates are based on the tonnage of U.S. exports and imports carried on U.S.-operated vessels, obtained from USACE's U.S. waterborne export data and import data, multiplied by an average rate of port expenditures per ton, obtained from BEA's BE–30 survey.

Royalties and License Fees

In this section:

Coverage and definitions

The royalties and license fees accounts cover transactions with foreign residents in rights to various types of intellectual property not included elsewhere in the accounts.

Estimation methods overview

Data are reported on BEA's quarterly and benchmark surveys of services.

1 **U.S. Royalties and License Fees Receipts** (line 9)

2 **U.S. Royalties and License Fees Payments** (line 26)

1.1 The royalties and license fees accounts (lines 9 and 26) cover transactions in rights to various types of intellectual property not included elsewhere in the accounts (see table 7). Transactions in rights broadly cover charges for the use of proprietary rights, charges to distribute and reproduce, and sales and purchases of ownership rights.

1.2 Charges for the use of intellectual property include (a) charges for the use of proprietary rights (such as patents, trademarks, copyrights, industrial processes and designs including trade secrets, and franchises). Transactions in these rights may arise from research and development as well as marketing.

1.3 Also included are (b) charges for licenses to distribute and reproduce (or both) intellectual property embodied in produced originals or prototypes (such as copyrights on books and manuscripts, computer software, and sound recordings) and related rights (such as for live performances and television, cable, or satellite broadcasts).

1.4 (c) If there are outright sales or purchases of ownership rights to intellectual property, the sales and purchases should be entered in the appropriate subcomponent of business, professional, and technical services (lines 10 and 27). Sales and purchases of the outcomes of research and development should be entered in the research and development component of business, professional, and technical services. Exceptions are sales and purchases of franchises or trademarks, which should be entered in the capital account (line 39).

1.5 At the present time, source data are not available that distinguish between charges for the use of proprietary rights, charges to distribute and reproduce, and sales and purchases of ownership rights. Therefore, the three types of transactions are presented as a single category in the royalties and fees account, where they are presumed to reflect mainly rights to reproduce and distribute intellectual property.

1.6 Receipts and payments for use, for reproduction and distribution, and for sales and purchases currently include those related to industrial processes and products; general use computer software; trademarks; franchise fees; books, compact discs, audio tapes; broadcasting and recording of live performances and events; and other intangibles. Also included, as of June 2011, beginning with estimates for 1999, are film and tape rentals, which are reclassified within services to royalties and license fees receipts and renamed distribution rights for film and television recordings; previously, they were included in other private services (lines 10 and 27).

1.7 Reported values include U.S. withholding taxes or foreign withholding taxes. An entry in the current unilateral transfers account records, as an offset, the amount of taxes withheld by the U.S. or foreign government.

1.8 Quarterly and benchmark survey data are collected by type of affiliation as well as by type of service. For exports, sales are the sum of unaffiliated receipts and affiliated receipts (by U.S. parents from their foreign affiliates[1] and by U.S. affiliates from their foreign parent groups[2]). For imports, purchases are the sum of unaffiliated payments and affiliated payments (by U.S. parents to their foreign affiliates and by U.S. affiliates to their foreign parent groups). The estimates are based primarily on the books of the U.S. parent or the books of the U.S. affiliate of a foreign parent or U.S. member of a foreign parent group. These data are reported on BEA's surveys of services transactions.

1. The term "affiliated" refers to a direct investment relationship, which exists when a U.S. person has ownership or control, directly or indirectly, of 10 percent or more of a foreign business enterprise's voting securities or equivalent, or when a foreign person has a similar interest in a U.S. business enterprise.

2. The term "foreign parent group" is defined as (1) the foreign parent, (2) any foreign person, proceeding up the foreign parent's ownership chain, that owns more than 50 parent of the foreign person below it, up to and including the ultimate beneficial owner, and (3) any foreign person, proceeding down the ownership chain(s) of each of these members, that is owned more than 50 percent by the person above it.

Table 7. U.S. Royalties and License Fees Receipts and Payments, 2009 (Line 9 and Line 26)

[Millions of dollars]

	Receipts	Payments
Total	**89,791**	**25,230**
By affiliation:		
Unaffiliated	30,974	6,880
Affiliated	58,817	18,350
By U.S. parents from their foreign affiliates	55,430	....
By U.S. affiliates from their foreign parent groups	3,387	....
By U.S. parents to their foreign affiliates	....	4,507
By U.S. affiliates to their foreign parent groups	....	13,843
By type of intangible asset:		
Industrial processes	35,630	16,464
General use computer software	36,030	5,004
Trademarks	11,638	2,400
Franchise fees	4,316	195
Broadcasting and recording of live events	588	234
Books, records, and tapes	1,479	798
Other intangibles	110	135

Other Private Services

In this section:

Coverage and definitions

Other private services (lines 10 and 27) consist of all private services other than travel, passenger fares, other transportation, and royalties and license fees. The estimates are grouped by major service types—education, financial services, insurance services, telecommunications services, business professional and technical services, and other services (see table 8). The estimates for these services, except education, are based primarily on several surveys conducted by BEA. Education services are based primarily on private and government surveys of colleges and universities.

Estimation methods overview

BEA's other private services surveys cover a wide range of service activities. Both quarterly and benchmark surveys are conducted. Most business, professional, and technical services, and transactions in intellectual property rights, are collected on a BEA survey which captures receipts and payments for more than 30 types of services. For the quarterly survey, threshold reporting requirements are $6 million for receipts and $4 million for payments. The lower threshold for payments reflects the lower average size of purchases than of sales. Surveys of financial services and insurance services require separate surveys because of the specialized nature of these industries and their activities. Quarterly threshold reporting levels for financial services are $20 million for receipts and $15 million for payments, and for insurance services are $2 million for both receipts and payments. Reporting on the quarterly surveys is mandatory. Mandatory benchmark surveys with lower reporting thresholds are conducted every 5 years.

Data from the surveys are collected by type of affiliation as well as by type of service. For exports, sales are the sum of unaffiliated receipts and affiliated receipts[1] (of U.S. parents from their foreign affiliates and of U.S. affiliates from their foreign parent groups[2]). For imports, purchases are the sum of

1. The term "affiliated" refers to a direct investment relationship, which exists when a U.S. person has ownership or control, directly or indirectly, of 10 percent or more of a foreign business enterprise's voting securities or equivalent, or when a foreign person has a similar interest in a U.S. business enterprise.

2. The term "foreign parent group" is defined as (1) the foreign parent, (2) any foreign person, proceeding up the foreign parent's ownership chain, that owns more than 50 parent of the foreign person below it, up to and including the ultimate beneficial owner, and (3) any foreign person, proceeding down the ownership chain(s) of each of these members, that is owned more than 50 percent by the person above it.

unaffiliated payments and affiliated payments (by U.S. parents to their foreign affiliates and by U.S. affiliates to their foreign parent groups).

The presentation of exports and imports of services in the conventional sense—that is, services that cross borders—is supplemented by services supplied through the channel of direct investment by affiliates of multinational companies (MNCs). This approach recognizes the importance of proximity of customers in the delivery of services, which leads many MNCs to serve foreign markets, at least in part, through their affiliates that are located in, but owned outside of, the markets they serve. In recent years, the majority of services both supplied and obtained by the United States in international markets has been through affiliates. These data are obtained from a reporting system separate from the reporting system for cross-border transactions but are presented annually along side the cross-border data in order to achieve a complete picture of U.S. international sales and purchases of services. Only the cross-border data are used in the international transactions accounts.

1 **U.S. Other Private Services Receipts** (line 10)

2 **U.S. Other Private Services Payments** (line 27)

1.1 **Education**

1.1.1 ***Receipts.***—This item measures foreign students' education expenditures in the United States. Foreign students are defined as individuals enrolled in institutions of higher education in the United States who are not U.S. citizens, immigrants, or refugees. Data on the number of students are obtained from an annual survey of about 2,700 accredited U.S. institutions, conducted by the Institute for International Education (IIE). Characteristics of the population used in the estimates include the geographic area of origin (residence), type of institution (public or private), enrollment status (part-time or full-time), and academic level of institution (2 year, 4 year, or university).

1.1.2 Estimates of average expenditures for tuition and for room and board are developed from annual surveys of most U.S. accredited institutions conducted by the National Center for Education Statistics, U.S. Department of Education, and matched by BEA to the characteristics of the student population. Data on living expenses are based on Bureau of Labor Statistics, U.S. Department of Labor, estimates of low-income-level family budgets in metropolitan and nonmetropolitan areas, reduced to a single person, and adjusted for inflation each year. Estimates of foreign students' expenditures are made by multiplying the number of students by average expenditures.

1.1.3 Other transactions in the current account partly offset these receipts. Surveys of the foreign student population by IIE indicate that most of their education is financed from sources abroad. A small amount of their education, however, is financed from sources within the United States—through scholarships from colleges, universities, private corporations, or other nonprofit institutions. These U.S. payments to foreigners are entered in private remittances and other transfers (line 38). Financial contributions (grants) from the U.S. government are included in U.S. government grants (line 36), but are not separately identifiable. In addition, wages earned from employment, also developed from the IIE survey, are included in compensation payments (line 34).

1.1.4 ***Payments.***—This item measures U.S. students' expenditures abroad. Students consist of U.S. residents who receive academic credit for study abroad from an accredited institution of higher education in the United States, and students who enroll directly with foreign institutions, including medical students, and receive no academic credit from U.S. institutions. The total of U.S. students' expenditures abroad is the sum of the estimates for the two groups of students.

1.1.5 For students who receive academic credit from U.S. institutions, data on the number of students are obtained from an annual survey of about 1,300 U.S. institutions conducted by the Institute of International Education. Characteristics of the population used in the estimates include country of study, type of institution (public or private), and academic level of institution in the United States (2 year, 4 year, or university). Data do not include students who study abroad without receiving academic credit from a U.S. institution, or students enrolled for a degree overseas.

1.1.6 Student payments to U.S. colleges and universities for tuition and room and board are assumed to be forwarded to foreign institutions. Estimates of average expenditures for tuition and room and board are developed from an annual survey of most accredited U.S. institutions; the survey is conducted by the National Center for Education Statistics, U.S. Department of Education. Average living expenses are estimated by applying a ratio of U.S.-to-foreign living costs to the low-income-level family budget series developed for foreign students who study in the United States. Estimates of U.S. students' expenditures abroad are made by multiplying the number of students by average expenditures for tuition and room and board and for average living expenses.

1.1.7 For students who enroll directly in foreign institutions and receive no academic credit from U.S. institutions, supplemental estimates of education payments for the United Kingdom, Australia, Canada, and Ireland, based on national data from those countries, are used to capture U.S. students' expenditures.

1.2 **Financial services**

1.2.1 This item measures gross receipts and gross payments for financial services, primarily those for which an explicit commission or fee is charged; implicit fees for bond transactions are also included. Activities covered for which an explicit commission or fee is charged include (1) brokerage services related to equities, such as commissions and fees for executing orders to purchase or sell securities; (2) brokerage services for executing orders to purchase or sell forwards, futures, options, and swaps and other financial instruments, including brokerage of foreign currencies, whether conducted on organized exchanges, in over-the-counter markets, or over Internet and Electronic-communications networks; (3) underwriting and private placement services for both equities and bonds; (4) financial management fees for administering portfolios of cash, securities, financial derivatives, and other financial instruments; (5) credit-related services, except card services, such as for establishing and maintaining standby letters of credit, arranging mortgages, performing factoring services, issuing financial guarantees and loan commitments, and arranging or entering into financial lease contracts; (6) credit card services, such as transaction and service fees, interchange fees, and currency-conversion fees; (7) financial advisory and custody services, such as financial advisory services on mergers and acquisitions, commodity trading services, and custody services; (8) securities lending services; (9) electronic funds transfer services; and (10) other financial services, such as asset pricing services, check processing fees, and securities or futures clearing and settling services.

1.2.2 Gross receipts and payments for bonds are also included, but bonds are generally not traded on a commission or fee basis. Rather, receipts and payments on bond transactions are measured by the difference between bid and ask prices, based on market data from industry sources, multiplied by transactions volume.

1.2.3 Because of the high concentration of firms in the international financial services industry, not all of the individual categories presented above can be shown separately. The combined categories, which prevent disclosure of individual company information, are securities transactions (consisting of brokerage services and underwriting and private placement services); management and advisory transactions (consisting of financial management services and financial advisory and custody services); credit card and other credit-related transactions (consisting of credit card and other credit-related services); and other transactions (consisting of securities lending, electronic funds transfer, and other financial services).

1.2.4 Insurance services are excluded from this group of financial services; their estimation is presented in the following section.

1.3 **Insurance services**

This item measures insurance receipts and payments for both reinsurance and primary insurance. It consists predominantly of premiums, premium supplements in the form of investment income, and claims payable. A small amount is added to these estimates to cover auxiliary insurance services.

1.3.1 Premiums and investment income represent the inflow of resources to the insurance company, whereas the claims due are the resources payable to the policyholders. The margin between these inflows and outflows is the amount available to the insurance company to cover its costs and provide an operating surplus. The margin represents the value of insurance services provided.

1.3.2 While premiums and investment income usually exhibit relatively stable patterns from one quarter to the next, claims payable, which are subtracted from premiums and investment income, can exhibit considerable volatility from quarter to quarter. Thus, the resulting measure of insurance services (or output) can be erratic, or even negative in periods of catastrophic events. In such cases, a longer-term view of claims behavior is necessary.

1.3.3 In order to deal with fluctuating loss settlements, insurance services are measured as premiums less “normal” losses, where normal losses are inferred from the relationship between actual losses and premiums averaged over several years. This method approximates the process insurance companies use to set premiums. Insurance firms maximize expected profits by setting premiums that cover expected losses and other costs. In a practical sense, because no information is available on what companies expect, an indicator of expectations is employed. A readily available indicator is the average of past actual losses in relation to premiums.

1.3.4 ***Regular and catastrophic losses.***—Normal, or expected, losses are comprised of losses that occur regularly and a share of catastrophic losses that occur at infrequent intervals. Separate estimates are made for the two types of losses. For regularly occurring losses, the average of past actual losses in relation to premiums is calculated based on annual data averaged over a 6-year period using an arithmetic moving average. Catastrophic losses occur with much lower frequency than regularly occurring losses. Insurance companies realize and expect that catastrophes will occur occasionally and allow for this in setting premiums. Because the possibility of catastrophes is a part of insurance company plans, catastrophes do affect premiums, expectations of losses, and the volume of services. However, because catastrophic losses occur much less frequently than regularly occurring losses, they are assumed to affect loss expectations over a much longer time period. Catastrophic losses are added in equal increments to the estimate of regularly occurring losses over the 20 years following their occurrence to derive an estimate of normal losses. Thus, only a small fraction of catastrophic losses is factored into each year’s estimate of insurance services.

1.3.5 ***Offsetting entries.***—While this methodology reflects the widespread industry practice of setting premiums based on expected regularly occurring losses and expected catastrophic losses, total expected losses always differ from total actual losses, sometimes by large amounts. The amount of this difference, which reflects transfers between policyholders and insurance providers, must be entered with the opposite sign as an offset elsewhere in the accounts.

1.3.6 For regularly occurring losses, the difference between expected losses and actual losses is calculated each quarter and is entered in *unilateral current transfers.* This figure, which is normally positive, represents transfers from policyholders to insurance providers who hold the funds in reserve in anticipation of future losses. When negative, it represents a transfer from insurance providers to policyholders. The difference is calculated separately for insurance receipts and for insurance payments, and for reinsurance and for primary insurance. This treatment removes much of the volatility in the services accounts that can be caused by large swings in actual losses. These swings have little to do with the provision of insurance services, which are presumed to occur on a more or less regular basis.

1.3.7 For catastrophic losses, the full amount of the insured loss is entered as a transfer in the *capital account* in the quarter in which the event occurs. This amount is not included in the offset included in unilateral current transfers. This treatment considers the recovery of losses as an increase in financial assets, rather than an increase in current economic activity that would have been implied if it was combined with regular losses in unilateral current transfers. The treatment also removes a significant source of volatility in the current-account balance. The decision as to what constitutes a catastrophic loss is made on a case-by-case evaluation of each major event or insured loss.

1.3.8 ***Premium supplements.***—Insurance companies provide insurance services to policyholders through the pooling of risks, and they provide financial services through the investment of reserves. Earnings from the investment of reserves are deemed to be the property of policyholders and permit insurance companies to set premiums lower than if these reserves were not available as a source of income. To recognize this, these earnings are entered as an imputed component of insurance services, reflecting the view that the earnings are “paid” to policy holders in the form of lower premiums than would otherwise have been necessary. The offsets to these imputations are in other private income receipts (line 15) or other private income payments (line 32).

1.3.9 Estimates of insurance services are based on survey data and company reports. Separate calculations are prepared for reinsurance and primary insurance. A small amount is added to these estimates to cover auxiliary services such as agents’ commissions and insurance brokering and agency services. Most activity is in reinsurance where U.S. purchases from foreign reinsurance companies exceed by a large amount foreign purchases of reinsurance from companies in the United States. Many reinsurance transactions are concentrated in offshore financial centers and in a few large financial centers.

1.4 **Telecommunications services**

1.4.1 This item measures gross receipts and gross payments for international telecommunications services; transactions are separated into those with unaffiliated entities and affiliated entities. Included are receipts and payments for (1) message telephone services, telex, telegram, and other jointly provided basic services; (2) private leased channel services; (3) value-added services such as (a) electronic mail, voice mail, code and protocol processing, and management and operation of data networks, (b) facsimile services and video-conferencing, (c) Internet connections, including online access services, Internet backbone services, router services, and broadband access services, (d) business communication and paging services provided by satellite connection, (e) telephony, interactive voice response, virtual private networking, remote access services, and voice over internet protocol, and (f) other value-added (enhanced) services; (4) support services related to the maintenance and repair of telecommunications equipment and ground station services; and (5) reciprocal exchanges such as transactions involving barter.

1.5 **Business, professional, and technical services**

This item measures computer and information services (subdivided into computer and data processing services and into database and other information services); management and consulting services; research, development, and testing services; operational leasing services; and other business, professional, and technical services. The last category is subdivided into accounting, auditing, and bookkeeping services; advertising services; architectural, engineering, and other technical services; construction services; industrial engineering services; installation, maintenance, and repair of equipment services; legal services; medical services; mining services; sports and performing arts services; trade-related services; and training services.

1.5.1 Computer and information services includes both (a) computer and data processing services, such as data entry processing; computer systems analysis, design, and engineering; custom software and programming services; and (b) database and other information systems, such as the provision of business and economic database services, including business news, stock quotation, and financial information services; medical, legal, technical, demographic, bibliographic, and similar database services; general news services, such as those purchased from a news syndicate; and reservation services and credit reporting and authorization systems.

1.5.2 Management and consulting services includes management, consulting, and public relations services, and amounts received by a parent company from its affiliates for general overhead expenses related to these services.

1.5.3 Research, development, and testing services includes commercial and noncommercial research, basic and applied research, and product development services.

1.5.4 Operational leasing measures receipts and payments under operating leases of 1 year or less and net rent on operating leases of more than 1 year (for definition of an operating lease, see the chapter “Goods”). From the lessor’s viewpoint, total lease payments for operating leases consist of two components: (1) Net rent, which covers interest, administrative expenses, and profit, and (2) depreciation, which is a return of capital. For operating leases of 1 year or less, total lease payments—both net rent and depreciation—are included in the account. Depreciation is included here, rather than in the direct investment financial account, because it is considered part of rentals—a receipt for services rendered by, rather than a return of capital to, the lessor. For operating leases of more than 1 year, only net rent is included in the account; depreciation is included as an intercompany debt flow in the direct investment financial account.

1.5.5 Included in operational leasing are rentals for computer and data processing equipment, ships and aircraft without crew or operators, railway cars, containers, drilling rigs, and machinery and equipment.

1.5.6 Receipts and payments for installation, maintenance, alterations, and training, available from the BEA survey, are supplemented by data on repairs of equipment from the U.S. Census Bureau’s foreign trade data.

1.5.7 Receipts for construction services, mining services, and engineering, architectural, and surveying services are recorded net of goods exports from the United States associated with these services (which are included in goods exports) and net of outlays abroad for wages, services, materials, and other expenses. Payments for construction and related services are not recorded net of goods imports from abroad and net of outlays in the United States for wages, salaries, materials, and other expenses. These adjustments are believed to be small and therefore are not collected.

1.5.8 Medical services receipts measure medical services provided to foreign residents admitted to U.S. hospitals as inpatients, as well as to outpatients and to those who seek emergency room treatment. Receipts for inpatients are estimated based on a comprehensive 1995 BEA study, updated in 2005, that collected data on inpatient and outpatient headcounts with associated actual charges for staff physicians’ fees, tests, drugs, and room and board as obtained from state regulatory agencies, hospital administrators, university hospitals, and hospitals in major foreign visitor destinations. Outpatient prescription and nonprescription drugs are not included. These hospital data are used to estimate medical receipts for additional U.S. hospitals that are perceived to service smaller numbers of foreign patients, as well as for outpatient and emergency room services. These estimates are extrapolated forward using price indexes for hospital and related services from the U.S. Consumer Price Index series.

1.5.9 Medical services payments are based on BEA estimates of the share of U.S. travelers abroad requiring medical treatment, which are derived partly from information on foreigners seeking medical care in the United States, and the average cost per treatment, based on data from the OECD. The estimates also include payments by U.S. residents who travel to Mexico and Canada for medical purposes, such as cosmetic surgery and dental procedures.

1.5.10 Merchanting services (exports only) are measured as the difference between the cost and resale value of goods that are both purchased and resold abroad; that is, the goods are neither exported from, nor imported to, the United States and they do not undergo significant processing during the time between when they are purchased and resold.

1.5.11 Trade-related services, other than merchanting services, include auction services (including online), transactions fees for business to business (B2B) exchanges conducted over the Internet, and commissions or “finders’ fees” to independent sales agents.

1.6 **Other services (receipts)**

This item measures U.S. receipts arising from expenditures by foreign governments in the United States; expenditures by international organizations in the United States; expenditures of foreign residents who commute to work in the United States; expenditures of other foreign workers employed temporarily in the United States; film and tape rentals receipts; and trade union receipts. Data for this item are collected from a variety of public and private sources. Film and tape rental data are from a BEA survey.

1.6.1 ***Expenditures by foreign governments in the United States.***—This item measures expenditures associated with diplomatic activities in the United States. The expenditures cover the costs of operating embassies in Washington, DC, consular offices, and missions to the United States and to the United Nations, including rents, utilities, maintenance, and other expenditures. These expenditures are estimated by applying an average dollar-per-person figure to the number of each government’s diplomatic personnel in the United States. Estimates of average expenditures, based on earlier studies, are extrapolated each year.

1.6.2 ***Expenditures by international organizations in the United States.***—This item measures operational and administrative expenditures by international organizations in the United States, including rents, utilities, maintenance, and other expenditures. Expenditures, based on earlier studies, are extrapolated each year.

1.6.3 ***Expenditures of foreign residents who commute to work in the United States.***—This item measures the expenditures of Mexican and Canadian residents who commute to work in the United States. The estimates of expenditures are based on these workers’ earnings in the United States, which are included in compensation of employees (line 34). A relatively small share of these earnings is estimated to be spent on U.S. goods and services and a small fraction of that is estimated to be consumed in the United States; the remainder represents purchases of goods taken to Mexico or to Canada for consumption. As of June 2013, estimates beginning with 2003 are based in part on the U.S. Department of Labor Consumer Expenditures Survey. For Mexican commuters, as of June 2013, the estimated spending pattern for 2003–2012 is based in part on the U.S. Department of Labor Consumer Expenditures Survey, and for earlier years, remains based on earlier studies and BEA consultations with U.S. Customs and Border Protection personnel, retailers, and employers in the United States-Mexican border area. For Canadian commuters, data are provided to BEA by Statistics Canada on a quarterly basis.

1.6.4 ***Expenditures of other foreign residents employed temporarily in the United States.***—This item measures expenditures in the U.S. economy of foreign workers employed by foreign governments, expenditures of West Indies workers, and expenditures of foreign professionals temporarily residing in the United States, such as artists, athletes, consultants, and teachers.

1.6.5 ***Film and tape rentals.***—This item measures receipts for the sale or rental of motion picture and television films and tapes distributed or exhibited abroad. Mainly for practical reasons, sales are included with rentals as services transactions because sales are primarily for distribution and exhibition rights. The cost of the physical films and tapes is usually very small and is excluded from U.S. goods exports (line 3). As of June 2011, beginning with estimates for 1999, film and tape rentals receipts are reclassified within services to royalties and license fees receipts and renamed distribution rights for film and television recordings.

1.6.6 ***Trade union receipts.***—This item measures dues paid by affiliated Canadian local unions to U.S. national trade unions, mainly in the automotive industry.

1.7 **Other services (payments)**

This item measures expenditures of U.S. residents employed temporarily abroad, film and tape rental payments, and trade union payments. Data for this item are collected from a variety of public and private sources. Film and tape rental data are from a BEA survey.

1.7.1 ***Expenditures of U.S. residents employed temporarily abroad.***—This item includes expenditures of U.S. residents employed temporarily abroad. The estimates are based in part on IRS data on foreign earned income.

1.7.2 ***Film and tape rentals.***—This item measures payments by U.S. film distributors for the purchase or rental of motion picture and television films and tapes distributed or exhibited in the United States. Mainly for practical reasons, purchases are included with rentals as services transactions because payments are primarily for distribution and exhibition rights. The cost of the physical films and tapes is usually very small and is excluded from U.S. goods imports (line 20).

1.7.3 ***Trade union payments.***—This item measures the financial benefits, including strike benefits, paid by U.S. national trade unions to Canadian local unions.

Table 8. U.S. Other Private Services
Receipts and Payments, 2009 (Line 10 and Line 27)
[Millions of dollars]

	Receipts	Payments
Total	**238,332**	**168,892**
By affiliation:		
Unaffiliated	160,160	101,914
Affiliated	78,172	66,978
By U.S. parents from their foreign affiliates	53,636	....
By U.S. affiliates from their foreign parent groups	24,536	....
By U.S. parents to their foreign affiliates	....	46,687
By U.S. affiliates to their foreign parent groups	....	20,291
By type of service:		
Education	19,911	5,583
Financial services	55,446	16,454
Insurance services	14,651	55,233
Telecommunications	9,284	7,048
Business, professional, and technical services	116,629	81,995
Computer and information services	13,378	17,181
Computer and data processing services	8,575	16,263
Data base and other information services	4,803	917
Management and consulting services	28,191	22,250
Research, development, and testing services	18,234	15,753
Operational leasing	7,718	1,078
Other business, professional, and technical services	49,108	25,733
Accounting, auditing, and bookkeeping	1,029	2,178
Advertising	3,970	2,339
Architectural, engineering, and other technical services	5,687	1,052
Construction	1,103	743
Industrial engineering	4,976	3,679
Installation, maintenance, and repair of equipment	11,187	6,168
Legal services	7,256	1,700
Medical services	2,623	879
Mining	2,923	703
Sports and performing arts	1,099	492
Trade-related services	4,234	1,118
Training services	1,565	867
Other	1,456	3,816
Other services	22,411	2,579
Film and television tape rentals	13,809	1,938
Other	8,602	641

U.S. Government Miscellaneous Services

In this section:

Coverage and definitions

The U.S. government miscellaneous services accounts (lines 11 and 28) cover transactions of U.S. government nonmilitary agencies with foreign residents. Most of these transactions involve provision of services to, or purchases of services from, foreigners; transfers of some goods are also included. Transactions between U.S. government nonmilitary facilities abroad and foreign entities are included because the operations are regarded as extensions of U.S. government domestic operations.

Estimation methods overview

Estimates are based on data submitted to BEA quarterly by U.S. government agencies under Office of Management and Budget Directive No. 19. Transactions are usually reported at the time the service is performed or, for the few miscellaneous transactions involving goods, at the time of transfer of possession. The data are adjusted to conform to balance of payments concepts through consultation with reporting agencies and additional news sources.

1 **U.S. Receipts** (line 11)

This account measures receipts for services rendered to foreigners by the U.S. government nonmilitary agencies, including the value of services rendered under foreign assistance programs and the value of certain goods transferred to foreigners by U.S. agencies from U.S. installations abroad (see table 9).

Table 9. U.S. Government Receipts and Payments for Miscellaneous Services, 2009 (Line 11 and Line 28)

[Millions of dollars]

Receipts	**1,333**
Payments	**4,871**

1.1 Receipts for services cover primarily (1) fees received by the Patent and Trademark Office, U.S. Department of Commerce, and receipts from sales, primarily by the National Technical Information Service, U.S. Department of Commerce, of publicly available technical information and processes; (2) receipts of the U.S. Postal Service for services provided to nonresidents, including terminal charges on parcel post; (3) the value of services provided directly by U.S. government nonmilitary agencies under foreign assistance programs; and (4) miscellaneous receipts of other U.S. government agencies, such as consular and visa fees collected by the U.S. Department of State. As of June 2011, beginning with estimates for 1999, U.S. Postal Services receipts from foreigners, largely receipts to U.S. air carriers for transportation of foreign mail, are reclassified within services to other transportation receipts, where they are included in freight receipts.

1.2 The main agencies providing services included in item (3) above are the State Department, the Peace Corps, and the U.S. Agency for International Development. The value of these services includes, in general, all costs chargeable to foreign aid appropriations for overhead and administration expenses, training, technical services, and similar services items, whether incurred in the United States or abroad. These receipts are offsets to the corresponding entries for unilateral transfers in U.S. government grants (line 36) and for U.S. government credits and other long-term assets (line 47).

1.3 Also included in receipts is the value of goods that U.S. nonmilitary agencies transfer from U.S. government-owned stocks abroad, such as office equipment or vehicles deemed surplus to U.S. requirements.

2 **U.S. Payments** (line 28)

This account measures (a) payments by U.S. government nonmilitary agencies to foreign entities for services and foreign goods that are purchased abroad and used or stockpiled abroad, and (b) expenditures of U.S. government nonmilitary personnel and their dependents (see table 9).

2.1 **Payments to foreign entities**

2.1.1 This item measures payments by U.S. government nonmilitary agencies for services provided abroad by foreign entities. Included are wage payments to foreign residents employed indirectly, under contracts, with foreign governments and employed directly by U.S. government nonmilitary agencies; payments include amounts withheld from wages and paid to foreign governments for taxes and U.S. social security. Payments also include U.S. government contributions to foreign retirement programs and separation allowances. As of June 2013, beginning with estimates for 2003, wages and related payments to foreign nationals employed at U.S. diplomatic missions abroad are reclassified as compensation payments (line 34). Also included are U.S. payments abroad for utilities, rent, and property maintenance; payments for supplies, materials, and equipment purchased abroad, but not imported into the United States; and payments by the U.S. Postal Service to foreigners for postal services, including terminal dues and payments to foreign carriers for transporting U.S. mail. The largest payments abroad are by the Department of State, the National Aeronautics and Space Administration, the U.S. Postal Service, the Department of Energy, and the Department of Commerce. As of June 2011, beginning with estimates for 1999, U.S. Postal Services payments to foreigners, largely payments to foreign air carriers for transportation of U.S. mail, are reclassified within services to other transportation payments, where they are included in freight payments.

2.2 **Expenditures of U.S. government personnel and dependents abroad**

2.2.1 This item measures expenditures abroad by U.S. government nonmilitary personnel and their dependents for foreign goods and services. Estimates are based on payments, net of withholdings for U.S. income taxes, for retirement, and for other employee benefits by the U.S. government to U.S. residents employed or stationed abroad and their dependents, including living quarters and other allowances.

2.2.2 Also included in this item are reimbursements or net advances to persons officially traveling abroad, but not stationed there, for per diem and other expenses. Reimbursements for purchases in the United States of transportation on U.S. carriers are excluded.

Direct Investment Income

In this section:

Coverage and definitions

The direct investment income accounts (lines 14 and 31) cover international transactions in income earned on U.S. direct investment abroad and on foreign direct investment in the United States. Income measures the return that direct investors receive on their equity and debt investments in affiliates abroad or in the United States; it consists of the parents' shares of the earnings and losses of affiliates plus interest received and paid on intercompany debt. Income includes both earnings distributed to parent companies and earnings reinvested in affiliates. The inclusion of reinvested earnings in direct investment income recognizes that the earnings of affiliates are income to parents, whether or not a portion is reinvested.

Estimation methods overview

The estimates are based on BEA's quarterly and benchmark surveys of direct investment. The surveys collect information on income flows between parents and their affiliates as well as related financial flows and positions between parents and their affiliates. Income, earnings, and distributed earnings are reported directly on the surveys; reinvested earnings are derived as a residual amount. A direct investment relationship is considered to exist if the parent owns 10 percent or more of the voting securities of an incorporated business enterprise or the equivalent interest in an unincorporated business enterprise. Less than 10 percent ownership is considered as other private investment.

1 **U.S. Receipts** (line 14)

2 **U.S. Payments** (line 31)

U.S. receipts of direct investment income measures the return on U.S. direct investment abroad—that is, the U.S. parents' return on their equity and debt investments in their foreign affiliates (see table 10). U.S. payments of direct investment income measures the return on foreign direct investment in the United States—that is, the foreign parents' return on their equity and debt investments in their U.S. affiliates, plus the return of other members of the foreign parent group on their debt investments in their U.S. affiliates (see table 10).

Direct investment income consists of earnings from current operations, which may be distributed in the form of dividends or reinvested in the enterprise, plus interest on intercompany debt. Interest is interest received by, or credited to, parents on intercompany debt owed to them by their affiliates, less interest paid or credited by parents on intercompany debt owed by them to their affiliates.

1.1 **Earnings**

1.1.1 Direct investment earnings are parents' shares in the net income of their affiliates, after provision for income taxes. A parent's share in net income is based on its directly held equity interest in the affiliate; a parent's directly held debt in the affiliate is not considered in determining the parent's share because debt is not an indication of ownership. Debt is, however, a major component of direct investment.

1.1.2 Direct investment earnings are recorded as they accrue, in accordance with the accrual principles of accounting. Earnings are recorded before deduction of withholding taxes on dividends. These taxes are treated as payable by the recipients of such income, even though as an administrative convenience, they may be withheld at the source.

1.1.3 Direct investment earnings measure earnings from productive activities during the current period. This concept of earnings is sometimes referred to as net operating earnings or net operating surplus. Because earnings are related to current production, they exclude several items that may be included in the financial accounting statements of the corporation. Examples of such exclusions are (1) parents' shares of capital gains and losses of affiliates, such as realized or unrealized gains and losses that result from the sale or other disposition of affiliates' assets and liabilities, (2) realized gains or losses on plant and equipment that result from the closures of part or all of a business, (3) gains and losses from write-ups or write-downs of the book values of assets and liabilities, (4) write-offs of intangible assets, including goodwill, (5) write-offs of research and development expenditures capitalized in a prior period, and (6) gains and losses from changes in the dollar value of foreign-currency-denominated assets and liabilities, or from the translation of affiliates' financial statements from local currencies into dollars due to changes in exchange rates. These capital gains and losses are, however, included as valuation adjustments to outstanding assets and liabilities in the international investment position accounts.

1.1.4 In the international accounts, direct investment earnings are measured at *current cost* (or *replacement cost*), that is, after adjustments to the depreciation, depletion, and exploration and development costs reported in the financial statements of corporations. These adjustments are made primarily to ensure that these charges reflect current-period prices, as well as to more closely align income earned in a given period with charges against income in the same period, as required by economic accounting principles. The adjustment converts depreciation charges valued for financial accounting purposes at historical cost to a valuation at current cost, or replacement cost; it adds charges for depletion of natural resources back to income and reinvested earnings because these charges are not treated as production costs in the national income and product accounts; and it reallocates expenses for mineral exploration and development across periods, so that they are written off over their economic lives rather than all at once. Estimates for the adjustments are available only on a global basis; estimates by country or by industry are not possible because of a lack of appropriate source data.

1.1.5 The two major components of direct investment earnings are *distributed earnings (dividends)* and *reinvested earnings.*

1.1.6 Distributed earnings are the payment of dividends to the owners of equity for placing funds at the disposal of corporations. They are the returns to the shareholders or owners. In most situations, dividends are paid out of the current period's *net operating earnings* (or *net operating surplus*), though dividends may be paid out of surplus earned in earlier periods, or corporations may smooth out dividends, sometimes paying out less than operating earnings and other times paying out more.

1.1.7 In addition to dividends from corporations, distributed earnings from unincorporated affiliates, subsidiaries, and branches are included in earnings. These entities usually engage in the same type of economic and financial activities and maintain separate financial statements, just as do corporations, but are not legally incorporated. Therefore, in legal terms, they cannot distribute income in the form of dividends. Nevertheless, the owner, or owners, may choose to withdraw some or all of the income earned by the enterprise, and some are entities formally organized as trusts, partnerships, or other institutions which may formally distribute some or all of their earnings. From an economic point of view, the withdrawal of such income is equivalent to the distribution of corporate income through dividends and is treated the same way in the accounts.

1.1.8 Payments by corporations and unincorporated entities to their shareholders or owners that are made out of accumulated capital reserves or equity capital, or from sales of assets, are not treated as dividends. Such payments are treated as withdrawals of equity, and are therefore recorded in the financial account. Stock dividends are also excluded from dividends because they are not considered as a remittance of earnings, but rather a capitalization of retained earnings and thus a substitution of one type of equity (capital stock) for another (retained earnings). Liquidating dividends are also excluded from dividends because they are a return of capital, rather than a remittance of earnings.

1.1.9 Dividends are recorded at the time they are either received from (paid to), or entered into, intercompany accounts with the foreign affiliate, whichever occurs first. Withdrawals of income from unincorporated entities are recorded when they are withdrawn by their owners. Dividends and withdrawals of income are recorded before the deduction of withholding taxes. These taxes are treated as payable by recipients of such income.

1.1.10 Reinvested earnings are the earnings that remain after distributions have been made to owners of the enterprise. They represent the owners' share of reinvested earnings, or net savings, of the enterprise in the period. Because reinvested earnings, or net savings, represent an addition to owners' capital, a corresponding entry of equal magnitude, but opposite sign, is made in the direct investment financial accounts, where reinvested earnings are listed separately along with equity and intercompany debt as components of owners' investment in the enterprise.

1.1.11 Reinvested earnings are recorded in the quarter in which they accrue. Reinvested earnings are measured after deduction of income taxes charged on the income earned by the enterprise. Such taxes are payable by the enterprise and not by its owners. Reinvested earnings are also calculated after the depreciation of fixed assets has been restated at replacement cost and the adjustments described earlier have been made to depletion and exploration and development costs.

1.1.12 Reinvested earnings can be negative when a direct investment enterprise has a loss on its operations or the dividends declared in a period are larger than net earnings in that period. If direct investment abroad generates negative earnings, the entry is shown as negative income receipts by the direct investor.

1.2 **Interest**

1.2.1 Interest is interest received by, or credited to, parents on intercompany debt owed to them by their affiliates, less interest paid or credited by parents on intercompany debt owed by them to their affiliates, both before the deduction of withholding taxes. Interest includes net interest on capitalized leases between parents and affiliates.

1.2.2 Interest is recorded on an accrual basis; that is, interest is recorded as accruing continuously over time to the creditor on the amount of debt outstanding, in accordance with the principles of accrual accounting. 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. What are commonly referred to as interest payments, therefore, are financial account transactions that reduce the debtor's existing liability.

1.2.3 Interest received and paid on intercompany debt excludes receivables and payables on intercompany debt between parents in the finance industry and affiliated financial corporations. This exclusion derives from the treatment in the financial accounts of intercompany debt transactions among certain nonbank *financial* corporations, where the transactions are classified as nonbank claims and liabilities rather than direct investment claims and liabilities because the nature of the transactions is related to the underlying activity of financial intermediation rather than to activity typical of a direct investment relationship. Therefore, the related interest received and paid on the debt is excluded from direct investment interest and included in other private interest. The financial intermediary accounts consist of transactions between firms in a direct investment relationship where both the U.S. and foreign firms are classified in the finance industry (excluding insurance), but the firms area neither banks nor securities brokers.

1.2.4 Interest received and paid among banks and their affiliates, and among securities brokers and dealers and their affiliates, is also excluded from direct investment interest and combined with these institutions' transactions with unaffiliated entities as other private interest. The combination groups together transactions related to the underlying activity of financial intermediation, regardless of the affiliation of the enterprises.

1.2.5 Interest and distributed earnings are based primarily on the U.S. parents' books in the case of U.S. direct investment abroad and primarily on the U.S. affiliates' books in the case of foreign direct investment in the United States. Interest and distributed earnings may be paid in cash, through debt creation, or in kind. For U.S. direct investment abroad, when funds are owed but not actually transferred to U.S. parents, an offsetting entry is made in the financial account under U.S. direct investment abroad (line 51). For foreign direct investment in the United States, when funds are owed but not actually transferred to foreign parents, an offsetting entry is made in the financial account under foreign direct investment in the United States (line 64).

Table 10. Direct Investment Income, 2009 (Line 14 and Line 31)

[Millions of dollars; credits +, debits –]

Receipts of income on U.S. direct investment abroad (line 14)	**346,073**
Earnings	339,292
Distributed earnings	99,393
Reinvested earnings	239,899
Reinvested earnings without current-cost adjustment	219,293
Current-cost adjustment	20,606
Interest on intercompany debt	6,782
U.S. parents' receipts	9,975
U.S. parents' payments	–3,193
Payments of income on foreign direct investment in the United States (line 31)	**–94,010**
Earnings	–68,715
Distributed earnings	–40,230
Reinvested earnings	–28,485
Reinvested earnings without current-cost adjustment	–23,661
Current-cost adjustment	–4,824
Interest on intercompany debt	–25,295
U.S. affiliates' payments	–30,055
U.S. affiliates' receipts	4,760

Other Private Investment Income

In this section:

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

U.S. Government Investment Income

In this section:

Coverage and definitions

This account covers income receipts on U.S. government assets abroad (line 16), on both its official reserve asset and its nonreserve asset holdings, and on long- and short-term credits extended as part of its foreign assistance programs (see table 12). This account also covers income payments on long- and short-term liabilities of the U.S. government and its government-sponsored enterprises (line 33) (see table 12). These enterprises are often referred to as agencies and the debt issued by them is often referred to simply as an agency obligation or agency issue. This class of government obligation is comprised predominantly of debt issued by Fannie Mae and Freddie Mac.

The account covering receipts is distinguished on the basis of ownership of assets abroad by U.S. government 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, obligations and debt issued by the U.S. government and its agencies.

Estimation methods overview

Estimates of government income receipts are based on data obtained monthly from the Federal Reserve System (for foreign currencies), quarterly from U.S. government operating agencies under OMB Directive No. 19 (for nonreserve assets), and monthly from the International Monetary Fund (for the U.S. reserve position in the International Monetary Fund (IMF) and U.S. holdings of special drawing rights (SDRs)).

Gains and losses realized by U.S. monetary authorities on transactions in the reserve position of the United States in the IMF, on transactions in SDRs, and from U.S. monetary authorities' acquisitions or borrowings of foreign currencies and from sales or repayments of these currencies at varying exchange rates are excluded, as are gains and losses due to changes in exchange rates on foreign currency balances held by disbursing officers abroad. These gains and losses are included as valuation adjustments to U.S. government assets in the international investment position accounts.

Estimates of government income payments on foreign residents' private and official holdings of U.S. government and agency obligations are estimated by multiplying representative current yields by average positions. Positions data are based primarily on monthly, annual, and benchmark surveys conducted by the U.S. Treasury Department.

1 **Income Receipts on U.S. Government Assets Abroad** (line 16)

1.1 **Income on official reserve and nonreserve assets**

1.1.1 The item measures interest earned on U.S. official reserve assets consisting of (1) interest earned on the U.S. reserve position in the IMF, that is, on U.S. lending to IMF credit facilities; (2) interest earned on U.S. holdings of special drawing rights (SDRs) with the IMF; and (3) interest earned on the holdings of foreign-currency-denominated assets by the U.S. Treasury Department's Exchange Stabilization Fund and the Federal Reserve System.

1.1.2 U.S. monetary authorities earn interest on both official reserve and nonreserve foreign currency balances obtained through reciprocal currency arrangements. Some *reciprocal currency arrangements* of U.S. monetary authorities with foreign monetary authorities allow monetary authorities ready access to additional reserves for the purpose of stabilizing exchange markets through coordinated exchange market intervention operations. Because monetary authorities have immediate and unconditional access to each other's currency, interest earned on these balances is considered as interest earned on official reserves. These arrangements were utilized in the 1970s and 1980s. Standing arrangements of this type still exist between U.S. monetary authorities and monetary authorities in Canada and Mexico, but currently, no swap amounts are outstanding.

1.1.3 Beginning in 2007, U.S. monetary authorities provided dollar funding to foreign central banks through *temporary central bank liquidity swaps,* a new type of reciprocal currency arrangement, which does not meet the definition of a reserve asset. Under these arrangements, central banks swap currencies on a short-term basis that are then lent to banks in their jurisdictions to provide liquidity. In 2008–2010, these arrangements were used to relieve shortages of dollar funding abroad. Arrangements to provide foreign currency funding to the Federal Reserve System to be lent to U.S. banks were also approved but never activated. Because these swaps do not meet the strict definition of reserve assets, interest earnings on outstanding balances are considered as nonreserve earnings. As of early-2011, only a very small amount of these swaps is outstanding.

1.1.4 Both official reserve and nonreserve earnings from swaps under reciprocal currency arrangements are combined in this line. Interest receipts are recorded on a cash collection basis. (Financial transactions in U.S. official reserve assets are included in lines 42–45 and in nonreserve assets in lines 47–49.)

1.2 **Income on foreign assistance program credits**

1.2.1 This item measures interest receipts on outstanding U.S. government credits extended to foreigners as part of the foreign assistance programs of the U.S. government. The credits, which are nearly all long term and most at concessional interest rates, are classified according to the legislative program under which they were extended. Interest receipts include capitalized interest, which is reported as having been realized through the recording of an additional credit utilization, which, in turn, increases principal indebtedness outstanding. Except for capitalized interest, receipts are recorded on a cash collection basis or when the debtor delivers goods or services to U.S. operating agencies. Collections of commitment fees for credits extended by U.S. government operating agencies are included indistinguishably with these interest receipts.

2 **Income Payments by U.S. Government on Foreign Assets in the United States** (line 33)

2.1 **Income on liabilities**

2.1.1 This account measures accrued interest payments by the U.S. government to foreign official agencies and private foreign residents holding U.S. Treasury and agency obligations. Five major types of obligations are distinguished: (1) U.S. Treasury bills, (2) marketable U.S. Treasury bonds and notes, (3) nonmarketable U.S. Treasury bonds, (4) U.S. agency issues, predominantly those of Fannie Mae and Freddie Mac, and (5) as of June 2011, beginning with statistics for 2003, interest paid on allocations of special drawing rights (SDRs).

2.1.2 Interest paid on U.S. Treasury bills is estimated by multiplying representative market interest rates by average amounts outstanding; position data are obtained from monthly U.S. Treasury surveys.

2.1.3 Interest paid on U.S. Treasury bonds and notes and on U.S. agency obligations is estimated by multiplying representative current yields by average positions. Positions are based on annual and benchmark survey positions, advanced quarterly by monthly transactions summed to quarters and by valuation adjustments from indexes of market prices, with special adjustments by BEA to account more completely for positions in agency issues. At the time of BEA's annual revisions in June, preliminary estimates of interest paid are revised based on updated monthly transactions data and on revised positions and current yields reported on the latest annual and benchmark surveys of the U.S. Treasury Department.

2.1.4 Nonmarketable U.S. Treasury bonds and notes consist of interest payments on U.S. Treasury foreign series bonds and notes; these notes are designed specifically for sale to foreign official agencies.

2.1.5 As of June 2011, beginning with statistics for 2003, interest paid on allocations of special drawing rights (SDRs) are included; previously these payments were netted against interest receipts on holdings of SDRs but the transactions are now presented on a gross basis. Data are from the International Monetary Fund.

2.1.6 U.S. government payments of interest income to both foreign official and foreign private residents are combined in the estimation procedure and shown as a single amount in the published estimates.

Table 12. U.S. Government Investment Income, 2009 (Line 16 and Line 33)

[Millions of dollars; credits +, debits –]

U.S. Government investment income receipts	**4,724**
Income on U.S. official reserve and nonreserve assets, net	3,940
Income on foreign assistance program credits	784
Under Export-Import Bank Act	297
Under Foreign Assistance Act and related programs:	
Financing military sales	86
Country program loans	150
Investment incentive loans	48
Under Agricultural Trade Development and Assistance Act:	
Long-term dollar credits	174
Under Commodity Credit Corporation Charter Act	29
U.S. Government investment income payments	**–143,997**
Short-term U.S. Treasury bills	–4,548
Marketable U.S. Treasury bonds and notes	–82,679
Nonmarketable U.S. Treasury bonds	–101
U.S. government agency bonds	–56,669

Compensation of Employees

In this section:

Coverage and definitions

This account measures U.S. compensation receipts (line 17) from (1) earnings of U.S. residents employed temporarily abroad, (2) earnings of U.S. residents employed by foreign governments in the United States, and (3) earnings of U.S. residents employed by international organizations in the United States, which is the largest of the three categories (see table 13). This account also measures U.S. compensation payments (line 34) to (1) Canadian and Mexican workers who commute to work in the United States, (2) foreign students studying at colleges and universities in the United States, (3) foreign professionals temporarily residing in the United States, (4) foreign temporary agricultural workers in the United States, (5) foreign temporary nonagricultural workers in the United States, and (6) foreign nationals (see table 13). The largest categories of compensation payments are payments to foreign temporary agricultural workers and to foreign temporary nonagricultural workers. Compensation receipts and payments are recorded before the deduction of U.S. and foreign income taxes.

Estimation methods overview

The estimates are based on a variety of methods and on source data from foreign statistical authorities, the Internal Revenue Service, and various demographic and labor market data from the Department of Agriculture and the Department of Labor.

1 **U.S. Receipts** (line 17)

1.1 **Earnings of U.S. residents employed temporarily abroad.—**This item measures the earnings of U.S. residents employed temporarily abroad. Estimates for Germany are provided to BEA by the Deutsche Bundesbank on a monthly basis; estimates for Canada are provided to BEA by Statistics Canada on a quarterly basis; and estimates for the United Kingdom are provided to BEA on an annual basis, based on earlier estimates by the Office of National Statistics of the United Kingdom. Estimates of U.S. residents' earnings abroad for countries other than Germany, Canada, and the United Kingdom are estimated as a share of total foreign-earned income of U.S. taxpayers in each country. The estimates by country are based on data from the U.S. Internal Revenue Service (IRS). Because the IRS data commingle earnings of U.S. taxpayers who are abroad both temporarily (for less than 1 year and are therefore considered U.S. residents) and permanently (for 1 year or more and are therefore not considered U.S. residents), data from selected countries are used to construct an average proportion of U.S. residents' earnings from temporary employment to total foreign-earned income of U.S. taxpayers from both temporary and permanent employment. This average proportion is applied to the IRS data by country to estimate U.S. residents' earnings from temporary employment abroad and then summed to a worldwide total for countries other than Canada, Germany, and the United Kingdom.

1.2 **Earnings of U.S. residents employed by foreign governments in the United States.—**This item measures earnings of U.S. residents employed by foreign governments in the United States. Earnings are estimated by multiplying the number of U.S. residents employed by average compensation, with the exception of Canada, for which Statistics Canada provides an estimate of earnings of U.S. residents employed by the Canadian government. Estimates are based on earlier studies which are extrapolated forward each year.

1.3 **Earnings of U.S. residents employed by international organizations in the United States.—**This item measures earnings of U.S. residents employed by international organizations in the United States. Earnings are estimated by multiplying the number of U.S. residents employed by average compensation. Estimates are based on earlier studies which are extrapolated forward each year.

1.4 **Earnings of foreign nationals by international organizations in the United States.—**As of June 2011, foreign nationals working for international organizations in the United States are treated as U.S. residents in accordance with international guidelines; previously they were treated as foreign residents. Therefore, beginning with statistics for 1999, expenditures of foreign nationals are excluded from other private services receipts (line 10) because these expenditures represent transactions between domestic residents, and the compensation they receive from international organizations in the United States (which are treated as nonresident entities regardless of location) is added to U.S. compensation receipts (line 17).

2 **U.S. Payments** (line 34)

2.1 **Canadian and Mexican workers who commute to work in the United States.—**This item measures compensation of Mexican and Canadian residents who commute to jobs in the United States. Employment of Mexican workers is generally limited to the United States-Mexican border area; employment of Canadian workers is mostly along the United States-Canadian border. The proximity of the households to the places of employment permits daily trips to and from work.

2.1.1 Compensation of Mexican workers is estimated by combining data on the number of Mexican workers in the United States with their estimated average annual compensation. Both legal and undocumented workers are included.[1] The number of legal workers (that is, those who have employment permits) is tabulated by the U.S. Citizenship and Immigration Service (USCIS) and is obtained by BEA from a USCIS report, “Permanent Resident Alien Commuters and Seasonal Workers.” The number of undocumented workers (that is, those who do not have employment permits) is based on discussions with USCIS officials and on the rate of change in total employment levels in border area states (California, Texas, Arizona, and New Mexico). Information on wage rates in the U.S. border area is published annually by the U.S. Department of Labor and quarterly by the U.S. Department of Agriculture. Estimates of compensation of undocumented workers are based on border area minimum wage rates.

2.1.2 Estimates of compensation of Canadian residents working in the United States are provided to BEA by Statistics Canada on a quarterly basis.

2.2 **Foreign students studying at colleges and universities in the United States.—**This item measures wages earned by foreign students studying in the United States. Estimates are based on data taken from an annual survey of about 2,700 accredited U.S. institutions, conducted by the Institute for International Education (IIE), as described earlier in connection with U.S. receipts for education services. Foreign students are defined as individuals enrolled in institutions of higher education in the United States who are not U.S. citizens, immigrants, or refugees. Characteristics of the population used in the estimates include the geographic area of the college or university, type of institution (public or private), enrollment status (part-time or full-time), and academic level of institution. The survey covers students enrolled in undergraduate programs, graduate programs, and other programs, which consist of intensive English language programs and non-degree programs.

2.3 **Foreign professionals temporarily residing in the United States.—**This item measures the compensation of foreign professionals temporarily residing in the United States, including those who are self-employed such as artists, athletes, consultants, and teachers. Estimates are based on data from the U.S. Internal Revenue Service, supplemented by data on visas from the Department of State and on wages from the Department of Labor.

2.4 **Foreign temporary agricultural workers in the United States.—**This item measures compensation of foreign temporary agricultural workers in the

1. Estimates of undocumented workers are limited to those who work temporarily in the United States-Mexican border area. No estimate is available on the number of permanent undocumented workers elsewhere because they are de facto residents.

United States. Estimates cover both documented and undocumented workers (that is, workers who are in the United States with no work authorization) who are employed in the United States 23 weeks a year, on average, to assist in the growing and harvesting of crops. The primary residence of these workers is usually Mexico and other Latin American countries. The estimates are based on biennial data from the U.S. Department of Labor's National Agricultural Workers Survey (NAWS), H–2A visa counts from the U.S. Department of Homeland Security (DHS), and data from the U.S. Department of Agriculture's Quarterly Agricultural Labor Survey (QALS). The NAWS, which is based on interviews with agricultural workers, covers crop workers (nursery, cash grains, field crops, and fruits and vegetables) and exclude livestock, poultry, and animal fodder workers. The QALS is a telephone survey of farm employers taken four times a year.

2.5 **Foreign temporary nonagricultural workers.—** This item measures the compensation of foreign temporary nonagricultural workers in the United States. Estimates cover both documented and undocumented workers (that is, workers who are in the United States with no work authorization). The primary residence of these workers is usually Mexico and other Latin American countries. Compensation is calculated by multiplying the number of foreign temporary nonagricultural workers by their annual employment in hours and their average hourly wage. The number of documented temporary nonagricultural workers is obtained from H–2B visa counts from the U.S. Department of Homeland Security (DHS). The number of undocumented temporary nonagricultural workers is calculated by combining an estimate of the undocumented immigrant population in the U.S. civilian labor force based on data from the DHS Office of Immigration Statistics and the Pew Hispanic Center, with an estimate of the share of those who are temporary workers based on information from the NAWS. Annual employment is estimated at approximately 1,000 hours. The average wage rate for undocumented workers is based on wage rates for occupations commonly filled by this group and various studies about undocumented workers. The wage rate for documented workers is based on information on the occupational distribution of H–2B visa holders from the Office of Foreign Labor Certification and wage rates from the U.S. Bureau of Labor Statistics for occupations filled by H–2B visa holders.

2.6 **Foreign nationals.—**As of June 2013, beginning with estimates for 2003, this item measures compensation payments to foreign nationals employed at U.S. diplomatic missions abroad, which were previously included in line 28, U.S. government miscellaneous services.

Table 13. Compensation Receipts and Payments, 2009 (Line 17 and Line 34)

[Millions of dollars; credits +, debits –]

Receipts	**2,947**
Earnings of U.S. residents employed temporarily abroad	1,014
Earnings of U.S. residents employed by foreign governments in the United States	324
Earnings of U.S. residents employed by international organizations in the United States	1,609
Payments	**–10,757**
Canadian and Mexican workers who commute to work in the United States	–1,682
Foreign students studying at colleges and universities in the United States	–1,586
Foreign professionals temporarily residing in the United States	–1,201
Foreign temporary agricultural workers in the United States	–2,889
Foreign temporary nonagricultural workers in the United States	–3,399

Unilateral Current Transfers and U.S. Government Grants

Unilateral Current Transfers

The unilateral current transfers accounts (lines 36, 37, and 38), which include both U.S. government and private transfers, cover international transactions in which goods, services, or financial assets are transferred between U.S. residents and residents of other countries without an item of economic value received in return.

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. Thus, they are closely related to the goods, services, and financial assets exchanged and are included in the current account. Current transfers are differentiated from capital transfers included in the capital account in that capital transfers result in a commensurate change in the assets of one or both parties to the transaction without affecting the income or savings of either party.

Unilateral current transfers are recorded in the following accounts: (1) U.S. government grants (line 36); U.S. government pensions and other transfers (line 37); and private remittances and other transfers (line 38).

U.S. Government Grants

In this section:

Coverage and definitions

Entries for U.S. government grants offset transfers of real resources or financial assets to foreign residents recorded in the goods, services, income, or financial accounts. The term transfers denotes that no corresponding items of economic value are expected, or received, in return for the goods, services, or financial assets exchanged. Because a transfer is the corresponding entry to an actual resource flow, the value of the transfer equals the value of the corresponding flow. In general, transfers are recorded as of 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 to which they are offsets. Estimates of grants are published on a net basis, with U.S. government transfers to foreigners netted against foreign transfers to the U.S. government.

Estimation methods overview

U.S. government grants are estimated on the basis of data submitted quarterly by U.S. government operating agencies under Office of Management and Budget Directive No. 19. Where necessary, the reported data are adjusted for timing; the adjustments are based on supplementary information, including published statements, congressional submissions, and the financial and operating records of government agencies. For transactions that are reported only partially or not at all by the operating agencies, BEA prepares estimates using supplementary information.

1 **U.S. Government Grants** (line 36)

This account measures the utilization of U.S. government financing to transfer real resources or financial assets to foreigners under programs enacted by the U.S. Congress for the provision of nonmilitary and military foreign assistance (grants) for which no repayment is expected. These grants are classified in table 14 according to the legislative programs under which they are extended. Utilized assistance represents the goods delivered or shipped, services rendered, or cash disbursed by the U.S. government to, or for the account of, a foreign government or other foreign entity. Grants are measured on a net basis, with the amount of gross grants netted against cash settlements for grants previously provided, for returns of equipment previously transferred, for foreign currencies provided to offset U.S. expenditures under foreign assistance programs, and for goods and services provided under mutual assistance programs that require the receiver to extend assistance to the United States or other countries to achieve a common objective. Corresponding entries representing the actual shipment of goods, performance of services, or disbursement of cash are included in the goods, services, or financial accounts.

Also included in U.S. government grants are transfers under assistance programs for which repayment terms are indeterminate at the time of the transfer, subject to future settlement. These types of assistance are included with grants in the period rendered. Subsequently, when settlement for the assistance is agreed upon, the terms may call for a cash settlement or may establish a long-term credit. Cash settlements are included as reverse grants. Amounts of newly established long-term credits previously recorded as grants are not included in the balance of payments estimates, but are added as an adjustment to outstanding long-term credits in the international investment position.

1.1 **Nonmilitary grants**

1.1.1 U.S. government nonmilitary grants (gross) measure the financing of goods delivered, services rendered, or cash disbursed by U.S. nonmilitary agencies to foreign countries under programs enacted by the U.S. Congress to authorize the provision of nonmilitary assistance for which no repayment is expected or for which repayment terms are indeterminate.

1.1.2 U.S. government nonmilitary grants (gross) include (1) funds advanced to finance sales to foreign governments and to release foreign governments from their contractual liabilities to pay for defense articles and services purchased under the Arms Export Control Act; (2) funds advanced by the U.S. Agency for International Development (USAID) for economic support and development assistance, child survival and disease and global health initiatives, disaster assistance, aid to the former Soviet republics, other humanitarian and development initiatives, USAID's expenditures including administrative overhead in the United States and abroad, and USAID's payments to other U.S. government agencies for services in support of USAID programs; and (3) contributions and special grants to international agencies carrying out humanitarian activities—such as the United Nations Relief and Work Agency for Palestinian Refugees, the United Nations Child's Emergency Fund (UNICEF), and the United Nation's High Commissioner for Refugees.

1.1.3 Also included are (4) assistance for economic reconstruction and humanitarian relief in Iraq and Afghanistan; (5) donations of food and other relief supplies, and their transportation; (6) expenditures for international refugee assistance; (7) expenditures for the Peace Corps; and (8) and contributions to the economic development and subsidies for the Pacific Ocean islands that the United States holds in trusteeship for the United Nations. The offsetting entries to the expenditures by the Peace Corps and USAID are included in receipts for U.S. government miscellaneous services (line 11) or in other private services (line 10), where they represent the "export" of U.S. government services, or private services, respectively, to the aid-receiving countries. When services are obtained and paid for abroad, an entry is also made for payments under U.S. government miscellaneous services (line 28).

1.1.4 It should be noted that the amount of foreign assistance included in the U.S. government grants account does not provide a comprehensive measure of the foreign aid activity of the U.S. government. Other accounts containing assistance-related activities are lines 47, 48, and 49, related to disbursements and repayments of concessional loans, and line 16, related to the income earned on those loans.

1.1.5 For a detailed discussion of the different concepts and measures of foreign assistance and historical data series on foreign assistance extended by the United States under various programs in earlier time periods, reference should be made to the annual reports of the U.S. Treasury Department's National Advisory Council on International Monetary and Financial Policies. These reports continue the series published by BEA in *Foreign Aid by the United States Government, 1940–1951,* a supplement to the Survey of Current Business, and in the periodic reports *Foreign Grants and Credits by the United States Government.*[1]

1.2 **Military grants**

1.2.1 U.S. government military grants (gross) measure the financing of goods delivered, services rendered, or cash disbursed by U.S. military services to foreign countries under programs enacted by the U.S. Congress to authorize the provision of military assistance for which no repayment is expected or for which repayment terms are indeterminate.

1.2.2 For recent time periods, gross military grants include primarily transfers of equipment, materials, supplies, and services for Iraq, Afghanistan, and Pakistan military security forces (valued on the basis of the U.S. government financial records reflecting the expenditure of authorized funds). For earlier time periods, similar transfers made under various military assistance programs are also included here.

1.2.3 Gross military grants include transfers of goods and services purchased with dollar funds appropriated or with foreign currencies owned by the U.S. government and authorized by legislation for that use (valued on the basis of the U.S. government financial records reflecting the expenditure of authorized funds). Gross military grants also include transfers of goods under authorizations to deliver to foreign nations the equipment and material deemed excess to U.S. requirements and military drawdowns (valued according to the legislative authorization under which the transfer is made).

1.2.4 Gross military grants also include transfers for programs such as narcotics control and law enforcement, cooperative threat reduction through nuclear nonproliferation and disarmament, and humanitarian assistance for which the Department of Defense has been designated as the executive agent.

1.2.5 Transactions netted against gross military grants—reverse grants—include returns of equipment previously transferred and supplies and services provided to the U.S. government as part of a mutual assistance program.

1.2.6 The value of goods and services financed by U.S. military grant programs offsets identical credit entries for goods in line 3 and for services in line 5, which reflect the military goods delivered and services rendered.

1. U.S. Department of the Treasury. National Advisory Council on International Monetary and Financial Policies. *International Finance: Annual Report.* Washington, DC: GPO, annually.

U.S. Department of Commerce. Office of Business Economics. *Balance of Payments Statistical Supplement.* Washington, DC: GPO, 1963.

U.S. Department of Commerce. Office of Business Economics. *Foreign Grants and Credits by the United States Government.* Washington, DC: GPO, annually 1964-67, quarterly 1943–63.

U.S. Department of Commerce. Bureau of Foreign and Domestic Commerce. *Foreign Aid by the United States Government, 1940–1951.* Washington, DC: GPO, 1952.

Table 14. U.S. Government Grants, 2009 (Line 36)

[Millions of dollars; credits +, debits –]

Total	**–41,638**
Nonmilitary grants, gross	**–30,500**
Under Foreign Assistance Act and related programs:	
Financing military purchases [1]	–4,668
U.S. Agency for International Development	–13,735
Other U.S. government agencies (excluding DOD)	–5,864
For economic reconstruction and humanitarian relief (DOD)	–1,849
Under authorizations for farm product disposals:	
For commodity donations	–1,299
For freight donations	–958
For international refugee assistance	–1,447
For Peace Corps	–333
For trust territory development	–347
Military grants, gross	**–11,138**
Military security forces	–9,114
Military goods, services, and training (MAP), excess defense articles, and military drawdowns	–535
Narcotics control, cooperative threat reduction, and humanitarian assistance	–1,489
Less: Reverse grants and returns	**0**

1. Includes funds advanced to finance military sales to foreign governments and to release foreign governments from their contractual liabilities to pay for defense articles and services purchased under the Arms Export Control Act.

DOD Department of Defense

MAP Military Assistance Program

U.S. Government Pensions and Other Transfers

In this section:

Coverage and definitions

Entries for U.S. government pensions and other transfers offset transfers of real resources or financial assets to foreign residents recorded in the goods, services, or financial accounts. This account consists primarily of unilateral payments by the U.S. government of pensions and other social insurance benefits to eligible persons residing abroad and of periodic payments of membership dues to nonfinancial international organizations. These transactions are considered transfers because no corresponding items of economic value are expected, or received, in return for these cash disbursements. Because a transfer is the corresponding entry to an actual resource flow, the value of the transfer equals the value of the corresponding flow. In general, these transfers are recorded at the time of the cash disbursements.

Estimation methods overview

The account is estimated on the basis of data submitted quarterly by U.S. government operating agencies under Office of Management and Budget Directive No. 19.

1 **U.S. Government Pensions and Other Transfers** (line 37)

1.1 This account measures (1) payments of social security, railroad retirement, and other social insurance benefits to eligible persons residing abroad, (2) payments under retirement and compensation programs for former U.S. government civilian employees, military personnel, and veterans residing abroad, including the cost of providing medical services abroad under Veterans' Administration programs, (3) membership contributions (dues) to international nonfinancial organizations, (4) payments under U.S. educational, cultural exchange, and research programs, and (5) damage claims paid by the U.S. armed services in countries where they have installations (see table 15).

1.2 Other transfers include receipts from foreign residents on U.S. claims arising from damage to, or nationalization of, U.S. property abroad settled by intergovernmental agreements. Generally, these are one-time transactions involving receipts of funds by the United States. If funds received from foreign governments are distributed to U.S. owners residing abroad, the transfers are recorded in this account as payments. When foreign payments for damage or nationalization are made in installments over a period of time, they are recorded as U.S. receipts in repayments on U.S. credits and other long-term assets (line 48).

1.3 As of June 2013, beginning with data for 1999, other transfers include newly-developed estimates of monetary fines and penalties paid by foreign corporations to the U.S. government, largely as a result of violations of U.S. antitrust laws for participation in illegal international cartels. Sanctions of foreign corporations for violations of other (non-antitrust) U.S. laws are also included. Estimates are from administrative records of U.S. government agencies and U.S. courts.

Table 15. U.S. Government Pensions and Other Transfers, 2009 (Line 37)

[Millions of dollars; credits +, debits –]

Total	**–8,874**
Transfers of annuities and other benefits:	
Under social security and related programs	–3,656
Under retirement and compensation programs for federal government service	–996
Membership contributions to international nonfinancial organizations	–4,159
Transfers under educational, cultural exchange, and research programs	–41
Damage claims paid by U.S. armed services	–22

Private Remittances and Other Transfers

In this section:

Coverage and definitions

Entries for private remittances and other transfers offset transfers of real resources or financial assets to and from foreign residents recorded in the goods, services, or financial accounts. The term transfers denotes that no corresponding items of economic value are expected, or received, in return for the goods, services, or financial assets exchanged. Because a transfer is the corresponding entry to an actual resource flow, the value of the transfer equals the value of the corresponding flow. In general, these transfers are recorded as of 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 to which they are offsets.

Estimation methods overview

The account is estimated from numerous data sources, including demographic data from the Bureau of the Census, data from BEA's surveys of institutional remittances and of insurance services, private and U.S. government surveys of the characteristics of college and university education in the United States and abroad, and data from the Internal Revenue Service (IRS).

1 **Private Remittances and Other Transfers** (line 38)

This account measures net private unilateral current transfers of goods, services, and cash and other financial assets between U.S. private residents and foreign residents for which there is no corresponding return of an item of economic value (see table 16). Published estimates are on a net basis; transfers by private U.S. residents to foreign residents are netted against transfers by foreign residents to private U.S. residents.

1.1 **U.S. transfers to foreign residents (U.S. payments)**

Unilateral current transfers by private U.S. residents to foreign residents (outward transfers) consist of (1) U.S. immigrants' personal transfers to households abroad; (2) U.S. religious, charitable, and other nonprofit institutions' gifts and donations to foreigners; (3) current taxes withheld by, and deemed paid to, foreign governments on U.S. residents' earnings (interest and dividends) on holdings of foreign securities, on the distribution of earnings on U.S. direct investment abroad, on various services transactions, and on compensation earned by U.S. residents employed temporarily abroad; and (4) an entry that represents the difference between actual and "normal" (expected) insurance losses (the insurance offset). Also included are (5) private grants to foreign students for study at colleges and universities in the United States; (6) contributions by individuals to UNICEF; (7) an offset for medical services provided to foreign residents on a grant or charitable basis; and (8) personal transfers by individuals and households in the United States to U.S. emigrants living abroad for more than 1 year. Other transfers include (9) personal parcel shipments, (10) postal money orders, and (11) other transfers. The largest of these transfers are personal transfers of U.S. immigrants, institutional transfers, current taxes, and the insurance offset.

1.1.1 **Personal transfers of U.S. immigrants (U.S. payments).—**This item measures personal transfers by the foreign-born population resident in the United States to households abroad. All transfers are included, regardless of the means of transfer. The foreign-born population is defined as that part of the foreign-born population that has resided, or intends to reside, in the United States for more than 1 year. (Personal transfers of the native-born population resident in the United States are presented in paragraph 1.1.16.)

1.1.2 Transfers are estimated through a model which combines demographic and economic characteristics of the foreign-born population. The model combines four variables: the foreign-born population; the percentage of the foreign-born population that remits; the income of the foreign-born population; and the percentage of income remitted by the foreign-born population. The foreign-born population and income of the foreign-born population are based on source data from the U.S. Census Bureau's annual American Community Survey and the U.S. Census Bureau's August 2008 migration supplement to the Current Population Survey. The percentage of the foreign-born population that remits and the percentage of income remitted are BEA estimates based on various research and academic studies. The demographic characteristics include duration of stay in the United States, family type (that is, presence or absence of the spouse and the presence or absence of roommates), country of origin, and gender—all of which have been shown to have a clear impact on remitting behavior.

1.1.3 These variables are combined in the following manner. First, the number of adults in the foreign-born population—arrayed by duration of stay, family type, country of origin, and gender—is multiplied by the percentage of the foreign-born population that engages in remitting. Second, the average income of the foreign-born—arrayed by duration of stay, family type, country of origin, and gender—is multiplied by the percentage of income remitted. Third, the population of remitters resulting from step 1 is multiplied by the average per-capita remittance resulting from step 2, which results in total personal transfers to households abroad by the foreign-born population of the United States.

1.1.4 **Institutional transfers.—**This item measures institutional transfers; these estimates are sometimes referred to as "institutional remittances." The estimates are based on several data sources. The first is data reported by U.S. religious, charitable, educational, scientific, and similar nonprofit and philanthropic foundations and organizations in BEA's BE–40 survey, "Institutional Remittances to Foreign Countries." Data are reported on a country basis and consist entirely of funds (cash) transferred. Funds transferred to foreign residents include outright grants, payments abroad for procurement of goods to be used abroad, payments for contract services abroad, and salaries and other administrative expenses abroad. The BE-40 does not currently request reporting of goods donations. Goods shipped abroad as donations are based on U.S. Census Bureau export data identified as donated goods. For purposes of estimating the total value of goods donations, BEA may adjust the Census data upward because donated goods are not always designated as such on export declarations. The adjusted total is entered in the transfers account; the reported Census data in the goods account are not changed. The value of donated services, such as transportation costs associated with goods transported outside the U.S. border, is also included in transfers.

1.1.5 These data are supplemented by grants data from The Foundation Center, a leading authority on philanthropy that connects nonprofit institutions and grant-makers, and by data reported to the U.S. Agency for International Development (USAID) by more than 550 organizations on a mandatory basis. Business and financial statistics are also used to identify potential corporate giving not distributed through foundations.

1.1.6 The entries for donations of goods are the offsets to goods exports in the trade accounts, and the entries for donations of cash are the offsets to entries in the banking and nonbanking accounts.

1.1.7 **Withholding taxes (U.S. payments).—**This item measures withholding taxes collected by foreign governments primarily on U.S. residents' earnings (interest and dividends) on holdings of foreign securities and withholding taxes collected on the distribution of earnings on U.S. direct investment abroad. Payments of taxes on various services transactions and on compensation earned by U.S. residents employed temporarily abroad are also included. These taxes are included, but not separately identified, in entries in the income receipts and services receipts accounts; the offsets to these taxes are included here as outward current transfers. For securities, withholding taxes for both dividends and interest are based on IRS data and BEA research. For direct investment, withholding taxes are reported on BEA surveys for dividends and are estimated for interest. For services and compensation, estimates are based on BEA research, BEA surveys, and IRS data.

1.1.8 **Insurance offset.—**Insurance services are measured as premiums less "normal" (or expected) losses. Expected losses consist of losses that occur regularly and a share of catastrophic losses that occur at infrequent intervals. For regularly occurring losses, expected losses are measured as a 6-year moving average of the ratio of premiums to actual losses. Catastrophic losses are added in equal increments to the estimate of regularly occurring losses over the 20 years following the event to derive an estimate of total expected losses.

1.1.9 Though this methodology reflects the widespread industry practice of setting premiums based on expected regularly occurring losses and expected catastrophic losses, total expected losses always differ from total actual losses, sometimes by large amounts. The amount of this difference, which represents transfers between insurance companies and policyholders, must be entered as an offset to transactions included in the services accounts.

1.1.10 For regularly occurring losses, the difference between expected losses and actual losses is entered each quarter in *unilateral current transfers.* The difference is calculated separately for insurance provided to foreign residents (services receipts) and insurance purchased from foreign residents (services payments); the difference is also calculated separately for reinsurance and primary insurance. This treatment removes much of the volatility in the services accounts that can be caused by large swings in actual losses. These swings have little to do with the provision of insurance services, which are presumed to occur on a more or less regular basis.

1.1.11 For catastrophic losses, the full amount of the loss recovered is entered in the *capital account* in the quarter in which the event occurs; this amount is not included in the offset included in unilateral current transfers. This treatment considers the transaction as an increase in assets, rather than an increase in current economic activity that would have been implied if the full amount of the catastrophic loss recovered was combined with regular losses recovered in unilateral current transfers. This treatment also assures that transactions related to catastrophic events do not affect certain measures of income and savings in the GDP accounts. The decision as to what constitutes a catastrophic loss is made on a case-by-case evaluation of each major event or loss.

1.1.12 For a more complete description of the insurance methodology, see the description in the chapter "Other Private Services."

1.1.13 **Transfers to foreign students.—**This item measures the value of assistance provided by private U.S. sources to foreign students studying in the United States through scholarships from colleges, universities, private corporations, and other nonprofit institutions. Estimates are made on the basis of data from a survey by the Institute for International Education, which is described in connection with U.S. receipts for education services, a component of other private services receipts, line 10.

1.1.14 **Contributions to UNICEF.—**This item measures contributions by private U.S. residents to the U.S. Committee for UNICEF, which then transfers the contributions to UNICEF. Data are provided by the U.S. Committee for UNICEF. U.S. government contributions to UNICEF are included in U.S. government grants (line 36).

1.1.15 **Transfers of medical services.—**This item measures the value of U.S. medical services provided to foreign residents, including charity cases, for which no payments are made by the recipients or other foreign residents. The transfers are estimated based on information from hospital administrators; the total value of medical services provided by U.S. residents to foreign residents is included in business, professional and technical services receipts, a component of other private services receipts, line 10.

1.1.16 **Personal transfers to U.S. emigrants living abroad (U.S. payments).—**This item measures personal transfers sent to U.S. emigrants living abroad for more than 1 year by individuals and households of the native-born population of the United States. By assumption, these payments are estimated as a percentage of receipts from U.S. emigrants living abroad for more than 1 year (see paragraphs 1.2.5–1.2.7).

1.1.17 **Personal parcel shipments.—**This item measures parcel shipments (goods) by individuals, based on data from the U.S. Postal Service on the weight (in pounds) of parcel post shipped overseas by country and by surface and air transportation. Data on shipping weights are combined with estimates of average dollar value per pound, developed from a special survey of parcel shipments at a bulk mail center, which are adjusted each year for changes in prices. Estimates are brought forward each quarter. The value of shipments estimated for inclusion in transfers is the offset for an equal credit entry in goods exports (line 3) to account for the omission of personal parcel shipments from the Census Bureau's export statistics. The primary entry is one of the balance of payments adjustments made to the Census Bureau data, as described in the chapter "Goods."

1.1.18 **Postal money orders.—**This item measures personal transfers sent abroad in the form of postal money orders, based on data provided quarterly by the U.S. Postal Service. The reported total of postal money orders is assumed to cover personal transfers rather than commercial payments.

1.1.19 **Other transfers.—**This item measures payments by U.S.-based sports teams in the National Hockey League, Major League Baseball, and National Basketball Association to Canadian sports teams under various revenue sharing agreements. (Payments by U.S. broadcasters to Canadian sports teams for broadcast rights to live sporting events are included in royalties and license fees, line 26.) Other transfers also include pension payments by U.S. trade unions to retired members of Canadian local unions. Data are provided by Statistics Canada on a quarterly basis. Data for other countries are not available.

1.1.20 **Fines and penalties.—**As of June 2013, beginning with data for 1999, this item measures monetary fines and penalties paid by U.S. corporations to foreign governments, including the European Commission, for violations of foreign antitrust laws for participation in illegal international cartels. Estimates are from administrative records of foreign government agencies and foreign courts.

1.2 **Foreign transfers to U.S. residents (U.S. receipts)**

Unilateral current transfers by foreign residents to private U.S. residents (inward transfers) consist of (1) current taxes withheld by, and deemed paid to, the U.S. government on foreign residents' earnings (interest and dividends) on holdings of U.S. securities, on the distribution of earnings on foreign direct investment in the United States, on various services transactions, and on compensation earned by foreign residents employed temporarily in the United States, and (2) an entry that represents the difference between actual and "normal" (expected) insurance losses (the insurance offset). Also included are (3) inheritance, pension, and other transfers, and (4) indemnification transfers. Other transfers include (5) personal transfers from U.S. emigrants living abroad for more than 1 year to individuals and households in the United States, (6) postal money orders, and (7) other transfers. The largest of these transfers are current taxes, the insurance offset, and inheritance, pension, and other transfers.

1.2.1 **Withholding taxes (U.S. receipts).—**This item measures withholding taxes collected by the U.S. government primarily on foreign residents' earnings (interest and dividends) on holdings of U.S. securities and withholding taxes collected on the distribution of earnings on foreign direct investment in the United States. Receipts of taxes on various service transactions and on compensation earned by foreign residents temporarily employed in the United States are also included. These taxes are included, but not separately identified, in entries in the income payments and services payments accounts; the offsets to these taxes are included here as inward current transfers. For securities, withholding taxes for both dividends and interest are based on IRS data and BEA research. For direct investment, withholding taxes are reported on BEA surveys for dividends and are estimated for interest. For services and compensation, estimates are based on BEA research, BEA surveys, and IRS data.

1.2.2 **Insurance offset.—**See description under outward transfers (1.1.8–1.1.12), which presents the framework for both outward and inward transfers.

1.2.3 **Inheritance, pension, and other transfers.—** This item measures inheritance and pension receipts by U.S. residents from Canada, Germany, and the United Kingdom. Data are provided quarterly by Statistics Canada and the Deutsche Bundesbank, and annually by the Central Statistical Office of the United Kingdom. Data from other countries are not available.

1.2.4 **Indemnification transfers.—**This item measures transfers from Germany associated with World War II indemnification claims of U.S. residents. Annual data, taken from publications of the Deutsche Bundesbank, are distributed quarterly on the basis of the quarterly pattern of German indemnification payments worldwide.

1.2.5 **Personal transfers from U.S. emigrants living abroad (U.S. receipts).—**This item measures personal transfers sent to individuals and households in the United States by U.S. emigrants living abroad for more than 1 year. The estimates are based on data on the number of U.S. emigrants living abroad, their average incomes, and the proportion of their incomes that is remitted. For retired emigrants, an estimate of wealth is used as a rough proxy for income.

1.2.6 The number of U.S. emigrants living abroad is based on data from the Social Security Administration and the U.S. State Department, as well as Census Bureau estimates of the annual flow of U.S. emigrants. Average income of the emigrant population comes from the Census Bureau, which provides data on mean incomes of U.S. households by age of the head of the household. The proportion of income remitted by U.S. emigrants is assumed to be similar to the proportion of income remitted by immigrants living in the United States who are natives of the United Kingdom, Canada, and other developed countries because the economic profile of U.S.-born emigrants is similar in nature to that of immigrants from these advanced countries.

1.2.7 Personal transfers of U.S. emigrants living abroad to individuals and households in the United States are estimated by multiplying the number of U.S. emigrants by the average dollar amount of income that is remitted for each age group.

1.2.8 **Postal money orders.—**This item measures personal transfers received from abroad in the form of money orders, based on data provided quarterly by the U.S. Postal Service. The reported total of postal money orders is assumed to cover personal transfers rather than commercial payments.

1.2.9 **Other transfers.—**This item measures infrequent inward transfers of goods, supplies, services, and cash following major events such as September 11, 2001 and major hurricanes, and foreign donations of petroleum for home heating.

1.2.10 **Fines and penalties.—**As of June 2013, beginning with data for 1999, this item measures monetary fines and penalties paid by foreign corporations to U.S. private purchasers in civil class action lawsuits for violations of U.S. antitrust laws for participation in illegal international cartels. Estimates are from U.S. courts and other public documents.

Table 16. Private Remittances and Other Transfers, Net, 2009 (Line 38)

[Millions of dollars; credits +, debits –]

Total	**–74,431**
U.S. transfers to foreign residents	**–95,310**
Personal transfers of U.S. immigrants	–37,552
Institutional transfers	–20,455
Withholding taxes and insurance offset	–31,566
Transfers to foreign students, contributions to UNICEF, transfers of medical services, and personal transfers to U.S. emigrants living abroad	–5,180
Personal parcel shipments, Canadian sports teams, and other miscellaneous transfers	–557
Foreign transfers to U.S. residents	**20,879**
Withholding taxes and insurance offset	15,052
Inheritance, pension, and other transfers, indemnification transfers	5,061
Personal transfers from U.S. emigrants living abroad and other miscellaneous transfers	766

Capital Account

In this section:

Coverage and definitions

Capital-account transactions result from acquisitions and disposals of nonproduced, nonfinancial assets of an economy, such as purchases and sales of rights to tangible assets and purchases and sales of intangible assets, and from capital transfers, such as insured catastrophic losses and debt forgiveness. Capital-account transactions are distinguished from current-account transactions in that capital-account transactions result in a commensurate change in assets of one or both parties to the transaction without affecting the income or savings of either party. Thus, transactions in the components of the capital account do not affect measures of production, income, and savings of an economy, whereas transactions in the components of the current account do affect measures of production, income, and savings of an economy.

Acquisitions and disposals of nonproduced, nonfinancial assets of an economy and capital transfers receivable and payable are recorded separately on a gross basis, but are netted in a single line in the presentation of the accounts.

Estimation methods overview

Statistics are regularly available for only two types of capital account transactions: data for insured catastrophic losses are from BEA's survey of insurance services and from company reports and data for forgiveness of U.S. government loans are from the U.S. Treasury Department.

1 **Capital Account Transactions, Net** (line 39)

1.1 **Acquisitions and disposals of nonproduced nonfinancial assets**

1.1.1 Acquisitions and disposals of nonproduced nonfinancial assets include purchases and sales of rights to *tangible assets,* such as mineral rights, electromagnetic spectrum, and offshore drilling rights, and purchases and sales of *intangible assets,* such as copyrights and trademarks. At present, no source data are available to separately identify and adequately measure most of these transactions. In some cases, capital transactions may be covered but commingled with transactions recorded elsewhere in the accounts, primarily in the royalties and license fees accounts (lines 9 and 26) and in the business, professional, and technical services accounts (lines 10 and 27).

1.1.2 Examples of intermittent transactions in nonproduced, nonfinancial assets currently included in the capital account are receipts of U.S.-based sports leagues for the establishment of franchises in Canada, receipts of the U.S. State Department for the sale of land in London, and payments for the purchase of rights to negotiate with foreign athletes. Although no reliable source data are regularly available, when BEA can identify transactions in nonproduced, nonfinancial assets, they are included in the capital account.

1.2 **Capital transfers**

1.2.1 **Insured catastrophic losses.—**Transfers related to insured catastrophic losses—losses recovered from foreign insurers on both reinsurance and primary insurance contracts—are currently the largest capital transfer for which source data are available; these transfers are separated from other insurance transactions to assure that insured catastrophic losses do not affect measures of income and savings in the GDP accounts.[1] By their nature, entries for catastrophic events are infrequent; a single entry for the entire amount of the catastrophic loss recovered from foreign reinsurance and primary insurance companies is made in the quarter in which the catastrophic event occurs. No catastrophic losses occurred in 2009; therefore, the entry in table 17 is zero. The decision as to what constitutes a catastrophic loss is made on a case-by-case evaluation of each major event or loss.

1.2.2 **Debt forgiveness.—**Debt forgiveness is the voluntary cancellation of all or part of a debt obligation within a contractual agreement between a creditor and debtor. With debt forgiveness, the contractual arrangement cancels or forgives all or part of the principal amount outstanding, including interest arrears and other interest costs that have accrued. Debt forgiveness does not arise from the cancellation of future interest payments that have not yet fallen due and have not yet accrued. Currently, data are available only for forgiveness of debt owed to the U.S. government (see table 17). Debt forgiveness is included in the capital account to avoid distorting measures of income and savings in the GDP accounts.

1.2.3 **Panama Canal.—**Capital transfers also include the December 1999 transfer to the Republic of Panama of the U.S. government's assets in the Panama Canal Commission.

1. Eugene P. Seskin and Shelly Smith, "Preview of the 2009 Comprehensive Revision of the NIPAs: Changes in Definitions and Classifications," Survey of Current Business 89 (March 2009): 10–27. For more information on earlier changes, see Brent R. Moulton and Eugene P. Seskin, "Preview of the 2003 Comprehensive Revision on the National Income and Product Accounts: Changes in Definitions and Classifications," Survey 83 (June 2003): 19–23; Baoline Chen and Dennis J. Fixler, "Measuring the Services of Property-Casualty Insurance in the NIPAs," Survey 83 (October 2003): 10–26.

Table 17. Capital Account Transactions, Net, 2009 (Line 39)

[Millions of dollars; credits +, debits –]

Total	**–140**
Receipts	**0**
Disposals of nonproduced nonfinancial assets	0
Sales of rights to natural resources	0
Capital transfers	0
Insured catastrophic losses	0
Payments	**–140**
Acquisitions of nonproduced nonfinancial assets	0
Purchases of rights to natural resources	0
Capital transfers	–140
Debt forgiveness	–140

U.S. Official Reserve Assets

In This Section:

Coverage and definitions

Transactions in U.S. official reserve assets are measured in the following accounts: (1) Gold (line 42); (2) special drawing rights (SDRs) (line 43); (3) reserve position in the International Monetary Fund (IMF) (line 44); and (4) foreign currencies (line 45) (see table 18). Transactions consist of (1) sales and purchases by U.S. monetary authorities of monetary gold (that is, gold held by the U.S. Treasury as a financial asset); (2) IMF allocations of SDRs to the United States and cancellations of SDRs, U.S. acquisitions of outstanding SDRs, and sales of U.S.-owned SDRs for foreign currencies or U.S. dollars; (3) changes in IMF holdings of dollars, resulting from transactions between the IMF and member countries; and (4) foreign exchange market interventions by U.S. monetary authorities, some acquisitions of foreign currencies from the IMF or foreign governments, and net earnings on U.S. official reserve assets. Transactions with private foreign residents are included in these accounts only if they result in changes in U.S. official reserve holdings of foreign currencies.

Estimation methods overview

BEA estimates quarterly transactions on the basis of data provided—generally under Office of Management and Budget (OMB) Directive No. 19—by the U.S. Treasury Department, the Federal Reserve System, and the IMF. Data on U.S. reserve assets are published weekly by the Treasury Department in terms of holdings (outstanding amounts). BEA does not use this release as an input into its estimates of reserve assets; rather, BEA uses source data on the gold stock from Treasury, on foreign currency holdings from the Federal Reserve System, and on U.S. accounts at the IMF from the IMF. BEA publishes U.S. holdings of reserve assets at market value annually in the U.S. international investment position and quarterly in table 5 of the U.S. international transactions accounts.

BEA excludes from transactions changes in the value of reserve assets attributable to holding gains and losses, which are not considered to be international transactions. Thus, changes in the value of assets that arise from fluctuations in the market price of gold and from fluctuations in the exchange market value of the dollar vis-à-vis foreign currencies and SDRs are excluded. Also excluded are reclassifications arising from monetizations and demonetizations of monetary gold by monetary authorities. An additional exclusion resulted from changes in the par value of gold in 1972 and 1973. These exclusions are, however, included in the international investment position accounts as valuation adjustments so as to value reserve assets at current market prices.

1 **Gold** (line 42)

1.1 This account measures transactions in monetary gold between U.S. monetary and foreign monetary authorities, between U.S. monetary authorities and the IMF, and between U.S. monetary authorities and other international financial organizations. 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. All monetary gold is included in reserve assets or is held by international financial organizations. Transactions in nonmonetary gold—gold exported or imported in forms such as ore, scrap and base bullion, refined bullion, and coins and medallions—are not included here, but rather in goods exports and goods imports (lines 3 and 20).

1.2 Since 1972, following the August 1971 U.S. government action to end the convertibility of the U.S. dollar into gold for settling international reserve transactions, the only transactions in monetary gold are purchases of gold by U.S. monetary authorities from the IMF in 1977–1979 as part of a gold "restitution" program between the IMF and member countries.

1.3 The U.S. government gold stock, including that in the Exchange Stabilization Fund (ESF), is held by the Treasury Department.[1] The stock and monetary gold transactions with foreign governments are valued at the official U.S. Treasury par value of gold, $42.2222 per fine troy ounce. Between May 1972 and October 1973, U.S. gold was valued at $38 per fine troy ounce. From January 1934 until May 1972, the valuation was $35. Official valuations of U.S. gold are made pursuant to the Par Value Modification Act (Public Law 92–268) and its amendment (Public Law 93–110). Gold transactions with the IMF—including the return of gold contributed by the United States (restitutions)—are valued at the U.S. dollar equivalent of the established price of gold in terms of SDRs.

1. The ESF was established in the U.S. Treasury Department, by section 10 of the Gold Reserve Act of 1934, to stabilize the exchange value of the dollar through the purchase and sale of foreign currencies and gold in the open market.

2 **Special Drawing Rights** (line 43)

2.1 This account, which measures transactions in U.S. holdings of SDRs in the IMF Special Drawing Rights Department, reflects SDR allocations, cancellations, acquisitions, and sales.

2.2 SDRs are international reserve assets created by the IMF and allocated to members to supplement existing official reserves. SDRs are held only by monetary authorities of IMF members and a limited number of international financial institutions that are authorized holders. SDR holdings represent unconditional rights to obtain foreign exchange or other reserve assets from other IMF members.

2.3 The allocation of newly created SDRs by the IMF to the United States is considered as an increase in U.S. official reserve assets (line 43); the offset to the allocation is recorded as the incurrence of a U.S. government official liability (line 60) because of the requirement to repay the allocation to the IMF in certain circumstances. A cancellation of an allocation would result in a reversal of the entries in lines 43 and 60. Interest accrues on both the asset and liability.

2.4 The acquisition of outstanding SDRs is considered as an increase in U.S. official reserve assets; the sale of outstanding SDRs is considered as a decrease in U.S. official reserve assets.

2.5 The SDR was created in 1969 through an amendment to the IMF Articles of Agreement. The first SDR allocation to IMF member countries was made in three installments in 1970-1972, the second allocation in three installments in 1979-1981, the third allocation in 2009, and the fourth allocation in 2009. The valuation of the SDR has changed over the years, from the equivalent of 0.888671 grams of fine gold in 1970 (equal to the U.S. dollar at the dollar's par value of $35 per troy ounce of fine gold) to the current valuation that is based on a weighted average of exchange rates for the currencies of four major countries. Beginning January 1, 2011, the relative weights are: U.S. dollar, 42 percent; euro, 37 percent; Japanese yen, 9 percent; and pound sterling, 11 percent. The value of the dollar relative to the SDR changes daily.

2.6 BEA estimates quarterly SDR transactions on the basis of IMF data on transactions and on amounts outstanding at the beginning and end of the period. BEA records transactions in U.S. dollar equivalents. Changes in U.S. holdings of SDRs resulting from changes in the exchange market value of the dollar vis-à-vis the SDR are not included in the transactions estimates, but are included in the international investment position estimates as valuation adjustments.

3 **Reserve Position in the IMF** (line 44)

3.1 This account measures transactions affecting the U.S. reserve position in the IMF; it reflects IMF transactions in U.S. dollars with both the United States and foreign countries. *IMF transactions with the United States* consist of (1) IMF acquisitions of dollars resulting from net sales of gold to the United States for use in IMF operations; (2) U.S. purchases from the IMF of SDRs and foreign currencies in exchange for dollars, and U.S. repurchases of dollars; (3) net U.S. dollar loans to the IMF under the General Arrangements to Borrow and under the New Arrangements to Borrow; (4) U.S. payments of dollars to the IMF as charges against the United States, and IMF payments of dollars to the United States as interest on IMF borrowings; and (5) IMF payments of dollars for its administrative operations in the United States. *IMF transactions in dollars with other countries* consist of (1) IMF sales of dollars for foreign currencies and SDRs and IMF repurchases of those currencies for dollars; (2) IMF sales of gold for dollars; (3) IMF dollar borrowings and relendings; (4) IMF payments on its borrowings; and (5) IMF payments of dollars for its administrative operations outside the United States.

3.2 The U.S. reserve position in the IMF is equal to the U.S. quota in the IMF minus IMF holdings of dollars (excluding dollar holdings in IMF administrative and subsidiary accounts)—the “U.S. reserve tranche”—plus net U.S. loans to the IMF. The reserve position represents the amount of foreign exchange that the United States can unconditionally draw from the IMF, up to the full amount of its quota. Under appropriate conditions, the United States can draw additional amounts based on its quota.

3.3 The initial U.S. quota in the IMF in 1946 was $2,750 million. It was subsequently increased in a number of steps—including revaluations in 1972 and 1973 as a result of changes in the par value of the dollar—to SDR 37,149 million in April 2001 and has remained at that level. The quota is reviewed every 5 years and is under review in 2010–2011.

3.4 BEA estimates the quarterly net change in the U.S. reserve position in the IMF on the basis of IMF data on transactions and on amounts outstanding at the beginning and end of the period. Estimates do not include valuation changes in the reserve position that result from changes in the exchange market value of the dollar in terms of the SDR, but these changes are included in the international investment position accounts as valuation adjustments.

4 **Foreign Currencies** (line 45)

4.1 This account measures the net transactions that affect U.S. Treasury Department and Federal Reserve System holdings of the foreign currencies that are included in U.S. official international reserves. Changes in these holdings result from (1) transactions associated with U.S. exchange market intervention through the ESF and the Federal Reserve System; (2) transactions under some types of reciprocal currency arrangements of the ESF and Federal Reserve System with foreign monetary authorities; and (3) foreign currency transactions with the IMF.

4.2 ESF transactions consist of (1) drawings and repayments of foreign currencies against the U.S. reserve position in the IMF and (2) sales of SDRs to other countries for foreign currencies. The ESF also has the authority (since 1962) to engage in reciprocal currency arrangements, carried out by the Federal Reserve Bank of New York acting as agent on behalf of the Treasury, to enable the U.S. Federal Reserve System and major foreign central banks to obtain immediate access to each other’s currencies in order to deal with temporary pressures in exchange markets.

Drawings and repayments under these reciprocal foreign currency arrangements are considered as transactions in reserve assets because the monetary authorities have immediate and unconditional access to each other's currencies. These arrangements have not been used in recent time periods.

4.3 The Federal Reserve System, under the authority of section 14 of the Federal Reserve Act, may also swap dollars for foreign currencies with major foreign central banks to aid in the easing of liquidity shortages, such as occurred in 2008 and 2009. However, these transactions, while between central banks, do not meet the strict definition of reserve asset transactions; that is, the monetary authorities do not have immediate and unconditional access to each other's currencies. Drawings and repayments under these reciprocal short-term programs, known as dollar liquidity swap lines, are entered as changes in U.S. government foreign currency holdings and U.S. government short-term assets (line 49).

4.4 BEA estimates quarterly transactions on the basis of Federal Reserve Bank of New York data on amounts of foreign currencies outstanding at the beginning and end of the period and reports of income earned on foreign exchange holdings. Changes in the value of foreign exchange holdings as a result of fluctuations in currency exchange rates are not entered in the international transactions accounts, but are included as valuation adjustments in the international investment position accounts.

Table 18. U.S. Official Reserve Assets, (2009) (Line 41)

[Millions of dollars]

(Credits +; decrease in U.S. assets. Debits –; increase in U.S. assets.)	
U.S. official reserve assets, net (line 41)	**–52,256**
Gold (line 42)	0
Special drawing rights (line 43)	–48,230
Reserve position in the International Monetary Fund (line 44)	–3,357
Foreign currencies (line 45)	–669

U.S. Government Assets, Other Than Official Reserve Assets

In this section:

Coverage and definitions

U.S. government assets, other than official reserve assets, consist of (1) U.S. government credits extended to foreign residents, (2) capital subscriptions in, or contributions to, international financial institutions, (3) repayments of credits by foreign residents, and (4) net changes in other U.S. government assets. Credits extended are disbursements of cash (loans), or deliveries on sales made on credit, to foreign governments and other foreign entities. Loans may be disbursed in dollars or in foreign currencies. Repayments may be in dollars, foreign currencies, services, property, or the assumption of claims. Other U.S. government assets consist mainly of holdings of foreign currencies, other than those held by the U.S. Treasury Department and the Federal Reserve System as reserves, and of assets acquired, including those from the U.S. private sector, in performance of U.S. government guarantee and insurance programs.

Estimation methods overview

Changes in U.S. government assets, other than official reserve assets, are recorded in the following accounts: (1) U.S. credits and other long-term assets (line 47); (2) repayments on U.S. credits and other long-term assets (line 48); and (3) U.S. foreign currency holdings and other short-term assets, net (line 49).

Quarterly estimates are made by BEA from data submitted by U.S. government operating agencies under Office of Management and Budget Directive No. 19; data are summarized by country, by agency, and by type of asset. BEA supplements these data with information from quarterly statements of receipts, expenditures, and balances of foreign currency holdings, provided by the U.S. Treasury Department, published financial statements, annual reports and other submissions to the U.S. Congress, and the financial and operating records of other U.S. government agencies.

1 **U.S. Government Credits and Other Long-Term Assets** (line 47)

1.1 This account measures utilization of U.S. government credits (including loans) and other long-term assets by the transfer of resources to foreigners under programs enacted by the U.S. Congress for the provision of foreign assistance requiring repayment over a period of years, usually with interest (see table 19). Transfers of resources represent the dollars disbursed and the dollar equivalents of goods transferred, services performed, or foreign currencies disbursed by the U.S. government to, or for the account of, a foreign government or other foreign entity. Transfers are valued on the basis of the obligation assumed by the debtor under the contractual agreement for repayment.

1.2 Also included in this account are U.S. government investments, by means of capital subscriptions or contributions, in international financial institutions and multilateral development banks that provide development and other long-term economic assistance to foreign countries. Each institution or development bank establishes its own schedule on which to request additional capital subscriptions from its members; thus, subscription payments may be small or zero in any given year for many of the institutions. Subscription payments to the International Monetary Fund (IMF) are not included in this account, but are included in the reserve position of the United States in the IMF (line 44). Other transactions, all for earlier time periods, include U.S. government credits to U.S. private entities for specific projects abroad; investments by the U.S. government in productive facilities and installations abroad; and acquisitions of equity holdings of "public enterprise" accounts of U.S. government agencies. U.S. government credits are classified in table 19 by the legislative program under which they were extended to foreigners; the amounts include capitalized interest.

1.3 It should be noted that data on transactions in this account provide only a partial measure of the foreign assistance activity of the U.S. government; other foreign assistance-related activity is recorded in lines 16, 36, 48, and 49. For a detailed discussion of the concepts, the different measures of foreign assistance, and a historical data series on the assistance extended by the U.S. government under various programs in earlier time periods, reference should be made to the annual reports of the Treasury Department's National Advisory Council on International Monetary and Financial Policies. These reports continue the series formerly published by BEA in a supplement to the SURVEY OF CURRENT BUSINESS and in the *Foreign Grants and Credits by the United States Government.*[1]

2 **Repayments on U.S. Government Credits and Other Long-Term Assets** (line 48)

2.1 This account measures collections of principal on credits and recoveries against other long-term assets (see table 20). Also included are (1) principal collections in liquidation of outstanding indebtedness, which are formalized by intergovernmental agreements in settlement of assistance that was originally provided under indeterminate terms and recorded in U.S. government grants at the time the assistance was provided (line 36); (2) collections on claims settled by intergovernmental agreements requiring payment in installments over a period of years (including funds for distribution to U.S. private residents)[2]; (3) recoveries of U.S. government investments, whether debt or equity, in productive facilities and installations abroad; and (4) sales of promissory notes (or other evidences of indebtedness) owned by the U.S. government to third-party foreign participants, either in the country of the borrower or in third countries.

2.2 Excluded from this account are principal charged off as uncollectible and exchange rate gains or losses (in dollar equivalents) on indebtedness denominated in foreign currencies. As shown in table 20, collections are classified by the legislative programs

1. U.S. Department of the Treasury. National Advisory Council on International Monetary and Financial Policies. *International Finance: Annual Report.* Washington, DC: GPO, annually.

U.S. Department of Commerce. Office of Business Economics. *Balance of Payments Statistical Supplement.* Washington, DC: GPO, 1963.

U.S. Department of Commerce. Office of Business Economics. *Foreign Grants and Credits by the United States Government.* Washington, DC: GPO, annually 1964–67, quarterly 1943–63.

U.S. Department of Commerce. Bureau of Foreign and Domestic Commerce. *Foreign Aid by the United States Government, 1940–1951.* Washington, DC: GPO, 1952.

2. Collections of claims settled by intergovernmental agreements requiring only one-time payments are recorded in U.S. government pensions and other transfers (line 37).

under which credits and other long-term assets were extended.

3 **U.S. Government Foreign Currency Holdings and Other Short-Term Assets, Net** (line 49)

3.1 This account measures central bank currency swaps between the Federal Reserve System and foreign central banks to aid in the easing of liquidity shortages, such as occurred in 2008–2010 (see table 21). While these transactions are between central banks and temporarily increase the Federal Reserve's holdings of foreign currencies, they do not meet the strict definition of reserve asset transactions.

3.2 Drawings under these reciprocal short-term swap programs, known as dollar liquidity swap lines, involve the sale of foreign currencies by the foreign central bank in exchange for dollars from the Federal Reserve with an agreement to reverse the transaction on a specified future date at the same exchange rate. The Federal Reserve holds the foreign currency in an account at the foreign central bank. The dollars provided by the Federal Reserve are deposited in an account that the foreign central bank maintains at the Federal Reserve Bank of New York. When the swap is reversed, the foreign central bank buys back its currency at a specified date at the same exchange rate, and pays interest, at a market-based rate, to the Federal Reserve.

3.3 When the foreign central bank lends the dollars it obtained by drawing on its swap line to institutions in its jurisdiction, the dollars are transferred from the foreign central bank's account at the Federal Reserve to the account of the bank that the borrowing institution uses to clear its dollar transactions. The foreign central bank remains obligated to return the dollars to the Federal Reserve under the terms of the agreement, and the Federal Reserve is not a counterparty to the loan extended by the foreign central bank. The foreign central bank bears the credit risk associated with the loans it makes to institutions in its jurisdiction. Dollar liquidity swaps have maturities ranging from overnight to three months. Large negative values in this account indicate sizable drawings by foreign central banks on these credit lines in 2008, and large positive values indicate sizable repayments of borrowings in 2009.

3.4 Dollar liquidity swaps are differentiated from transactions in foreign currencies that are part of U.S. reserve asset transactions included in line 45. The distinguishing characteristic of reserve assets is that they are readily available to, and controlled by, monetary authorities for meeting balance of payments financing needs and for intervention in exchange markets in order to affect the currency exchange rate.

3.5 Also included in this account are acquisitions (less dispositions) of assets acquired by the U.S. government in performance of guarantee and insurance obligations for private sector investments abroad, and changes in foreign currency holdings of U.S. government and military disbursing officers.

3.6 Excluded from this account are gains or losses (in dollar equivalents) on foreign currency balances due to fluctuations in exchange rates, and changes in foreign currencies held as official reserve assets by U.S. monetary authorities.

3.7 Changes in foreign currency holdings and other short-term assets are recorded net, that is, drawings less repayments.

3.8 In earlier time periods, this account contained numerous types of entries related to short-term lending programs and foreign currency transactions related to the (1) financing of U.S. farm product exports by acceptance of foreign currencies under the Agricultural Trade Development and Assistance Act (Public Law 83–480) and under the Commodity Credit Corporation Charter Act, less the U.S. government's disbursements of these currencies as grants, credits, or for purchases; (2) financing, net of repayments, of U.S. farm exports by purchase of exporters' receivables with original maturities of 12 months or less under the Commodity Credit Corporation short-term export credit sales program; (3) transactions affecting U.S. government holdings of foreign currencies collected as interest, principal, reverse grants, or under other assistance programs; (4) changes in foreign currency holdings of U.S. government disbursing officers;

(5) changes in accounts receivable of U.S. government agencies that report their current transactions on an accrual basis rather than on a cash basis; and (6) any advances of the U.S. Treasury's Exchange Stabilization Fund that were not identified as reserve assets.

3.9 The financial assistance provided by these short-term lending programs reflected transfers of resources, as measured by the dollars disbursed and the dollar equivalents of goods transferred, services performed, or foreign currencies disbursed by the U.S. government to, or for the account of, a foreign government or other foreign entity. Transfers were valued on the basis of the obligation assumed by the debtor under the contractual agreement for repayment. Farm product sales were recorded when the U.S. government transferred commodities from its stocks or disbursed dollars for the financing of agricultural exports; the amounts included the value of ocean transportation when it was financed by the U.S. government under arrangements for reimbursement by foreign governments in foreign currencies.

3.10 For more detailed information on U.S. government foreign assistance through net accumulations of foreign currency claims in earlier periods, reference should be made to the annual reports of the U.S. Treasury Department's National Advisory Council on International Monetary and Financial Policies.

Table 19. U.S. Government Credits and Other Long-Term Assets, 2009 (Line 47)

[Millions of dollars; credits +, debits –]

Total	**–4,069**
Credits	**–2,419**
Under Export-Import Bank Act	–1,990
Under Foreign Assistance Act and related programs:	
Financing military sales	0
Country program loans	–44
Investment incentive loans	–321
Under Agricultural Trade Development and Assistance Act:	
Long-term dollar credits	–63
Foreign currency loans	0
Under Commodity Credit Corporation Charter Act	–1
Other U.S. Government assets	**–1,650**
Investments in international financial institutions and multilateral development banks	
World Bank Group:	
International Development Association	–1,257
International Bank for Reconstruction and Development	–89
Multilateral Investment Guaranty Agency	0
International Finance Corporation	0
Inter-American Development Bank Group:	
Inter-American Development Bank	0
Enterprise for the Americas Multilateral Investment Fund	–11
Inter-American Investment Corporation	0
Asian Development Bank Group:	
Asian Development Bank	–67
Asian Development Fund	0
African Development Bank Group:	
African Development Bank	–3
African Development Fund	–205
European Bank for Reconstruction and Development	–3
North American Development Bank	–15

Table 20. Repayments on U.S. Government Credits and Other Long-Term Assets, 2009 (Line 48)

[Millions of dollars]

Total	**2,133**
Repayments of principal on U.S. long-term credits	**2,133**
Under Export-Import Bank Act	858
Under Foreign Assistance Act and related programs:	
Financing military sales	217
Country program loans	437
Investment incentive loans	83
Under Agricultural Trade Development and Assistance Act:	
Long-term dollar credits	521
Foreign currency loans	0
Under Commodity Credit Corporation Charter Act	17
Repayments on other U.S. long-term assets	*****

* Less than $1 million

Table 21. U.S. Government Foreign Currency Holdings and Other Short-Term Assets, Net, (Line 49)

[Millions of dollars; credits +, decrease in U.S. assets; debits –, increase in U.S. assets]

U.S. government foreign currency holdings and short-term assets, net	**543,278**
Federal Reserve liquidity swaps, net	543,457
Assets acquired in performance of U.S. government guarantee insurance obligations, net	–107
Foreign currency holdings of U.S. government and military disbursing officers (excluding administrative cash holdings), net	–37
Other short-term assets (including changes in administrative cash holdings), net	–35

Direct Investment Concepts

In this section:

This presentation of direct investment is divided into two parts. The first discusses, in an overview, the basic concepts, definitions, and country and industry classification of data used in BEA's surveys of direct investment. The second details the direct investment financial transactions recorded as U.S. direct investment abroad (line 51) and foreign direct investment in the United States (line 64). (Direct investment income (lines 14 and 31) is discussed in the chapter "Direct Investment Income").

Basic Concepts and Definitions

1 Direct investment

1.1 **Direct investment.—**Direct investment exists when an entity or group of related entities in one economy makes an investment in another economy that gives control, or a significant degree of influence, over the management of an entity resident in another economy. Generally, direct investment indicates a long-term relationship with the management of a foreign enterprise, and the enterprise is usually linked with the real output of the country in which it operates. Other private investment (sometimes referred to as portfolio investment), on the other hand, generally reflects short-term activity in financial markets, where the ability to shift funds between countries or financial investments is a major consideration.

1.2 **Ten-percent ownership.—**Ownership or control by an entity of 10 percent or more of a nonresident entity's voting securities of an incorporated entity, or the equivalent interest for an unincorporated entity, is considered evidence of ownership or control.[1] Thus, 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

1. See International Monetary Fund, *Balance of Payments and International Investment Position Manual,* 6th ed. (Washington, DC: International Monetary Fund, 2009); and Organisation for Economic Co-Operation and Development (OECD), *OECD Benchmark Definition of Foreign Direct Investment,* 4th ed. (Paris: OECD, 2008).

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. Other private investment (sometimes referred to as portfolio investment) refers to less than 10 percent ownership or control.

1.3 **Single owner.—**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.

1.4 However, in the case of direct investment by the U.S. government, any positions or transactions of the U.S. government with such an enterprise abroad are excluded from the outward direct investment accounts and are included, instead, in the appropriate government or military accounts. In contrast, direct investment by foreign governments (including any of their agencies and corporations) in U.S. business enterprises is included in the inward direct investment account.

1.5 An associated group consists of two or more entities who exercise their voting privileges in a concerted manner—by the appearance of their actions, by agreement, or by an understanding—in order to influence the management of a nonresident business enterprise. The following are deemed associated groups: (1) members of the same family, (2) a business enterprise and one or more of its officers or directors, (3) members of a syndicate or joint venture, and (4) a corporation and its domestic subsidiaries. Thus, direct investment is considered to exist as long as the combined ownership interest of all members of the group is at least 10 percent, even if no one member owns 10 percent or more. The definition assumes, in effect, that the members’ influence over management is comparable with that of a single entity with the same ownership interest.

1.6 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.

1.7 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 a 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.

1.8 **Direct and indirect ownership.—**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. 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. 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.

2 **Direct investor**

2.1 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.

2.2 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, the direct investment accounts 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."

2.3 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. balance of payments accounts by the respective country of each member.

3 **Affiliates**

3.1 **Affiliates.—**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.

3.2 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. Therefore, by definition, a business enterprise excludes the ownership of real estate for personal use. A business enterprise may be either incorporated or unincorporated. Unincorporated business enterprises include branches, partnerships, and sole proprietorships.

4 **Exclusions**

4.1 Excluded from direct investment are intercompany debt transactions among certain affiliated nonbank *financial* corporations. These transactions are classified as nonbank claims and liabilities because the nature of the transactions is related to the underlying activity of financial intermediation rather than to activity typical of a direct investment relationship. These financial intermediary accounts consist of transactions between firms in a direct investment relationship (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 (excluding insurance), but the firms are neither banks nor securities brokers. (Equity investments among these affiliated nonbank financial corporations remain in direct investment because these transactions are indicative of a direct investment ownership interest in the affiliate).

4.2 Transactions among banks and their affiliates, and among securities brokers and dealers and their affiliates, are also excluded from direct investment and combined with these institutions' transactions with unaffiliated entities as other private investment. The combination groups together transactions related to the underlying activity of financial intermediation, regardless of the affiliation of the enterprises.

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

4.4 Equity in international organizations is also excluded, even in cases in which voting power is 10 percent or more; these equity contributions are included in other private investment.

U.S. Direct Investment Abroad (USDIA)

5 **U.S. parent—USDIA**

5.1 A U.S. parent is a U.S. entity that has direct investment—that is, a 10-percent-or-more direct or indirect ownership interest—in a foreign business enterprise. Because a U.S. parent is an entity in the broad sense mentioned earlier, it may be a business enterprise, a religious, charitable, or other nonprofit organization, an individual, a government, an estate or trust, an investment fund, or another organization. In actuality, almost all U.S. parents are business enterprises.

5.2 Each U.S. parent that is an incorporated business enterprise is required to report to BEA on a fully consolidated domestic (U.S.) basis. The full consolidation includes the U.S. corporation with the direct investment ownership interest in a foreign business enterprise and all other U.S. corporations in which the parent directly or indirectly owns more than 50 percent of the outstanding voting interests. The consolidation excludes all other U.S. corporations and all foreign business enterprises owned by the U.S. parent.

5.3 When a U.S. individual or other nonbusiness entity (such as a nonprofit organization or a government) owns more than 50 percent of a U.S. business enterprise that owns a foreign business enterprise, the U.S. business enterprise, not the individual or the other nonbusiness entity, is considered the parent. This treatment ensures that data on the transactions and positions of the U.S. business enterprise with the foreign business enterprise are included in the foreign-affiliate data reported to BEA and in the direct investment accounts.

5.4 The U.S. government may have equity investment in a foreign business enterprise, but such investments are not covered by BEA's direct investment surveys. Data on such investments are reported to other government agencies and are included by BEA in the U.S. government accounts, rather than in the direct investment accounts, of the U.S. international transactions accounts and the international investment position.

5.5 In the case of a U.S. estate, the estate itself, not its beneficiary, is considered the U.S. parent. However, for a U.S. trust, either the beneficiary or the creator of the trust may be considered the U.S. parent with respect to any investments of the trust, depending on the circumstances. The U.S. creator is considered the parent if there is a reversionary interest—that is, if the interest in the trust may be returned to the creator after a period of time—or if the creator is a corporation or other organization that designates its own shareholders or members as beneficiaries. In all other cases, the beneficiary is considered the parent.

6 **Foreign affiliate—USDIA**

6.1 A foreign affiliate is a foreign business enterprise in which there is U.S. direct investment. The affiliate is called a *foreign* affiliate to denote that it is located outside the United States.

6.2 A business enterprise is any organization, association, branch, venture, or the ownership of real estate that exists for profitmaking purposes or to otherwise secure economic advantage. Therefore, by definition, a business enterprise excludes the ownership of real estate for personal use. A residence that is leased to others by an owner who intends to reoccupy it is considered real estate held for personal use and not as a business enterprise.

6.3 A foreign affiliate may be either incorporated or unincorporated. Unincorporated affiliates primarily take the form of branches and partnerships. They may also include directly held commercial property.

6.4 A foreign affiliate that is a branch consists of operations or activities in a foreign country that a U.S. parent conducts in its own name rather than through an entity separately incorporated abroad. By definition, a branch is wholly owned. If a company is incorporated in the United States but carries out substantially all of its operations abroad, its foreign operations are treated by BEA as a branch (and therefore as a foreign affiliate) even though the U.S. company itself may consider the operations to be an integral part of, and would normally consolidate them with, its own operations and accounts.

6.5 In general, the foreign operations or activities of a U.S. parent are considered to be a foreign affiliate if they are legally or functionally separable from the domestic operations or activities of the U.S. parent. In most cases, it is clear whether the foreign operations or activities constitute a foreign affiliate. If an operation or activity is incorporated abroad—as most are—it is always considered a foreign affiliate.

6.6 The situation is not always so clear with unincorporated foreign operations or activities. Most are legally or functionally separable from those of the U.S. parent and thus are considered foreign affiliates, but some are not clearly separable, and the determination of whether they constitute a foreign affiliate is made on a case-by-case basis, depending on the weight of the evidence. The following characteristics would indicate that the unincorporated operation or activity is probably a foreign affiliate:

- The operation or activity is subject to foreign income taxes.
- It has a substantial physical presence abroad, as evidenced by plant and equipment or by employees that are permanently located abroad.
- It has separate financial records that would allow the preparation of financial statements, including a balance sheet and income statement. (A mere record of disbursements to, or receipts from, the foreign operation or activity would not constitute a "financial statement" for this purpose.)
- It takes title to the goods it sells and receives revenues from the sale, or it receives funds from customers for its own account for services it performs.

6.7 The following characteristics would indicate that the unincorporated operation or activity is probably not a foreign affiliate:

- The operation or activity is not subject to foreign income taxes.
- It has limited physical assets or few employees permanently located abroad.
- It has no separate financial records that allow the preparation of financial statements.
- It conducts business abroad only for the U.S. entity's account, not for its own account. It engages only in sales promotion or public relations activities on behalf of the U.S. person.
- Its expenses are paid by the U.S. parent.

6.8 Consistent with these guidelines, the foreign stations, ticket offices, and terminals or port facilities of a U.S. airline or ship operator that provide services only to the airline's or ship operator's own operations are not considered foreign affiliates, because most of the revenues, such as passenger fares and freight charges, collected by these facilities are generated by the travel and transportation services rendered by the airline or ship operator of which they are a part, not by the activities of these facilities. However, if the facilities provide services to unaffiliated persons, they are considered foreign affiliates.

6.9 In general, each foreign affiliate is required to report separately to BEA. However, consolidation of affiliates in the same country is permitted if the affiliates are in the same NAICS-based four-digit industry or are integral parts of the same business operation. (For example, if Mexican affiliate A manufactured automobile engines and a majority of its sales were to Mexican affiliate B, which assembled automobiles, then affiliates A and B can be consolidated.) Under no circumstances are affiliates in different countries permitted to be consolidated. (See the section "Classification by Industry—USDIA and FDIUS" for a statement of general principles.)

6.10 A majority-owned foreign affiliate (MOFA) is a foreign affiliate in which the combined direct and indirect ownership interest of all U.S. parents exceeds 50 percent. Data for MOFAs rather than for all foreign affiliates are required in order to examine the foreign investments over which U.S. parents exert unambiguous control. (In some instances, the U.S. parent(s) may be under the control of a foreign parent company.) Additionally, some aspects of affiliate operations can only be analyzed from the perspective of MOFA operations, because the necessary data items are not collected for other affiliates.

Foreign Direct Investment in the United States (FDIUS)

7 Foreign owners—FDIUS

7.1 The existence of direct investment in a U.S. affiliate is determined solely on the basis of the voting shares (or the equivalent) held by its foreign parent. To more completely describe the foreign ownership of a U.S. affiliate, however, reference must be made to two additional entities—the ultimate beneficial owner and the foreign parent group. All three concepts are necessary to identify fully the owners of U.S. affiliates.

7.2 The *foreign parent* of a U.S. affiliate must be identified to establish that foreign direct investment does in fact exist. The *ultimate beneficial owner (UBO)* of each U.S. affiliate is identified to determine the entity that ultimately owns or controls and, therefore, ultimately derives the benefits from owning or controlling the U.S. affiliate. (UBOs that are individuals are not required to be identified by name; however, their countries of location are required to be reported to BEA.) Members of the *foreign parent group (FPG)* are identified to distinguish foreign enterprises that are affiliated with a U.S. affiliate from those that are not.

7.3 The U.S. affiliate's transactions with all these entities are included in the goods, services, investment income, and financial accounts of the U.S. international transactions accounts, but are not always separately identified, and the direct investment positions in the U.S. affiliate that are held by all members of the foreign parent group, not just by its foreign parent, are included in the foreign direct investment position in the United States.

7.4 A given U.S. affiliate may have more than one ownership chain above it, if it is owned at least 10 percent by more than one foreign enterprise. In such cases, the affiliate may have more than one foreign parent, UBO, and foreign parent group.

7.5 A *foreign parent* is the *first* entity outside the United States in a U.S. affiliate's ownership chain that has a direct investment interest in the affiliate. All other affiliated foreign entities are excluded.

7.6 The *ultimate beneficial owner (UBO)* of a U.S. affiliate is that entity proceeding up the affiliate's ownership chain, beginning with and including the foreign parent, that is not owned more than 50 percent by another entity. The UBO excludes other affiliated entities. If the foreign parent is not owned more than 50 percent by another entity, the foreign parent and the UBO are the same. Unlike the foreign parent, the UBO may be either a U.S. entity or a foreign entity (though most are foreign).

7.7 Both the foreign parent and the UBO may be business enterprises, or they may be religious, charitable, or other nonprofit organizations; individuals; governments; estates or trusts; associated groups; and so forth. In the case of a foreign estate, the estate, not its beneficiary, is considered the foreign parent or UBO. For the investments of a foreign trust, either the creator or the beneficiary of the trust may be considered the foreign parent or UBO, depending on the circumstances. The creator is considered the foreign parent or UBO if the creator is a corporation or other organization that designates its own shareholders or members as beneficiaries or if there is a reversionary interest—that is, the interest in the trust may later be returned to the creator. In all other cases, the beneficiary of the trust is considered the foreign parent or UBO.

7.8 A *foreign parent group (FPG)* 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 UBO, and (3) any foreign entity, proceeding down the ownership chain(s) of each of these members, that is owned more than 50 percent by the entity above it.

8 **U.S. affiliate—FDIUS**

8.1 A U.S. affiliate is a U.S. business enterprise in which there is foreign direct investment. The affiliate is called a *U.S. affiliate* to denote that it is located in the United States.

8.2 A business enterprise is any organization, association, branch, venture, or the ownership of real estate that exists for profitmaking purposes or to otherwise secure economic advantage. Therefore, by definition, a business enterprise excludes the ownership of real estate for personal use. A residence that is leased to others by an owner who intends to reoccupy it is considered real estate held for personal use and not a business enterprise.

8.3 A U.S. affiliate may be either incorporated or unincorporated. Unincorporated affiliates primarily take the form of branches and partnerships. They may also include directly held commercial property.

8.4 A U.S. affiliate that is a branch consists of operations or activities in the United States that a foreign parent conducts in its own name rather than through an entity separately incorporated in the United States. By definition, a branch is wholly owned. If a company is incorporated abroad but carries out substantially all of its operations in the United States, its U.S. operations are treated by BEA as a branch (and therefore as a U.S. affiliate), even though the foreign company itself may consider the operations to be an integral part of, and would normally consolidate them with, its own operations and accounts.

8.5 In general, the U.S. operations or activities of a foreign parent are considered to be a U.S. affiliate if they are legally or functionally separable from the foreign operations or activities of the foreign parent. In most cases, it is clear whether the U.S. operations or activities constitute a U.S. affiliate. If an operation or activity is incorporated in the United States—as most are—it is always considered a U.S. affiliate.

8.6 The situation is not always so clear with unincorporated U.S. operations or activities. Most are legally or functionally separable from those of the foreign owner and thus are considered U.S. affiliates, but some are not clearly separable, and the determination of whether they constitute U.S. affiliates is made on a case-by-case basis, depending on the weight of evidence. The following characteristics would indicate that the unincorporated operation or activity probably is a U.S. affiliate:

- It is subject to U.S. income taxes.
- It has a substantial physical presence in the United States, as evidenced by plant and equipment or employees that are permanently located in the United States.
- It has separate financial records that allow the preparation of financial statements, including a balance sheet and income statement. (A mere record of disbursements to, or receipts from, the U.S. operation or activity would not constitute a "financial statement" for this purpose.)

- It takes title to the goods it sells and receives revenues from the sale, or it receives funds from customers for its own account for services it performs.

8.7 The following characteristics would indicate that the unincorporated operation or activity probably is not a U.S. affiliate:

- It is not subject to U.S. income taxes.
- It has limited physical assets or few employees permanently located in the United States.
- It has no separate financial records that allow the preparation of financial statements.
- It conducts business in the United States only for the foreign entity's account, not for its own account.
- It engages only in sales promotion or public relations activities.
- Its expenses are paid by the foreign parent group.

8.8 Consistent with these guidelines, the U.S. stations, ticket offices, and terminal or port facilities of a foreign airline or ship operator that provide services only to the airline's or ship operator's operations are not considered U.S. affiliates, because most of the revenues, such as passenger fares and freight charges, collected by these facilities are generated by the travel and transportation services rendered by the airline or ship operator of which they are a part, not by the activities of these facilities. However, if the facilities provide services to unaffiliated persons, they are considered U.S. affiliates.

8.9 Each U.S. affiliate is required to report to BEA on a fully consolidated domestic (U.S.) basis. The full consolidation includes all other U.S. affiliates of the foreign parent in which the affiliate directly or indirectly owns more than 50 percent of the outstanding voting interest. The consolidation excludes all other U.S. business enterprises and all foreign business enterprises owned by the U.S. affiliate.

8.10 There are two exceptions to this general consolidation rule. First, a given U.S. affiliate may be excluded from full consolidation because of the lack of effective control. Second, a U.S. affiliate in which a direct ownership interest is held by one foreign enterprise and an indirect ownership interest is held by another foreign enterprise is not permitted to be consolidated in the report to BEA of another U.S. affiliate; this rule ensures that data on transactions and positions of both owners can be obtained from the affiliate.

8.11 The general approach to classification by industry of U.S. affiliates for inward investment is the same as for foreign affiliates for outward investment. See the section "Classification by Industry—USDIA and FDIUS" for a statement of general principles.

9 **Classification by country—USDIA**

9.1 For *outward direct investment,* each foreign affiliate is classified by its country of location—that is, the country in which the affiliate's physical assets are located or in which its primary activity is carried out. In most cases, the country of location of a business enterprise is the same as its country of organization or incorporation. However, in some cases, a business enterprise is incorporated in one country, but part or all of its physical assets are located or its activities are carried out in a second country. If all its physical assets or operations are located in a single foreign country outside its country of incorporation, the enterprise is treated as an incorporated foreign affiliate in the country where its physical assets and operations are located. However, if an enterprise has some physical assets or operations in each country, it is considered two affiliates—an incorporated affiliate located in the country of incorporation and an unincorporated affiliate located in the other country.

9.2 These general rules have three exceptions. First, if a business enterprise that is incorporated in one foreign country has all of its physical assets or operations in more than one other foreign country, an incorporated foreign affiliate is deemed to exist in the country of incorporation, even though the enterprise may have no physical assets or operations in that country. Unincorporated foreign affiliates are deemed to exist in the other foreign countries. In effect, the affiliate in the country of incorporation is considered a holding company whose assets are the equity it holds in the unincorporated affiliates in the other countries. Second, if a business enterprise that is incorporated abroad by a U.S. enterprise conducts its operations from, and has all of its physical assets in the United States, it is treated as an incorporated foreign affiliate in the country of incorporation, even though it has no operations or physical assets there. This treatment ensures that the foreign entity is reported to BEA. Third, affiliates that have operations spanning more than one country and that are engaged in petroleum shipping, other ocean transportation, or offshore oil and gas drilling are classified in the country of residence of the operator of the ship or the equipment.

9.3 Balance of payments transactions between parents and affiliates are recorded against the country of the affiliate with which the U.S. parent had a direct transaction, even if the transaction may reflect indirect claims on, liabilities to, or income from indirectly held affiliates in third countries. For example, if a U.S. parent company acquires all of the equity in a German manufacturer for $100 million and channels the purchase through its holding-company affiliate in the Netherlands, then both the direct investment financial flow and the direct investment position would be recorded against the Netherlands, because that is the country of the affiliate with which the U.S. parent had a direct transaction.

9.4 Transactions with third-country transactors involving a given affiliate are classified in the affiliate's country of location. For example, if a U.S. parent purchases a Japanese affiliate's capital stock from a French resident, then the resulting direct investment financial flow would be classified in Japan because such flows change the U.S. direct investment position in that country. (However, the associated settlement flows, which would be included in other financial accounts of the U.S. international transactions accounts, would likely be classified in France.)

10 **Classification by country—FDIUS**

10.1 For *inward direct investment,* transactions and positions of U.S. affiliates are classified by country of each member of the foreign parent group, rather than strictly by country of the foreign parent, because a U.S. affiliate may have transactions and direct positions with members of the group other than its foreign parent. For example, the affiliate may borrow funds from, or lend funds to, another member of the group located in a country that is different from that of the foreign parent.

10.2 For U.S. affiliates that have more than one UBO or foreign parent, the data for a given affiliate are classified by the country of the UBO or the foreign parent that had the largest ownership share in the affiliate. For most affiliates, the country of the UBO is the same as that of the foreign parent. However, the patterns of transactions and of positions by country of the foreign parent versus the country of the UBO may differ significantly in some cases.

11 **Classification by industry—USDIA and FDIUS**

11.1 U.S. parents and their foreign affiliates and foreign parents and their U.S. affiliates are classified according to International Surveys Industry (ISI) classifications. The classifications and their code numbers are adapted by BEA from the 2007 North American Industry Classification System (NAICS). For the most part, the ISI classifications are equivalent to NAICS four-digit industries; at its most detailed level, NAICS classifies industries at a six-digit level. The ISI classification system is less detailed than NAICS because it is designed for classifying enterprises rather than establishments (or plants). A list and a description of the NAICS-based ISI codes are presented in *Guide to Industry Classifications for International Surveys, 2007,* available on BEA's web site at http://www.bea.gov/surveys/pdf/be799.pdf.

11.2 Because many direct investment enterprises are active in several industries, it is not meaningful to classify all their data in a single industry if that industry is defined too narrowly. Each U.S. parent or foreign affiliate and each U.S. affiliate is classified by industry on the basis of its sales (or for holding companies, on the basis of its total income) in a three-step procedure. First, a given parent or affiliate is classified in the NAICS sector that accounts for the largest percentage of its sales.[2] Second, within the sector, the parent or affiliate is classified in the three-digit subsector in which its sales are largest; a three-digit subsector consists of all four-digit industries that have the same first three digits in their four-digit ISI code. Third, within its three-digit subsector, the parent or affiliate is classified in the four-digit industry in which its sales are largest. This procedure ensures that the U.S. parent or foreign affiliate is not assigned to a four-digit industry outside either its sector or its three-digit subsector.

11.3 The following example illustrates the three-stage classification procedure. Suppose the sales of an affiliate were distributed as follows:

Code		Percentage of total sales
	All industries	100
	Manufacturing	55
333	Machinery	30
3331	Agriculture, construction, and mining machinery	10
3332	Industrial machinery	15
3336	Engines, turbines, and power transmission equipment	5
334	Computers and electronic products	25
3344	Semiconductors and other electronic products	25
	Wholesale trade	45
423	Durable goods merchant wholesalers	45
4238	Machinery, equipment, and supplies merchant wholesalers	45

11.4 The affiliate's major industry is manufacturing because 55 percent of the affiliate's sales are in manufacturing and only 45 percent are in wholesale trade. Because the largest share of the affiliate's sales in manufacturing is in the three-digit subsector 333, the affiliate's three-digit subsector is 333 (machinery). Finally, because its sales within subsector 333 are largest in industry 3332, the affiliate's four-digit industry is 3332 (industrial machinery). Thus, the affiliate is assigned to industry 3332, even though its sales in that industry are smaller than its sales in either industry 3344 or industry 4238.

2. The sectors used were agriculture, forestry, fishing, and hunting; mining, quarrying, and oil and gas extraction; utilities; construction; manufacturing; wholesale trade; retail trade; transportation and warehousing; information; finance and insurance; real estate and rental and leasing; professional, scientific, and technical services; management of companies and enterprises; administrative and support, waste management, and remediation services; educational services; health care and social assistance; arts, entertainment, and recreation; accommodation and food services; and other services.

Direct Investment Financial Accounts

In this section:

Financial Flows

1 **U.S. Direct Investment Abroad** (line 51)

Financial flows for U.S. direct investment abroad consist of equity flows, reinvested earnings, and intercompany debt flows of U.S. direct investors to both their incorporated and unincorporated foreign affiliates (see table 22).

1.1 **Equity**

1.1.1 U.S. parents' equity in incorporated foreign affiliates consists of the U.S. parents' holdings of capital stock in, and other capital contributions to, their affiliates. Capital stock consists of all stock of affiliates, whether common or preferred, voting or nonvoting. Other capital contributions by U.S. parents, also referred to as the "U.S. parents' equity in additional paid-in capital," consist of (1) capital, invested or contributed, that is not included in capital stock (such as amounts paid for stock in excess of its par or stated value), and (2) capitalizations of intercompany accounts (conversions of debt to equity) that do not result in the issuance of capital stock.

1.1.2 U.S. parents' equity in unincorporated affiliates consists of the U.S. parents' share of the affiliates' total owners' equity.

1.1.3 Equity investment is the net of U.S. parents' equity increases and decreases in their foreign affiliates. Equity investment excludes changes in equity that result from the reinvestment of earnings, which are recorded as a separate component of direct investment financial outflows.

1.1.4 Equity increases result from the U.S. parents' establishment of new foreign affiliates, from initial acquisitions of a 10-percent-or-more ownership interest in existing foreign business enterprises, from acquisitions of additional ownership interests in existing foreign affiliates, and from capital contributions to foreign affiliates. Equity decreases result from liquidations of foreign affiliates, from partial or total sales of ownership interests in foreign affiliates, and from the return of capital contributions. Equity decreases also include liquidating dividends, which are a return of capital to U.S. parents. Decreases in equity are recorded as inflows to U.S. parents and are netted against increases, or outflows, in equity to affiliates abroad to derive net equity outflows for U.S. direct investment abroad.

1.1.5 Net equity outflows are generally recorded at transactions values that are based on the books of U.S. parents rather than on the books of the foreign affiliate. The information is obtained from the books of the parents partly because some transactions—such as when a U.S. parent purchases or sells stock in an affiliate with an unaffiliated third party—are not recorded on the books of the foreign affiliate. In addition, transactions values on the parents' books reflect the actual cost of ownership interest in affiliates that are acquired or sold by U.S. parents, including any premium or discount; such values may differ from the book values recorded on the affiliates' books.

1.2 **Reinvested earnings**

1.2.1 Reinvested earnings of foreign affiliates are total earnings less distributed earnings. Earnings are U.S. parents' shares in the net income of their foreign affiliates after provision for foreign income taxes. Earnings are from the books of the foreign affiliate. A U.S. parent's share in net income is based on its directly held equity interest in the foreign affiliate.

1.2.2 Reinvested earnings are shown as a separate component of direct investment financial flows, in recognition of the fact that the earnings of an affiliate are income to the U.S. parent, whether they are reinvested or remitted to the parent. However, because reinvested earnings are not actually transferred to the U.S. parent but increase the parent's investment in its affiliate, an entry of equal magnitude, but opposite sign, is made in the direct investment financial account, offsetting the entry made in direct investment income receipts (line 14).

1.2.3 Reinvested earnings, as well as total earnings and total income in the current account, are measured at current cost (or replacement cost) rather than at historical cost to assure that assets are valued at current-period prices and to assure that reported measures of earnings and income earned in a given period are properly aligned with charges against income in the same period. The adjustment is made at the global level only because source data are not available to apply at either the country level or industry level; reinvested earnings at country and industry levels remain based on historical-cost assets. The total amount of the current-cost adjustment is entered in the "international organizations and unallocated" area to assure that the sum of the geographic areas adds to the global total for reinvested earnings.

1.3 **Intercompany debt**

1.3.1 Intercompany debt flows consist of the change in U.S. parents' net intercompany debt due from their foreign affiliates during the quarter. The quarterly *change* is derived by subtracting the net outstanding intercompany debt balance at the end of the previous quarter from the net outstanding balance at the end of the current quarter. The net *balance* at the end of a quarter or year is calculated as U.S. parents' receivables less U.S. parents' payables.

1.3.2 When a U.S. parent lends funds to its foreign affiliate, the balance of the U.S. parent's receivables (amounts due) from the affiliate increases; subsequently, when the affiliate repays the principal owed to its U.S. parent, the balance of the U.S. parent's receivables from the affiliate is reduced. Similarly, when a U.S. parent borrows funds from its foreign affiliate, the balance of the U.S. parent's payables (amounts owed) to the affiliate increases; subsequently, when the U.S. parent repays the principal owed to its affiliate, the balance of the U.S. parent's payables to the affiliate is reduced.

1.3.3 Increases in U.S. parents' receivables from their affiliates, or reductions in U.S. parents' payables to their affiliates, result in increases in U.S. parents' net assets and give rise to net outflows in the intercompany debt account. Reductions in U.S. parents' receivables from their affiliates, or increases in U.S. parents' payables to their affiliates, result in decreases in U.S. parents' net assets and give rise to net inflows in the intercompany debt account.

1.3.4 Net intercompany debt outflows, like net equity outflows, are recorded at transactions values. They are based on the books of U.S. parents and may differ from values based on the books of foreign affiliates.

1.3.5 Not all intercompany debt transactions reflect actual flows of funds. For example, when distributed earnings or interest accrue to a U.S. parent from a foreign affiliate, the full amount is included as a receipt of income on U.S. direct investment abroad. If all or part of that amount is not actually transferred to the U.S. parent, the amount not transferred is entered into intercompany debt as an increase in the U.S. parent's receivables from its foreign affiliate.

1.3.6 **Financial intermediaries.—**Complexities arise in the classification of intercompany debt transactions of U.S. parent companies with their financial affiliates abroad, particularly those in offshore financial centers. For example, if a U.S. *manufacturer* borrows funds from its financial affiliate in the Cayman Islands, the acquisition of those funds should be recorded as an increase in intercompany debt payables (a debt inflow) and the repayment of those funds as a decrease in intercompany debt payables (a debt outflow) and both included in direct investment financial flows. However, if a U.S. *financial* firm acquires funds from or repays funds to a financial affiliate in the Cayman Islands, those financial flows should be classified in the nonbank claims and liabilities accounts because the nature of the transactions is more closely related to the underlying activity of financial intermediation than to activity typical of a direct investment relationship. These financial intermediaries' accounts are defined as transactions between firms in a direct investment relationship (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 (excluding insurance), but the firms are neither banks nor securities brokers. (By the same reasoning, related interest flows are also classified as other private interest rather than as direct investment interest.)

1.3.7 Transactions among banks and their affiliates, and among securities brokers and dealers and their affiliates, are also excluded from direct investment and combined with these institutions' transactions with unaffiliated entities as other private investment. The combination groups together transactions related to the underlying activity of financial intermediation, regardless of the affiliation of the enterprises.

1.3.8 **Capital and operating leases.—**The net change in intercompany debt includes changes in the value of capital—or financial—leases and operating leases of more than 1 year between U.S. parents and their foreign affiliates. When property is leased by a foreign affiliate from its U.S. parent, the value of the leased property is recorded as an intercompany asset of the parent because it increases its receivables (a debt outflow). The subsequent payment of principal on a capital lease, or the component of payments on an operating lease that reflects depreciation, is a return of capital and is recorded as a reduction in the parent's intercompany assets because it reduces its receivables (a debt inflow). Similarly, when property is leased to a U.S. parent by its foreign affiliate, the value of the leased property is recorded as an intercompany liability of the parent because it increases the parent's payables (a debt inflow). The parent's subsequent payment of principal on a capital lease, or the component of payments on an operating lease that reflects depreciation, is a return of capital and is recorded as a reduction in intercompany liabilities because it reduces the parent's payables (a debt outflow).

1.4 Direct investment and other private investment

1.4.1 Some transactions require a shift in classification between direct investment and other private investment (sometimes referred to as portfolio investment). If a U.S. parent has an original equity interest of less than 10 percent in an enterprise abroad, and if additional purchases result in a greater than 10 percent equity interest, a direct investment financial outflow equal to the value of the additional interest is recorded. In addition, a valuation adjustment is made to the direct investment position to bring the original interest into the position. If a U.S. parent's interest in an affiliate falls below 10 percent, a direct investment financial inflow equal to the value of the reduction in interest is recorded and a valuation adjustment to the direct investment position is made to extinguish the remaining direct investment interest. Related income flows are also reclassified.

1.5 **Reverse investment**

1.5.1 A U.S. parent may have investment in a foreign affiliate that, in turn, has investment in the U.S. parent as a result of the affiliate's lending funds to, or acquiring voting securities or other equity interest in, the U.S. parent ("reverse investment"). Reverse *equity* investment is recorded as an inflow on foreign direct investment in the United States if the equity ownership interest is 10 percent or more, or as an inflow on other private investment if the equity ownership is less than 10 percent. Reverse *debt* flows from foreign affiliates to U.S. parents continue to be netted in the intercompany debt accounts, except in the rare case in which a foreign affiliate and its U.S. parent own 10 percent or more of each other; in that case, the reverse debt flows are included in foreign direct investment in the United States or in U.S. direct investment abroad, as appropriate.

1.6 **Presentation**

1.6.1 Equity and intercompany debt investments are disaggregated into several subaccounts. Equity is disaggregated to show increases and decreases in equity. Intercompany debt is disaggregated to show changes in both receivables and payables. Certain transactions may affect two or more of these subaccounts simultaneously and by offsetting amounts. Such transactions are "grossed up"; that is, the outflows and the offsetting inflows are recorded in the affected subaccounts rather than being netted to zero and not recorded in any subaccount. However, because such gross flows are offsetting, they do not affect net financial flows. For example, the capitalization of intercompany debt, which reduces intercompany debt and increases equity, results in gross, but not net, direct investment financial flows.

1.6.2 Table 22 shows the major components of financial outflows for U.S. direct investment abroad in 2009, classified by account and major industry. Additional details—account by county, account by major industry, and account cross classified by country and major industry—are available annually for more than 16 industries and 75 countries and areas in the September issue of the SURVEY OF CURRENT BUSINESS.

1.7 **Basis for recording and classification**

1.7.1 Generally, equity, reinvested earnings, and intercompany debt transactions are based on the books of the U.S. parents.

1.7.2 Transactions of foreign affiliates are classified by the country of the foreign affiliate, even if the foreign affiliate is not itself a party to the transaction. For example, if a U.S. parent purchases an affiliate's capital stock from a third-country transactor, the transaction is classified in the country of the affiliate because the resulting outflows change the U.S. direct investment position in that country. (However, the offsetting financial entry, which is included in the other private investment accounts, is likely to be classified in the country of the foreign transactor.)

2 **Foreign Direct Investment in the United States** (line 64)

Financial flows for foreign direct investment in the United States consist of equity flows, reinvested earnings, and intercompany debt flows from foreign direct investors to both their incorporated and unincorporated U.S. affiliates (see table 23).

2.1 **Equity**

2.1.1 Foreign parents' equity in incorporated U.S. affiliates consists of the foreign parents' holdings of capital stock in, and other capital contributions to, their affiliates.

2.1.2 Foreign parents' equity in unincorporated affiliates consists of foreign parents' shares of the affiliates' total owners' equity.

2.1.3 Equity investment is the net of foreign parents' equity increases and decreases in their U.S. affiliates. Equity investment excludes changes in equity that result from the reinvestment of earnings, which are recorded as a separate component of direct investment financial inflows.

2.1.4 Equity increases result from the foreign parents' establishment of new U.S. affiliates, from initial acquisitions of a 10-percent-or-more ownership interest in existing U.S. business enterprises, from acquisitions of additional ownership interests in existing U.S. affiliates, and from capital contributions to U.S. affiliates. Equity decreases result from liquidations of U.S. affiliates, from partial or total sales of ownership interests in U.S. affiliates, and from the return of capital contributions. Equity decreases also include liquidating dividends, which are a return of capital to foreign parents. Decreases in equity are recorded as outflows to foreign parents and are netted against increases, or inflows, in equity to U.S. affiliates to derive net financial inflows for foreign direct investment in the United States.

2.1.5 Net equity inflows are generally recorded at transactions values that are based on the books of U.S. affiliates. These inflows may differ from those based on the books of foreign parents. For example, when a foreign parent purchases or sells capital stock of an affiliate from or to an unaffiliated third party, the transaction is recorded only on the parent's books, not on the affiliate's books. In addition, transactions values on foreign parents' books reflect the actual cost of ownership interest in affiliates that are acquired or sold by foreign parents, including any premium or discount; such values may differ from the book values recorded on the affiliates' books.

2.2 **Reinvested earnings**

2.2.1 Reinvested earnings of U.S. affiliates are total earnings less distributed earnings. Earnings are foreign parents' shares in the net income of their U.S. affiliates after provision for U.S. income taxes. Earnings are from the books of the U.S. affiliate. A foreign parent's share in net income is based on its directly held equity interest in the U.S. affiliate.

2.2.2 Reinvested earnings are shown as a separate component of direct investment income in recognition of the fact that the earnings of an affiliate are income to the foreign parent, whether they are reinvested or remitted to the parent. However, because reinvested earnings are not actually transferred to the foreign parent but increase the parent's investment in its affiliate, an entry of equal magnitude, but opposite sign, is made in the direct investment financial account, offsetting the entry made in direct investment income payments (line 31).

2.2.3 Reinvested earnings, as well as total earnings and total income in the current account, are measured at current cost (or replacement cost) rather than at historical cost to assure that assets are valued at current-period prices and to assure that reported measures of earnings and income earned in a given period are properly aligned with charges against income in the same period. The adjustment is made at the global level only because source data are not available to apply at either the country level or industry level; reinvested earnings at country and industry levels remain based on historical-cost assets. The total amount of the current-cost adjustment is entered in the "international organizations and unallocated" area to assure that the sum of the geographic areas adds to the global total for reinvested earnings.

2.3 **Intercompany debt**

2.3.1 Intercompany debt flows consist of the change in U.S. affiliates' net intercompany debt owed to their foreign parents during the quarter. The quarterly *change* is derived by subtracting the net outstanding intercompany debt balance at the end of the previous quarter from the net outstanding balance at the end of the current quarter. The net *balance* at the end of a quarter or year is calculated as U.S. affiliates' payables less U.S. affiliates' receivables.

2.3.2 When a member of a foreign parent group lends funds to a U.S. affiliate, the balance of the affiliate's payables (amounts owed) to the foreign parent group increases; subsequently, when the affiliate repays the principal owed to a member of the foreign parent group, the balance of the affiliate's payables to the group is reduced. Similarly, when a member of the foreign parent group borrows funds from a U.S. affiliate, the balance of the affiliate's receivables (amounts due) from the group increases; subsequently, when the member of the group repays the principal owed to the affiliate, the balance of the affiliate's receivables from the group is reduced.

2.3.3 Increases in U.S. affiliates' payables to their foreign parent groups, or reductions in U.S. affiliates' receivables from their foreign parent groups, result in increases in U.S. affiliates' net liabilities and give rise to net inflows in the intercompany debt account. Increases in U.S. affiliates' receivables from their foreign parent groups, or reductions in U.S. affiliates' payables to their foreign parent groups, result in decreases in U.S. affiliate's net liabilities and give rise to net outflows in the intercompany debt account.

2.3.4 Intercompany debt inflows, like equity inflows, are recorded at transactions values. They are based on the books of U.S. affiliates and may differ from values based on the books of foreign parent groups.

2.3.5 Not all intercompany account transactions reflect actual flows of funds. For example, when distributed earnings or interest accrue to a foreign parent group from a U.S. affiliate, the full amount is included as a payment of income on foreign direct investment in the United States. If all or part of that amount is not actually transferred to the foreign parent group, the amount not transferred is entered into intercompany debt as an increase in the U.S. affiliate's payables to its foreign parent group.

2.3.6 **Financial intermediaries.—**Complexities arise in the classification of intercompany debt transactions of U.S. affiliates with their foreign parent groups abroad, particularly those in offshore financial centers. For example, if a U.S. *manufacturing affiliate* lends funds to its foreign financial parent or to a financial member of a foreign parent group in the Cayman Islands, the transfer of those funds should be recorded as an increase in intercompany debt receivables (a debt outflow) and the repayment of those funds as a decrease in intercompany debt receivables (a debt inflow) and both included in direct investment financial flows. However, if a U.S. *financial affiliate* lends to and receives repayment of funds from its foreign financial parent or financial member of a foreign parent group in the Cayman Islands, those financial flows should be classified in the nonbank claims and liabilities accounts because the nature of the transactions is more closely related to the underlying activity of financial intermediation rather than to activity typical of a direct investment relationship. These financial intermediaries' accounts are defined as transactions between firms in a direct investment relationship (that is, between U.S. affiliates and their foreign parent groups or between U.S. parents and their foreign affiliates), where both the U.S. and foreign firms are classified in a finance industry (excluding insurance), but the firms are neither banks nor securities brokers. (By the same reasoning, related interest flows are also classified as other private interest rather than direct investment interest.)

2.3.7 Transactions among banks and their affiliates, and among securities brokers and dealers and their affiliates, are also excluded from direct investment and combined with these institutions' transactions with unaffiliated entities as other private investment. The combination groups together transactions related to the underlying activity of financial intermediation, regardless of the affiliation of the enterprises.

2.3.8 **Capital and operating leases.—**The net change in intercompany debt includes changes in the value of capital—or financial—leases and operating leases of more than 1 year between foreign parent groups and their U.S. affiliates. When property is leased by a U.S. affiliate from its foreign parent group, the value of the leased property is recorded as an intercompany liability of the U.S. affiliate because it increases the affiliate's payables (a debt inflow). The subsequent payment of principal on a capital lease, or the component of payments on an operating lease that reflects depreciation, is a return of capital and is recorded as a reduction in the intercompany liabilities of the U.S. affiliate because it reduces the affiliate's payables (a debt outflow). Similarly, when property is leased by a U.S. affiliate to its foreign parent group, the value of the leased property is recorded as an intercompany asset because it increases the affiliate's receivables (a debt outflow). The subsequent payment of principal on a capital lease, or the component of payments on an operating lease that reflects depreciation, is a return of capital and is recorded as a reduction in intercompany assets because it reduces the affiliate's receivables (a debt inflow).

2.4 **Direct investment and other private investment**

2.4.1 Some transactions require a shift in classification between direct investment and other private investment (sometimes referred to as portfolio investment.) If a foreign parent has an original equity interest of less than 10 percent in an enterprise in the United States, and if additional purchases result in a greater than 10 percent equity interest, a direct investment financial inflow equal to the value of the additional interest is recorded. In addition, a valuation adjustment is made to the direct investment position to bring the original interest into the position. If a foreign parent's interest in a U.S. affiliate falls below 10 percent, a direct investment financial outflow equal to the value of the reduction in interest is recorded and a valuation adjustment to the direct investment position is made to extinguish the remaining direct investment interest. Related income flows are also reclassified.

2.5 **Reverse investment**

2.5.1 A foreign parent may have investment in a U.S. affiliate that, in turn, has investment in the foreign parent as a result of the affiliate's lending funds to, or acquiring voting securities or other equity interest in, the foreign parent ("reverse investment"). Reverse *equity* investment is recorded as an outflow in U.S. direct investment abroad if the equity ownership interest is 10 percent or more, or as an outflow in other private investment if equity ownership is less than 10 percent. Reverse *debt* flows from U.S. affiliates to foreign parents and other members of the foreign parent group continue to be netted in the intercompany debt account, except in the rare case in which a U.S. affiliate and its foreign parent own 10 percent or more of each other; in that case, the debt flows are included in U.S. direct investment abroad or in foreign direct investment in the United States, as appropriate.

2.6 **Transactions with foreign parent groups**

2.6.1 All intercompany debt flows result from transactions between foreign parent groups and U.S. affiliates. Equity flows, however, may result from transactions between foreign parents and either the U.S. affiliate or unaffiliated U.S. persons. An example of the latter is a foreign parent's purchase of an affiliate's capital stock from an unaffiliated U.S. entity, rather than from the affiliate itself.

2.6.2 Equity and intercompany debt flows exclude transactions among members of a foreign parent group or between the members of the group and other foreigners because foreign-to-foreign transactions are not included in U.S. international transactions. Thus, if a foreign parent purchases additional capital stock in a U.S. affiliate from another foreign entity, the foreign parent's ownership interest in the U.S. affiliate will increase, but no equity inflow is recorded. This transaction occurs entirely outside the United States. In addition, there is no net increase in foreign claims on the United States; rather, the foreign parent's claims have merely been substituted for the claims of the other foreign entity.

2.6.3 Equity and intercompany debt flows also exclude transactions between a U.S. affiliate and foreign persons other than the members of its own foreign parent group. Excluded, for example, are loans by a foreign bank to a U.S. affiliate in which the bank does not have a direct investment ownership interest, and loans by one foreign parent to another foreign parent's U.S. affiliate in which the first-mentioned foreign parent does not have a direct investment ownership interest.

2.7 **Presentation**

2.7.1 Equity and intercompany debt investments are disaggregated into several subaccounts. Equity is disaggregated to show increases and decreases in equity. Intercompany debt is disaggregated to show changes in both receivables and payables. Certain transactions may affect two or more of these subaccounts simultaneously and by offsetting amounts. Such transactions are "grossed up"; that is, the outflows and the offsetting inflows are recorded in the affected subaccounts rather than being netted to zero and not recorded in any subaccount. However, because such gross flows are offsetting, they do not affect net financial inflows. For example, the capitalization of intercompany debt, which reduces intercompany debt and increases equity, results in gross, but not net, direct investment financial flows.

2.7.2 Table 23 shows the major components of financial flows for foreign direct investment in the United States in 2009, classified by account and major industry. Additional details—account by country, account by major industry, and account cross classified by country and major industry—are available annually for more than 16 industries and 75 countries and areas in the September issue of the SURVEY OF CURRENT BUSINESS.

2.8 **Basis for recording and classification**

2.8.1 Generally, equity, reinvested earnings, and intercompany debt transactions are based on the books of the U.S. affiliate. An exception is for changes in equity that do not involve transactions with the U.S. affiliate. For example, if the foreign parent purchases or sells a U.S. affiliate's capital stock from or to an unaffiliated U.S. person, rather than from or to the U.S. affiliate itself, the transaction would not be recorded on the U.S. affiliate's books at all. For these transactions to be reported to BEA and included in equity flows, data on the market value of the transaction from the parent's books must be used.

2.8.2 Transactions and positions of U.S. affiliates are classified by country of each member of the foreign parent group, rather than strictly by country of the foreign parent, because a U.S. affiliate may have transactions with members of the group other than its foreign parent.

Table 22. U.S. Direct Investment Abroad, Financial Flows, 2009 (Line 51)

[Millions of dollars; credits +, debits –]

Total	**–268,680**
Equity	–18,439
Increases in equity	–68,466
Decreases in equity	50,026
Reinvested earnings	–239,899
Intercompany debt	–10,342
U.S. parents' receivables	233
U.S. parents' payables	–10,574
By industry of affiliate:	
Financial flows without current-cost adjustment	**–248,074**
Manufacturing	–47,707
Wholesale trade	–21,296
Finance (including depository institutions) and insurance	–24,590
Holding companies, except bank holding companies	–99,246
Other	–55,235
Equity	–18,439
Manufacturing	–4,618
Wholesale trade	–1,242
Finance (including depository institutions) and insurance	4,635
Holding companies, except bank holding companies	–12,350
Other	–4,864
Reinvested earnings without current-cost adjustment	–219,293
Manufacturing	–28,046
Wholesale trade	–19,357
Finance (including depository institutions) and insurance	–15,061
Holding companies, except bank holding companies	–109,694
Other	–47,134
Intercompany debt	–10,342
Manufacturing	–15,042
Wholesale trade	–697
Finance (including depository institutions) and insurance	–14,164
Holding companies, except bank holding companies	22,798
Other	–3,237

Table 23. Foreign Direct Investment in the United States, Financial Flows, 2009 (Line 64)

[Millions of dollars; credits +, debits –]

Total	**134,707**
Equity	94,762
Increases in equity	117,400
Decreases in equity	–22,638
Reinvested earnings	28,485
Intercompany debt	11,460
U.S. affiliates' payables	3,439
U.S. affiliates' receivables	8,022
By industry of affiliate:	
Financial flows without current-cost adjustment	**129,883**
Manufacturing	48,136
Wholesale trade	12,853
Finance (including depository institutions) and insurance	33,187
Other	35,707
Equity	94,762
Manufacturing	33,773
Wholesale trade	4,971
Finance (including depository institutions) and insurance	32,275
Other	23,743
Reinvested earnings without current-cost adjustment	23,661
Manufacturing	10,515
Wholesale trade	–6,444
Finance (including depository institutions) and insurance	4,584
Other	15,006
Intercompany debt	11,460
Manufacturing	3,847
Wholesale trade	14,326
Finance (including depository institutions) and insurance	–3,672
Other	–3,041

Transactions in Long-Term Securities Other Than U.S. Treasury Securities

In this section:

Coverage and definitions

Securities transactions between U.S. and unaffiliated foreign residents, other than foreign official agencies, are measured in the following accounts: (1) Foreign securities—net purchases by U.S. residents (line 52), and (2) U.S. securities other than U.S. Treasury securities—net purchases by foreign residents (line 66). Securities covered are long-term securities of foreign governments and their political subdivisions, of U.S. and foreign private corporations, of U.S. government federally sponsored agencies, of U.S. states and municipalities, and of international and regional financial institutions. Long-term securities are those with no contractual maturity, such as stocks, and those with an original maturity of more than 1 year. (Transactions in U.S. Treasury securities, other than those with foreign official agencies, are covered in line 65.)

The term "securities" is interpreted broadly to include all equity securities and debt securities. *Equity securities* include common stocks, preferred stocks, restricted stocks, depository receipts, investment fund shares in money market, equity, and bond mutual funds, REITs, index-linked equity unit investment trusts, and limited partnership interests. *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, and sovereign debt of foreign governments and their political subdivisions. In the accounts, securities are grouped under the headings of *stocks*, *bonds,* and *federally sponsored agency bonds.*

The accounts cover both securities newly issued in the United States and abroad and trading in, and redemptions of, outstanding U.S. and foreign securities. Both publicly offered and privately placed securities are covered. Securities may be denominated in U.S. dollars or foreign currencies. Like other financial accounts, the securities accounts are presented on a net basis. Thus, foreign securities (line 52) should be interpreted as net purchases by U.S. residents (gross purchases less gross sales) of foreign securities and U.S. securities other than U.S. Treasury securities (line 66) should be interpreted as net purchases by foreign residents (gross purchases less gross sales) of U.S. securities other than U.S. Treasury securities.

These accounts exclude transactions between U.S. and foreign residents that establish a direct investment relationship through the acquisition of 10 percent or more ownership equity in a business enterprise in the United States or abroad. That is, if the whole of the transaction reaches or surpasses the threshold of 10 percent or more of voting power, the transaction is included under direct investment. Any transactions or positions prior to that point are not classified as direct investment. For example, if a direct investor previously had 9 percent of voting power, then acquired 2 percent more, there would be a direct investment transaction involving 2 percent and reclassification entries for a reduction of portfolio investment involving the 9 percent holding and a corresponding increase in direct investment. Subsequent transactions up to and including a transaction that takes the voting power below 10 percent are classified as direct investment.

These accounts also exclude transactions in U.S. securities by foreign official agencies. However, transactions undertaken by private entities on behalf of foreign official agencies may be inadvertently included here if the transactions are not specifically identified as official in the reported data.

As of June 2013, beginning with the fourth quarter of 2011, net purchases of foreign securities by U.S. residents and net purchases of U.S. securities by foreign residents are estimated by BEA from position data collected monthly on the Treasury International Capital (TIC) Form SLT, “Aggregate Holdings of Long-Term Securities by U.S. and Foreign Residents,” from transaction data collected monthly on the TIC S forms, “Purchases and Sales of Long-Term Securities by Foreign Residents,” and from position data collected on annual and benchmark surveys on cross-border portfolio holdings.

Filing of Form SLT is required for U.S.-resident custodians, central securities depositories, issuers, and large end investors to provide securities positions as of the last business day of the month by major types of U.S. securities held by foreigners and of foreign securities held by U.S. residents. Filing of Form SLT is required if the total fair value of all reportable foreign and U.S. securities of the reporting entity is equal to or exceeds $1 billion on the last business day of the month.

Filing of S forms is required by banks and other depository institutions, bank holding and financial holding companies, U.S. branches and agencies of foreign banks, securities brokers and dealers, insurance companies, investment managers, industrial and commercial enterprises, and other investors or nonbanking enterprises who on their own behalf, or on the behalf of their customers, engage in transactions in long-term securities with foreigners. Reports are required if the total of purchases *or* sales amounts to $50 million or more during a given month. If the level of transactions meets or exceeds the exemption level in any month, reporting is required for the remainder of the calendar year regardless of the level of transactions in subsequent months; reporting is also required for both purchases and sales even if only one meets or exceeds the exemption level. A report from a large institution generally contains a consolidation of all U.S. subsidiaries and other U.S.-resident transactors that deal through the reporting institution. Because of this consolidation and the concentration of activity in the securities industry, a relatively small number of reporters account for a large share of the reported total. In 2009, approximately 200 reporters filed regular monthly reports.

In order to avoid duplication of reported transactions in other surveys, survey respondents are instructed to omit from the S form (1) short-term securities with an original maturity of 1 year or less, (2) certificates of deposit and other types of deposit notes, and (3) securities taken or lent as collateral, securities involved in repurchase/resale agreements, and securities that are part of securities lending agreements (because these instruments are reported by various bank and nonbank entities on the TIC B forms and C forms). Transactions in derivatives are also excluded because they are reported on the TIC D form.

Data on the S forms are reported on a transactions basis, that is, the total amount of money debited or credited as of the settlement date. The reported amounts represent the cost of purchases plus commissions and other charges or the proceeds of sales less commissions, taxes, and other charges incurred in the transactions.

Transactions denominated in foreign currencies are reported in terms of dollar equivalents; foreign currency values are converted at the spot exchange rate on the day of settlement.

In general, data are classified by the foreign country or geographical area in which the foreign transactor or intermediary is domiciled, as shown on the records of the U.S. reporting institutions. The geographic distribution of the reported data may not necessarily reflect the nationality of the ultimate foreign owner of U.S. securities or the country of issue of foreign securities traded. Thus, securities transactions between U.S. and foreign residents effected in countries that are international financial centers—such as the United Kingdom, the Channel Islands, the Cayman Islands, the Bahamas, the Netherlands, and Hong Kong—are recorded for those countries, irrespective of the country of issue of the foreign security or of the nationality of the ultimate foreign owners of U.S. securities. Moreover, estimates of net transactions between the United States and individual countries or areas may, in certain instances, represent transactions between residents of different countries. For instance, such transactions can arise in the United States if both parties are foreign residents, but are domiciled in different countries; a gross sale would be recorded for one country and a gross purchase for the other. Thus, data on the geographic pattern of securities transactions between U.S. and foreign residents must be interpreted with caution.

The TIC S form is designed to minimize reporting by end-investors, by requiring that certain U.S.-resident financial intermediaries provide the majority of the reporting. To the extent that the reporting system works as designed, all transactions flowing through traditional financial intermediary channels should be captured in principle. To the extent that transactions take place with U.S. entities that are not financial intermediaries, reporting problems are likely to occur. Moreover, a reporting system based on financial intermediaries is inherently complex in today's financial environment, with reporting responsibilities spread across U.S.-resident dealers, brokers, and prime brokers; U.S.-resident underwriters; U.S.-resident end-investors; U.S.-resident paying agents; U.S.-resident custodians; U.S.-resident fund managers and investment managers; U.S.-resident issuers of securities; and electronic trading platforms.

Estimation methods overview

On a quarterly basis, transactions data reported on the S form are adjusted by BEA to account for missed transactions using the position data reported on the SLT form. Once a year, published transactions and positions are evaluated and reconciled with positions reported on the annual or benchmark surveys filed by U.S.-resident custodians, central securities depositories, issuers, and large end investors that provide security-by-security enumerations of positions in outstanding securities as of the last business day of a month by major types of U.S. securities held by foreigners and of foreign securities held by U.S. residents. These position totals are then compared with positions reported on the SLT. The valuation adjustments are based on securities market price indexes. The sample panel for the annual surveys is based on benchmark surveys that are conducted every five years. The annual sample surveys are designed to cover about 90 percent of the universe of positions.

1 **Foreign Securities—Net Purchases by U.S. Residents** (line 52)

This account measures net purchases of foreign securities by U.S. residents classified as foreign stocks and bonds (see table 24). Foreign securities consist of securities issued by foreign central governments and their political subdivisions, by foreign corporations and similar organizations chartered in foreign countries, and by international and regional organizations—whether located in the United States or abroad. The securities may be denominated in U.S. dollars or foreign currencies. Included are purchases of newly issued foreign securities and trading in, and redemptions of, outstanding foreign securities. Transactions are between U.S. residents and unaffiliated foreign residents.

1.1 **Foreign stocks**

1.1.1 Foreign stocks includes common stocks, preferred stocks (participating and nonparticipating preference shares), restricted stocks, depository receipts, foreign-resident investment fund shares in money market, equity, and bond mutual funds (open-end and closed-end), REITs, index-linked unit investment trusts, and all other equity, including shares or units of ownership in unincorporated business enterprises, such as limited partnerships.

The procedure for estimating net purchases of foreign stocks by U.S. residents is as follows:

1.1.2 Data on U.S. holdings of foreign stocks are reported on the monthly TIC Form SLT. The holdings are compared to prior periods and to transactions data from the TIC Form S as described below.

1.1.3 (1) Data on gross sales and gross purchases of foreign stocks by U.S. residents in transactions with foreign residents are reported on the monthly S forms. The reporting is from the viewpoint of the foreign resident. Thus, gross sales by foreign residents reported on the S form are equal to gross purchases by U.S. residents and gross purchases by foreign residents reported on the S form are equal to gross sales by U.S. residents. The amounts reported on the S form reflect the gross amounts of funds transferred to execute the transactions.

1.1.4 Gross purchases by U.S. residents as reported on the S form include the gross value of the stocks and the commissions paid by U.S. residents to foreign brokers. BEA subtracts the commissions from the gross purchases by U.S. residents to obtain the gross value of the stocks purchased. If a foreign stock is newly issued, a U.S. underwriter purchasing the new issue will receive an underwriting fee from the foreign issuer which is subtracted from the price the U.S. underwriter pays for the new issue. BEA adds the underwriting fee to gross purchases by U.S. residents to obtain the gross value of the stocks purchased. The gross purchases by U.S. residents, less brokerage commissions, plus underwriting fees for new issues, gives gross purchases adjusted for financial services flows.

1.1.5 Gross sales by U.S. residents as reported on the S form are reduced by commissions retained by foreign brokers when the stocks are sold. BEA adds the commissions to gross sales by U.S. residents to obtain the gross value of the stocks sold, which equals gross sales adjusted for financial services flows.

1.1.6 The basis for the commissions and underwriting fees is obtained from the BE–185 financial services reports, projected forward one quarter to the current quarter. The projections are replaced with actual data one quarter after the initial publication of the securities estimates. Financial services flows excluded from transactions in foreign stocks are included in the current account.

Table 24. Transactions in Long-Term Securities Other Than U.S. Treasury Securities, 2009 (Line 52 and Line 66)

[Millions of dollars; credits +, debits –]

Foreign securities, net purchases (–) or net sales (+) by U.S. residents (line 52)	**–208,213**
Stocks, gross purchases by U.S. residents	3,234,736
Stocks, gross sales by U.S. residents	3,171,432
Stocks, net purchases by U.S. residents	**–63,304**
Bonds, gross purchases by U.S. residents	2,097,297
Bonds, gross sales by U.S. residents	1,952,388
Bonds, net purchases by U.S. residents	**–144,909**
U.S. securities, excluding transactions in U.S. Treasury securities and transactions of foreign official agencies, net purchases (+) or net sales (–) by foreign residents (line 66)	**59**
Stocks, gross purchases by foreign residents	6,624,225
Stocks, gross sales by foreign residents	6,487,870
Stocks, net purchases by foreign residents	**136,355**
Corporate bonds, gross purchases by foreign residents	1,167,224
Corporate bonds, gross sales by foreign residents	1,297,791
Corporate bonds, net purchases by foreign residents	**–130,567**
Federally sponsored agency bonds, gross purchases by foreign residents	894,798
Federally sponsored agency bonds, gross sales by foreign residents	900,527
Federally sponsored agency bonds, net purchases by foreign residents	**–5,729**

1.1.7 (2) Gross purchases of foreign stocks by U.S. residents are also adjusted for transactions in foreign stocks associated with cross-border mergers and acquisitions not included in the S form. Frequently, U.S. residents receive shares in foreign companies when they are shareholders in a U.S. company that is purchased by a foreign company. These transactions between foreign companies and U.S. shareholders bypass the securities market and the S-form reporting. BEA estimates these transactions using information published in financial news reports and from data reported on BEA's surveys of direct investment. Foreign stock received by individual U.S. residents with 10-percent-or-more owners' equity in the foreign company after the merger is added to U.S. direct investment abroad (line 51) as owners' equity investment. Foreign stock received by individual U.S. residents with less than 10 percent owners' equity in the foreign company after the merger is added to the gross purchases of foreign stocks by U.S. residents in line 52, foreign securities.

1.1.8 (3) BEA finally adjusts net purchases of foreign stocks by U.S. residents for the expected underestimate or overestimate of net purchases in the S-form data based on comparisons of reported net purchases on the S form with net purchases derived from a monthly survey of holdings of foreign stocks (TIC Form SLT) by U.S. residents, and corresponding annual and benchmark surveys of cross-border securities holdings.

1.1.9 (4) Net purchases of foreign stocks by U.S. residents are equal to adjusted gross sales of foreign stocks less adjusted gross purchases. When adjusted gross purchases exceed adjusted gross sales, net purchases of foreign stocks appear in the accounts as a negative value, indicating an outflow of funds. When adjusted gross purchases are less than adjusted gross sales, net sales of foreign stocks appear in the accounts as a positive value, indicating an inflow of funds.

1.2 **Foreign bonds**

1.2.1 Foreign bonds include securities issued by foreign governments and their political subdivisions, by foreign corporations, and by international and regional financial institutions. Types of bonds and notes, both in registered and in bearer form, include convertible debt, zero-coupon debt, index-linked debt securities, medium-term notes, note issuance facilities, floating rate notes, variable rate notes, structured rate notes, asset-backed securities, and all other long-term debt securities. Asset-backed securities include collateralized mortgage obligations (CMOs), collateralized bond obligations (CBOs), collateralized loan obligations (CLOs), collateralized debt obligations (CDOs), other securities backed by pools of mortgages, credit card receivables, automobile loans, consumer and personal loans, and commercial and industrial loans. Asset-backed securities are reportable if the issuer securitizing the assets is a foreign resident.

The procedure for estimating net purchases of foreign bonds by U.S. residents is as follows:

1.2.2 Data on U.S. holdings of foreign bonds are reported on the monthly TIC Form SLT. The holdings are compared to prior periods and to transactions data from the TIC form S as described below.

1.2.3 (1) Data on gross sales and gross purchases of foreign bonds by U.S. residents in transactions with foreign residents are reported on the monthly S forms. The reporting is from the viewpoint of the foreign resident. Gross sales by foreign residents reported on the S form are equal to gross purchases by U.S. residents and gross purchases by foreign residents reported on the S form are equal to gross sales by U.S. residents. The amounts reported on the S form reflect the gross amounts of funds transferred to execute the transactions.

1.2.4 Gross purchases by U.S. residents as reported on the S form include the gross value of the bonds and the implicit commission (the difference between the dealer's buying price and the selling price) paid by U.S. residents to foreign bond dealers. BEA subtracts the implicit commissions from gross purchases by U.S. residents to obtain the gross value of the bonds purchased. If a foreign bond is newly issued, a U.S. underwriter purchasing the new issue will receive an underwriting fee from the foreign issuer which is subtracted from the price the U.S. underwriter pays for the new issue. BEA adds the underwriting fee to gross purchases by U.S. residents to obtain the gross value of the bonds purchased. The gross purchases by U.S.

residents, less implicit commissions, plus underwriting fees for new issues, gives gross purchases adjusted for financial services flows.

1.2.5 Gross sales by U.S. residents as reported on the S form are reduced by implicit commissions retained by foreign brokers when the bonds are sold. BEA adds the implicit commissions to gross sales by U.S. residents to obtain the gross value of the bonds sold, which equals gross sales adjusted for financial services flows.

1.2.6 The basis for the underwriting fees is obtained from the BE–185 financial services reports, projected forward one quarter to the current quarter. The projections are replaced with actual data one quarter after the initial publication of the securities estimates. Implicit commissions estimated by BEA are based on the difference between the dealer's buying price and selling price obtained from industry sources. Financial services flows excluded from transactions in foreign bonds are included in the current account.

1.2.7 (2) BEA finally adjusts net purchases of foreign bonds by U.S. residents for the expected underestimate or overestimate of net purchases in the S-form data based on comparisons of reported net purchases on the S form with net purchases derived from a monthly survey of holdings of foreign bonds (TIC Form SLT) by U.S. residents, and corresponding annual and benchmark surveys of holdings.

1.2.8 (3) Net purchases of foreign bonds by U.S. residents are equal to adjusted gross sales of foreign bonds by U.S. residents less adjusted gross purchases. When adjusted gross purchases exceed adjusted gross sales, net purchases of foreign bonds appear in the accounts as a negative value, indicating an outflow of funds. When adjusted gross purchases are less than adjusted gross sales, net sales of foreign bonds appear in the accounts as a positive value, indicating an inflow of funds.

1.2.9 Although not separately identified, new bond issues are assumed to be included in gross U.S. purchases on the S form. Most new issues are denominated in U.S. dollars and are designed specifically for U.S. placement; that is, they are registered with the Securities and Exchange Commission and placed with U.S. underwriters. The U.S. agent reports the issue as a foreign sale on the S form, whether it is publicly offered or privately placed. If a new foreign issue in the United States is purchased by a foreigner, the foreign sale is offset by a reported foreign purchase on the S form. Accurate reporting of new issues is more difficult than secondary market trading and has been a cause of significant revisions.

1.2.10 Although not separately identified, bond redemptions are assumed to be included in the reported gross U.S. sales on the S form. Redemptions of foreign issues held by U.S. residents are reported by U.S. fiscal agents as purchases by foreigners when the security is called or matures. Redemptions handled abroad for the U.S. reporter's own account or the accounts of its domestic customers are also reported as purchases by foreigners. Accurate reporting of redemptions is more difficult than secondary market trading and has been a cause of significant revisions.

2 **U.S. Securities Other Than U.S. Treasury Securities—Net Purchases by Foreign Residents** (line 66)

This account measures net purchases of U.S. securities, other than U.S. Treasury securities, by foreign residents classified as U.S. stocks, U.S. corporate and other bonds, and U.S. federally sponsored agency bonds (see table 24). U.S. securities consist of U.S. corporate new issues of securities in foreign markets; trading in, and redemptions of, outstanding stocks and bonds issued by U.S. corporations and U.S. state and local governments; and trading in, and redemptions of debt obligations of U.S. federally sponsored agencies and corporations. The securities may be denominated in U.S. dollars or foreign currencies. Transactions are between foreign residents and unaffiliated U.S. residents. Excluded from this account are transactions in U.S. Treasury securities and transactions in U.S. securities with foreign official agencies.

2.1 **U.S. stocks**

2.1.1 U.S. stocks includes common stocks, preferred stocks (participating and nonparticipating preference shares), restricted stocks, U.S.-resident investment fund shares such as money market, equity, and bond mutual funds (open-end and closed-end), REITs, and index-linked unit investment trusts, and all other equity, including shares or units of ownership in unincorporated business enterprises, such as limited partnerships.

The procedure for estimating net purchases of U.S. stocks by foreign residents is as follows:

2.1.2 Data on holdings of U.S. stocks by foreign residents are reported on the monthly TIC Form SLT. The holdings are compared to prior periods and to transactions data from the TIC Form S as follows:

2.1.3 (1) Data on gross sales and gross purchases of U.S. stocks by foreign residents in transactions with U.S. residents are reported on the monthly S forms. The reporting is from the viewpoint of the foreign resident. Because this account excludes transactions of foreign official institutions, BEA adjusts the data reported on the S form by subtracting gross sales and gross purchases of U.S. stocks by foreign official institutions from the data reported for all foreign residents. The data for foreign official institutions are reported in a supplement to the S form. The amounts reported on the S form reflect the gross amounts of funds transferred to execute the transactions.

2.1.4 Gross purchases by foreign residents as reported on the S form include the gross value of the stocks and the commissions paid by foreign residents to U.S. brokers. BEA subtracts the commissions from the gross purchases by foreign residents to obtain the gross value of the stocks purchased. If a U.S. stock is newly issued, a foreign underwriter purchasing the new issue will receive an underwriting fee from the U.S. issuer which is subtracted from the price the foreign underwriter pays for the new issue. BEA adds the underwriting fee to gross purchases by foreign residents to obtain the gross value of the stocks purchased. The gross purchases by foreign residents, less brokerage commissions, plus underwriting fees for new issues, gives the gross purchases adjusted for financial services flows.

2.1.5 Gross sales by foreign residents as reported on the S form are reduced by commissions retained by U.S. brokers when the stocks are sold. BEA adds the commissions to gross sales by foreign residents to obtain the gross value of the stocks sold, which equals gross sales adjusted for financial services flows.

2.1.6 The basis for the commissions and underwriting fees is obtained from the BE–185 financial services reports, projected forward one quarter to the current quarter. The projections are replaced with actual data one quarter after the initial publication of the securities estimates. Financial services flows excluded from transactions in U.S. stocks are included in the current account.

2.1.7 (2) Gross purchases of U.S. stocks by foreign residents are also adjusted for transactions in U.S. stocks associated with cross-border mergers and acquisitions not included in the S form. Frequently, foreign residents receive shares in U.S. companies when they are shareholders in a foreign company that is purchased by a U.S. company. These transactions between U.S. companies and foreign shareholders bypass the securities market and the S-form reporting. BEA estimates these transactions using information published in financial news reports and from data reported on BEA's surveys of direct investment. U.S. stock received by individual foreign residents with 10 percent or more owners' equity in the U.S. company after the merger is added to foreign direct investment in the United States (line 64) as owners' equity investment. U.S. stock received by individual foreign residents with less than 10 percent owners' equity in the U.S. company after the merger is added to the gross purchases of U.S. stocks by foreign residents in line 66, U.S. securities other than U.S. Treasury securities.

2.1.8 (3) BEA finally adjusts net purchases of U.S. stocks by foreign residents for the expected underestimate or overestimate of net purchases in the S-form data based on comparison of reported net purchases on the S form with net purchases derived from a monthly survey of holdings of U.S. stocks (TIC Form SLT) by foreign residents, and corresponding annual and benchmark surveys of holdings.

2.1.9 (4) Net purchases of U.S. stocks by foreign residents are equal to adjusted gross purchases of U.S. stocks by foreign residents less adjusted gross sales. When adjusted gross purchases exceed adjusted gross sales, net purchases of U.S. stocks appear in the accounts as a positive value, indicating an inflow of funds. When adjusted gross purchases are less than adjusted gross sales, net sales of U.S. stocks appear in the accounts as a negative value, indicating an outflow of funds.

2.2 **U.S. corporate bonds**

2.2.1 U.S. corporate bonds include corporate bonds and notes issued by U.S. corporations and U.S. state and local governments 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, variable rate notes, structured rate notes and asset-backed securities, and all other long-term debt securities. Asset-backed securities include collateralized mortgage obligations (CMOs), collateralized bond obligations (CBOs), collateralized loan obligations (CLOs), collateralized debt obligations (CDOs), other securities backed by pools of mortgages, credit card receivables, automobile loans, consumer and personal loans, commercial and industrial loans. Asset-backed securities are reportable if the issuer securitizing the assets is a U.S. resident.

The procedure for estimating net purchases of U.S. corporate bonds by foreign residents is as follows:

2.2.2 Data on holdings of U.S. bonds by foreign residents are reported on the monthly TIC Form SLT. The holdings are compared to prior periods and to transactions data from the TIC Form S as follows:

2.2.3 (1) Data on gross sales and gross purchases of U.S. corporate bonds by foreign residents in transactions with U.S. residents are reported on the monthly S form reports. The reporting is from the viewpoint of the foreign resident. Because this account excludes transactions of foreign official institutions, BEA adjusts the data reported on the monthly S form by subtracting gross sales and gross purchases of U.S. corporate bonds by foreign official institutions from the data reported for all foreign residents. The data for foreign official institutions are reported in a supplement to the S form. The amounts reported on the S form reflect the gross amounts of funds transferred to execute the transactions.

2.2.4 Gross purchases by foreign residents as reported on the S form include the gross value of the U.S. corporate bonds and the implicit commission (the difference between the dealer's buying price and the selling price) paid by foreign residents to U.S. bond dealers. BEA subtracts the implicit commissions from gross purchases by foreign residents to obtain the gross value of the bonds purchased. If a U.S. corporate bond is newly issued, a foreign underwriter purchasing the new issue will receive an underwriting fee from the U.S. issuer which is subtracted from the price the foreign underwriter pays for the new issue. BEA adds the underwriting fee to gross purchases by foreign residents to obtain the gross value of the bonds purchased. The gross purchases by foreign residents, less implicit commissions, plus underwriting fees for new issues, gives gross purchases adjusted for financial services flows.

2.2.5 Gross sales by foreign residents as reported on the S form are reduced by implicit commissions retained by U.S. brokers when the bonds are sold. BEA adds the implicit commissions to gross sales by foreign residents to obtain the gross value of the bonds sold, which equals gross sales adjusted for financial services flows.

2.2.6 The basis for the underwriting fees is obtained from the BE–185 financial services reports, projected forward one quarter to the current quarter. The projections are replaced with actual data one quarter after the initial publication of the securities estimates. Implicit commissions estimated by BEA are based on the difference between the dealer's buying price and selling price obtained from industry sources. Financial services flows excluded from transactions in U.S. corporate bonds are included in the current account.

2.2.7 (2) BEA finally adjusts net purchases of U.S. corporate bonds by foreign residents for the expected underestimate or overestimate of net purchases in the S-form data based on comparisons of reported net purchases on the S form with net purchases derived from monthly surveys of holdings of U.S. corporate bonds (TIC Form SLT) by foreign residents, and corresponding annual and benchmark surveys of holdings.

2.2.8 (3) Net purchases of U.S. corporate bonds are equal to adjusted gross purchases of U.S. corporate bonds by foreign residents less adjusted gross sales.

When adjusted gross purchases exceed adjusted gross sales, net purchases of U.S. corporate bonds appear in the accounts as a positive value, indicating an inflow of funds. When adjusted gross purchases are less than adjusted gross sales, net sales of U.S. corporate bonds appear in the accounts as a negative value, indicating an outflow of funds.

2.2.9 Although not separately identified, new U.S. bond issues are assumed to be included in gross foreign purchases on the S form. New issues include corporate debt securities denominated in both U.S. dollars and foreign currencies placed directly in the Eurobond and other foreign markets by U.S. companies, often in bearer form rather than registered form. These transactions are combined with gross foreign purchases for transactions in outstanding issues. Reporting of bearer bonds is hard to confirm because of difficulty in identification of the residency of the owner.

2.2.10 Although not separately identified, bond redemptions are assumed to be included in the reported gross foreign sales on the S form. U.S. securities presented for redemption directly by foreigners to U.S. fiscal agents or trustees, or sinking fund purchases abroad of these securities, are reported as sales by foreigners. Accurate reporting of redemptions is more difficult than secondary market trading and has been a cause of significant revisions.

2.3 **U.S. federally sponsored agency bonds**

2.3.1 U.S. federally sponsored agency bonds include transactions in obligations of U.S. government-sponsored agencies and corporations. Transactions include new issues, redemptions, and transactions in outstanding issues. Both guaranteed and nonguaranteed obligations are included. Obligations may take the form of straight debt, participation certificates, pass-through debt, and collateralized mortgage obligations. U.S. agency bonds exclude privately issued mortgage-backed securities even if the underlying collateral is government guaranteed.

The procedure for estimating net purchases of U.S. federally sponsored agency bonds by foreign residents is as follows:

2.3.2 Data on holdings of U.S. federally sponsored agency bonds by foreign residents (for both foreign official institutions and all other foreigners) are reported on the monthly TIC Form SLT. The holdings are compared to prior periods and to transactions data from the TIC Form S as follows:

2.3.3 (1) Data on gross sales and gross purchases of U.S. agency bonds by foreign residents in transactions with U.S. residents are reported on the monthly S forms. Because this account excludes transactions of foreign official institutions, BEA adjusts the data reported on the S form by subtracting gross sales and gross purchases of U.S. agency bonds by foreign official institutions from the data reported for all foreign residents. The data for foreign official institutions are reported in a supplement to the S form. The amounts reported on the S form reflect the gross amounts of funds transferred to execute the transactions.

2.3.4 Gross purchases by foreign residents as reported on the S form include the gross value of the agency bonds and the implicit commission (the difference between the dealer’s buying price and the selling price) paid by foreign residents to U.S. bond dealers. BEA subtracts the implicit commissions from the gross purchases by foreign residents to obtain the gross value of the bonds purchased. The gross purchases by foreign residents, less implicit commissions, gives gross purchases adjusted for financial services flows.

2.3.5 Gross sales by foreign residents as reported on the S form are reduced by implicit commissions retained by U.S. brokers when the bonds are sold. BEA adds the implicit commissions to gross sales by foreign residents to obtain the gross value of the bonds sold, which equals gross sales adjusted for financial services flows.

2.3.6 Implicit commissions estimated by BEA are based on the difference between the dealer’s buying price and selling price obtained from industry sources. Financial services flows excluded from transactions in agency bonds are included in the current account.

2.3.7 (2) BEA finally adjusts net purchases of U.S. agency bonds by foreign residents for the expected underestimate or overestimate of net purchases in the S-form data based on comparisons of reported net purchases on the S form with net purchases derived from a monthly survey of holdings of U.S. agency bonds (TIC Form SLT) by foreign residents, and corresponding annual and benchmark surveys of holdings.

2.3.8 Comparisons between the S-form data and the net purchases derived from the SLT and annual surveys of holdings of agency bonds indicate that the S-form data sometime overestimate net purchases of agency bonds by private foreign residents and underestimate net purchases of agency bonds by foreign official institutions. This happens when foreign official agencies conduct business through foreign private brokers and dealers rather than directly with U.S. brokers. In those instances, BEA adjusts the gross sales of agency bonds by private foreigners upward to reduce net purchases of agency bonds. Offsetting adjustments are made to increase net purchases of agency bonds by foreign official institutions (line 59).

2.3.9 (3) Net purchases of U.S. agency bonds by foreign residents are equal to adjusted gross purchases of agency bonds by foreign residents less adjusted gross sales. When adjusted gross purchases exceed adjusted gross sales, net purchases of agency bonds appear in the accounts as a positive value, indicating an inflow of funds. When adjusted gross purchases are less than adjusted gross sales, net sales of agency bonds appear in the accounts as a negative value, indicating an outflow of funds.

Transactions in U.S. Treasury Securities

In this section:

Coverage and definitions

These accounts measure net purchases of U.S. Treasury bonds, notes, bills, and certificates by private foreign residents and international organizations (see table 25). U.S. Treasury securities of all maturities are included. Excluded from these accounts are net purchases by foreign official agencies, which are included in line 58.

Estimation methods overview

As of June 2013, beginning with the fourth quarter of 2011, estimates of net foreign purchases of U.S. Treasury bonds and notes are estimated by BEA from position data collected monthly on the Treasury International Capital (TIC) Form SLT, "Aggregate Holdings of Long-Term Securities by U.S. and Foreign Residents," from transactions data collected monthly on the TIC S forms, "Purchases and Sales of Long-Term Securities by Foreign Residents," and from position data collected on related annual and benchmark surveys on cross-border portfolio holdings.

Form SLT is filed monthly with district Federal Reserve banks, by U.S.-resident custodians, central securities depositories, issuers, and large end investors that provide enumerations of outstanding positions in U.S. Treasury Securities (and other U.S. and foreign securities) as of the last business day of the month. Form SLT is required if the total fair value of all reportable foreign and U.S. securities of the reporting entity is equal to or exceeds $1 billion on the last business day of the month.

The S form is filed with district Federal Reserve banks, by U.S. banks and other depository institutions, bank holding companies, financial holding companies, securities brokers and dealers, investment managers, commercial enterprises, and other investors or nonbank enterprises who on their own behalf, or on behalf of their customers, engage in transactions with foreigners; transactions are reported at market prices as of the settlement date. Long-term

Table 25. Transactions in U.S. Treasury Securities, 2009 (Line 65)
[Millions of dollars]

(Credits +, increase in U.S. liabilities; debits –, decrease in U.S. liabilities)	
U.S. Treasury securities, excluding transactions of foreign official agencies, net purchases (+) or net sales (–) by foreign residents	**22,781**
U.S. Treasury bonds and notes	**85,914**
U.S. Treasury bonds and notes, gross purchases by foreign residents	10,685,030
U.S. Treasury bonds and notes, gross sales by foreign residents	10,599,116
U.S. Treasury bills and certificates	**–63,133**

refers to securities with an original maturity of more than 1 year. Net transactions for the quarter are equal to adjusted gross purchases less adjusted gross sales. Gross purchases and gross sales are adjusted for implicit commissions and for expected misreporting in the transactions data, as described below.

Estimates of U.S. Treasury bills and certificates are based on the monthly Treasury International Capital (TIC) BL–2 form, "Report of Customers' U.S. Dollar Liabilities to Foreign Residents," which is filed with district Federal Reserve Banks, by banks and other depository institutions, bank holding companies, financial holding companies, and securities brokers and dealers. Short-term refers to securities with an original maturity of 1 year or less. Net transactions for the quarter represent the difference between outstanding amounts for the closing month of each quarter.

1 **Long-term U.S. Treasury Bonds and Notes—Net Purchases by Foreign Residents** (part of line 65)

1.1 This account measures net purchases by private foreigners and international organizations of long-term U.S. Treasury bonds and notes of an original maturity of more than 1 year. Net transactions for the quarter are equal to adjusted gross purchases less adjusted gross sales. Gross purchases and gross sales are adjusted for implicit commissions and for expected misreporting in the transactions data, as described below. Transactions are reported at market prices on the date of settlement.

The procedure for estimating net purchases of long-term U.S. Treasury bonds and notes by foreign residents is as follows:

1.2 Data on holdings of U.S. Treasury bonds and notes by foreign residents are reported on the monthly TIC Form SLT. The holdings are compared to prior periods and to transactions data from the TIC form S as follows:

1.3 (1) Data on gross sales and gross purchases of Treasury bonds and notes by foreign residents in transactions with U.S. residents are reported on the monthly S forms. Because this account excludes transactions of foreign official institutions, BEA adjusts the data reported on the S form by subtracting gross sales and gross purchases of Treasury bonds by foreign official institutions from the data reported for all foreign residents. The data for foreign official institutions are reported in a supplement to the S form. The amounts reported on the S form reflect the gross amounts of funds transferred to execute the transactions.

1.4 Gross purchases by foreign residents reported on the S form include the gross value of the Treasury bonds and notes and the implicit commission (the difference between the dealer's buying price and the selling price) paid by foreign residents to U.S. bond dealers. BEA subtracts the implicit commissions from gross purchases by foreign residents to obtain the gross value of the bonds purchased. Gross purchases by foreign residents, less implicit commissions, gives gross purchases adjusted for financial services flows.

1.5 Gross sales by foreign residents reported on the S form are reduced by implicit commissions retained by U.S. brokers when the bonds and notes are sold. BEA adds the implicit commissions to gross sales by foreign residents to obtain the gross value of the bonds sold to obtain gross sales adjusted for financial services flows.

1.6 Implicit commissions estimated by BEA are based on the difference between the dealer's buying price and selling price obtained from industry sources. Financial services flows excluded from transactions in Treasury bonds are included in the current account.

1.7 (2) BEA finally adjusts gross purchases of U.S. Treasury bonds and notes by foreign residents for the expected underestimate or overestimate of net purchases in the S-form data based on comparisons of reported net purchases with net purchases derived from monthly surveys of holdings of U.S. Treasury bonds and notes by foreign residents (TIC Form SLT), and corresponding annual and benchmark surveys of holdings.

1.8 Comparisons between the S-form data and the net purchases derived from monthly, annual, and benchmark surveys of holdings of Treasury bonds and notes indicate that the S-form data sometime overestimate net purchases of Treasury bonds by private foreign residents and underestimate net purchases of Treasury bonds by foreign official institutions as a result of transactions by foreign official institutions conducted through foreign private financial intermediaries instead of directly with U.S. brokers and dealers. In those instances, BEA adjusts the gross sales of Treasury bonds by private foreigners upward to reduce net purchases of Treasury bonds by private foreigners. Offsetting adjustments are made to increase net purchases of Treasury bonds by foreign official institutions (line 58). With guidance from the Federal Reserve Board, BEA also routinely makes appropriate adjustments to correct other transactions not captured on the TIC Form S.

1.9 (3) Net purchases of U.S. Treasury bonds are equal to adjusted gross purchases of Treasury bonds by foreign residents less adjusted gross sales. When adjusted gross purchases exceed adjusted gross sales, net purchases of Treasury bonds appear in the accounts with a positive value, indicating a net inflow of funds. When adjusted gross purchases are less than adjusted gross sales, net sales of Treasury bonds appear in the accounts with a negative value, indicating a net outflow of funds.

2 **Short-term U.S. Treasury Bills and Certificates—Net Purchases by Foreign Residents** (part of line 65)

2.1 This account measures net purchases by private foreigners and international organizations of short-term U.S. Treasury bills and certificates of an original maturity of 1 year or less.

2.2 Estimates of net foreign purchases of short-term U.S. Treasury obligations are based on the monthly TIC BL–2 form, “Report of Customers’ U.S. Dollar Liabilities to Foreign Residents” that U.S. banks and other depository institutions, bank holding companies, financial holding companies, and securities brokers file with district Federal Reserve banks. The data are reported at face value for outstanding amounts at the end of each month. Net transactions for the quarter represent the difference between outstanding amounts for the closing month of each quarter. Information is not available to BEA to adjust the data for discounts or premiums reflecting fluctuations in the market price of these obligations. Furthermore, because reporting is at face value, any initial discount reflecting prepaid interest is not taken into account.

Transactions Reported by U.S. Banks and Securities Brokers

In this section:

Coverage and definitions

Transactions of U.S. banks and securities brokers with foreign residents, other than those with foreign official agencies, are measured in the following accounts: (1) U.S. claims on foreigners reported by U.S. banks and securities brokers (line 54); and (2) U.S. liabilities to foreigners, except foreign official agencies, reported by U.S. banks and securities brokers (line 69). Transactions of *banks* are defined broadly to include those of all *depository institutions.* Transactions of *bank holding companies, financial holding companies*, and *securities brokers and dealers* are also included.

In general, transactions cover loans, loan participations, and deposits of any maturity; brokerage balances; resale and repurchase agreements; negotiable certificates of deposit of any maturity; and short-term negotiable and nonnegotiable securities with a maturity of 1 year or less, such as commercial paper and bankers' acceptances. U.S. Treasury bills and certificates are excluded because they are included in U.S. Treasury securities. Transactions include those undertaken both for financial institutions' own accounts and those undertaken for the accounts of their domestic and foreign customers.

Transactions are between private residents. Liabilities to foreign official agencies—that is, foreign monetary and exchange rate authorities and their fiscal agents—reported by U.S. banks, bank holding companies, financial holding companies, and securities brokers are included in line 61, a component of foreign official assets in the United States.

Transactions exclude all transactions in long-term equity and debt securities of foreign or U.S. issuers, which are reported on the TIC S forms and included in lines 52, 65, and 66, and transactions of nonbanks, which are reported on the TIC C forms and derived from other data sources and included in lines 53 and 68.

Transactions cover both those between *unaffiliated* entities, that is entities that hold less than 10 percent of the voting securities in another entity, and those 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. Thus, transactions between related institutions cover those between U.S. banks and their foreign branches and majority-owned subsidiaries abroad (affiliates), and transactions between the U.S. branches, agencies, and majority-owned subsidiaries (affiliates) of foreign financial institutions and their head offices, parents, and other branches of the same financial institutions located abroad. (Only debt transactions are covered; equity transactions between affiliated institutions are included in direct investment (lines 51 and 64) because they indicate ownership of, or significant control over, a foreign entity and are not related to financial intermediation.)

By definition, transactions exclude credit commitments, unutilized credit and loan facilities, and contingent claims and liabilities; gold, silver, or currency in transit to and from the United States or held abroad or in the United States; and securities borrowing arrangements in which one security is borrowed in return for another. Transactions in financial derivatives are also excluded.

Estimation methods overview

Quarterly estimates of transactions are made by BEA on the basis of data on outstanding claims and liabilities at the end of a period, reported on Treasury International Capital (TIC) BC, BL, and BQ forms. Data are reported separately for each country and for international and regional institutions. The reporting system consists principally of the following forms:

BC: Report of U.S. Dollar Claims of Depository Institutions, Bank Holding Companies/Financial Holding Companies, Brokers, and Dealers on Foreigners. (Monthly)

BL–1: Report of U.S. Dollar Liabilities of Depository Institutions, Bank Holding Companies/Financial Holding Companies, Brokers, and Dealers to Foreigners. (Monthly)

BL–2: Report of Customers' U.S. Dollar Liabilities to Foreigners. (Monthly)

BQ–1: Report of Customers' U.S. Dollar Claims on Foreigners. (Quarterly)

BQ–2 (Part 1): Report of Foreign Currency Liabilities and Claims of Depository Institutions, Bank Holding Companies/Financial Holding Companies, Brokers and Dealers, and of their Domestic Customers vis-à-vis Foreigners. (Quarterly)

BQ–2 (Part 2): Report of Customers' Foreign Currency Liabilities to Foreigners. (Quarterly)

Mandatory reports are filed with district Federal Reserve banks and with the Federal Reserve Bank of New York by banks, bank holding companies, financial holding companies, and securities brokers and dealers. Reports are required if total claims on, or liabilities to, foreigners are $50 million or more or if claims or liabilities for any individual country exceed $25 million for any monthend or quarterend closing balance. In 2009, approximately 300 reporters filed regular monthly and quarterly reports.

Amounts of outstanding claims and liabilities are reported on a gross basis, without deduction of any offsets against them, at the close of business as of the last business day of the period covered by the report. Amounts are reported using settlement date accounting. Amounts are reported at the face value of the short-term financial instrument and the book value of the loan. Foreign currency-denominated positions are reported in dollar equivalents on the last business day of the month or quarter, but transactions derived from them are adjusted by BEA for exchange rate movements over the quarter. Banks and securities brokers are generally required to file consolidated reports for all resident branches, agencies, and majority-owned subsidiaries. Holding companies also file consolidated reports but must exclude banks and securities brokers, which are required to file separate consolidated reports.

1 **Claims on Foreigners** (line 54)

1.1 This account measures claims, acquired or held in the United States or abroad, on foreign residents reported by U.S. *banks* and *other depository institutions, bank holding companies, financial holding companies*, and *securities brokers and dealers* (see table 26).

1.2 Two categories of claims are distinguished: (1) Claims for own accounts, and (2) claims for domestic accounts, which are claims of entities in the United States which a U.S. reporter holds in custody for the accounts of U.S. residents. Claims denominated in both dollars and foreign currencies—which are reported in dollar equivalents but adjusted by BEA for exchange rate movements over the reporting period—are included. Claims of international banking facilities (IBFs), which are U.S. banking offices set up solely to conduct banks' international lending and borrowing operations, are also included. Transactions for a given quarter represent changes between outstanding amounts at the end of the current quarter and the end of the preceding quarter reported on Treasury International Capital (TIC) forms BC, BQ–1, BQ–2 (part 1).

1.3 No deduction is made for any reserves or allowances that may have been established against possible future losses. For example, provisions by banks for possible future loan losses against financial or industrial firms or against heavily indebted developing countries do not alter the amount of the reported claims. However, when an asset is partially or entirely written off, or required by regulatory agencies to be

Table 26. Claims on Foreigners Reported by U.S. Banks and Securities Brokers, 2009 (Line 54)
[Millions of dollars]

(Credits +; decrease in U.S. assets. Debits –; increase in U.S. assets.)	
Claims reported by U.S. banks and securities brokers, total	**–277,087**
Claims for own accounts	**–193,569**
Denominated in dollars	–229,121
By instrument:	
Resale agreements	–43,431
Negotiable certificates of deposit	207
Other short-term instruments (including money market instruments)	2,276
Deposits and brokerage balances	–232,960
Other claims (including loans)	44,787
By type of U.S. reporting institution:	
U.S.-owned banks claims on:	
Foreign banks	–20,345
Foreign nonbanks and foreign official institutions	50,287
Foreign-owned banks claims on:	
Foreign banks	–164,991
Foreign nonbanks and foreign official institutions	3,109
Brokers' and dealers' claims on:	
Foreign banks	–4,020
Foreign nonbanks and foreign official institutions	–93,161
Denominated in foreign currencies	35,552
By instrument:	
Deposits and brokerage balances	5,760
Other claims (including loans)	29,792
Claims for customers' accounts	**–83,518**
Denominated in dollars	–80,738
By instrument:	
Commercial paper	–64,812
Negotiable certificates of deposit	–123,971
Other short-term instruments (including money market instruments)	287
Deposits and brokerage balances (including sweep accounts)	111,011
Other claims	–3,253
Denominated in foreign currencies	–2,780
By instrument:	
Deposits and brokerage balances	5,060
Other claims	–7,840

so treated, the amount of the writeoff is deducted from outstanding claims and from changes in claims in the accounts. Writeoffs are considered valuation changes and are included in the U.S. international investment position.

1.4 Claims are divided into those for own accounts and those for customers' accounts.

1.5 ***Own accounts.***—Claims for own accounts are distinguished by three categories based on type of U.S. reporting institution—(1) U.S.-owned banks' claims, (2) foreign-owned banks' claims, and (3) securities brokers' and dealers' claims. Each category is divided by type of foreign resident borrower into claims on foreign banks and into claims on foreign nonbanks and foreign official institutions.[1 2]

1.6 U.S.-owned banks' claims, foreign-owned banks' claims, and securities brokers' claims denominated in dollars cover (1) deposit balances due from banks of any maturity (including nonnegotiable certificates of deposit (CDs)); (2) negotiable CDs of any maturity; (3) brokerage balances (cash balances of U.S. residents in brokerage and margin accounts held by foreign-resident entities); (4) overdrawn accounts of foreign residents in U.S. institutions; (5) loans and loan participations of any maturity; (6) short-term negotiable and nonnegotiable securities with an original maturity of 1 year or less; (7) resale agreements and similar financing agreements (that is, temporary lending in which securities are used as collateral); and (8) money market instruments, such as commercial paper and bankers' acceptances with an original maturity of 1 year or less. The above dollar-denominated claims, and those listed below as foreign currency-denominated claims, include transactions with affiliated as well as unaffiliated foreigners, so that amounts due from foreign branches and majority-owned foreign subsidiaries or from head offices, parents, and other directly related foreign institutions are included.

1. The term "foreign official institutions" is broader than the term "foreign official agencies" that is the basis for foreign official assets (line 58) in that the former includes "international and regional organizations" in addition to "foreign official agencies." See the chapter "Transactions with Foreign Official Agencies."

2. Holding companies are included in U.S.-owned banks' claims and foreign-owned banks' claims.

1.7 Claims for own accounts denominated in dollars are arranged by instrument as resale agreements, negotiable certificates of deposit, other short-term instruments (including money market instruments), deposits and brokerage balances, and other claims (including loans).

1.8 Claims for own accounts denominated in foreign currencies are arranged by instrument as deposits and brokerage balances and as other claims (including loans). Foreign currency-denominated positions are reported in dollar equivalents on the last business day of the quarter. Transactions derived from those positions are adjusted by BEA for exchange rate movements over the quarter.

1.9 ***Customers' accounts.***—Customers' claims cover financial claims of entities in the United States, other than long-term securities, which reporting institutions hold for the accounts of U.S. residents, either in direct custody or in their own name with a custodian bank or other custodian institution.

1.10 Customers' claims denominated in dollars, held here or abroad for the accounts of U.S.-owned banks', foreign-owned banks', and securities brokers' domestic customers, cover (1) short-term negotiable and nonnegotiable debt securities (including money market instruments) issued by foreign residents with original maturities of 1 year or less, including foreign resident-issued securities that have been temporarily "transferred out" by U.S. residents under repurchase or similar agreements; (2) negotiable certificates of deposit of any maturity issued by foreign residents and held by the reporter for U.S. residents; (3) claims on managed foreign offices (that is, foreign offices where the reporter has a majority of the responsibility for business and financial decisions); (4) funds placed overseas (claims resulting from transfers of the accounts of U.S. residents on the reporter's books to the books of foreign offices under pre-arranged "sweep" agreements); and (5) brokerage balances (cash balances in brokerage and margin accounts which are placed abroad), whether these funds may be freely withdrawn or are held to support positions in futures, securities, or other financial instruments. These instruments represent claims on foreigners.

1.11 Customers' claims in denominated in dollars, held here or abroad, are arranged by instrument as commercial paper, negotiable CDs, other short-term instruments (including money market instruments), deposits and brokerage balances (including sweep accounts), and other claims.

1.12 Customers' claims denominated in foreign currencies, held here or abroad, are arranged by instrument as deposits and brokerage balances and as other claims. Foreign-currency-denominated positions are reported in dollar equivalents. However, BEA adjusts transactions derived from these positions for exchange rate fluctuations over the reporting period.

1.13 Direct U.S. loans to foreign residents, other than by banks, bank holding companies, financial holding companies, and securities brokers and dealers, are not included in this account, but in U.S. claims on unaffiliated foreigners reported by U.S. nonbank concerns, except securities brokers (line 53).

2 **Liabilities to Foreigners** (line 69)

2.1 This account measures liabilities, acquired or held in the United States or abroad, to private foreign residents and international organizations reported by U.S. *banks* and *other depository institutions, bank holding companies, financial holding companies*, and *securities brokers and dealers* (see table 27).

2.2 Two categories of liabilities are distinguished: (1) Liabilities for own accounts, and (2) liabilities for foreign accounts, which are liabilities of entities in the United States which a U.S. reporter holds in custody for the accounts of foreign residents. Liabilities denominated in both dollars and foreign currencies—which are reported in dollar equivalents but are adjusted by BEA for exchange rate movements over the reporting period—are included. Transactions for a given quarter represent changes between outstanding amounts at the end of the current quarter and end of the preceding quarter reported on TIC forms BL–1, BL–2, BQ–2 (parts 1 and 2).

2.3 Liabilities are divided into those for own accounts and those for customers' accounts.

2.4 ***Own accounts.***—Liabilities for own accounts are distinguished by three categories based on type of U.S. reporting institution—(1) U.S.-owned banks' liabilities, (2) foreign-owned banks' liabilities, and (3) securities brokers' and dealers' liabilities. Each category is divided by type of foreign resident holder into liabilities to foreign banks and into liabilities to foreign nonbanks, including international organizations.[3]

2.5 U.S.-owned banks' liabilities, foreign-owned banks' liabilities, and securities brokers' liabilities denominated in dollars cover (1) deposit balances due to foreigners of any maturity (including nonnegotiable deposits of any maturity and nonnegotiable certificates of deposit (CDs)); (2) brokerage balances (cash balances of foreign residents in brokerage and margin accounts held by U.S.-resident entities); (3) overdrawn deposit accounts of U.S. residents in foreign institutions; (4) loans and loan participations of any maturity; (5) short-term nonnegotiable securities with an original maturity of 1 year or less; and (6) repurchase agreements and similar financing agreements (that is, temporary borrowing in which securities are used as collateral). The above dollar-denominated liabilities, and those listed below as foreign currency-denominated liabilities, include transactions with affiliated as well as unaffiliated foreigners, so that amounts due to foreign branches and majority-owned foreign subsidiaries or to head offices, parents, and other directly related foreign institutions are included.

2.6 Liabilities for own accounts denominated in dollars are arranged by instrument as repurchase agreements, deposits and brokerage balances, and other liabilities (including loans).

2.7 Liabilities for own accounts denominated in foreign currencies are arranged by instrument as deposits and brokerage balances and as other liabilities (including loans). Foreign currency-denominated positions are reported at dollar equivalents on the last business day of the quarter. Transactions derived from those positions are adjusted by BEA for exchange rate movements over the quarter.

3. Holding companies are included in U.S.-owned banks' liabilities and foreign-owned banks' liabilities.

2.8 To avoid possible duplication in reporting, negotiable certificates of deposit are not included by the issuing bank as part of its own liabilities reported on the BL–1; these certificates are reportable on TIC Form BL–2 (if dollar denominated) or BQ–2 (if foreign currency-denominated) by the institution that holds them in custody for the account of foreigners, regardless of whether the reporting bank itself or another bank is the issuer, or by the issuer if no U.S. custodian is used.

2.9 International and regional financial organizations include the World Bank/International Bank for Reconstruction and Development, the International Development Association, the Asian Development Bank, the International Finance Corporation, the Inter-American Development Bank, the Multilateral Investment Guaranty Agency, the Organization of Central America States, the United Nations, the World Health Organization, and the International Monetary Fund's Trust Fund. Although reporting on the TIC forms classifies these organizations as "foreign official institutions," they are not so classified in the U.S. international transactions accounts, in which the "official" category is limited to monetary and exchange rate authorities (and their fiscal agents) of individual countries.

Table 27. Liabilities to Foreigners, Except Foreign Official Agencies, Reported by U.S. Banks and Securities Brokers, 2009 (Line 69)

[Millions of dollars]

(Credits +; increase in U.S. liabilities. Debits –; decrease in U.S. liabilities.)	
Liabilities reported by U.S. banks and securities brokers	**–313,013**
Liabilities for own accounts	**–215,618**
Denominated in dollars	–135,202
By instrument:	
Repurchase agreements	–27,796
Deposit and brokerage balances	–84,883
Other liabilities (including loans)	–22,523
By type of U.S. reporting institution:	
U.S.-owned banks' liabilities to:	
Foreign banks	–57,741
Foreign nonbanks, including international organizations	–96,295
Foreign-owned banks' liabilities to:	
Foreign banks	13,764
Foreign nonbanks, including international organizations	–25,523
Brokers' and dealers' liabilities to:	
Foreign banks	25,001
Foreign nonbanks, including international organizations	5,592
Denominated in foreign currencies	–80,416
By instrument:	
Deposits and brokerage balances	–22,667
Other liabilities (including loans)	–57,749
Liabilities for customers' accounts	**–97,395**
Denominated in dollars	–93,059
By instrument:	
Negotiable certificates of deposit and other short-term instruments	–74,301
Other liabilities (including loans)	–18,758
Denominated in foreign currencies	–4,336

2.10 ***Customers' accounts.***—Liabilities for customers' accounts cover financial liabilities of entities in the United States, other than long-term securities and U.S. Treasury bills and certificates, which reporting institutions hold for foreign residents, either in direct custody or in their own name with a custodian bank or other custodian institution.

2.11 Liabilities for customers' accounts denominated in dollars, held here or abroad for the accounts of U.S.-owned banks', foreign-owned banks', and securities brokers' domestic and foreign customers, cover (1) short-term negotiable and nonnegotiable debt securities (including money market instruments, but excluding short-term U.S. Treasury bills and certificates) issued by U.S. residents with original maturities of 1 year or less, including U.S. resident-issued securities that have been temporarily "transferred out" by foreign residents under repurchase or similar agreements; (2) negotiable certificates of deposit of any maturity issued by U.S. residents and held by the reporter for foreign residents; (3) liabilities to managed foreign offices (that is, where the reporter has a majority of the responsibility for business and financial decisions); (4) foreign holdings of loans and loan participations to U.S. residents that are serviced by the reporter; (5) liabilities of U.S. residents to foreigners from loan syndications in which the U.S. reporter is the administrative agent; and (6) short-term negotiable securities issued by the reporter directly in the foreign market where no U.S. custodian (other than the reporter) is used. These instruments represent liabilities to foreigners.

2.12 Liabilities for customers' accounts denominated in dollars, held here or abroad, are arranged by instrument as negotiable certificates of deposit and other short-term instruments and as other liabilities (including loans).

2.13 Liabilities for customers' accounts denominated in foreign currencies, held here or abroad, are not available by type of foreign holder. Foreign-currency-denominated positions are reported in dollar equivalents. However, BEA adjusts transactions derived from these positions for exchange rate fluctuations over the reporting period.

2.14 Direct foreign loans to U.S. residents, other than banks, bank holding companies, financial holding companies, and securities brokers and dealers, are not included in this account, but in U.S. liabilities to unaffiliated foreigners reported by U.S. nonbank concerns, except securities brokers (line 68).

Transactions Reported by U.S. Nonbanks

In this section:

Coverage and definitions

The nonbank accounts cover financial transactions of U.S. nonbanks vis-à-vis foreigners: U.S. nonbank claims are measured in line 53 and U.S. nonbank liabilities are measured in line 68. When combined with the accounts covering securities transactions (lines 52, 65, and 66) and banking transactions (lines 54 and 69), the three sets of transactions comprise all private financial transactions except direct investment, U.S. currency, and financial derivatives. The three sets of transactions are often referred to as other private investment in order to differentiate them from direct investment. Transactions in securities are sometimes referred to as portfolio investment.

The nonbank accounts cover financial transactions primarily of nonbank financial intermediaries; they exclude transactions of banks, bank holding companies, financial holding companies, and securities brokers and dealers, which are included in the banking accounts, and transactions in long-term securities. Major types of nonbank financial intermediaries are (1) leasing companies, finance companies, and commodities trading firms; (2) mutual funds, pension funds, unit investment funds, and other pools of commingled assets; and (3) insurance companies.[1] Also included are transactions of (4) nonfinancial companies and (5) nonprofit organizations, charitable organizations, and foundations. The nonbank accounts also cover commercial transactions conducted by exporters, importers, trading companies, and industrial and commercial firms; these transactions are significantly smaller than nonbank financial transactions.

Estimation methods

Quarterly estimates of nonbank financial transactions are made from multiple data sources that can be divided into two types: (1) Data collected directly from U.S. nonbanks, and (2) supplemental data collected from foreign counterparties to claims and liabilities of U.S. nonbanks. Sources for data collected directly are the U.S. Treasury, BEA's direct investment surveys, and the Depository Trust Corporation. Supplemental data are from central banks of the United Kingdom, Germany, and France, the Bank for International Settlements, and the U.S. Federal Reserve System.

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1. Bank holding companies and financial holding companies with insurance underwriting subsidiaries are required to report for these subsidiaries on the Treasury International Capital (TIC) C forms and exclude them from the TIC B forms where other bank-related transactions are reported.

1 **U.S. Nonbank Claims on Foreigners** (line 53)

2 **U.S. Nonbank Liabilities to Foreigners** (line 68)

These accounts measure claims on and liabilities to foreign residents of U.S. nonbanks (see table 28). Two categories of claims and liabilities are distinguished: (1) Financial claims and liabilities, which typically arise from investment lending and borrowing activities of enterprises and from financial intermediation activities, and (2) commercial claims and liabilities, which generally arise from sales and purchases of goods and services in normal business operations and from acquisitions and disposals of assets employed in business.

1.1 **Structure of the estimates**

1.1.1 Quarterly estimates of financial transactions are made from (1) data collected directly from U.S. nonbanks, and (2) supplemental data collected from foreign counterparties to claims and liabilities of U.S.

Table 28. Claims on and Liabilities to Unaffiliated Foreigners Reported by U.S. Nonbank Concerns Except Securities Brokers, 2009 (Line 53 and Line 68)

[Millions of dollars]

(Credits +; decrease in U.S. assets or increase in U.S. liabilities. Debits –; increase in U.S. assets or decrease in U.S. liabilities.)	
Claims, total (line 53)	**124,428**
Financial claims	**123,562**
Denominated in U.S. dollars	128,625
Denominated in foreign currencies	–5,063
By instrument:	
Resale agreements	480
Negotiable certificates of deposit	–80
Other short-term instruments (including money market instruments)	832
Deposits	58,760
Other claims	63,570
Of which: Financial intermediaries' accounts	47,253
Commercial claims	**866**
Denominated in U.S. dollars	324
Denominated in foreign currencies	542
By instrument:	
Trade receivables	3,435
Advance payments and other claims	–2,569
Liabilities, total (line 68)	**–1,460**
Financial liabilities	**6,571**
Denominated in U.S. dollars	28,324
Denominated in foreign currencies	–21,753
By instrument:	
Repurchase agreements	1,531
Short-term instruments	–2,380
Other liabilities	7,420
Of which: Financial intermediaries' accounts	–3,607
Commercial liabilities	**–8,031**
Denominated in U.S. dollars	–8,192
Denominated in foreign currencies	161
By instrument:	
Trade payables	–175
Advance receipts and other liabilities	–7,856

nonbanks. All data are reported as quarter-end positions. Transactions for a given quarter represent the difference between outstanding amounts at the end of the current quarter and end of the previous quarter. Transactions for foreign-currency-denominated claims and liabilities are adjusted to remove the impact of changes in exchange rates on financial flows.

1.1.2 Data collected directly from U.S. nonbanks are based on: (1) Treasury International Capital (TIC) forms CQ–1 and CQ–2 covering claims and liabilities of U.S. nonbanks vis-à-vis unaffiliated foreigners; (2) BEA surveys of direct investment covering U.S. financial intermediaries' claims on and liabilities to affiliated financial intermediaries abroad (financial intermediaries' accounts); and (3) Depository Trust Corporation (DTC) records from which claims of U.S. financial intermediaries on affiliated financial intermediaries abroad, not reported on BEA direct investment surveys, are derived. These data covered 38 percent of the claims and 27 percent of the liabilities of these accounts in the 2009 international investment position.

1.1.3 Supplemental data are based on foreign banks' claims and liabilities vis-à-vis U.S. nonbanks. Foreign banks are the counterparties to many U.S. nonbanks' claims and liabilities; thus, foreign banks' liabilities to U.S. nonbanks are a measure of U.S. nonbanks' claims on foreign banks and foreign banks' claims on U.S. nonbanks are a measure of U.S. nonbanks' liabilities to foreign banks. The supplemental data are from U.S. Federal Reserve System reports covering branches of U.S. and foreign banks in Caribbean financial centers, from Bank for International Settlements reports covering banks in the Netherlands, and from reports by central banks in the United Kingdom, Germany, and France covering banks in their jurisdictions. These supplemental data are adjusted to remove double counts of data collected directly from U.S. nonbanks and from U.S. bank holding companies, financial holding companies, and securities brokers on the TIC B forms used to compile lines 54, 61, and 69. The supplemental data covered 62 percent of the claims and 73 percent of the liabilities of these accounts in the 2009 international investment position.

1.1.4 Supplemental counterparty data are used only to estimate financial claims and liabilities; no supplemental counterparty data are used to estimate commercial claims and liabilities.

1.2 **Data collected directly from U.S. nonbanks**

1.2.1 ***Treasury International Capital System data.***—Quarterly estimates of positions of U.S. nonbanks are based partly on data from TIC forms "CQ–1: Report of Financial Liabilities to, and Financial Claims on, Unaffiliated Foreign Residents," and "CQ–2: Report of Commercial Liabilities to, and Commercial Claims on, Unaffiliated Foreign Residents." Amounts of outstanding claims and liabilities are reported on a gross basis, without deduction of any offsets against them. No deduction is made for any reserves or allowances that may have been established against possible future losses. However, when an asset is partially or entirely written off, the amount of the write-off is deducted from the outstanding amounts. These write-offs are considered valuation changes and are included in the international investment position. Similar to the reporting for banks and other depository institutions, loans and deposits of any maturity are included, as are all short-term financial instruments of an original maturity of 1 year or less. Transactions computed for foreign-currency-denominated claims and liabilities are adjusted to remove the impact of changes in exchange rates on financial flows.

1.2.2 Nonbank reporters on forms CQ–1 and CQ–2 are instructed to exclude claims and liabilities held in custody by U.S. banks; these claims are reported by banks as custody holdings on the TIC B forms. Similarly, nonbank reporters are instructed to exclude holdings in long-term securities; transactions related to these holdings of securities are reportable on TIC Form S. Transactions of nonbanks in financial derivatives are also excluded because they are reportable on TIC Form D.

1.2.3 *Claims*.—*Financial claims* of U.S. nonbanks reported on TIC Form CQ–1 include (1) loans and loan participations of any maturity (including loans made to finance trade other than those between the seller and purchaser of the traded good or service);

(2) resale and similar financing arrangements (unless held in custody by a U.S.-resident depository institution or other U.S. custodian); and (3) deposit balances (other than certificates of deposit (CDs) held at foreign-resident banks) of any maturity, and negotiable and nonnegotiable CDs issued by foreign-resident banks of any maturity (unless held in custody by a U.S.-resident depository or other U.S. custodian). Also included are (4) money market instruments (such as commercial paper) of an original maturity of 1 year or less not held by a U.S. custodian; (5) other short-term securities (of an original maturity of 1 year or less) held for investment or trading purposes that are held directly or in custody at a foreign custodian or directly with a foreign central depository; (6) lease payments receivable; and (7) brokerage balances, including cash and margin deposit claims on foreign residents.

1.2.4 Transactions in nonbank financial claims are presented in the following categories by instrument: Resale agreements; negotiable certificates of deposit; other short-term instruments (including money market instruments); deposits; and other claims. In the instrument categories, financial flows added from financial intermediaries' accounts collected on BEA's direct investment surveys, which are discussed below, are included in other claims. Financial flows added from the supplemental counterparty data, also discussed below, are included in deposits. Transactions for a given quarter represent the difference between outstanding amounts at the end of the current quarter and the end of the previous quarter. Transactions for foreign-currency-denominated claims are adjusted to remove the impact of changes in exchange rates on financial flows.

1.2.5 *Commercial claims* include trade receivables representing deferred receipts from sales of goods and services, and advance payments and other claims. Transactions in commercial claims are presented by instrument as trade receivables and as advance payments and other claims. Transactions for a given quarter represent the difference between outstanding amounts at the end of the current quarter and the end of the previous quarter, as reported on TIC Form CQ–2. Transactions for foreign-currency-denominated claims are adjusted to remove the impact of changes in exchange rates on financial flows.

1.2.6 *Liabilities.—Financial liabilities* of U.S. nonbanks reported on Form CQ–1 include (1) loans of any maturity (unless the loan has a U.S. depository institution or securities broker or dealer servicing the loan or serving as an administrative agent); (2) repurchase and similar financing arrangements (unless held in custody by a U.S.-resident depository institution or other U.S. custodian); and (3) overdrawn deposit account balances. Also included are (4) short-term securities (of an original maturity of 1 year or less) issued in foreign markets; (5) lease payments due; and (6) brokerage balances, including margin deposit liabilities to foreign residents.

1.2.7 Transactions in financial nonbank liabilities are presented in the following categories by instrument: Repurchase agreements, short-term instruments, and other liabilities. In the instrument categories, financial flows added from financial intermediaries' accounts and financial flows added from the supplemental counterparty data are included in other liabilities. Transactions for a given quarter represent the difference between outstanding amounts at the end of the current quarter and the end of the previous quarter. Transactions for foreign-currency-denominated liabilities are adjusted to remove the impact of changes in exchange rates on financial flows.

1.2.8 *Commercial liabilities* are presented by instrument as trade payables and advance receipts and other liabilities. Transactions for a given quarter represent the difference between outstanding amounts at the end of the current quarter and end of the preceding quarter, as reported on TIC Form CQ–2. Transactions for foreign-currency-denominated liabilities are adjusted to remove the impact of changes in exchange rates on financial flows.

1.2.9 ***Financial intermediaries' accounts.***—Intercompany debt transactions of nonbank financial direct investors with foreign affiliated financial companies are reclassified from the direct investment to the nonbank accounts. These transactions are reclassified because they are akin to transactions of other financial intermediaries and to transactions of depository institutions, bank holding companies, and financial holding companies. As such, they are deemed more in the nature of financial intermediation transactions than direct investment transactions, and are therefore grouped with similar transactions.

1.2.10 The reclassified accounts of U.S. nonbanks are designated as "financial intermediaries' accounts" and are separately identified; they are defined strictly as transactions between firms in a direct investment relationship (that is, between U.S. parents and their affiliates or between affiliates and their foreign parent groups), where both the U.S. and foreign firms are classified in a finance industry (excluding insurance), but the firms are neither banks nor securities brokers. The definition of the finance industry is that contained in the North American Classification System (NAICS), which is the industry classification system used in BEA's international and national accounts.

1.2.11 ***Depository Trust Corporation data.***—Claims of U.S. nonbanks include, as a component of "financial intermediaries' accounts," additional estimates for claims associated with the issuance of asset-backed commercial paper (ABCP) that are not captured in BEA's direct investment reporting system. In principle, funds raised by offshore special purpose vehicles (SPVs) should have been reported in BEA's direct investment reporting system beginning in the early 2000s when many offshore structured investment vehicles (SIVs) and ABCP conduits set up 100 percent-owned affiliates in Delaware for the sole purpose of issuing ABCP in the U.S. market. The ABCP proceeds were then lent to offshore SPVs (parent corporations) which used the funds to purchase other assets; most of these borrowings were subsequently repaid in 2008–2009. In the absence of direct investment reporting for many SIVs, additional estimates of the intercompany debt transactions between Delaware affiliates and their offshore parents are estimated from Depository Trust Corporation (DTC) records for selected ABCP programs.

1.2.12 A proxy measure is used to capture intercompany debt transactions between Delaware affiliates and their offshore parents based on quarterly changes in U.S. ABCP outstanding for the affiliates as estimated from DTC records. If affiliates' ABCP outstanding increased in the quarter, it is assumed affiliates had net lending to their foreign parents in the amount that ABCP increased. If ABCP outstanding decreased in the quarter, it is assumed that foreign parents repaid their Delaware affiliates. Many of these transactions were with parents in the Caribbean, the United Kingdom, and Ireland. The ABCP transactions are grouped with similar transactions in the category "financial intermediaries' accounts."

1.3 Supplemental data collected from foreign counterparties

1.3.1 ***Supplemental counterparty data.***—The use of supplemental data from foreign banks in the nonbank accounts is necessary because bilateral comparisons between U.S. statistics and comparable statistics from foreign banks show that U.S. statistics, collected directly from U.S. nonbanks, underestimate the external claims and liabilities of U.S. nonbanks vis-à-vis foreign banks. The conclusion is based on comparisons of external claims and liabilities (covering mainly loans and deposits) of U.S. banks and nonbanks vis-à-vis foreign banks from U.S. statistics to the comparable external claims and liabilities (covering mainly loans and deposits) of foreign banks vis-à-vis U.S. banks and nonbanks from foreign banking statistics. The comparisons indicate that, over many years for selected countries, the U.S. statistics and the foreign banking statistics are often comparable for external positions between U.S. banks and foreign banks. However, when external positions between U.S. nonbanks and foreign banks are compared, the foreign banking statistics show consistently larger claims and liabilities than the U.S. statistics.

1.3.2 One explanation for the disparity is that banking statistics in the United States are generally of better quality than statistics collected from U.S. nonbanks because U.S. banks are more completely regulated and better integrated into statistical systems. By comparison, U.S. nonbanks are more numerous, diverse, and less regulated, so their transactions are more difficult to cover in statistical systems. Also, despite the significant enhancement in coverage achieved by the use of data from several sources, there is no assurance that the coverage of transactions is yet complete or accurate. Finally, U.S. nonbanks have grown rapidly in recent years both in the number and the scope of their financial intermediation activities. The pooling of assets and the subsequent sale to investors of claims on cash flows backed by these asset pools was an important factor in the expansion of these transactions.

1.3.3 The foreign banking data are from the central banks of the United Kingdom, Germany, and France, from the Bank for International Settlements for the Netherlands, and from Federal Reserve reports for banks in the Caribbean. For banks in the Caribbean, data from a survey by the Federal Financial Institutions Examination Council (FFIEC 002s) and data collected on a survey by the Federal Reserve System (FR2502q) are added together. The FFIEC 002s survey collects data on claims and liabilities of non-U.S. branches that are managed or controlled by a U.S. branch or agency of a foreign bank. The FR 2502q collects similar data from non-U.S. branches of a U.S. commercial bank or Edge Act and Agreement corporation.

1.3.4 The foreign banking data cover loans and deposits denominated in U.S. and foreign currencies; negotiable instruments are excluded. Transactions computed for foreign-currency-denominated claims and liabilities are adjusted to remove the impact of changes in exchange rates on financial flows. No additional detail by maturity, instrument, or affiliation is available for the counterparty data.

1.3.5 Claims and liabilities of U.S. nonbanks vis-à-vis foreign banks compiled from the counterparty data are adjusted before inclusion in the accounts. BEA assumes that these positions and transactions are comprehensive and that all claims and liabilities vis-à-vis foreign banks reported directly by U.S. nonbanks to U.S. statistical agencies should be deducted to avoid double counts. The positions and transactions of the counterparty data remaining after adjustment are added to the other data collected directly by U.S. nonbanks.

1.3.6 Claims of U.S. nonbanks on foreign banks, compiled from the counterparty data for specific countries, are adjusted by deducting the following claims reported by U.S. nonbanks to U.S. statistical authorities vis-à-vis those countries: (1) Nonnegotiable deposits and other nonnegotiable claims on foreign banks reported by bank holding companies, financial holding companies, and securities brokers on TIC Form BC, (2) nonnegotiable deposit claims held in custody for banks' customers and reported on the TIC Form BQ–1, (3) intercompany debt claims of U.S. financial intermediaries on foreign affiliated financial intermediaries reported on BEA surveys of direct investment, and (4) nonnegotiable deposits and other nonnegotiable financial claims reported by U.S. nonbanks on TIC Form CQ–1.

1.3.7 Liabilities of U.S. nonbanks to foreign banks, compiled from the counterparty data for specific countries, are adjusted by deducting the following liabilities reported by U.S. nonbanks to U.S. statistical authorities vis-à-vis those countries: (1) Brokerage balances and other liabilities to foreign banks reported by bank holding companies and by securities brokers on TIC Form BL–1, (2) loan participations held in custody for banks' customers reported on TIC Form BL–2, (3) intercompany debt liabilities of U.S. financial intermediaries to foreign affiliated financial intermediaries reported on BEA surveys of direct investment, and (4) nonnegotiable financial liabilities reported by U.S. nonbanks on TIC Form CQ–1.

1.3.8 For each country, adjusted U.S. nonbank financial claims and liabilities compiled from the counterparty data for that country are added to financial positions compiled from data directly reported to U.S. statistical authorities in order to achieve more complete coverage of U.S. nonbank financial positions and transactions derived from them.

Transactions With Foreign Official Agencies

In This Section:

Coverage and definitions

Changes in foreign official assets in the United States—or in the corresponding U.S. liabilities to foreign official agencies—are measured in the following accounts: (1) U.S. Treasury securities (line 58); (2) other U.S. government securities (line 59); (3) other U.S. government liabilities (line 60); (4) U.S. liabilities reported by U.S. banks and securities brokers (line 61); and (5) other foreign official assets (line 62). Foreign official agencies are defined as (1) treasuries, including ministries of finance or corresponding departments of national governments; central banks; and stabilization funds, exchange control offices, or other governmental exchange authorities. Also included are (2) divisions of national governments, as well as private banks and corporations, that are fiscal agents of national governments and that have as an important part of their functions activities similar to those of a treasury, central bank, stabilization fund, or exchange control authority. (3) Diplomatic and consular establishments and (4) other agencies of national governments are also included.

U.S. liabilities recorded in lines 58, 59, 61, and 62 represent claims of foreign official agencies on the U.S. government, U.S. state and local governments, and on other U.S. residents, including banks and other depository institutions, bank holding companies, financial holding companies, securities brokers and dealers, nonbank firms, and other organizations. Most foreign official assets are held in the form of U.S. Treasury securities and U.S. government agency obligations; generally, they constitute part of the foreign exchange reserves of foreign monetary authorities held in U.S. dollars. Some foreign official assets are held in the form of U.S. corporate bonds and stocks. U.S. government liabilities recorded in line 60 represent liabilities to foreign official agencies primarily associated with U.S. military agency sales contracts.

Estimation methods overview

Quarterly estimates of transactions are made by BEA on the basis of data from U.S. Treasury International Capital (TIC) reports and, for line 60, from data provided by other U.S. government operating agencies. The various TIC reporting forms used in estimating the accounts are listed in the appropriate sections below. Additional information necessary to estimate these accounts is obtained from special monthly reports prepared by the Federal Reserve System. The term “foreign official institutions” used in TIC reports differs from the term “foreign official agencies” used in the official international transactions accounts in that the former includes, and the latter excludes, international and regional organizations.

1 **U.S. Treasury Securities** (line 58)

This account measures net transactions by foreign official agencies in U.S. Treasury bills and certificates and in bonds and notes (both marketable and nonmarketable), as listed in table 29).

1.1 **Bills and certificates**

1.1.1 Data are obtained from the monthly BL–2 form, “Report of Customers’ U.S. Dollar Liabilities to Foreigners.” Short-term U.S. Treasury obligations for the account of foreign official agencies are reported at face value for amounts outstanding at the end of each month by banks and other depository institutions, bank holding companies, financial holding companies, and securities brokers and dealers. All U.S. Treasury bills and certificates with an original maturity of 1 year or less are included. Securities that have been temporarily “transferred out” by foreign residents under repurchase agreements or similar agreements are included.

1.1.2 Net foreign transactions for the quarter represent the difference between amounts outstanding at the end of the current quarter and at the end of the preceding quarter. Because reporting is at face value, any initial discount due to prepaid interest is not taken into account. Information is not available to adjust the data for discounts or premiums reflecting fluctuations in the market price of these obligations.

1.2 **Marketable bonds and notes**

The procedure for estimating net purchases of marketable U.S. Treasury bonds by foreign official agencies is as follows:

1.2.1 (1) Data on gross sales and gross purchases of Treasury bonds by foreign official agencies in transactions with U.S. residents are reported on the monthly S forms. Data on foreign official transactions are obtained from the supplement to the S form. The S form is filed by U.S. banks and other depository institutions, bank holding companies, financial holding companies, securities brokers and dealers, nonbank enterprises, and other persons, who on their own behalf, or on behalf of their customers, engage in transactions in long-term securities directly with foreigners; transactions are reported at market prices as of the settlement date. Securities included in this account have contractual maturities of more than 1 year. Reported transactions, gross purchases and gross sales, represent the cost of purchases and proceeds from sales as of the settlement date. Redemptions of securities are reported as sales by foreigners. No adjustments are made by BEA for commissions or other charges, partly because market costs are often not applicable in official transactions.

1.2.2 (2) BEA adjusts gross sales of Treasury bonds by foreign official agencies for the expected underestimate or overestimate of net purchases in the S-form data based on comparisons of reported net purchases with net purchases derived from monthly, annual, and benchmark surveys of holdings of Treasury bonds by foreign official agencies. These comparisons indicate that the S-form data tend to overestimate net purchases of Treasury bonds by private foreign residents and underestimate net purchases of Treasury bonds by foreign official agencies. The Federal Reserve Board is able to provide BEA with quarterly adjustments correcting transactions by foreign official agencies and private foreigners in the S-form data. BEA adjusts the gross sales of Treasury bonds by foreign official agencies downward to increase net purchases in line 58.

Table 29. Foreign Official Assets in the United States, 2009 (Line 56)

[Millions of dollars]

(Credits +; increase in U.S. liabilities Debits –; decrease in U.S. liabilities.)	
Foreign official assets in the United States, net	**450,030**
By instrument:	
U.S. Treasury securities (line 58)	561,125
Other U.S. government securities (line 59)	–120,069
Other U.S. government liabilities (line 60)	57,971
U.S. liabilities reported by U.S. banks and securities brokers (line 61)	–70,851
Other foreign official assets (line 62)	21,854

Offsetting adjustments are made to decrease net purchases by private foreigners (part of line 65). Transactions of foreign official agencies may not be reported as expected in the supplement to the S form when these agencies conduct transactions through private intermediaries, causing an underestimate of foreign official net purchases of Treasury bonds in the S form.

1.2.3 (3) Net purchases of Treasury bonds are equal to adjusted gross purchases of Treasury bonds by foreign official agencies less adjusted gross sales. When adjusted gross purchases exceed adjusted gross sales, net purchases of Treasury bonds appear in the accounts with a positive value, indicating a net inflow of funds. When adjusted gross purchases are less than adjusted gross sales, net sales of Treasury bonds appear in the accounts with a negative value, indicating a net outflow of funds.

1.3 **Nonmarketable bonds and notes**

1.3.1 Between 1988 and 1993 the United States Treasury issued four 30-year zero-coupon U.S. dollar-denominated foreign series nonmarketable bonds to foreign governments. The first two were issued to Mexico in 1988 and 1990, the third to Venezuela in 1990, and the last to Argentina in 1993. The bonds provided collateral for new bonds issued by Mexico, Venezuela, and Argentina to restructure their debt. The bonds are nonmarketable, so there are no transactions arising from trading in a secondary market. As long as the bonds are outstanding, they accrue interest and thus increase in value. The foreign government holders are permitted to redeem the bonds partly or in full before their maturity dates.

1.3.2 The bonds issued to Mexico were redeemed by Mexico by January 2004. The bonds issued to Venezuela and Argentina have been partly redeemed but are still outstanding in 2010. An issue-by-issue listing of nonmarketable foreign series securities is published by the Treasury Department in the Monthly Statement of the Public Debt of the United States. A table (IFS–3) listing the market value of the foreign series nonmarketable bonds is also published quarterly in the *Treasury Bulletin*.

1.3.3 These zero-coupon bonds increase in value through the accrual of interest, increasing the liabilities of the U.S. Treasury to the foreign official holders of the bonds. The increases in U.S. liabilities through interest accruals are recorded as credits with a positive sign in the accounts. Redemptions of the bonds reduce U.S. liabilities and are recorded as debits with a negative sign in the accounts. These interest accruals, less any redemptions of the bonds, are recorded as financial flows in line 58, U.S. Treasury securities.

1.3.4 The offsets to interest accruals are recorded as income payments with a negative sign in U.S. government income payments, line 33. The offsets to redemptions are recorded as an increase in U.S. banking liabilities to the foreign government (line 61) with a positive sign when the proceeds from the redemption are transferred by the Treasury to the account of the foreign government at a U.S. bank.

2 **Other U.S. Government Securities** (line 59)

2.1 This account measures net transactions by foreign official agencies in bonds, notes, and other long-term obligations of U.S. government corporations and federally sponsored agencies (U.S. agency bonds) (see table 29). Transactions in U.S. agency bonds, other than those with foreign official agencies, are covered in part of line 66 as U.S. federally sponsored agency bonds. The procedure for estimating net purchases of U.S. agency bonds by foreign official agencies is as follows:

2.2 (1) Data on gross sales and gross purchases of agency bonds by foreign official agencies in transactions with U.S. residents are reported on the monthly S forms. Data on foreign official transactions are obtained from the supplement to the S form. Transactions are reported at market prices as of the settlement date. Securities included in this account have original maturities of more than 1 year. Reported transactions, gross purchases and gross sales, represent the cost of purchases and proceeds from sales as of the settlement date. Redemptions of securities are reported as sales by foreigners. No adjustments are made by BEA for commissions or other charges, partly because market costs are often not applicable in official transactions.

2.3 (2) BEA adjusts gross sales of agency bonds by foreign official agencies for the expected underestimate or overestimate of net purchases in the S-form data based on comparisons of reported net purchases with net purchases derived from annual and benchmark surveys of holdings of agency bonds by foreign residents. In these comparisons, the S-form data have recently overestimated net purchases of agency bonds because prepayments on asset-backed agency bonds, which are like gross sales or redemptions, are not captured by the S form. To reduce revisions when annual surveys become available, BEA uses information provided by the Federal Reserve Board to make an upward adjustment to gross sales to account for the prepayments.

2.4 Comparisons between the S-form data and net purchases derived from monthly, annual, and benchmark surveys of holdings of agency bonds by foreign official agencies also indicate that the S-form data overestimate net purchases of agency bonds by private foreign residents and underestimate net purchases of agency bonds by foreign official agencies. The Federal Reserve Board is able to provide BEA with adjustments correcting transactions by foreign official agencies and private foreigners in the S-form data. BEA adjusts the gross sales of agency bonds by foreign official agencies downward to increase net purchases of agency bonds in line 59. Offsetting adjustments are made to decrease net purchases of agency bonds by private foreigners (part of line 66). Transactions of foreign official agencies may not be reported in the supplement to the S form when these agencies conduct transactions through private intermediaries, causing an underestimate of foreign official net purchases of agency bonds in the S form.

2.5 (3) Net purchases of agency bonds are equal to adjusted gross purchases of agency bonds by foreign official agencies less adjusted gross sales. When adjusted gross purchases exceed adjusted gross sales, net purchases of agency bonds appear in the accounts with a positive value, indicating a net inflow of funds. When adjusted gross purchases are less than adjusted gross sales, net sales of agency bonds appear in the accounts with a negative value, indicating a net outflow of funds.

3 **Other U.S. Government Liabilities** (line 60)

3.1 This account primarily measures net transactions in U.S. government liabilities to foreign official agencies associated with U.S. military agency sales contracts and other U.S. government transactions, including U.S. government liabilities associated with allocations of special drawing rights (SDRs) (table 29). Changes in certain other U.S. government liabilities to foreigners—generally, to foreign government agencies other than official agencies—are also included.

3.2 Transactions included in *military-related* liabilities represent the sum of U.S. government (1) cash receipts from foreign governments for purchases of military goods and services and (2) the financing of military sales by U.S. government credits and grants. Netted against this gross total are (3) the part of the receipts from foreign governments that represents principal repayments on credits financing military agency sales contracts, (4) issues of special U.S. Treasury securities that are subject to redemption prior to maturity for the purpose of prepaying for military purchases in the United States, and (5) the counterpart to the value of deliveries of goods and services recorded in transfers under U.S. military agency sales contracts (part of line 3 and line 5).

3.3 The *nonmilitary* liabilities include changes, most of which were of greater significance in much earlier time periods, associated with (1) deposits and trust funds held with the U.S. government and the sales operations of its nonmilitary agencies, such as sales of nuclear materials (in earlier years) by the Department of Energy, (2) funds provided as grants or loans under assistance programs, but held in restricted accounts with the U.S. government to ensure their expenditure for purchases from the United States, (3) accounts payable of U.S. government agencies that report their current transactions on an accrual basis, and (4) non-interest-bearing Treasury securities that were issued as part of U.S. government contributions to international institutions, but are subject to redemption prior to maturity to obtain U.S. dollars for the immediate operating needs of the institutions.

3.4 Other U.S. government liabilities includes U.S. government liabilities associated with the allocation of special drawing rights (SDRs). Allocations of SDRs happen infrequently. The most recent allocations occurred in 2009; before 2009, allocations occurred in 1979-81 and in 1970–1972. BEA obtains data on the allocations from the International Monetary Fund.

3.5 Quarterly estimates for military, nonmilitary, and other transactions are made on the basis of data on transactions submitted by U.S. government operating agencies under OMB Directive No. 19 and from published statements and other financial and operating records of government agencies.

4 **U.S. Liabilities Reported by U.S. Banks and Securities Brokers** (line 61)

4.1 This account measures net transactions in U.S. liabilities to foreign official agencies, not included in other accounts, reported by U.S. banks and other depository institutions, bank holding companies, financial holding companies, and securities brokers and dealers (see table 29). Transactions are estimated by BEA on the basis of outstanding liabilities reported on the TIC BL–1 and BL–2 forms. Transactions for a given quarter represent the difference between outstanding amounts at the end of the current quarter and end of the preceding quarter. Liabilities are reported on a gross basis and are denominated in dollars.

4.2 Banks' and brokers' liabilities for *own accounts* to foreign official agencies are reported on the TIC BL–1, "Report of U.S. Dollar Liabilities of Depository Institutions, Bank Holding Companies/Financial Holding Companies, Brokers, and Dealers to Foreigners." Banks' and brokers' liabilities for own accounts include repurchase agreements, deposits and brokerage balances, and other liabilities.

4.3 Banks' and brokers' liabilities for *customers' accounts* to foreign official agencies are reported on the BL–2, Part 2, "Report of Customers' U.S. Dollar Liabilities to Foreigners." These liabilities are held by banks and brokers for foreign official agencies either in direct custody or in their own name with a custodian bank or other institution. The liabilities for official customers' accounts include negotiable certificates of deposit of any maturity, other short-term instruments with a maturity of 1 year or less, and other liabilities. Also included are assets held with the reporting institutions by domestic trustees for the account of trusts created in the United States by foreign governments. Short-term U.S. Treasury obligations are excluded from this account and are included in line 58.

5 **Other Foreign Official Assets** (line 62)

5.1 This account measures net transactions by foreign official agencies in stocks and bonds of U.S. corporations and in bonds of U.S. state and local governments (see table 29). These securities are long term; that is, they have no contractual maturities (stocks) or have maturities of more than 1 year (bonds). Transactions are estimated by BEA on the basis of data on gross foreign purchases and gross foreign sales reported on the S-form supplement for transactions by foreign official agencies. Reported transactions represent the cost of purchases and proceeds from sales as of the settlement date; no adjustments are made by BEA for commissions or other charges.

Transactions in U.S. Currency

In This Section:

Coverage and definitions

This account measures net shipments of U.S. currency to and from foreign residents.

Estimation methods overview

The account is estimated based on data provided by the Federal Reserve System.

1 **U.S. Currency** (line 67)

1.1 Net shipments of U.S. currency from the U.S. Federal Reserve to foreign wholesale commercial banks and banknote dealers are measured in line 67 (see table 30). Foreign wholesale banks then disburse the currency to local retail banks for transfer to other businesses and individuals. U.S. currency held abroad by foreign residents is a U.S. liability to foreigners.

1.2 U.S. currency—particularly Federal Reserve notes—is widely held by foreigners. The currency is used for many of the same reasons as in the United States. It serves as a unit of account, a medium of exchange, and a store of value, especially when the purchasing power of the domestic currency is uncertain. As a safe asset in an unpredictable world, dollars flow into a country during periods of economic and political upheaval and sometimes remain there well after the crisis has subsided. In other situations, the dollar co-circulates with the domestic currency for extended time periods.

Table 30. Transactions in U.S. Currency, 2009 (Line 67)

[Millions of dollars]

(Credits +; increase in U.S. liabilities. Debits –; decrease in U.S. liabilities.)	
U.S. currency	**12,632**

1.3 Although the amount of U.S. currency outstanding is known, the shares in domestic and foreign circulation are difficult to measure accurately. As a proxy, net disbursements of $100 notes from Federal Reserve cash offices to foreign wholesale banks serve as the measure of currency flows. In a typical transaction, foreign wholesale banks purchase notes from the Federal Reserve for distribution to customers abroad. Foreign wholesale banks also sell back to the Federal Reserve notes unfit for further circulation or excess balances of notes. The net amount of outflows and inflows of notes at Federal Reserve cash offices is entered in line 67. A positive entry, which is typical of most quarters, indicates net currency outflows (shipments) from the United States (an increase in U.S. liabilities to foreigners); a negative entry indicates net currency inflows (returns) to the United States (a decrease in U.S. liabilities to foreigners). The shipments and returns of currency constitute the entirety of transactions in this line. These transactions are not captured elsewhere in statistical reporting systems. The offsets to these transactions, that is, the collection of funds for the U.S. sale of notes or the disbursement of funds for the U.S. purchase of notes, are captured in the banking statistics.

1.4 This measure of net currency flows is believed to represent nearly all currency transactions that occur through banking channels. Currency that flows abroad through other channels—through tourists, through business persons, through personal remittances, and through U.S. military personnel stationed overseas—is not covered in this estimate. Currency smuggled and other illegal activities involving cash, such as drug trafficking, are also not covered in this estimate.

Transactions in Financial Derivatives

In This Section:

Coverage and definitions

This account measures transactions arising from financial derivatives contracts between U.S. and foreign residents.

Transactions arising from financial derivatives contracts consist of U.S. cash receipts and payments arising from the sale, purchase, periodic settlement, or final settlement of derivatives contracts. Transactions are measured on a net settlements basis; that is, the value of U.S. cash receipts less U.S. cash payments on contracts with positive fair values and negative fair values is reported as a single amount. All types of financial derivatives contracts are covered.

Financial derivatives contracts derive their value from underlying variables, such as interest rates, exchange rates, stock prices, commodity prices, credit quality, other financial derivatives, and many other variables. Changes in the value of financial derivatives contracts are determined by changes in the value of their underlying variables.

Estimation methods overview

Comprehensive data on financial derivatives are collected on Treasury International Capital (TIC) Form D, "Report of Holdings of, and Transactions in, Financial Derivatives Contracts." Data are collected from U.S. banks, bank holding companies, financial holding companies, securities dealers, and all other firms with worldwide holdings of financial derivatives, for their own and their customers' accounts combined, in excess of $400 billion in notional value, which is the face value of underlying assets used to calculate a contract's cash flows. Trading in financial derivatives is highly concentrated among a small number of large firms. About 50 firms provide data each quarter to the Federal Reserve Bank of New York, which conducts the mandatory survey for the U.S. Treasury Department.

1 **Financial Derivatives, Net** (line 70)

1.1 Transactions in financial derivatives contracts between U.S. and foreign residents, as measured by net cash settlements, are entered in financial derivatives, net (line 70) (see table 31).

Table 31. Transactions in Financial Derivatives, 2009 (Line 70)
[Millions of dollars]

Financial derivatives, net	**50,804**
By type of contract:	
Over-the-counter contracts	41,265
Single currency interest rate contracts	26,349
Foreign exchange contracts	–313
Other contracts (equity, credit derivative, and commodity contracts)	15,229
Exchange-traded contracts	9,539
U.S. residents' contracts on foreign exchanges	12,963
Own contracts	–287
Customers' contracts	13,250
Foreign residents' contracts on U.S. exchanges	–3,424

1.2 Net settlements are reported on TIC Form D as follows. Receipts of cash by U.S. residents from foreigners are treated as positive amounts (+), and payments of cash by U.S. residents to foreigners are treated as negative amounts (–). The receipts and payments for all contracts are summed for each reporting category. A net settlement cash receipt or payment occurs only when cash is received or paid for the purchase or sale of a derivative, or a settlement payment (such as the periodic settlement under a swap agreement or the daily settlement of an exchange-traded contract) is received or paid.

1.3 Net settlements are reported for three risk categories of over-the-counter contracts, classified by the type of underlying variable in the contract: single-currency interest rate contracts, foreign exchange contracts, and other risk categories, which include equity contracts, credit contracts, and commodity contracts. These risk categories can include forward, swap, or option contracts with these underlying variables. Net settlements are also reported for exchange-traded contracts, categorized by the location of the exchange and the parties to the contract. Three categories are reported: the reporters' own contracts on foreign exchanges, the reporters' customers' contracts on foreign exchanges, and all contracts with foreign counterparties on U.S. exchanges. Total net settlements is the sum of net settlements for the three categories of over-the-counter contracts and the three categories of exchange traded contracts.

1.4 Contracts with standardized features, such as futures and standardized options, are usually traded in public exchange markets, with the exchange clearing house included as a counterparty to all transactions. Contracts with customized features, such as forwards, swaps, and customized options, are usually traded in over-the-counter (OTC) markets, and are arranged and generally settled directly between financial market participants without the involvement of a clearing house.

1.5 For forward-type contracts (forwards, futures, and swaps), cash receipts and payments usually do not occur at contract initiation because the initial value of contracts is usually zero. Cash receipts and payments may occur to settle the value of forward contracts at maturity, to settle daily changes in the value of futures contracts, or to settle the value of swap contracts at specific points in time, including maturity or termination. For option-type contracts (such as options on equities), cash receipts and payments occur when premiums are received or paid at initiation, or when in-the-money options are sold before expiration or settled at expiration in cash.[1]

1.6 The following paragraphs, taken from a Federal Reserve Board publication, summarize unique conceptual and economic accounting issues related to presentation of derivatives in the accounts:

"Derivatives do not fit neatly into the international transactions accounts for two reasons. The first is that, unlike financial instruments such as bonds and stocks, some derivatives contracts cannot be categorized solely as claims or liabilities. Clearly an option written by a U.S. resident and purchased by a foreign resident is a U.S. liability to foreigners, but the distinction is less clear for products such as swaps, forwards, and futures. Over the lives of these products, the fair market value may be positive at times and negative at times, and it may switch signs several times within a quarter. So these instruments are neither strictly claims, with consistently positive fair values and payments to the U.S. resident counterparty to the contract, nor strictly liabilities, with consistently negative fair values and payments from the U.S. resident counterparty."

"The second reason that derivatives are not easily incorporated into the international transactions accounts is the ambiguous status of the associated payments. The periodic payments on derivatives can be considered returns on invested capital, which are recorded in the current account; alternatively, they can be considered realized gains from changes in the contractual value, which are recorded in the financial accounts. Because the return from derivatives for many end users comes in the form of trading gains and losses, the International Monetary Fund has recommended that period payments on derivatives

1. Initial cash margin and collateral deposits on derivatives contracts are classified as banking transactions, specifically increases or decreases in brokerage balances, not as derivatives transactions.

be recorded as a financial account transaction."[2]

1.7 Because of the difficulty in characterizing financial derivatives as either claims or liabilities and because cash settlements are reported to BEA as a single amount with no separation between contracts with gross positive fair values and contracts with gross negative fair values, BEA presents cash settlements as a net amount on a single line, line 70, in the financial account, separate from lines for transactions for U.S.-owned assets abroad and foreign-owned assets in the United States.

2. See Stephanie E. Curcuru, "U.S. Cross-Border Derivatives Data: A User's Guide, *Federal Reserve Bulletin* (May 2007; reprinted by permission: A10; Robert M. Heath, "The Statistical Measurement of Financial Derivatives" (IMF working paper 98/24, Washington, DC: International Monetary Fund, March 1998); *Financial Derivatives: A Supplement to the Balance of Payments Manual* (Washington, DC: International Monetary Fund, 2000).