I. OVERVIEW OF THE BILATERAL RECONCILIATION ON INTERNATIONAL ACCOUNTS

1. Canada and the United States, because of their extensive commercial ties, have been reconciling international transactions for a number of years. This is an informal process of aggregate bilateral data confrontation that is conducted on an annual basis, between Statistics Canada and the U.S. Bureau of Economic Analysis. This exercise began in 1970 with a focus on the current account but has been expanded over time to include other components of...
international accounts, such as foreign direct investment statistics which began about 10 years ago.

2. This initiative stands apart from the formal data exchange on merchandise trade, in place since 1990; with each country using the others import customs documents to compile its goods export data. Once exchanged, the data are then adjusted to meet the balance of payments (BOP) requirements of each country. This exchange, aside from being very useful in its own right, supplements the bilateral reconciliation process.

3. The main objectives of the bilateral reconciliation are data substitution and data confrontation, with a view to improving quality and comparability of data in both jurisdictions. Aside from some of the advantages of a statistical nature (i.e., improving accuracy), which benefit the user communities in each country, the annual bilateral reconciliation process provides other intangible benefits to both agencies.

II. BILATERAL DATA CONFRONTATION PROCESS

4. The exercise is undertaken in the months following the latest release of annual data. Over the last few years, the reconciliation meetings have taken place in late summer, around mid-September. Meetings alternate between Ottawa and Washington, and normally last for 3 days. Data are compiled and shared in advance of the meeting, such that each side is well prepared. Each annual meeting reconciles 2 years of data. There are typically 6-8 people working on the reconciliation on each side of the table, both compiling data and participating in the meetings.

5. Information is exchanged on the strengths and weaknesses in the respective country estimates, and data are reconciled to the extent possible. Sometimes it is determined that more information is required, and the process continues beyond the meeting dates. A short report on the final aggregate results is published in the November issue of the Bureau of Economic Analysis Survey of Current Business and in the third quarter publication of Statistics Canada’s Canadian Balance of International Payments. The detail covered in the meetings is much larger than as published, in line with the notion that working at the detailed level in the reconciliation exercise ensures an understanding of the definitional and compilation practice differences.

6. Current account components are compared for each of the major categories and sub-details. Flows and positions for direct investment and several portfolio and other investment components are also covered, though not all components are reconciled. The current account reconciliation for income components ensures that both sides compare income data at the same time as asset position data. For example, the financial accounts staff members are responsible for comparing data on all portfolio asset and liability income/expense and corresponding positions (including items of the other investment account). The idea is to work at the most detailed level possible to ensure that the definitions are equivalent.

7. The first step is to review data as they are published. Then, adjustments are undertaken to transform data to comparable basis (what is referred to as a common basis). Each individual series is then compared and decisions are made as to how to best reconcile values based on quality of coverage, methodology, etc., to reach consensus on the reconciled basis. Over time, the
number of series has been increased as required, to improve the process and understanding of counterpart country data.

III. GAINS FROM BILATERAL DATA ANALYSIS

8. Large differences between both countries counterpart data series are usually an indicator of issues with the quality in one or both of the jurisdictions. The reconciliation exercise provides useful information of the relative accuracy of a large number of series, as well as to gain understanding of why these data can be different. As such it is considered a valuable undertaking by both statistical agencies.

9. This process has served to underline a number of issues with data on both sides of the border, and has led to improvements in the analysis and quality of selected series. In particular, it enables both organizations to identify major data gaps that can be further investigated and improved by reviewing definitions, data sources, compilation practices and methodology, data gaps, as well as associated issues such as response rates.

A. Concepts and definitions

10. Although both countries largely follow BPM5 standards, there are still some differences in the way both countries define and combine their data series. For example, the U.S. releases data on an Ultimate Beneficiary Owner (UBO) basis for their inward foreign direct investment (FDI). In that exercise they sometimes bypass Canada as an origin country. Both UBO and standard measures are compared.

11. In more recent years, we have broadened the discussion on concepts to include issues being discussed at the international level with respect to revised international standards. This is very useful in that it provides the compilers’ perspective on conceptual changes. For example, the difficulties involved in estimating market value positions have been discussed, in the context of where the programs are going.

B. Accuracy

12. The reconciliation exercise has proven an effective approach to further assess the quality of the data in both jurisdictions. It also enhances the exchange of information with respect to source data, procedures and methodologies used to compile different data. Survey response rates are also discussed to better assess the quality of data in each country.

Data substitution

13. This process has also led to the exchange of several data series between both countries where it was judged that one country had better coverage than the other. Due to some issues with respective coverage on transportation services, Canada and the U.S. adjust several series for these transactions.

14. For example, Statistics Canada uses U.S. receipts for airport expenditures and for pipeline transportation for crude petroleum, as well as U.S. payments of air freight. Canada also uses the
U.S. estimate for trans-border trucking (receipts and payments). On the U.S. side, some series for Canadian receipts on rail expenditures and Canadian receipts on airport expenditures are used.

15. As another example, data on exports of computer services are also exchanged, because it was determined that each country has much better coverage for exports of that particular element of trade in services.

Data confrontation

16. As a group, we have reviewed several transportation items with the effect of reducing the existing discrepancies with the U.S. In particular, the data confrontation exercise also helps to validate some data when there are large fluctuations or unusual movements in the series. For example, few years back there was a discussion about the validity of large royalty receipts from the U.S. that had been reported on a Statistics Canada survey in one industry. At the subsequent annual reconciliation, the U.S. was reporting very large royalty payments between affiliated parties in the same industry, which confirmed the transaction.

17. As further example, for several years Canada had included adjustments on the export side of services for some implicit transactions in the auto sector; however, at each annual bilateral reconciliation meeting, the corresponding U.S. numbers were lower. This prompted further research in Canada, and this investigation led to the discontinuation of these adjustments.

18. On the financial accounts side, there are also a few examples. Statistics Canada’s estimates of U.S. holdings of Canadian bonds have a tendency to be overstated. This is partly due to the U.S. being a major international financial centre, and thus likely being a conduit for many other foreign investors in Canadian debt securities. On the other side of the border, there was a tendency to overstate U.S. holdings of Canada bills as they used to allocate the full program to US investors. This was addressed using Canadian sources of data.

C. Relevance

19. Over the longer term, processes like the annual bilateral reconciliation leads to enhanced comparability with U.S. data. This is an important factor for the Canadian user community, as analysis of Canadian economic activity in relation to the U.S. is in high demand.

D. Transparency

20. The bilateral reconciliation is a long-standing arrangement that is geared towards transparency for the respective user communities. In addition, there are selected users in both countries that do reference the reconciliation. In Canada, the Department of Foreign Affairs and International Trade undertakes considerable work on bilateral trade and investment and does reference the annual studies as part of its research.

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2 Services transactions included in the value of goods traded.
E. Intangible benefits

21. The annual bilateral reconciliation process provides other intangible benefits to both agencies. In particular, the opportunity to meet and undertake a dialogue with balance of payments counterparts is very useful. While the nature of the encounter is closely focussed on subject-matter issues in compiling international transactions and positions, it also provides the opportunity to discuss both short-term and long-term conceptual and measurement challenges as well as the direction of the sub-components of the respective programs. In addition, this exercise has been an invaluable tool for training more junior employees, something that with increasing turnover of staff is a key to transferring and increasing subject-matter expertise. Lastly, the excellent working relationships developed over time have led to greater and more frequent contacts on various issues.

IV. LOOKING AHEAD

22. While this long-standing process has been beneficial in a number of ways, there remains the question of whether it can be improved.

23. A first issue is whether it should remain as an annual process. A main finding is that good reconciliation takes years because of the investment required to fully understand data quality and compilation processes in each jurisdiction. However, if we are near the point where all of the major data gaps and differences have been understood on both sides, the question of efficiency should be addressed. The process could be converted to one that every second year deals with conceptual and measurement issues common to both international accounts compilers. Alternatively, perhaps the process should evolve into something which begins to put less emphasis on reconciliation and concentrate more on implementation of new concepts from revised international standards, especially as both countries head into a historical revision.

24. This exercise has not progressed as far as formal and comprehensive data exchange, with the dual objectives of gains in accuracy and reduced response burden at both agencies. Part of the reason why this is not the case is due to confidentiality concerns on both sides. The aforementioned overstatement of U.S. holdings of Canadian bonds has led to some exchange of records over time (new issue information); but, due to confidentiality constraints on both sides, we are unable to make any real progress on this issue. Perhaps these confidentiality concerns could be reviewed as a means to ensure maximum possible benefit from the reconciliation.

25. Lastly, there is the question of whether this bilateral reconciliation process should be expanded to other countries. The U.S. has initiated such a process with the U.K. The initial response from Canada’s perspective can only be possibly, as a cost-benefit analysis of extending the reconciliation needs to be undertaken. However, this is an important consideration, especially as Canada’s trading partners continue to expand rapidly in the age of globalization.

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