

Should the statistical threshold on cross-border settlements be modified in 2006?

Executive Summary

Article 8 of EU Regulation No 2560/2001 states that by mid-2004 the Commission is to report on (among other matters) the advisability of raising the statistical reporting threshold for cross-border payments from EUR 12 500 to EUR 50 000 in 2006 taking into account any consequences for undertakings. In order to provide an input to the deliberations, the CMFB has discussed this issue in detail. The main results of this discussion are presented in this paper.

Though not all countries are affected in the same way, a large majority of the EU25 countries, including nearly all Accession Countries, are strongly concerned. Against this background, the overall situation from the point of view of the CMFB can be characterised in the following way:

- 1. The main target of a reporting threshold for settlements, namely the exemption of private cross-border payments from statistical reporting obligations, is already achieved with the EUR 12 500 threshold.*
- 2. Given the very different structures of the economies and the differences in the institutional set up, the collection systems are and will continue to be different in Member States.*
- 3. Where countries continue to rely on information on settlements from banks, in comparison with the introduction of the EUR 12 500 limit, a raise of the threshold to EUR 50 000 would only lead to relatively modest reductions in the reporting burden, but entail a considerable loss of information.*
- 4. As users, among which European institutions in assessing current developments or convergence in EU non-euro area countries, need accurate information, other sources, that is new statistical reports from enterprises, would have to be used with corresponding cost implications for these enterprises.*
- 5. The increase of the threshold has even an impact on survey systems – although of minor relevance -where the respondent register is updated by bank settlement data (19 of 25 Member States will use some international payment information).*
- 6. Furthermore, a EUR 50 000 threshold would bar the way for some cost efficient solutions in emerging new collecting and compiling systems, which could make good use of settlements information available from banks at a very low cost. Other, more efficient measures for further reducing the reporting burden for banks on cross border settlements are possible and preferable. Some are to be investigated in the light of technological progress (e.g. e-banking) and automation opportunities. Given the continuing differences in statistical systems, they will often vary from country to country and therefore can only be implemented at the national level.*

7. *In sum, the raise of the threshold to EUR 50 000 would be costly and practically ineffective for the implementation of the principle of equality of charges between cross-border and domestic payments.*

On the basis of these considerations, the CMFB proposes to leave the reporting threshold at the present level of EUR 12 500, as fixed in Regulation No 2560/2001.

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0. Introduction

According to Article 6 of the Regulation No 2560/2001 of the European Parliament and of the Council of 19 December 2001, Member States were to „*remove with effect from 1 July 2002 at the latest any national reporting obligations for cross-border payments up to EUR 12 500 for balance of payments statistics.*“ A review clause in Article 8 of the same Regulation says that „*Not later than 1 July 2004, the Commission shall submit to the European Parliament and to the Council a report on the application of this Regulation, in particular on:...*“

... (among other points)

„*-- the advisability of increasing the amount provided for in Article 6(1) to EUR 50 000 as from 1 January 2006, taking into account any consequences for undertakings.*“

As an input for a balanced decision on whether or not to raise the reporting threshold for settlements in 2006, it has to be investigated what would be the consequences of a higher threshold and whether the aims of this provision could be achieved in a better way by alternative measures. In order to contribute to the decision process in a timely manner, the CMFB has discussed these questions, taking into account also the specific situation in those countries which will become EU Members in 2004 and those who may do so later. As a result of the discussion, this paper outlines the position of the CMFB and the main considerations underlying it.

1. The biggest part of transactions is already exempted from statistical reporting

A former chairman of the CMFB, Mr Rafael Alvarez, pointed out in November 2000 during a Round Table organised by the DG Internal Market that statisticians are perfectly aware of the need to remove obstacles for developing a single payment area alongside the internal market and the Euro area, in particular as far as private retail cross-border payments are concerned. Even though the cost of statistical reporting is only a very minor factor in the overall cost of cross border bank transfers, statisticians felt that, to the extent possible, reporting requirements should be adapted in order to contribute to cost reduction. Against this background, as early as June 2000, agreement had been reached by the CMFB that EU Members would apply, from January 2002 at the latest, an exemption threshold of EUR 12 500 for the purposes of balance of payments statistics.

In the meantime, Member States have implemented the CMFB decision, with differences in detail and timing. There are some countries where banks still report settlements below the threshold in a simplified way; but this is done on a voluntary basis where the cost of providing the information is virtually zero. Overall, Member States have gone much further than required by Article 6 of Regulation No 2560/2001, in various respects:

- The threshold is applied to payments to and from all partner countries, not only EU Member States.

- It was further extended to cover payments in all currencies, not just in Euro.
- It was introduced earlier than required. By all countries at least in January 2002 rather than in July, in some countries even earlier.

The first two decisions were taken to limit the burden of banks when sorting the transactions, to avoid the necessity of individualising those in euros and with intra partners.

Member States have taken these steps conscious of the fact that the EUR 12 500 threshold implies losses of information for balance of payments statistics which are not negligible and can be quite considerable for certain items, mainly in the area of trade in services. These gaps had to be closed by estimates or by resorting to other sources, mainly enterprises, shifting cost to these new providers of the information.

As a result of the introduction of the EUR 12 500 threshold, the biggest part (two thirds or more) not just of intra EU payments, but of all cross-border payments is now exempt from any reporting obligations for balance of payments purposes. For payments made by private households, which had been one of the most important concerns of the Commission and of the European Parliament, the exemption rate is very close to 100 percent, as private cross-border payments will be above EUR 12 500 only in rather exceptional cases.

2. Different balance of payments reporting and compiling systems

On 20 August 2003 the Commission presented a regulation proposal (COM(2003) 507 final) on balance of payments statistics. A fundamental feature of this regulation is that it is output-oriented. It fixes the set of data that Member States have to produce, but leaves it entirely to the Member States how to produce that information in the most cost-effective way. As the national action plans show, both the envisaged data collection systems and the timetables for their implementation are very different. While some Member States will continue to rely on settlements data to a large degree at least for the medium term, others have been collecting balance of payments information directly from enterprises or public entities for many years or are at differing stages of a process of transforming their system in that direction.

This means that the effects of a higher reporting threshold would vary from country to country. Obviously, they would be stronger where the data collection continues to rely mainly on settlements information, and they would be of minor relevance in countries with survey systems.

3. Limited reduction effect for the banks

For those countries which continue to use bank reporting for settlements, the **number** of transactions affected by the new threshold would be rather limited in comparison to the introduction of the EUR 12 500 threshold. This means that the statistical reporting burden of banks would only marginally be affected. Whereas now some 60 to 70 percent of cross border settlements are already exempt, this percentage would rise to about 70 to 80.

The reduction of the reporting burden is likely to be even more limited than described above. This is because, in contrast to the situation with the EUR 12 500 threshold, it may not be acceptable this time to extend the exemption to all currencies and to all destinations/origins of the payment, because the loss of information on extra EU transactions in particular would

become too high. This would not only mean that the reduction of reporting obligations for banks would be even smaller, but banks would also have to introduce a differentiated statistical treatment for settlements according to currency and/or country of destination/origin. Under these conditions, it could be doubtful whether on balance any cost reduction could be achieved at all with a EUR 50 000 threshold.

The previous consideration about differentiated treatment of intra and extra transactions may have to be carried one step further. It may have to be asked whether, from a European perspective, losses of information on intra-EU transactions are more acceptable than losses on transactions with extra-EU partners. Even if this were accepted in principle and a differentiated statistical treatment of intra and extra transactions were indeed envisaged, and even if the practical difficulties that this would raise could be solved in a satisfactory way, it would hardly be possible to limit the loss of information to intra transactions. It would almost certainly become more difficult to capture transactions with third countries, as enterprises will substitute extra-EU settlements by intra-EU settlements by means of cash pooling arrangements, a phenomenon that can already be observed with major companies today and which will gain momentum due to the differing fees for intra-EU and extra-EU payments. (A differentiated treatment in statistics would create a further incentive for this substitution.) The same effect on the difficulty to differentiate intra and extra-EU settlements is produced when banks, non-resident in the EU, use branches located in the EU to channel the Euro-denominated settlements of their clients.

Overall, though there are differences between countries and uncertainties about future developments, it can safely be said that the relation between cost reduction and loss of information would be much less favourable for a raise of the threshold to EUR 50 000 than it was for the introduction of the EUR 12 500 threshold.

4. Consequences for countries relying on a settlement system

A large number of Member States still rely on the bank reporting for balance of payments because this system is the most cost-effective solution due to their economic structure. The same is true for nearly all accession countries. For these countries, the loss of information from a higher threshold would be particularly drastic. It is also to be expected that changing their collection systems (shortly after they were established) would be especially difficult and inefficient for them.

Whereas the rise of the threshold would have only a limited effect on the reporting burden of banks it would – due the relatively high amount of the payments involved – relate to an important global value of transactions and, as a consequence, engender a considerable further loss of information. Regarding the quality and reliability requests of statistics the compilation system would not be more efficient in countries which use bank reporting systems.

One of the major consequences of a change of the collection system in the MS still relying on a settlement system would be the new reporting burden for a large number of enterprises – depending on the structure and the openness of their economy.

Enterprises might have difficulty in understanding why with the introduction of the euro the relevant information can no longer be provided via the settlement system

- which is in a modernisation process (e.g. e-banking);
- which circulates in any case all the information requested for statistics, except the economic nature of the transaction and the country of the counterpart. By adding this

information – mostly on an automated way, at least for the debit side - the burden of the banks can be reduced virtually to zero.

Requesting a new statistical reporting from enterprises would not replace the transmission of information to banks, but would generate a supplementary reporting burden for enterprises.

Furthermore new ways have to be explored to cover the transactions of the household sector. A less important advantage of bank reporting systems lies in the fact that they allow the production of some additional information at a low cost. For example, information on the use of currencies in the international transactions is largely requested – at least by the European Parliament (Report on the international role of the euro zone Final A5-0000/2003, 21 May 2003) and the ECB. Those Member States still relying on settlements systems can provide this information (at little additional cost) on a monthly basis. A EUR 50 000 threshold would also hamper the collection of this information and consequently require the organisation of specific surveys.

5. Impact on the level of a survey system

While the effects described so far relate to systems that rely mainly on the reporting of settlements by banks, there are also effects to be considered which could play a role in other collecting systems. Even in so-called survey systems, it is possible that some information on settlements that is easily available at a low cost could turn out to be very valuable for statisticians. Some examples may illustrate this:

- Countries that move to direct reporting (and can therefore do largely or completely without settlement information) will have to make extended use of business registers. In order to update or complete such registers, some basic information on settlements (for example on which enterprises have carried out cross border payments) may be of great help.
- While estimates of travel credits and debits will to some extent have to rely on surveys, readily available information from banks on credit and debit card payments abroad (just monthly sums, no data on individual transactions) could be very useful as an additional source or even as the main source, as card payments become more important.
- Summary data on settlements below a given threshold, which are already being provided to balance of payments compilers in some countries on a voluntary basis, could continue to be a valuable source of information.

Introducing a EUR 50 000 threshold might unnecessarily close the door to such possibilities of obtaining information in a relatively cheap and efficient way. If the information is not obtained from the banks, either it must be collected elsewhere, shifting the burden to other respondents, or the loss of quality in balance of payments statistics must be accepted.

A recent survey underlined that 19 of 25 Member States will continue to make use of settlements data provided by banks – at least for the updating of survey registers. The absence of this basic information (as in case of a raise of the threshold, part of the companies which have to day to report via the banks will not appear in the register) would strongly hamper the data quality and would require much larger surveys – in those countries running a survey system - and thus create a new and large reporting burden for a relatively large number of enterprises.

Under the conditions that will prevail in the foreseeable future, each Member State will have to find the optimal solutions for its specific situation. In this way it can also be taken into

account that the use of long-tested computer programmes and existing information channels is normally relatively cheap, while major changes tend to be very costly, both for respondents and compilers.

6. Alternative options

Under these circumstances, are there more efficient options? The members of the CMFB consider that this is indeed the case. One of the most promising possibilities is that Member States could reduce or abolish reporting obligations for banks in such areas where the loss of information is relatively small and can easily be made up for.

- For example, an increased use of direct reporting will make redundant the bank reporting of the settlements of all those companies that report directly.
- Several Member States have already decided or are considering to exempt from reporting obligations settlements for specific transactions or items, where information from other sources can be used. This measure would exempt banks from collecting any statistical information on a large number of transactions (whatever the amount). Probably the most important example for this is settlements for merchandise trade, where settlements information is mainly used for early estimates.
- Abandoning reporting obligations could also be considered where the monthly changes in stocks could be used instead of data on flows. Short term (perhaps also long term) loans and deposits could be candidates for such considerations.

In a number of cases, such reductions of reporting obligations for settlements are already implemented or under consideration.

Another alternative way to reduce the reporting burden of banks on behalf of the resident client is the move to e-banking. This modern approach will allow a more efficient transmission of the payment information and of the statistical information (e.g. transaction code, counterpart, country code) directly from the client (the enterprises). By using e-banking, the reporting burden of banks should - on the debit side - be reduced to a minimum tending to zero and limited to a simple transmission service - exempted from the request for information from the client, the transcription of the information in a statistically coded form and the checking of the information. All these tasks will no longer be necessary.

For the client, the supplementary task is rather limited; he has to provide to the bank the statistical information with the other information needed in order to settle the payment. Compared to the two separate approaches:

- bank settlement on one side,
- statistical information on the other side,

there is a net gain for the client of the bank. The enterprise has anyway to give an information to the bank in order to launch the payment. In this way, two goals (the banking and the statistical request) can be handled in one shot.

Except for the two codes (transaction code and partner country code), all the other data elements requested for statistics are part of the information needed in the settlement process of the bank. In any case the bank would ask for this information and the enterprise would have to provide it to the bank. Against this background, the settlement procedure is only marginally affected by statistical requests.

7. Conclusions

Experience with the introduction of the EUR 12 500 threshold had already shown that for some years to come the most efficient solutions for balance of payments statistics have to be found at the national level. The considerations set out above confirm this. They lead to the conclusion that a general threshold of EUR 50 000 would risk to bar the way for flexible and efficient arrangements which are preferable both with respect to the quality of data and the burden of respondents (whoever these respondents will be in the individual case).

The statistical community fully understands the arguments to lower the reporting burden of the reporters. In the specific case of Balance of Payments (BOP) it is very obvious that in the recent past a huge progress has been achieved by introducing the EUR 12 500 threshold. Further progress, via a higher threshold, would be too costly in statistical quality terms, and it would be insignificant in practice. On the contrary further, more significant reductions can be achieved by other means than the increase of the threshold. Such other measures could provide a reduction of at least the same size but avoid dramatic consequences for BOP statistics. Consequently the statistical community strongly recommends to get out of the « threshold logic » and to actively progress on other dimensions for a reduction of the reporting burden for statistics.