

## C. Using the international transactions reporting system for collecting data on international trade in services

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8.8. There are many reasons that the ITRS can be useful for collecting data on international trade in services. First, the data are collected frequently and in a timely manner.<sup>[1]</sup> Data can be reported as soon as international settlements have been completed, in an exhaustive way, at least when there is no reporting threshold or it is very small. The transaction codes included in the ITRS for identifying the purpose of the settlement generally facilitate classification in conformity with the recommendations of MSITS 2010, except in some cases in which it is difficult to obtain the appropriate information, such as for FISIM and construction and for certain detailed EBOPS 2010 classifications, as discussed below. Indeed, the classification of international settlements according to the type of transaction (although with precautions against misclassification) is the most important condition for the ITRS to be used in compiling statistics of international trade in services.

8.9. An additional benefit of the ITRS is that it can be maintained with relatively light burdens of reporting and data processing.<sup>[2]</sup> In a bank ITRS, the reporting burden is concentrated in banks in which the procedures of reporting are relatively mechanical, once the ITRS is implemented, and can be computerized. Data compilation is generally also efficient because its procedure is mechanical and compilers do not have to depend on complex statistical techniques that are often used for grossing up survey results. In addition, new reporting entities can easily be covered if they have significant transactions. This makes data reporting more comprehensive and stable and reduces compilers' burdens significantly.

8.10. When assessing the 12 BPM6 main services components individually, data from the ITRS may be useful in compiling statistics on international trade in services for (a) manufacturing services,<sup>[3]</sup> (b) repairs and maintenance, (c) insurance, (d) charges for the use of intellectual property n. i.e., (e) telecommunications,<sup>[4]</sup> computer and information services, (f) other business services and (g) personal, cultural and recreational services. The ITRS is also useful for financial services, with the exception of FISIM, in which amounts are often estimated on the basis of accounting figures of financial corporations, as discussed in chapter 14. The ITRS captures construction, but it has certain limitations, as discussed in paragraph 8.18. The ITRS can be used, in part, for transport and travel. Since the compensation for transport services is often included in the total price of the goods that are transported, it is difficult to identify corresponding international settlements. In addition, in the case of travel, the ITRS may not ensure appropriate coverage in countries belonging to monetary unions, such as the euro area, since the residents of those countries who are travelling use the same currency as their own country's during intra-area journeys. Consequently, that mode of payment cannot be tracked by banks and other financial intermediaries.

8.11. Although the ITRS has benefits for collecting data on international trade in services, it also has major drawbacks that compilers should be aware of and should aim to mitigate when using that system.

8.12. First, resident banks reporting under the ITRS may have difficulty in correctly classifying each transaction to their relevant transaction codes, especially for complex cases (for example, when services are bundled with other financial transactions, as in the case of interest payments that include fees). Misclassifications may occur if the information on the purpose of international settlements is not correctly transmitted by transactors to reporting banks. A breakdown of trade in services by EBOPS 2010 categories and supplementary items and complementary groupings, as recommended by MSITS 2010, requires more detailed transaction codes. The greater number of codes exacerbates the problem.

8.13. Secondly, the transaction partner country may be incorrectly classified. The ITRS generally includes country codes of counterparties of international settlements. In some cases, however, the country of the settlements counterparty and the country of transaction counterparty differ from each other. This occurs when settlement vehicles are used by transacting enterprises, for example.

8.14. Thirdly, small value services transactions may not be captured owing to the existence of reporting thresholds. This may be particularly problematic for small value transactions made by households, such as for telecommunications, computer and information services or personal, cultural and recreational services, which may be small taken individually but can represent large amounts summed up at the level of the total economy. A bank ITRS generally has thresholds to reduce reporting burdens. The threshold can be either an exemption threshold (no reporting required under the threshold) or a simplification threshold (a lump sum amount is reported without an indication of the nature of the transactions). The general trend is for reporting thresholds to rise as the regulations related to foreign exchange controls are gradually lifted. For example, in European Union countries, since the reporting threshold was raised from 12,500 to 50,000 euros, a considerable loss of information has been observed. Box 8.1 explains options for mitigating the lack of information due to thresholds.

8.15. A fourth caveat is that ITRS-based data may not accurately reflect the timing of the transaction, as the time of the transaction and of the settlement may not always match.<sup>[5]</sup> Under the ITRS, the time of settlement is the only choice for recording the time of transaction. However, there are cases in which settlements are deferred or advanced for some reason, such as in construction and insurance services.

8.16. Regarding construction, as noted in chapter 6, paragraph C.7, the use of an ITRS may give rise to several biases. First, it may prove difficult to correctly identify the relevant settlements corresponding to services transactions, in particular, in defining the residence of units conducting construction projects. For example, from a BOP perspective, a site office may be regarded as a resident if substantive (long-term) construction work is undertaken, even if legally it is not necessarily treated as resident in the host country. Second, difficulties may arise in collecting data with the required level of detail, for example for the identification of goods and services sourced from the economy in which the construction is taking place, and used as an input in a construction project. Third, the ITRS thresholds set in some countries may be too high to properly cover some of the payments related to construction projects, especially for smaller-scale work or, especially, in the case of fractionated settlements.

8.17. In some countries, the authorities oblige ITRS reporters to use foreign exchange rates fixed by the Government, rather than prevailing market foreign exchange rates. If large discrepancies exist between fixed rates and market rates, owing to fluctuations of market rates and/or the time lag between transactions and settlements, reported data do not reflect the economic reality of international trade in services.

8.18. Netting contracts can make the settlement amounts smaller than the transaction amounts. Netting is a common practice for telecommunications and postal services, among others. It is also common for multinational enterprises that use treasury centres. Ideally, data reported under ITRS should be derived from a gross basis, i.e., before netting. In the case of netting contracts, a direct reporting ITRS is more appropriate than a bank ITRS with indirect reporting. If transaction data, rather than settlement data, were reported on a gross basis using the prevailing market exchange rates, most of technical limitations of ITRS could be overcome. Although the timeliness of data reporting might be sacrificed to some extent, such an evolution of ITRS could improve the accuracy and completeness of the reported data.

8.19. Finally, an ITRS is not a complete source of information. It does not provide adequate detail for all service categories recommended by MSITS 2010 (as mentioned above in 8.10), nor for preparing the recommended breakdowns (e.g., for government goods and services n.i.e.). In such cases, administrative data may provide useful information, especially if the international settlements of Governments do not go through private banks.

8.20. Regarding statistics on the international supply of services by mode, MSITS 2010 recommends that each EBOPS component either be allocated to one dominant mode or broken down by mode. In particular, it is often difficult to identify modes of supply (e.g., modes 1 and 4) in ITRS transactions, as well as the partner countries, although those transactions may be reflected in transfers of funds or exchanges of foreign currency with a certain time lag.

**Next: [D. Country experiences \(Chapter 8\)](#)**

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[1] See *BPM6 Compilation Guide*, para. 4.69.

[2] Although setting up or restructuring an ITRS may be costly and may require a period of more intense contact with respondents to inform and train them on the reporting forms, procedures and coding systems.

[3] While the ITRS may provide information about the fee charged, it may not provide the data necessary to adjust the corresponding goods transaction in the trade in goods account.

[4] However, depending on its set-up, an ITRS may also suffer from under-coverage, as payments for some telecommunications services are made on a settlement (net) basis. Care should be taken to ensure the gross reporting of transactions (see *BPM6 Compilation Guide*, para 3.11 and p. 287).

[5] Also see chapter 11 for a more in-depth discussion of the advantages and disadvantages of using the ITRS as a data source for selected service categories.