

Latest Developments in the Canadian Economic Accounts

Revisions to Canada's International Investment Position



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- . not available for any reference period
- .. not available for a specific reference period
- ... not applicable
- 0 true zero or a value rounded to zero
- 0^s value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
- ^P preliminary
- ^r revised
- X suppressed to meet the confidentiality requirements of the *Statistics Act*
- ^E use with caution
- F too unreliable to be published
- * significantly different from reference category ($p < 0.05$)

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Canada's International Investment Position (IIP) is revised as part of the 2015 Comprehensive Revision of the Canadian System of Macroeconomic Accounts (CSMA) with the objectives of strengthening the overall quality of this product and increasing its compliance with updated international standards set by the International Monetary Fund—for IIP the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) and the OECD Benchmark Definition of Foreign Direct Investment (BD4).

The IIP is a statistical statement that shows the value and the composition of a country's international assets and liabilities at a point in time. The BPM6 recognizes the increasing importance of the IIP in the compilation and analysis of the international accounts. Such balance sheet information are useful to better understand the extent of the exposure (and, therefore, the risk and vulnerability) of an economy with respect to their international investments from different perspectives, including the type and nature of these investments, the composition in terms of currency and sector of borrower, maturity, etc.

Revisions introduced in the IIP as part of this exercise are consistent with those implemented in the financial account of the Balance of Payments (BOP) which were released on November 30, 2015 (Revisions to Canada's International Balance of Payments (www.statcan.gc.ca/olc-cel/olc.action?ObjId=13-605-X201501014292&ObjType=47&lang=en&limit=0)). They include statistical, classification, conceptual and presentational changes but also the development of new estimates to better address questions associated to financial stability.

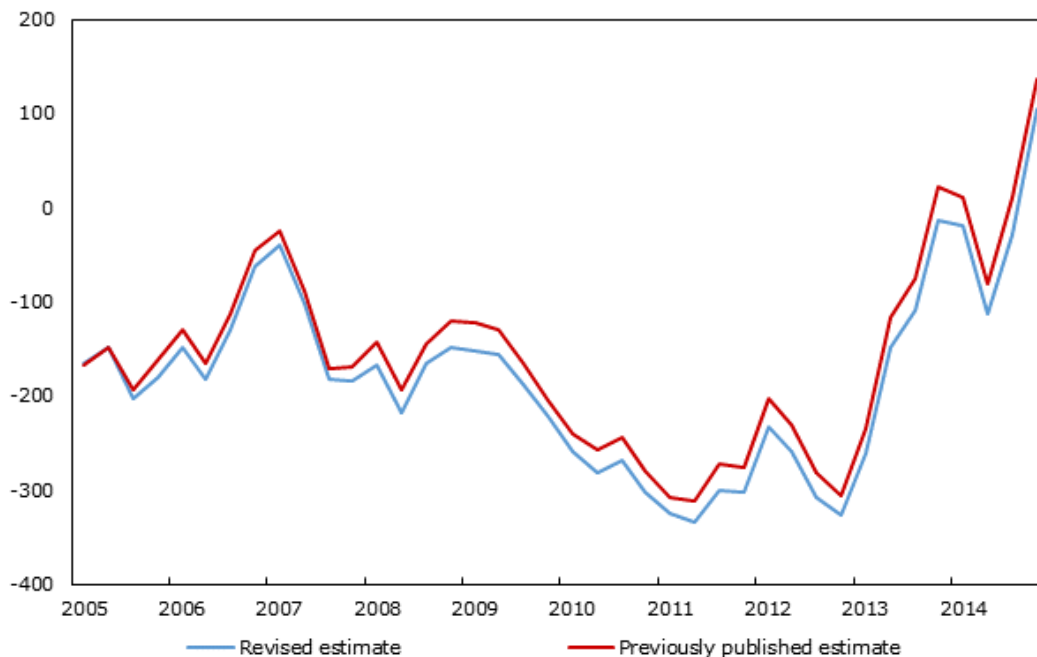
Statistical and classification changes

Statistical changes in the IIP are mainly explained by the benchmarking of key data series on foreign direct investment and portfolio investment, as well as banks' currency and deposits liabilities. Classification changes mostly refer to a change in the way Canadian covered bonds are recorded in the international accounts.

Revisions to the IIP, more important from 2005 onward, generally tend to increase Canada's net foreign debt position over the period or to reduce Canada's net international asset position in most recent years. This was in line with revisions to the financial account of the balance of payments which generally resulted in an increase of the net borrowing – or a decrease of the net lending.

Chart 1
Canada's net international investment position

billions of dollars



Source: Statistics Canada.

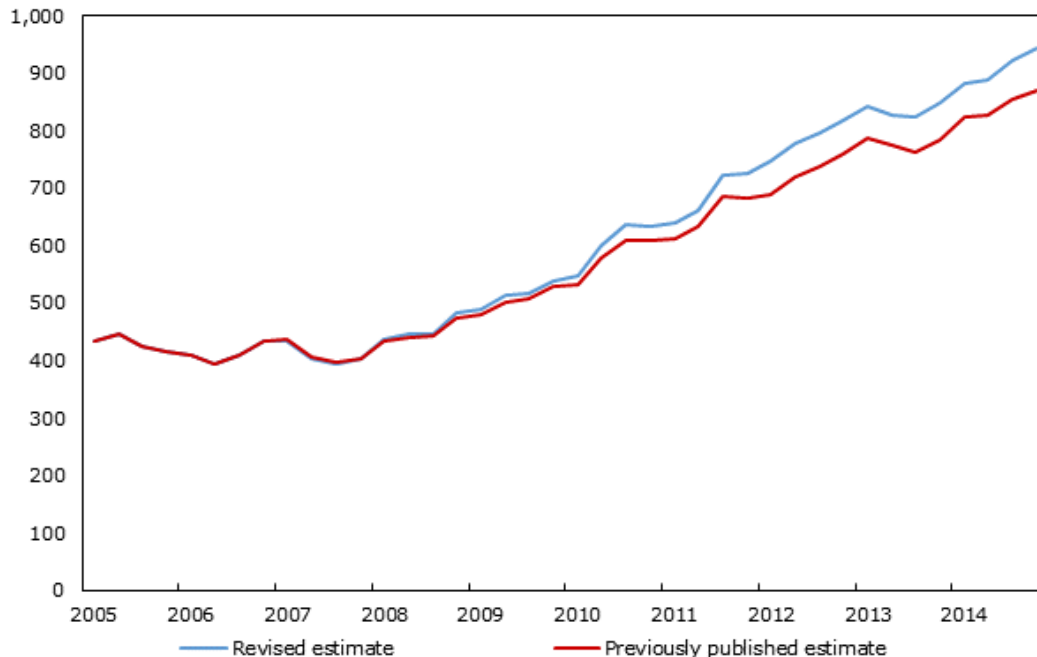
In most recent years (from 2012 onward), revisions are mainly explained by the integration of annual benchmark surveys on foreign direct investment and portfolio investment, on both assets and liabilities. These revisions also reflect the increased use of other countries' information as part of the data confrontation process in order to assess and improve the quality of Canada's IIP estimates.

One important change contributing to the revisions from 2007 relates to the coverage of Canadian covered bonds and their reclassification from the other investment functional category of the IIP (currency and deposit liabilities) to the portfolio investment functional category (Canadian bonds). Covered bonds are debt instruments issued by financial institutions and secured by a segregated pool of assets. The new classification better reflects the nature of these financial instruments and is coherent within the CSMA.

As a result of this exercise, foreign holdings of Canadian bonds are revised up, largely due to the value of covered bonds transferred from the currency and deposit instrument category to the Canadian bond instrument category of the IIP.

Chart 2
Foreign holdings of Canadian bonds

billions of dollars



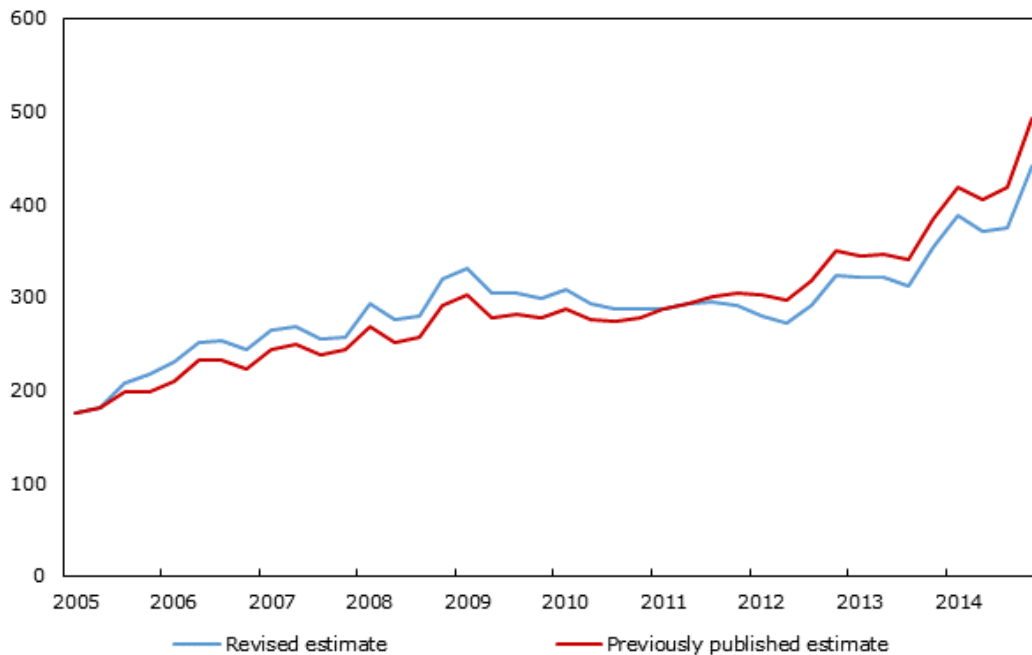
Source: Statistics Canada.

The Canadian bond series was also impacted by the implementation of a more robust methodology to generate market value estimates of these instruments. Canadian bonds are now evaluated in the IIP based on period-end observed market prices on an instrument basis, where available. The new approach replaces the one where average transaction prices were used during the period as a proxy for observed prices.

In addition to the reclassification of covered bonds¹, the series on currency and deposits is also revised following a benchmarking exercise with other data sources used in the CSMA. This resulted in a progressive increase in international deposit liabilities starting in 2005, consistent with revised estimates recorded in the broader framework of the CSMA National Balance Sheet Accounts (NBSA). Overall, the net impact of the reclassification of covered bonds and the benchmarking of the series was an increase in currency and deposit liabilities from 2005 to 2011 followed by a decrease from 2012 onward.

Chart 3
Currency and deposits, liabilities

billions of dollars



Source: Statistics Canada.

New data series and presentational changes

Additional details are included in the IIP main presentation and in supplementary tables as part of the 2015 Comprehensive Revision of the CSMA. New instrument categories are introduced for foreign direct investment, official international reserves and other investments.

For portfolio investment, new information on currency of issue and remaining maturity of Canadian debt securities is released as encouraged by updated international standards. Estimates of Canadian portfolio investment abroad with individual country detail are now available on a quarterly basis as opposed to an annual basis.

Also, the presentation of foreign direct investment in the IIP was changed in order to show these investments on an asset liability principle basis (i.e., gross basis), in line with the presentation used in the NBSA.

Table 1
International investment position, comparison of former- and new presentation

Former presentation	New presentation
Total assets	Total assets
Canadian direct investment abroad	...
...	Direct investment assets
...	Equity
...	Debt instruments
Canadian portfolio investment	Canadian portfolio investment
Foreign debt securities	Foreign debt securities
Foreign money market instruments	Foreign money market instruments
Foreign bonds	Foreign bonds
Foreign equity and investment fund shares	Foreign equity and investment fund shares
Official international reserves	Official international reserves
United States dollars	...
Other foreign currencies	...

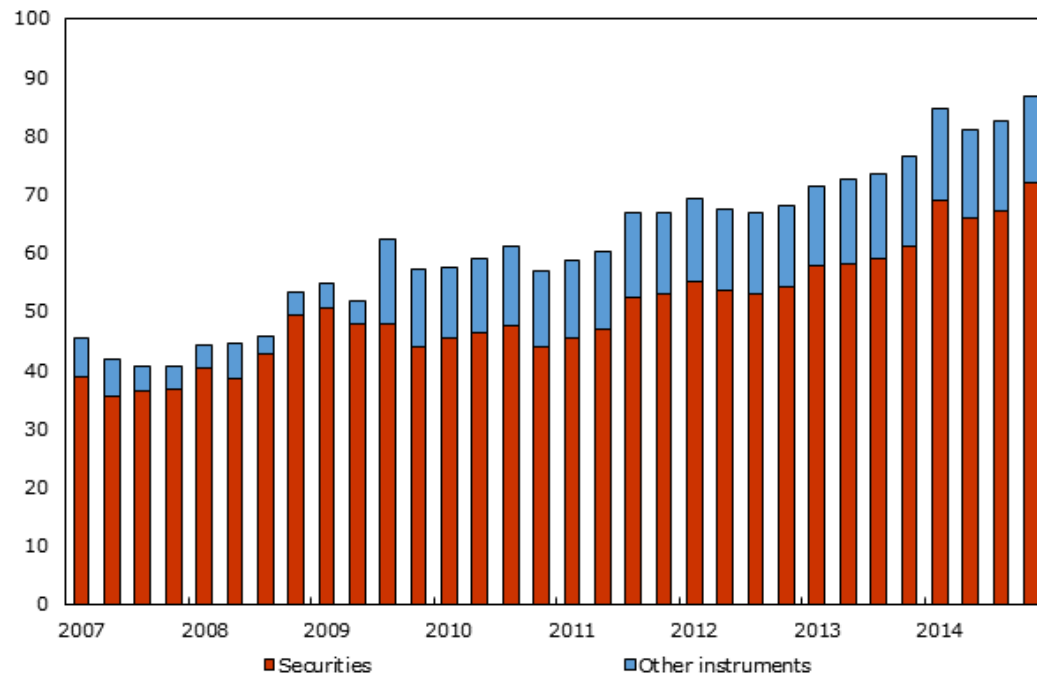
...	Securities
...	Currency and deposits
Gold	Gold
Special drawing rights	Special drawing rights
Reserve position in International Monetary Fund (IMF)	Reserve position in International Monetary Fund (IMF)
Other Canadian investment	Other Canadian investment
Loans	Loans
Currency and deposits	Currency and deposits
Other assets	...
...	Trade credit and advances
...	Other accounts receivable
Total liabilities	Total liabilities
Foreign direct investment in Canada	...
...	Direct investment liabilities
...	Equity
...	Debt instruments
Foreign portfolio investment	Foreign portfolio investment
Canadian debt securities	Canadian debt securities
Canadian money market instruments	Canadian money market instruments
Canadian bonds	Canadian bonds
Canadian equity and investment fund shares	Canadian equity and investment fund shares
Other foreign investment	Other foreign investment
Loans	Loans
Currency and deposits	Currency and deposits
Special drawing rights	Special drawing rights
Other liabilities	...
...	Trade credit and advances
...	Other accounts payable
Canada's net international investment position	Canada's net international investment position
... not applicable	
Source: Statistics Canada	

Official international reserves

Reserves in the form of securities are now available from 2007. Previously, these instruments were amalgamated with currency and deposits in US dollars and currency and deposits in other foreign currencies. A large proportion of Canada's international reserves are in the form of foreign securities and showing these instruments separately from the rest of the currency and deposits provides additional information on the characteristics and exposures of Canada's international reserve assets.

Chart 4
Official international reserves at market value

billions of dollars



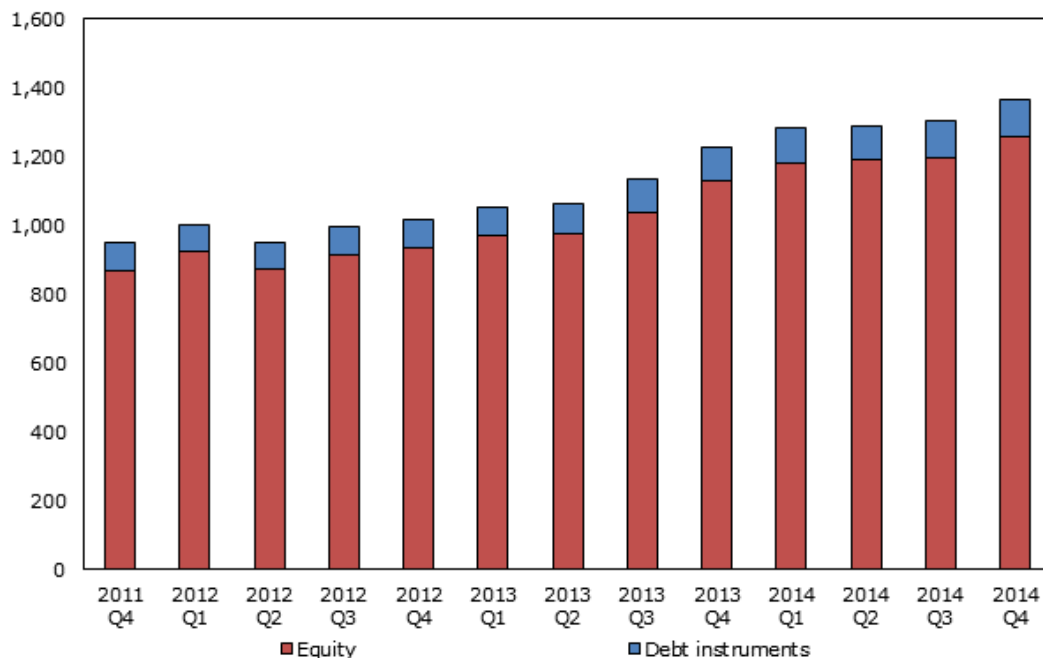
Source: Statistics Canada.

Foreign direct investment

Foreign direct investment in the IIP is now presented by type of instrument (equity and debt). This additional detail provides users with more relevant information on the nature of the FDI activity measured on a quarterly basis and sheds some light on the importance of intercompany debt in foreign direct investment. The new data shows that, on average, about 8% of direct investment assets are in the form of debt instruments as opposed to equity. For direct investment liabilities, this proportion is twice as large, reflecting the higher importance of debt financing instruments with respect to inward direct investment. The new information also improves the international comparability of Canadian FDI information with other countries.

Chart 5
Direct investment assets at market value

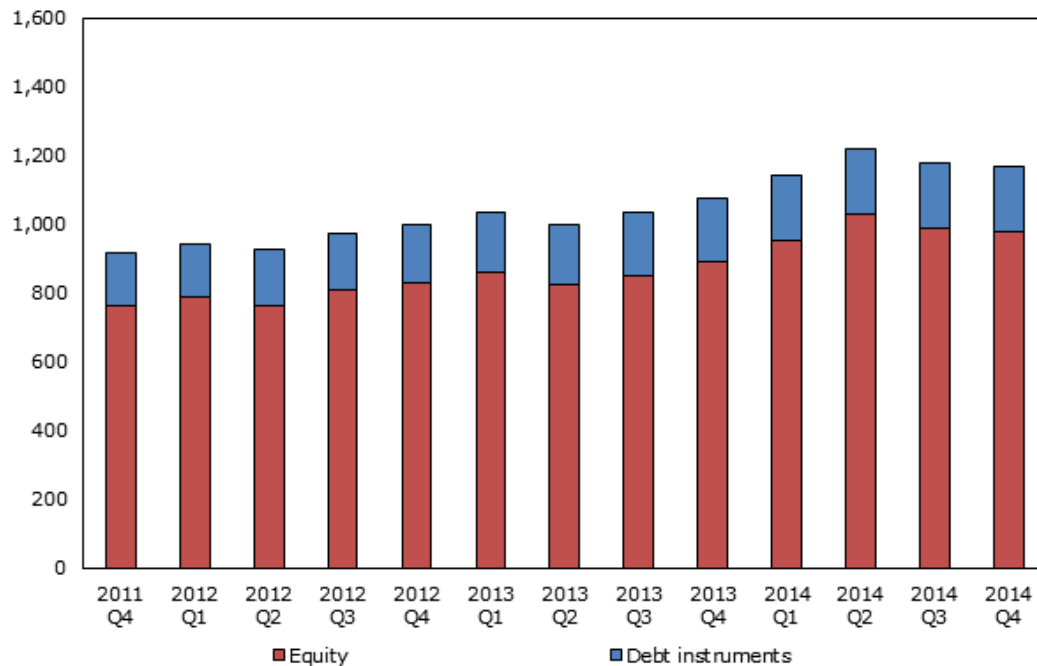
billions of dollars



Source: Statistics Canada.

Chart 6
Direct investment liabilities at market value

billions of dollars

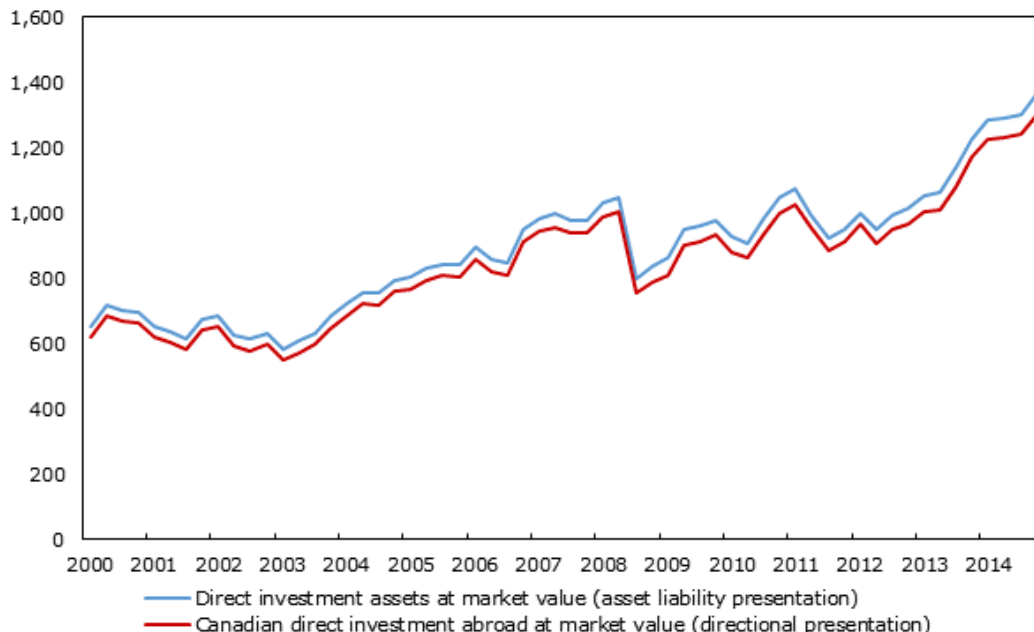


Source: Statistics Canada.

The JIP main presentation is modified to show FDI data on an asset liability principle (gross basis) as opposed to a directional principle (net basis) as it has been the case historically in the JIP. This presentation is in line with the one introduced in the financial account of the BOP. The difference between the two FDI conceptual presentations resides in the classification of reverse investment such as (1) Canadian affiliates' claims on foreign parents and (2) Canadian parents' liabilities to foreign affiliates. Under the asset/liability presentation, (1) is classified as an asset and included in Direct Investment Assets and (2) is classified as a liability and included in Direct Investment Liabilities². New terminology was introduced to represent this concept: *Canadian direct investment abroad* is now referred to as *Direct investment assets* in the new presentation while *Foreign direct investment in Canada* is now referred to *Direct investment liabilities*.

Chart 7
Conceptual presentations: direct investment assets and Canadian direct investment abroad

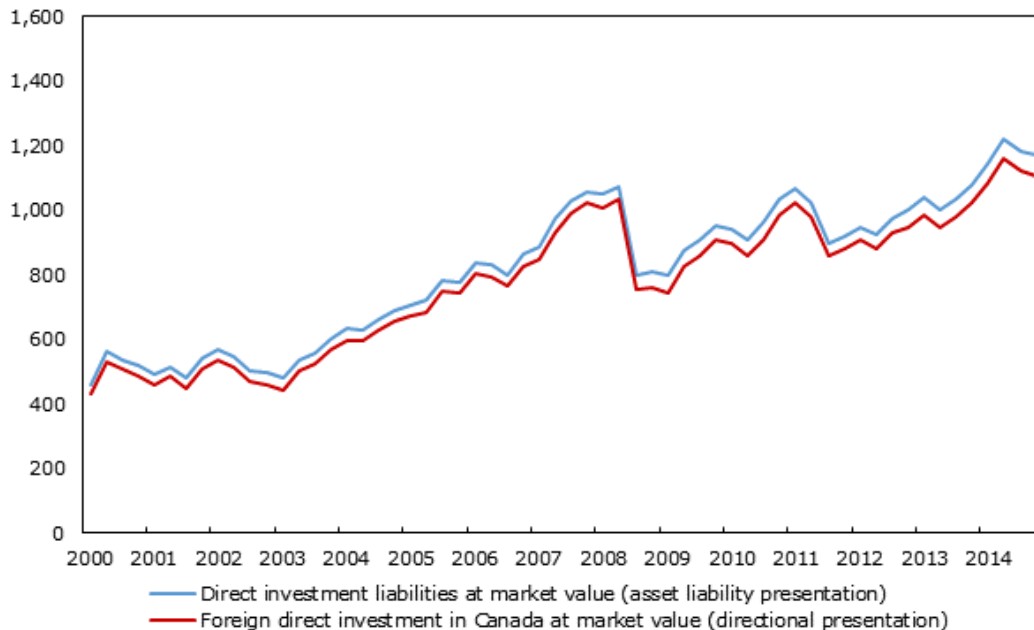
billions of dollars



Source: Statistics Canada.

Chart 8
Conceptual presentations: direct investment liabilities and foreign direct investment in Canada

billions of dollars



Source: Statistics Canada.

As is the case for transactions, a new CANSIM table illustrating the conversion of FDI positions from the directional presentation to the asset liability presentation is available. This supplementary information was developed to help users better understand the differences between the new and the former presentations as well as to link to the time series based on the FDI directional principle. The change from the directional presentation to the asset liability presentation has an impact on the value of *total international assets and total international liabilities* in the IIP. However, this classification change does not affect the value of *Canada's net international investment position*.

It has to be noted that Canada's annual detailed Foreign Direct Investment program presenting the stock of inward and outward direct investment by country and industry still remains on a directional presentation, as recommended by updated international standards.

Other investment

Information on trade credit and advances, both on the asset and liability sides, are now identified separately in the IIP as recommended by international standards. Trade credit and advances arise when payment for goods or services is not made at the same time as the change in ownership of a good or provision of a service. Previously, these instruments were amalgamated with other types of instruments classified in the other investment category. Showing this type of financial instrument separately provides additional insight on the how transactions in goods and services are financed and the size of the associated trade accounts.

Portfolio investment

Additional data series on Canadian debt securities held by non-residents are now available covering new analytical dimensions related to these instruments such as currency of issue and remaining maturity. This new information is available on monthly basis and integrated in the quarterly IIP. More details on these new data series are found in Revisions to Canada's Balance of International Payments (www.statcan.gc.ca/olc-cel/olc.action?ObjId=13-605-X201501014292&ObjType=47&lang=en&limit=0).

Data on the value of foreign securities held by Canadian investors by country of issuer of these securities are now available on a quarterly basis (as opposed to annual) starting with the 2015 third quarter release of the IIP. The increased frequency of these estimates enables to better track changes in the composition and value of these assets held by Canadians and to better assess the impact of fluctuations in global stock and credit markets on the wealth of Canadians.

Canada's gross external debt position

The gross external debt (GED) position of a country is defined as the measure of this country's stock of debt instruments held by foreign creditors. It is comprised of portfolio, direct and other types of debt instruments. As part of the 2015 Comprehensive Revision of the CSMA, Canada's gross external debt main presentation is modified to show direct investment debt liabilities on a gross basis (asset liability presentation) and broken down into two sub-components: (1) Canadian affiliates' debt liabilities to foreign parents and (2) Canadian parents' debt liabilities to foreign affiliates.

As supplementary information, Canada's gross external debt position is now available at nominal value in addition to market value. The nominal value provides a different perspective of the outstanding amount Canadian debtors owe to foreign creditors with respect to these international debt liabilities. Supplementary information on the currency composition of Canada's GED is also available. This new output enables Canada to increase its compliance with international standards and shed light on the currency exposure of Canadian debt instruments held by foreign creditors.

Notes

- 1 Which had a downward effect on the value of currency and deposits held by non-residents in Canada.
- 2 Under the directional presentation, (1) is classified as Foreign Direct Investment in Canada (FDIC) and reduces FDIC while (2) is classified as Canadian Direct Investment Abroad (CDIA) and reduces CDIA.