REPORT ON THE SURVEY OF IMPLEMENTATION OF METHODOLOGICAL STANDARDS FOR DIRECT INVESTMENT

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and

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Contents

Text Tables

Text Box

Appendices

I. INTRODUCTION

1. In May 1997, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) launched the Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI).[1] The 1997 survey was implemented after consultation with the IMF Committee on Balance of Payments Statistics (the Committee) and the OECD Working Party on Financial Statistics (WFS).[2] The survey encompassed a comprehensive study of data sources, collection methods, and dissemination and methodological practices for foreign direct investment (FDI) statistics.

2. At its October 1995 meeting, the Committee decided to review the progress countries were making in implementing the FDI standards set out in the fifth edition of the *Balance of Payments Manual* (*BPM5)* and the third edition of the OECD's *Benchmark Definition of Foreign Direct Investment* (*Benchmark*). The Committee approached the OECD about the possibility of conducting a joint Fund/OECD survey. This approach was timely because an OECD Council Recommendation, made in July 1995, had mandated the WFS to continue collecting information on FDI statistics and to include notes describing the areas in which the methodology used by member countries differed from that set out in the *Benchmark*. At its October 1996 meeting, the Committee supported a joint Fund/OECD inquiry of Fund and OECD member countries to determine the extent to which countries have adopted the international standards for FDI statistics.

3. The response of 114 countries to the 1997 survey was very encouraging and indicative of the importance that national compilers attach to FDI data. This report presents the survey results and comments on the major weaknesses in national FDI compilation systems.

II. THE 1997 FDI SURVEY

4. There were three survey objectives:

- To discover the extent to which member countries have adopted the recommendations on FDI statistics made in *BPM5* and the *Benchmark*.
- To obtain standardized information on data sources, collection methods, and dissemination practices (e.g., availability, periodicity, timeliness, revision policy, disaggregation) from member countries.
- To facilitate the exchange of information between reporting countries.

Consequently, the survey included questions on all the major methodological issues related to the measurement of FDI and the survey form was designed with a view to providing a set of easily comparable metadata (information about data) on FDI statistics. In addition, countries

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[1] In 1983, the OECD conducted a similar survey of its member countries and, in 1991, the IMF Working Party on the Measurement of International Capital Flows surveyed 38 of the largest reporters of FDI statistics.

[2] The name of the OECD Group of Financial Statisticians was changed, in the second half of 1998, to the Working Party on Financial Statistics.

were asked if they were willing to make national survey results available to other IMF and OECD member countries.

5. The survey consisted of a multiple choice questionnaire. This format was intended to reduce completion time as much as possible while covering all the major issues. It was understood that the multiple choice format meant that uncommon practices might not always be explicitly reported. Therefore, room for comments was provided throughout the survey form. A draft survey form was circulated to all members of the Committee for comments to be made by mid-April 1997. The OECD circulated the same draft to the WFS for discussion at a meeting held on April 9-10, 1997. Comments from Committee members and WFS participants were incorporated into the survey form that was sent for completion to all OECD member countries and most IMF member countries in late May of 1997.

6. The survey was sent to 171 IMF member countries (of which 29 were also OECD member countries). The form was made available in English, French, Spanish and Russian to insure a higher response rate and, by facilitating comprehension of the questions, to improve the quality of response. 114 countries responded to the questionnaire. All 29 OECD countries returned the completed form, while 85 of the 142 IMF but non-OECD member countries did so. The response rates from non-OECD European countries and Western Hemisphere countries were very good; more than 70 percent of these countries completed and returned the form. More than 60 percent of the Asian countries and approximately 45 percent of the African and Middle Eastern countries returned the completed questionnaire to the IMF. Appendix I provides a complete list of survey respondents, classified according to the previously mentioned regions.

7. The overall quality of survey responses was very satisfactory. From the editing process, one could infer that the survey questions were generally understood and that countries' submissions were, in most cases, internally consistent. In a few instances, countries had difficulty completing the detailed questions; nonetheless the information that they provided as commentary was very useful. A few countries that were still developing systems for compiling FDI statistics preferred not to complete the form but provided letters indicating their plans. A total of 18 countries either provided letters or replied to only the third part of the questionnaire in which the respondent country could identify itself and describe specific plans for FDI compilation. These 18 countries were excluded from the analysis of the survey results, which focused on the 96 countries that fully completed the questionnaire. These 96 countries consisted of 29 OECD countries, 15 African countries, 13 Asian countries, 16 European countries, 2 Middle Eastern countries, and 21 Western Hemisphere countries.

8. A working procedure was established so that the Fund and OECD could share a common database to process the results from the joint survey. This database is maintained on the Internet[3], and is both user-restricted and password-protected to insure data confidentiality. The Fund and the OECD also designed and implemented a series of automated data checks, as fully-completed survey forms contained more than 600 responses per form. These automated "edits" impute responses for some questions for which no response is made. The imputations are based on other information in the completed questionnaires. Only officials from the member countries of the IMF and OECD, as well as the secretariats of other international organizations, have been

[3] The database can be accessed through the website of the OECD and was designed with the assistance of Information Technology and Network Services (OECD).

given access to the information stored in this database. Following the recommendation of the IMF Balance of Payments Committee, the IMF and the OECD secretariats will seek the authorization from the countries that participated in the survey to make the database publicly available. The content of the database will be updated on a regular basis to ensure that descriptions of data sources, dissemination practices, and implementation of methodological standards are current.

III. Summary Results of the 1997 Survey

A. Changes Occurring since Publication of the IMF *Report on the Measurement of International Capital Flows* in 1992 (Godeaux Report)

9. The Godeaux Report stated that reported global outflows on FDI exceeded reported global inflows. Described in the following paragraphs are the most significant, according to the Godeaux Report, sources of the discrepancy and – as reflected by the 1997 SIMSDI – the improvements, or lack thereof, in those discrepancies.

10. **The failure of many countries to compile data on reinvested earnings was identified in the Godeaux Report as the most important source of the global discrepancy.** The 1997 SIMSDI results indicated that more than three-quarters of OECD countries compiled reinvested earnings data. The 1991 survey results on which the Godeaux Report was based indicated that half of the 22 industrial countries in the survey sample did not compile reinvested earnings. In 1997, 6 of these previous non-reporters compiled data on reinvested earnings and 3 others had plans to collect such data. The SIMSDI results also indicate that 23 OECD countries included reinvested earnings in their statistics and that 44 non-OECD countries compiled reinvested earnings for direct investment in the reporting economy (inward FDI). These 44 countries represented about two-thirds of the non-OECD respondents. However, less than 50 percent of these countries compiled reinvested earnings data for direct investment abroad (outward FDI).

11. **Another reason for the global discrepancy was the failure to follow international standards in relation to short-term financing arrangements between affiliated enterprises**. The Godeaux Report indicated that data on short-term loans made by affiliated enterprises to each other were reported in the FDI statistics of only a minority of the countries included in the 1991 survey sample. The 1997 SIMSDI results indicate that almost 80 percent of the OECD countries and more than 60 percent of the non-OECD countries included short-term loans made by affiliated enterprises to each other in FDI. However, some OECD countries continued to include these flows in the *other investment* component of the Financial Account.

12. **The Godeaux Report noted that the failure of many countries to record and properly classify the activities of special purpose entities (SPEs) of multinational enterprises also contributed to the global discrepancy**. The 1997 SIMSDI results indicate that financial transactions between SPEs and affiliated enterprises were recorded in the FDI statistics of more than 80 percent of the OECD countries that reported the establishment of SPEs in their economies or the establishment, by resident enterprises, of SPEs abroad. However, only about half of non-OECD countries recorded the transactions between SPEs and their affiliated enterprises in their FDI statistics.

13. **The failure of many countries to record cross-border real estate transactions was another cause of the global discrepancy**. The Godeaux Report indicated that a significant number of countries excluded all cross-border purchases and sales of real estate from reported FDI flows and that many additional countries excluded "non-commercial" real estate transactions from the statistics. The 1997 SIMSDI results indicate little improvement in the practices described in the Godeaux Report. In 1997, only 20 OECD countries covered cross-border real estate transactions by enterprises, and 18 covered such transactions by individuals. A relatively small proportion of non-OECD countries included these transactions in their FDI statistics. Only 28 countries (about 40 percent) included real estate transactions in the reporting economy when such transactions were conducted by non-resident enterprises; 22 countries (or about one-third of the respondents) included these transactions in the statistics when such transactions were conducted by non-resident individuals.

14. **In addition, the global discrepancy resulted from the failure of many countries to properly classify the investments of affiliates in their parent companies**. The 1997 SIMSDI results indicate that only 4 OECD countries and 11 non-OECD countries recorded – in strict conformance with the recommendations of the international manuals – the acquisition, by the direct investment enterprise, of equity capital in its direct investor. According to the international standards, all financial transactions of resident direct investment enterprises with foreign direct investors should be recorded, by the country of the direct investment enterprise, as *direct investment in the reporting economy*. All financial transactions with foreign direct investment enterprises should be recorded, by the country of the direct investor, as direct investment abroad. For instances of reverse investment or cross-participation (such as the acquisition of equity capital by the direct investment enterprise in its direct investor), the direct investment enterprise acquires an interest in its direct investor. That interest should be regarded as an offset to capital invested by the direct investor and the equivalent of recording a disinvestment by the direct investor. However, according to the 1997 survey, many OECD countries recorded these transactions as *portfolio investment*. When equity participation is at least 10 percent in both directions, two direct investment relationships are established. Reverse investment transactions in equity capital or in other instruments should then be recorded – in both directions and for each economy as is appropriate – as direct investment claims and liabilities; that is, as direct investment abroad and as direct investment in the reporting economy. When two direct investment relationships were established, the acquisition of equity capital by a direct investment enterprise in its direct investor was recorded according to international standards by 21 OECD countries and 24 non-OECD countries.

B. Other Major Findings

15. One of the major objectives set for the SIMSDI was to discover the extent of member country conformance to the recommendations in the *BPM5* and the *Benchmark* on FDI statistics. Described in the following paragraphs are the major survey findings regarding implementation of methodological standards for the measurement of direct investment.

16. In the international manuals, it is recommended that a holding of 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise) establishes a direct investment relationship between the holder and the enterprise. This criterion is called "the 10 percent rule." The 1997 SIMSDI results indicate that about three-quarters of OECD and non-OECD countries applied this rule in identifying direct investment relationships. Twenty-four OECD countries applied the 10 percent rule; 3 were in the

process of implementing it; and the others did not use a predetermined threshold. Of the non-OECD countries that did not apply the 10 percent rule, many relied on investment approval authorities as the source of data for FDI statistics.

17. Direct investment statistics should cover all enterprises in which investors directly or indirectly have direct investment interests. Once a 10 percent holding by an investor is established for an enterprise, certain other enterprises affiliated with the first enterprise are also regarded as direct investment enterprises. As a result, FDI statistics should cover transactions between the direct investor and the enterprise in which the investor has a direct investment, transactions between this enterprise and certain of its affiliates, and transactions between the affiliates themselves if they are resident in different countries. The OECD refers to this group of enterprises as the *Fully Consolidated System*. The 1997 SIMSDI results indicate that 22 OECD countries and 36 non-OECD countries include certain transactions of indirectly owned direct investment enterprises in their statistics. However, procedures to determine the existence of indirect relationships between enterprises and coverage of the transactions between indirectly owned concerns varied considerably from country to country. The SIMSDI results indicate that 35 countries, of which 13 were OECD countries, included earnings data for indirectly owned FDI enterprises. In addition, 31 countries, of which 13 were OECD countries, classified as FDI transactions those equity and other capital transactions that occurred between enterprises belonging to the same group of related enterprises. Despite these results, only 15 countries indicated full compliance with the Fully Consolidated System.

18. International standards require that both realized and unrealized capital gains and losses be excluded from the calculation of reinvested earnings data. The international manuals recommend that earnings of FDI enterprises be measured according to the rules of the current operating performance concept (COPC). According to this concept, the earnings of an enterprise consist of the amount of enterprise income from normal operations before non-recurring items and capital gains and losses are accounted for. However, of the countries that compiled reinvested earnings data, about half of the OECD countries and a large number of non-OECD countries incorporated realized or unrealized capital gains or losses. The *BPM5* and the *Benchmark* also recommend that earnings data be calculated net of any provision for depreciation of fixed capital, but only half of the OECD and non-OECD countries followed this recommendation. When measuring reinvested earnings, only 13 countries fully applied the rules of the COPC.

19. Direct investment income data should be recorded on an accrual basis; that is, dividends should be recorded when declared payable and income on debt recorded when it accrues. The recommendation of the *System of National Accounts 1993* (*1993 SNA*) is that distributive transactions made on the basis of enterprise decisions to distribute income or to make transfers (such as dividends) are to be recorded as of the moment they are declared payable. The *BPM5* recommendation, which is for recording dividends "as of the date they are payable", should be read as short-hand for the more explicit "declared payable" that is used in the *1993 SNA*. The *Benchmark* recommendation is that dividends be recorded on a "due for payment" basis. Thus, the *Benchmark* provides recommendations that are not fully consistent with the *BPM5* and the *1993 SNA*.

20. The survey was intended to determine the number of countries that used a payment date (cash) basis for reporting dividends rather than the declaration date basis recommended in the *BPM5* and the *1993 SNA*. Results indicate that most OECD countries recorded dividends as they are paid. This departure from the accrual principle is largely a result of the use by many OECD countries of an international transactions reporting system (ITRS) as their primary source

for FDI income data. An ITRS measures (a) individual balance of payments cash transactions passing through domestic banks and foreign bank accounts of enterprises, (b) non-cash transactions, and (c) stock positions. Statistics are compiled from forms submitted by domestic banks and from forms submitted by enterprises to compilers. As these reporting systems are principally settlement-based, they mostly provide information on a cash basis. Largely for this same reason, about half of the OECD countries and almost 60 percent of non-OECD countries recorded interest on a paid, rather than an accrual, basis.

21. The recommendation of both the *BPM5* and the *Benchmark* is that all external financial assets and liabilities be valued at market prices prevailing on the dates of the valuation. However, it is recognized in the international manuals that book values from the balance sheets – reported on an historical cost basis or based on some interim but not current revaluation – of direct investment enterprises are generally used for valuation of the stock of direct investments. The SIMSDI results indicate that 19 of the 25 OECD countries that compiled FDI position data used data from the balance sheets of enterprises to value the stock of FDI assets and liabilities, although 5 of these countries also used market valuation as the second most frequent method.

22. Work undertaken in one economy by a construction enterprise resident in another economy should be regarded as work performed by a direct investment enterprise resident in the economy in which the work is being carried out if: (i) production is maintained for one year or more; (ii) a separate set of accounts is maintained for the local activities; and (iii) income tax is paid to the host country. About one-quarter of the OECD countries and even fewer non-OECD countries applied this recommendation for construction enterprises that had not established a separate legal corporation in the host country.

23. The SIMSDI was also designed to provide standardized information on FDI reporting practices, data sources, and the availability of geographic and industrial disaggregations of data. Survey results indicate that, despite the progress of recent years, many countries still did not disseminate FDI data on a regular basis. For example, more than 30 percent of non-OECD countries did not report information on direct investment in the reporting economy to the IMF Statistics Department, and more than one half of these countries did not report statistics on direct investment abroad. With the exception of one country that temporarily interrupted data reporting during the implementation of a new balance of payment compilation system, all OECD countries report FDI statistics to international organizations. FDI position data were disseminated by approximately three-quarters of the OECD countries, but less than 30 percent of the non-OECD countries reported these data. Two-thirds of OECD countries had two data dissemination cycles: the most timely FDI statistics were monthly or quarterly data usually available about 10 weeks after the end of a reference period; while the most comprehensive FDI statistics were most often annual data disseminated 30 to 52 weeks after the end of a reference period. Disseminated data were compiled from data sources that varied by country. More than half of the OECD countries relied on an ITRS for the most timely transactions data, while the most comprehensive transactions data were usually collected from enterprise surveys. Non-OECD countries also relied largely on these two sources, although the information collected by exchange control and investment approval authorities represented the primary data source for 30 percent of these countries. The availability of geographic disaggregations of FDI data from most OECD countries bodes well for the bilateral exchange of these data. However, only about half of non-OECD countries compile FDI financial flows according to geographic categories.

24. The remaining six sections of this report describe the 1997 survey results on availability and sources of FDI data, application of the international methodological standards for direct investment enterprises and direct investors, the components of direct investment capital, the components and measurement of direct investment income, the valuation of FDI position data, and special types of direct investment relationships or transactions that warrant mention.

Box 1. Interpreting the Tables

Each table contains 7 rows: one row for each of the 6 regions corresponding to the country classification used in the IMF publication *International Financial Statistics*, and one row for the total number of responding countries. In each table, the responses have been added vertically to total the number of countries that followed a specific procedure or applied a specific methodology. A number shown in parenthesis beside each region represents the number of countries that responded to the section of the questionnaire from which data were compiled for use in a table. A number in parenthesis may be greater than the number of responding countries shown in one table cell as some countries may not have applied the described methodologies or may not have responded to the question. Each cell of a table must be treated individually; responses provided in one cell cannot be analyzed in combination with responses in other cells of the same row. Responses are additive only within a cell and not across a row.

For example:

Region	Countries that apply the 10 percent equity threshold	Countries that use a percent of ownership different from the 10 percent threshold	Countries that apply the 10 percent threshold but allow for a qualification to the threshold:	
			Countries that include enterprises in which the investor has a voice in the management but owns less than 10 percent of ordinary shares or voting power	Countries that exclude enterprises in which the investor has no voice in the management but owns more than 10 percent of ordinary shares or voting power
OECD (29)	21	5	8	4
	cell 1		cell 2	Cell 3

26 countries applied one of the two procedures described in cell 1; 8 countries applied that described in cell 2; and 4 countries applied that described in cell 3.

IV. DATA

A. Availability

25. The *BPM5* and the *Benchmark* recommend that foreign direct investment statistics be compiled as part of balance of payments and international investment position statistics. Consequently, countries are expected to collect and disseminate FDI data according to the standard components presented in the *BPM5*. These components are *direct investment income, direct investment transactions,* and *direct investment position*. The *direct investment income* component is divided into categories for (i) *income on equity;* and (ii) *income on debt*. *Direct investment transactions* are subclassified into (i) *equity capital, (ii) reinvested earnings*, and (iii) *other capital* (intercompany transactions). *Direct investment position* data are divided into categories for (i) *equity capital plus reinvested earnings,* and (ii) *other capital.* The 1997 survey revealed that some progress has been achieved in recent years as more countries have begun to record relevant international transactions according to the *BPM5* recommendations. However many countries responding to the survey still did not compile and report FDI data according to the standard balance of payments components. Tables 1 through 3, which contain data from the results of the 1997 survey, show the number of countries that reported FDI statistics to international organizations and indicate the periodicity of available data.

Reporting of Data to International Organizations

Table 1. Data Reporting to International Organizations
(by number of countries)

Region	Countries Reporting FDI Statistics for					
	Direct investment income		Direct investment financial flows		Direct investment position data	
	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)*	28	27	28	27	25	24
Africa (15)	11	12	13	10	5	4
Asia (13)	8	5	10	9	5	4
Europe (16)	13	11	14	11	9	8
Middle East (2)	1	2	-	1	-	-
West. Hem. (21)	21	5	20	5	4	1
Total (96)	**82**	**62**	**85**	**63**	**48**	**41**

* While implementing its new balance of payments system, one OECD country temporarily interrupted data reporting to international organizations.

OECD Countries

26. The majority of the 29 OECD countries reported data on FDI income and financial flows to the IMF and/or the OECD on a regular basis. Mexico compiled and disseminated data for inward direct investment but did not report data for outward direct investment abroad. Only 25 OECD countries reported direct investment position statistics.

Non-OECD Countries

27. More than 80 percent of the 67 non-OECD countries reported FDI statistics to the IMF, although many of these countries only reported FDI income and financial flows data for inward direct investment. As a result, only half of non-OECD countries also reported statistics for outward direct investment. This difference was particularly significant for Western Hemisphere countries. The majority of these countries relied on exchange controls or investment approval authorities as primary sources of data from which FDI statistics were compiled. Most investment approval authorities were concerned with direct investment in the reporting economy and, as a result, the compilers had to supplement this data source in order to collect information on outward investment. About one-third of non-OECD countries reported position data to the Fund, and these reporters were mostly European non-OECD countries.

28. It is encouraging to observe that, of the 96 countries included in the survey analysis, 44 indicated that they had plans to compile FDI position data. Implementation of indicated plans would also result in 27 additions to reported FDI income data and 23 additions to reported data on FDI financial flows.

Periodicity of Disseminated Equity Capital Data

29. ***Data dissemination*** refers to *all the means by which data are made available to the public*; ***periodicity*** refers to the *frequency with which the data are compiled*. The speed or timeliness with which the data are disseminated is an important aspect of statistical information. ***Timeliness*** is measured *as the number of weeks, months, or years elapsing between the end of a reference period (or, for position data, a reference date) and dissemination of the data.* Because it is important to provide timely data, many countries collect and compile preliminary FDI data that can be released soon after the end of the reference period. Often, these countries later compile revised FDI statistics that are based on more comprehensive data sources. In the SIMSDI, these two sets of FDI statistics are referred to as the *most timely data* and the *most comprehensive data*. The ***most timely data*** are the direct investment statistics first disseminated; that is *data released after the shortest lapse of time between the end of a reference period (or a reference date) and the dissemination of the data*. The ***most comprehensive data*** are the *direct investment statistics that are based on the most comprehensive, regularly available data sources*. Although disseminated, these data may be preliminary and subject to revision.

30. Tables 2 and 3 display the periodicity with which the most timely and the most comprehensive inward equity capital data were disseminated by countries. It should, however, be noted that the survey results provide similar information for all the standard components of FDI statistics.

OECD Countries

31. More than 60 percent of the OECD countries disseminated their most timely data on FDI financial flows on a monthly basis. These 60 percent comprise all European Union (EU) countries as well as Hungary, Japan, Korea, Norway, Poland, and Turkey. The availability of monthly balance of payments data is among the requirements for accession to the European Monetary Union, and the existence of this requirement is the reason why so many European countries disseminate monthly FDI statistics. About two-thirds of the OECD countries disseminated, in addition, a set of quarterly or annual most comprehensive transactions data. Whether disseminated on a most timely or on a most comprehensive basis, position data were provided annually by more than three-quarters of the OECD countries that compile such data.

Non-OECD Countries

32. The periodicity with which FDI transactions data were compiled varied substantially among non-OECD countries, although half of the respondents – including a large number of Asian and European non-OECD countries – disseminated their most timely data on a quarterly basis. On the other hand, African and Western Hemisphere countries often compiled and disseminated most timely transactions data on an annual basis. As in the case of the OECD countries, about two-thirds of non-OECD countries disseminated most comprehensive transactions data that were, in most instances, annual data. Position data disseminated by non-OECD countries were either quarterly or annual.

Table 2. Periodicity of the Most timely and Most Comprehensive Equity Capital Transactions Data for Direct Investment in the Reporting Economy
(by number of countries)

Region	Periodicity of the Most Timely Transactions Data			Periodicity of the Most Comprehensive Transactions Data		
	Monthly	Quarterly	Annual	Monthly	Quarterly	Annual
OECD (29)	18	7	4	5	6	7
Africa (15)	2	3	7	2	-	4
Asia (13)	2	8	-	1	5	2
Europe (16)	5	9	2	2	7	2
Middle East (2)	-	1	1	-	-	1
West. Hem. (21)	1	8	10	-	3	11
Total (96)	**28**	**36**	**24**	**10**	**21**	**27**

Table 3. Periodicity of the Most Timely and Most Comprehensive Equity Capital Position Data for Direct Investment in the Reporting Economy
(by number of countries)

Region	Periodicity of the Most Timely Position Data			Periodicity of the Most Comprehensive Position Data		
	Monthly	Quarterly	Annual	Monthly	Quarterly	Annual
OECD (29)	1	4	19	-	2	12
Africa (15)	-	1	4	-	1	2
Asia (13)	1	2	2	1	1	2
Europe (16)	-	5	4	-	4	4
Middle East (2)	-	-	-	-	-	-
West. Hem. (21)	-	2	2	-	-	1
Total (96)	**2**	**14**	**31**	**1**	**8**	**21**

Timeliness and Revision Policy

OECD Countries

33. Among the OECD countries, the availability of most timely data usually varied between 5-12 weeks after the end of the reference period. Only 3 countries – New Zealand, Ireland, and Belgium – required 15-24 weeks after the end of the reference period to compile and disseminate data. As one would expect, the most comprehensive data were available after a longer delay, varying from 30 to 52 weeks. However, in about one-third of the countries, statistics were compiled on the basis of the same data sources; thus there was only one set of data, which – when initially disseminated – was still subject to revision.

34. OECD countries required the longest periods to revise and disseminate final FDI data. About one-third of countries required between 2-4 years to make final data available. At the other extreme, about one-third provided final data within a year after the end of the reference period. The rest of the OECD countries disseminated final FDI data 1-2 years after the end of the reference period.

Non-OECD Countries

35. Most European non-OECD countries disseminated FDI transactions data very rapidly; i.e., within 2-3 months after the end of the reference period. A large number of African and Asian countries required approximately one year for compiling and disseminating FDI statistics; most Western Hemisphere countries required about 9 months. Non-OECD countries, on average, undertook a less extensive revision process than OECD countries and, as a result, provided final data more rapidly. African countries, with three exceptions, provided less extensively revised final FDI data within a year after the end of the reference period. In many African countries, the one year required to produce final data corresponded to the timeliness of the most timely data,

implying that there was no formal data revision process for these countries. Most European non-OECD and Western Hemisphere countries completed the revision process within 12-18 months after the end of the reference period. Most Asian countries required 2 years for providing final FDI data.

B. Data Sources

36. When the most timely and the most comprehensive transactions data are compiled, the sources used by compilers have an impact on their ability to implement international recommendations regarding FDI statistics. In most countries, compilers use several data sources. For FDI statistics, there are three major sources: enterprise surveys, international transactions reporting systems (ITRS), and data from exchange control authorities or investment control authorities. The advantages and disadvantages of these three main data sources are reviewed in the IMF *Balance of Payments Compilation Guide*.[4]

Sources for Transactions Data

Table 4. Primary Sources for the Most Timely Transactions Data
(by number of countries)

Region	Enterprise Surveys		International Transactions Reporting System (ITRS)		Exchange Control or Investment Approval Authorities		Other (published sources, bilateral sources, press reports)	
	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	12	11	18	18	2	-	-	-
Africa (15)	7	5	5	3	6	3	1	-
Asia (13)	6	6	5	3	3	1	-	1
Europe (16)	9	7	5	5	1	1	1	-
Middle East (2)	-	-	1	1	1	-	-	1
West. Hem. (21)	6	2	2	1	12	5	4	1
Total (96)	**40**	**31**	**36**	**31**	**25**	**10**	**6**	**3**

OECD Countries

37. Table 4 indicates that enterprise surveys and an ITRS were the two primary data sources used by OECD countries for compiling the most timely data. A very large proportion of

[4] See paragraphs 696-698 of the IMF *Balance of Payments Compilation Guide*.

EU countries relied on an ITRS, while enterprise surveys were relatively more popular outside Europe. Japan and the Netherlands used both enterprise surveys and an ITRS as primary data sources. Korea and Turkey used both an ITRS and data from exchange or investment control authorities, although the latter data source was relatively unpopular in OECD countries. Table 5 shows that there was an important difference in the primary data sources used for the most comprehensive transactions data and those used for the most timely data; the majority of OECD countries relied on enterprise surveys instead of an ITRS for the most comprehensive data. This shift towards the use of data from enterprise surveys could be explained by the existence of a requirement to produce reinvested earnings data, the production of which is not possible when an ITRS is exclusively relied upon.

Table 5. Primary Sources for the Most Comprehensive Transactions Data
(by number of countries)

Region	Enterprise Surveys		International Transactions Reporting System (ITRS)		Exchange Control or Investment Approval Authorities		Other (published sources, bilateral sources, press reports)	
	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	13	11	8	8	2	-	-	-
Africa (15)	6	5	2	-	6	3	-	-
Asia (13)	6	5	3	3	3	1	1	1
Europe (16)	9	4	3	3	2	1	1	-
Middle East (2)	-	-	1	1	1	1	-	-
West. Hem. (21)	4	3	1	1	13	5	-	3
Total (96)	**38**	**28**	**18**	**16**	**27**	**11**	**2**	**4**

Non-OECD Countries

38. When compiling the most timely data, non-OECD countries largely relied on enterprise surveys as primary data sources. However, more than one-third of non-OECD countries used data from exchange control or investment approval authorities as primary sources for compiling FDI data. Exchange control or investment approval authorities were a data source commonly used by countries of the Western Hemisphere and by African countries.

Sources for Position Data

OECD Countries

39. The most timely position data are largely compiled from enterprise surveys. As is shown in Table 6, only 3 OECD countries relied on an ITRS, in comparison with 19 that used enterprise

surveys. Only 8 OECD countries used the perpetual inventory method to account for exchange rate changes as well as price changes when compiling position data. The ***perpetual inventory method*** is the *process of deriving stocks from transactions data*. Using this method, for which a stock estimate for some base point in time is required, compilers can calculate the values of stocks at the end of a period as being equal to the values of the stocks at the beginning of that period plus the impact of transactions and of non-transaction changes occurring in the values of stocks during that period. These results highlight the difficulties associated with the measurement of position data on the basis of the perpetual inventory method, which is the only means by which position data can be compiled from an ITRS.

Table 6. Primary Sources for the Most Timely Position Data
(by number of countries)

Region	Enterprise Surveys		International Transactions Reporting System (ITRS)		Exchange Control or Investment Approval Authorities		Other (published sources, bilateral sources, press reports)	
	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	19	18	3	3	-	-	2	-
Africa (15)	4	3	1	1	2	1	-	1
Asia (13)	7	5	2	3	3	1	1	2
Europe (16)	7	5	2	1	1	-	-	-
Middle East (2)	-	-	1	1	1	1	-	-
West. Hem. (21)	3	1	-	-	5	3	3	2
Total (96)	**40**	**32**	**9**	**9**	**12**	**6**	**6**	**5**

Table 7. Primary Sources for the Most Comprehensive Position Data
(by number of countries)

Region	Enterprise Surveys		International Transactions Reporting System (ITRS)		Exchange Control or Investment Approval Authorities		Other (published sources, bilateral sources, press reports)	
	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	12	12	1	1	-	-	-	-
Africa (15)	4	4	1	1	2	1	-	1
Asia (13)	6	5	3	2	3	1	2	1
Europe (16)	6	7	1	1	1	-	-	-
Middle East (2)	-	-	1	1	1	1	-	-
West. Hem. (21)	2	2	-	-	5	3	1	2
Total (96)	**30**	**30**	**7**	**6**	**12**	**6**	**3**	**4**

Non-OECD Countries

40. As indicated by the results shown in Tables 6 and 7, non-OECD countries also largely relied on enterprise surveys as data sources for compiling FDI position data. For these countries, data from exchange control or investment approval authorities were the second-most frequently used data source.

C. Geographic and Industrial Allocation

Availability of Geographic and Industrial Disaggregations

41. The SIMSDI results also provide information on the types of geographic and industrial disaggregations of FDI statistics and on the level of detail available from each country. (See Tables 8 and 9.) These disaggregated data correspond to details included in the statistical questionnaire used by the OECD and the Statistical Office of the European Community (EUROSTAT) for data collection.

Table 8. Availability of Geographic Breakdowns of FDI Income, Financial Flows and Position Data
(by number of countries)

Region	Countries Compiling Geographic Disaggregations of FDI					
	Income		Financial flows		Position data	
	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	23	22	25	22	22	19
Africa (15)	6	4	7	7	3	3
Asia (13)	8	5	6	7	5	7
Europe (16)	5	5	10	7	7	6
Middle East (2)	-	-	-	-	-	-
West. Hem. (21)	5	3	9	4	4	1
Total (96)	**47**	**39**	**57**	**47**	**41**	**36**

Table 9. Availability of Industrial Breakdowns of FDI Income, Financial Flows and Position Data
(by number of countries)

Region	Countries Compiling Industrial Disaggregations of FDI					
	Income		Financial flows		Position data	
	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	15	14	21	18	21	18
Africa (15)	4	2	7	5	2	1
Asia (13)	4	4	7	5	5	4
Europe (16)	3	2	6	4	6	5
Middle East (2)	-	-	-	-	-	-
West. Hem. (21)	6	1	10	4	4	1
Total (96)	**32**	**23**	**51**	**36**	**38**	**29**

OECD Countries

42. Table 8 indicates that more than 85 percent of the OECD countries were able to provide geographic disaggregations of FDI financial flows and about three-quarters were able to provide geographic disaggregations of FDI position data. This ability to provide disaggregated data bodes well for the bilateral exchange of the data. Table 9 shows that information on industrial disaggregations was almost as commonly available. Many OECD countries were able to provide such disaggregations, except for the data related to income flows. However, fewer countries were able to provide information on both industrial and partner country disaggregations.

Non-OECD Countries

43. A significantly lower proportion of non-OECD countries were able to provide geographic and industrial disaggregations of FDI transactions or position data. Less than half of non-OECD countries compiled FDI financial flows data by country, and just over one-quarter were able to provide FDI position data by countries.

Geographic Allocation of FDI Data

44. The principle used for geographic allocation of FDI transactions has, all other things being equal, an important impact on the bilateral comparison of data. FDI transactions may be allocated to the country to which funds were paid or from which funds were received – even if that country is not the country of the direct investment enterprise or direct investor. This method of allocation is referred to as the ***transactor principle***. On the other hand, the geographic allocation may be based on the country of the direct investment enterprise or direct investor – even if the amounts paid or received are to or from another country. This allocation method is known as the ***debtor/creditor principle***. Although there are no definite recommendations regarding the regional allocation of FDI transactions, the *BPM5* recommends that position data be allocated according to the debtor/creditor principle. Consequently, countries that allocate FDI transactions according to the transactor principle require reconciliation items to bridge the difference between regional balance of payments entries and position data. Equally important, the allocation of position data may vary considerably; the variation would depend on whether the geographic allocation was based on the immediate host or investing country or on the ultimate host or investing country. The recommendation of the *BPM5* and the *Benchmark* is that position data be allocated according to the immediate host or investing country, although the maintenance of separate accounts that are based on the countries of ultimate ownership is also recommended in the *Benchmark*.

Table 10. Allocation of Geographic FDI Transactions Data
(by number of countries)

Region	Countries Compiling Geographic Disaggregations on the Basis of			
	Debtor/creditor principle		Transactor principle	
	Inward	Outward	Inward	Outward
OECD (29)	18	16	9	9
Africa (15)	5	5	3	4
Asia (13)	5	3	2	2
Europe (16)	7	6	1	-
Middle East (2)	-	-	-	-
West. Hem. (21)	8	4	4	2
Total (96)	**43**	**34**	**19**	**17**

Table 11. Allocation of Geographic FDI Position Data
(by number of countries)

Region	Countries Compiling Geographic Disaggregations on the Basis of			
	Immediate host/investing country		Ultimate host/investing country	
	Inward	Outward	Inward	Outward
OECD (29)	24	21	7	5
Africa (15)	1	1	-	-
Asia (13)	7	3	-	-
Europe (16)	8	6	2	2
Middle East (2)	-	-	-	-
West. Hem. (21)	4	4	2	2
Total (96)	**44**	**35**	**11**	**9**

OECD Countries

45. Table 10 indicates that more than 60 percent of the OECD countries allocated geographic disaggregations of transactions data on the basis of the debtor/creditor principle and thereby avoided the necessity for reconciliation items to account for differences between balance of payments entries and position data. However, almost a third of the OECD countries used the transactor principle for the regional allocation of FDI transactions. Most of these countries relied on an ITRS; this practice revealed the limitations of a settlement-based system for the regional allocation of FDI transactions. Table 11 indicates that OECD countries followed the recommendation for the allocation of position data, which were allocated according to the immediate host and the immediate investing country by the 24 countries that compiled position data. The 5 countries that compiled position data and allocated these data to the ultimate host/investing country also compiled and allocated position data to the immediate host/investing country, as is recommended in the international manuals.

Non-OECD Countries

46. As shown in Table 10, about 70 percent of the non-OECD countries that compiled geographic disaggregations of transactions data did so on the basis of the debtor/creditor principle. Non-OECD countries, like the OECD countries, have largely implemented the recommendation regarding the regional allocation of position data. Table 11 indicates, however, that of the 4 non-OECD countries which compiled position data and allocated these data to the ultimate host/investing country, only 2 countries also compiled and allocated this information to the immediate host/investing country. (The international recommendation is that position data should always be available on the immediate host/investing country basis and that supplementary information could be provided on the basis of the ultimate host/investing country.)

V. DEFINITION OF A DIRECT INVESTMENT ENTERPRISE AND OF A DIRECT INVESTOR

47. In the *Benchmark* and the *BPM5*, the concept of ***foreign direct investment*** is defined as *international investment, which is made with the objective of obtaining a lasting interest, by a resident entity in one economy in an enterprise resident in another economy*. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction that establishes the relationship between the two entities, and all subsequent transactions between them and among affiliated enterprises, both incorporated and unincorporated.

48. According to the *Benchmark* and the *BPM5*, a ***direct investment enterprise*** is *an incorporated or unincorporated enterprise in which a direct investor that is a resident of another economy has 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).* The ***direct investor*** may be *an individual, an incorporated or unincorporated private or public enterprise, a government, or associated groups of individuals or enterprises that have direct investment enterprises in economies other than those in which the direct investors reside.* The ownership of 10 percent of

ordinary shares or voting stock is the criterion for determining the existence of a direct investment relationship.

49. Although the 10 percent ownership rule is specified in the *Benchmark* and *BPM5*, some countries have chosen to permit two qualifications to that rule. First, if a direct investor owned less than 10 percent of an enterprise but had an effective voice in the management, the transactions between the investor and the enterprise were included in direct investment statistics. Second, if an investor owned 10 percent or more of the shares, but did not have an effective voice in management, the enterprise was excluded from the statistics. The application of these two qualifications is not recommended in the *Benchmark* and *BPM5*.

50. The next two sections of this report present information on the extent to which countries adhered to the international standards for the identification of direct investment enterprises and direct investors resident in reporting economies. A subsequent section presents information on the ways in which various countries accounted for indirectly owned direct investment enterprises in their FDI statistics.

A. Identification of Direct Investment Enterprises

Table 12. Definitions Used for Identifying Direct Investment Enterprises Resident in the Reporting Economy
(by number of countries)

Region	Countries That Apply the 10 Percent Equity Ownership Threshold	Countries That Use a Different Percentage of Ownership as the Threshold	Countries That Apply the 10 Percent Threshold but Allow a Qualification to the Threshold:		Countries That Apply a Value Threshold When Identifying FDI Enterprises	Countries That Apply Differing Treatments for Incor-porated and Unincor-porated Enterprises
			Countries that Include enterprises in which the investor has a voice in the management but owns less than 10 percent of ordinary shares or voting power	Countries that exclude enterprises in which the investor has no voice in the management but owns more than 10 percent of ordinary shares or voting power		
OECD (29)	24	6	7	2	4	3
Africa (15)	11	2	2	0	-	-
Asia (13)	10	2	-	0	1	-
Europe (16)	14	2	3	-	3	1
Middle East (2)	2	-	-	-	1	-
West. Hem. (21)	16	1	2	1	1	1
Total (96)	**77**	**13**	**14**	**3**	**10**	**5**

OECD Countries

51. As indicated in Table 12, more than three-quarters (24) of the OECD countries applied the 10 percent rule for the identification of direct investment enterprises resident in reporting economies. The 3 OECD countries (Germany, Italy and New Zealand) that used a different percentage of ownership were in the process of adopting the 10 percent criterion. The remaining countries did not rely on a pre-determined percentage of foreign ownership for the identification of resident direct investment enterprises. For example, the Netherlands used a lasting interest in an enterprise and influence on policymaking as the criteria to identify a

resident direct investment enterprise. There were 7 countries that applied one of the two qualifications involving a degree of judgement to the 10 percent guideline. Belgium, Hungary, Japan, Mexico, Norway, Poland (until 1997) and Switzerland included in their FDI statistics the transactions between a resident enterprise and its direct investor when the investor, although not the owner of 10 percent or more of the equity shares, had an effective voice in management. Another qualification to the 10 percent rule, which is not revealed by Table 12, was applied by Portugal. According to this qualification, the transactions between the enterprise and its foreign investors were recorded in FDI when the total foreign ownership in a resident enterprise exceeded a certain percentage, even though no single investor owned 10 percent or more of the enterprise. The threshold of total foreign ownership used in Portugal was 20 percent.

52. Only 4 of the 29 OECD countries applied value thresholds when identifying inward direct investment enterprises. Three countries included only enterprises with total balance sheet values greater than pre-determined thresholds; 2 countries requested detailed information for transactions for which values were greater than pre-determined thresholds; and, 3 countries applied differing treatments when identifying incorporated and unincorporated direct investment enterprises. The Netherlands captured only flows from unincorporated enterprises and did not record position data for these enterprises. The Belgium FDI survey did not include unincorporated enterprises. As Turkish law does not allow foreigners to establish unincorporated enterprises in Turkey, these enterprises were not covered in the statistics.

Non-OECD Countries

53. Table 12 shows that about 80 percent of non-OECD countries applied the 10 percent rule for the identification of direct investment enterprises resident in the reporting economy. Seven countries used different thresholds and applied percentages of foreign ownership that varied between 20 and 25 percent for the identification of resident direct investment enterprises. There were 7 countries that did not use a percentage of foreign ownership as a guideline to identify resident direct investment enterprises. Most of these countries relied on data which were provided by investment approval authorities for their FDI statistics and included any resident enterprises in which non-residents owned equity capital that provided them with a voice in management. Seven non-OECD countries that applied the 10 percent criterion included transactions between resident enterprises and direct investors when the investors owned less than 10 percent but had effective voices in management; 1 country excluded from the FDI statistics transactions of enterprises in which the direct investors had no effective voices in management. Six of the 67 non-OECD countries applied value thresholds when identifying direct investment enterprises; and 2 countries applied differing treatments for the identification of incorporated and unincorporated direct investment enterprises.

B. Identification of Direct Investors

Table 13. Definitions Used for Identifying Direct Investors Resident in the Reporting Economy
(by number of countries)

Region	Countries That Apply the 10 Percent Equity Ownership Threshold	Countries That Use a Different Percentage of Ownership as the Threshold	Countries That Apply the 10 Percent Threshold but Allow a Qualification to the Threshold:		Countries That Apply a Value Threshold When Identifying FDI Enterprises	Countries That Apply Differing Treatments for Incorporated and Unincorporated Enterprises
			Countries that include enterprises in which the investor has a voice in the management but owns less than 10 percent of ordinary shares or voting power	Countries that exclude enterprises in which the investor has no voice in management but owns more than 10 percent of ordinary shares or voting power		
OECD (29)	21	5	8	4	4	2
Africa (12)	10	-	-	3	-	-
Asia (11)	5	3	-	-	2	-
Europe (14)	12	1	-	1	2	1
Middle East (2)	1	-	-	-	-	-
West. Hem. (7)	6	1	2	2	2	-
Total (75)	**55**	**10**	**10**	**10**	**10**	**3**

OECD Countries

54. As shown in Table 13, the survey results for OECD countries on the application of the *BPM5* and the *Benchmark* recommendations for the identification of direct investors resident in reporting economies were similar to those obtained for the identification of resident direct investment enterprises. Mexico, which does not compile outward FDI statistics, was an exception. Twenty-one countries applied the 10 percent ownership rule; 4 countries (Germany, Italy, Korea and New Zealand) applied percentages of 20-25 percent of equity ownership to identify resident direct investors. The Netherlands applied the criteria of lasting interest and influence on policymaking in direct investment enterprises. There were 8 OECD countries that included in FDI statistics transactions between resident direct investors and affiliated non-resident enterprises when investors that owned less than 10 percent of the enterprises had an

effective voice in management. Canada and Korea excluded from FDI statistics resident direct investors that owned 10 percent or more but did not have an effective voice in management of direct investment enterprises. Four OECD countries applied value thresholds for the identification of direct investors; these countries excluded from the data those transactions for which values were less than certain thresholds, or for which the total net asset values of participation in the enterprises abroad were less than pre-determined thresholds. Two OECD countries applied differing treatments when identifying incorporated and unincorporated direct investors.

Non-OECD Countries

55. Table 13 indicates that about 70 percent of non-OECD countries applied the 10 percent equity rule to identify direct investors in resident economies. This proportion is calculated on the basis of the 46 countries that compiled outward FDI statistics. The majority of the 12 countries that did not apply the 10 percent rule relied on data from investment approval authorities or an ITRS. Only 4 of these 12 countries applied a percentage of ownership, that varied between 20 and 25 percent ownership, to identify resident direct investors. Two non-OECD countries included investors that had an effective voice in the management of direct investment enterprises although these investors did not own 10 percent or more of the equity; 6 non-OECD countries excluded investors that owned 10 percent or more of non-resident enterprises but did not have an effective voice in management. Of the 46 non-OECD countries, 6 applied value thresholds when identifying direct investors; 1 country applied a different treatment of incorporated and unincorporated direct investors.

C. Indirectly Owned Direct Investment Enterprises

56. Direct investment enterprises include those entities that are:

subsidiaries (a non-resident investor owns more than 50 percent);

associates (a non-resident investor owns between 10 and 50 percent);

branches (unincorporated enterprises wholly or jointly owned by a non-resident investor) of a direct investor.

A direct investment relationship is established when a direct investor either directly or indirectly owns a direct investment enterprise. As a result, once a direct investor owns 10 percent of an enterprise, certain other enterprises related to the first enterprise are also regarded as direct investment enterprises. Hence, the definition of direct investment enterprise extends to:

branches and subsidiaries of subsidiaries of a direct investor (that is, a subsidiary of a non-resident investor owning more than 50 percent);

enterprises in which subsidiaries of a direct investor have equity participations of 10-50 percent (that is non-resident associates);

subsidiaries of non-resident associates of a direct investor.

57. Moreover, direct investment enterprises that are considered to be in a direct investment relationship with the same direct investor are also considered to be in direct investment relationships with each other. The scope of directly and indirectly owned enterprises that, in principle, should be included in the definition of direct investment are described in the *Benchmark* and the IMF's *Balance of Payments Compilation Guide*. As previously noted, this approach is referred to as the Fully Consolidated System (FCS).

Table 14. Countries That Included Indirectly Owned FDI Enterprises in FDI Statistics
(by number of countries)

Region	Countries That Include Earnings Data of Indirectly Owned FDI Enterprises	Countries That Classify Equity and Other Capital Transactions Within a Group of Related Enterprises as FDI Without Consideration of the Percentage of Equity Held by These Enterprises in Each Other	Countries That Apply the Fully Consolidated System	
			Partially	Fully
OECD (29)	13	13	12	10
Africa (15)	6	5	5	3
Asia (13)	4	4	6	1
Europe (16)	5	6	7	1
Middle East (2)	1	1	1	-
West. Hem. (21)	6	2	12	-
Total (96)	**35**	**31**	**43**	**15**

OECD Countries

58. There were 22 OECD countries that included indirectly owned direct investment enterprises in their FDI statistics. However, as shown in Table 14, the types of transactions recorded and the procedures for determining the coverage of indirectly owned FDI enterprises varied considerably from one country to another. There were 13 OECD countries that endeavored to include earnings of indirectly owned direct investment enterprises in the FDI statistics. There were also 13 OECD countries that included in FDI statistics all equity and other capital transactions between resident and non-resident enterprises belonging to the same group of related enterprises. These transactions were those between direct investment enterprises that are not directly related to each others but that share the same direct investor; such transactions are referred to as *transactions between fellow subsidiaries*. The international manuals recommend that equity and other capital transactions between enterprises belonging to the same group of related enterprises be classified as FDI transactions without consideration of the percentages of equity held by these enterprises in each other. Although most OECD countries attempted to apply the general guidelines of the FCS, the collection of detailed information on country practices requires further investigation. Therefore, the information in Table 14 should be used with some caution.

Non-OECD Countries

59. As shown in Table 14, a significant number of non-OECD countries attempted to include transactions with indirectly owned FDI enterprises in their FDI statistics. There were 22 non-OECD countries that endeavored to include the relevant shares of earnings of indirectly owned FDI enterprises in their earnings data; 18 countries recorded, as FDI transactions, those that occurred between resident and non-resident enterprises belonging to the same group of related enterprises. However, many of these countries had data collection systems that were not well-developed and often relied on data provided by investment approval authorities. Of the 36 countries that applied the general guidelines of the FCS, only 5 reported total compliance.

VI. DIRECT INVESTMENT CAPITAL

60. ***Direct investment capital*** is *capital provided by* a *direct investor—*e*ither directly or through other enterprises related to that investor—to* a *direct investment enterprise. Conversely, direct investment capital is capital received by a direct investor from a direct investment enterprise*. Direct investment capital includes equity capital, reinvested earnings, and other capital used in various intercompany debt transactions. Direct investment capital includes only funds actually provided; funds for which a direct investor merely makes the arrangements or guarantees repayment are not considered to be direct investment capital.

A. Components of Direct Investment Capital

61. ***Equity capital*** covers *equity in branches, shares (whether voting or nonvoting) in subsidiaries and associates, and other capital contributions* (such as the provision of machinery) that constitute part of the capital of a direct investment enterprise. Equity capital also covers the acquisition by a direct investment enterprise of shares in its direct investor. However, non-participating preference shares are not part of equity capital but are treated as debt securities and classified as *other direct investment capital*.

62. ***Reinvested earnings*** are the *direct investors' shares (in proportion to equity held) of the undistributed earnings of a direct investment enterprise*. Reinvested earnings are considered to be additional capital of a direct investment enterprise. Reinvested earnings are recorded, with an offsetting capital transaction, as *income*.

63. ***Other capital*** (or inter-company debt transactions) covers *the borrowing and lending of funds*, including debt securities and trade credits, *between direct investors and direct investment enterprises and between two direct investment enterprises that share the same direct investor*. Debt claims on the direct investor by the direct investment enterprise are also included.

Transactions involving FDI Equity Capital

OECD Countries

64. As shown in Table 15, all the OECD countries except one included voting and non-voting stock transactions between a direct investor and its direct investment enterprise as part of FDI statistics. More than three-quarters of the survey respondents also included the measurement of reinvested earnings in FDI. Non-cash acquisition of equity, such as the provision of capital equipment, was included in the statistics of about two-thirds of the OECD countries.

Table 15. Types of FDI Equity Capital Transactions Included in FDI Statistics
(by number of countries)

Region	Transactions in Voting and Non-voting Stocks	Reinvested Earnings	Non-cash Acquisition of Equity
OECD (29)	28	23	19
Africa (15)	6	6	7
Asia (13)	7	9	7
Europe (16)	11	9	13
Middle East (2)	2	2	2
West. Hem. (21)	10	18	18
Total (96)	**64**	**67**	**66**

Non-OECD Countries

65. Table 15 indicates that only just over half of non-OECD countries included transactions in listed or unlisted voting stocks or other non-voting stocks in their FDI statistics. This response was surprising as many of these countries reported FDI equity capital flows to the IMF Statistics Department for inclusion in the *Balance of Payments Statistics Yearbook*. Many non-OECD economies have very small (or non-existent) organized stock markets and did not include, in FDI statistics, transactions in listed voting stocks. These countries often included equity capital participation, such as the purchase of enterprises, by non-residents in resident enterprises. However, many of the countries that reported FDI equity capital flows to the IMF Statistics Department did not indicate in their survey responses that transactions in unlisted voting stocks or other non-voting stocks were recorded in FDI statistics. There may have been a misunderstanding by some respondents as to the actual meaning of *stocks,* a term that was intended to cover any holdings of shares or equity in incorporated enterprises. Two-thirds of non-OECD countries included data on reinvested earnings, while more than 70 percent recorded non-cash acquisition of equity in the FDI statistics. The recording of non-cash acquisition of equity by a large number of countries could be linked to the fact that many non-OECD countries

relied on investment approval authorities as a primary source of data for FDI statistics. Such authorities often furnish information on the registration, for approval, of capital equipment to be provided to direct investment enterprises. There may, however, be significant time lags between approval and actual investment, and some of these approved investments may never take place.

Transactions involving FDI Other Capital

Table 16. Types of FDI Other Capital Transactions Included in FDI Statistics
(by number of countries)

Region	Long-term Loans	Short-term Loans	Financial Leasing	Trade Credits	Bonds and Money Market Instruments
OECD (29)	25	23	13	17	14
Africa (15)	8	8	4	7	4
Asia (13)	10	10	4	7	3
Europe (16)	14	12	6	10	4
Middle East (2)	-	-	-	-	-
West. Hem. (21)	13	10	3	12	1
Total (96)	**70**	**63**	**30**	**53**	**26**

OECD Countries

66. As Table 16 shows, the coverage of various debt instruments used in transactions between affiliated enterprises varied considerably among OECD countries. Around 85 percent of the OECD countries recorded long-term loans made by affiliated enterprises to each other in their FDI statistics, and almost 80 percent of the OECD countries reported short-term loans. However, other inter-company debt flows—such as financial leasing, trade credits, and bonds and money instruments were not as well covered in the FDI statistics. Five countries indicated that such transactions would never occur in their economies. About half of the 24 remaining OECD countries recorded transactions that took place between affiliated enterprises in bonds and money market instruments in their FDI statistics.

Non-OECD Countries

67. Table 16 indicates that about one-third of the non-OECD countries did not include long-term loans made by affiliated enterprises to each other in their FDI statistics; around 40 percent of these countries did not include short-term loans. Very few non-OECD countries included, as FDI transactions, those transactions that involved bonds and money market instruments and occurred between affiliated enterprises. Half of the non-OECD countries reported that such transactions never occurred in their economies. Thus, about one-third of countries that observed these flows recorded them in their FDI statistics. Just under half of the non-OECD countries did

not include trade credits extended by affiliated enterprises to each other, and only 17 countries included in their FDI statistics information on financial leasing arrangements made between affiliated enterprises.

Transactions of Financial Intermediaries

Table 17. Recording of Transactions Between Affiliated Banks and Affiliated Financial Intermediaries in FDI Statistics
(by number of countries)

Region	Countries that Record in FDI the Transactions Between Affiliated Banks for:			Countries that Record in FDI the Transactions Between Affiliated Financial Intermediaries for:		
	Equity capital	Permanent debt	Other claims and liabilities related to usual banking transactions	Equity capital	Permanent debt	Claims and liabilities related to transactions other than those on equity and permanent debt
OECD (29)	25	18	1	25	19	6
Africa (16)	5	4	4	4	3	3
Asia (13)	7	6	3	8	5	1
Europe (16)	14	8	5	8	6	4
Middle East (3)	2	0	1	2	-	1
West. Hem. (21)	16	12	10	13	2	8
Total (96)	**69**	**48**	**24**	**60**	**35**	**23**

68. The *Benchmark* and the *BPM5* recommend that, for intercompany transactions that occur between affiliated banks and affiliated financial intermediaries, only those transactions associated with permanent debt and equity capital should be recorded as FDI. Deposits and other claims and liabilities related to the usual banking transactions of depository institutions and claims and liabilities of other financial intermediaries should be classified as *portfolio investment* or *other investment*.

OECD Countries

69. Table 17 indicates that the recommendations of the international manuals for the treatment of equity capital transactions between affiliated banks were followed by most OECD countries. Belgium and Turkey did not record any transactions between affiliated banks in their FDI data, and 3 countries indicated that these transactions do not occur in their economies. However, transactions associated with permanent debt between affiliated banks were excluded

from the FDI statistics of 7 OECD countries (Austria, Belgium, Denmark Luxembourg, Mexico, Norway and Turkey), and these transactions reportedly did not occur in the Czech Republic, Iceland and Korea. New Zealand included other long-term banking transactions—except for those included in equity capital and permanent debt—under *direct investment* if such transactions were conducted between related institutions; all short-term banking transactions were recorded as *other investment* by New Zealand. Overall, results were very similar when transactions between affiliated financial intermediaries were considered. However, in a departure from the international standards, 5 OECD countries classified claims and liabilities related to transactions other than those involving equity capital and permanent debts of affiliated financial intermediaries as FDI.

Non-OECD Countries

70. As shown in Table 17, about two-thirds (44) of the non-OECD countries included equity capital transactions between affiliated banks in the FDI statistics, while one-third, contrary to the international standards, included usual banking transactions between affiliated banks. Equity capital transactions between affiliated financial intermediaries were included in the FDI statistics of approximately 50 percent of the non-OECD countries, while 25 percent of the countries, contrary to international standards, reported claims and liabilities related to transactions other than those in equity capital and permanent debts of affiliated financial intermediaries in the FDI statistics.

B. Reverse Investment

71. ***Reverse investment*** *occurs when direct investment enterprises acquire financial claims on direct investors*. The *Benchmark* and the *BPM5* recommend that, for the economy of a direct investment enterprise, the acquisition of equity in a foreign direct investor by a direct investment enterprise should be recorded as *direct investment in reporting economy, claims on direct investors,* when an equity participation by a direct investment enterprise in its direct investor is not sufficient to establish a second, separate direct investment relationship. For the economy of the direct investor, these transactions with foreign direct investment enterprises should be recorded as *direct investment abroad*, *liabilities to affiliated enterprises*. Reverse investment transactions are recorded, as appropriate for each economy, according to the directional principle of the direct investment relationship; that is, as *direct investment in reporting economy* for transactions concerning direct investment enterprises and as *direct investment abroad* for transactions concerning direct investors.

72. When the equity participations are at least 10 percent in both directions, two direct investment relationships are established. Equity and other capital transactions between enterprises that have direct investment relationships in both directions are recorded as direct investment claims and liabilities in both directions; that is, as *direct investment abroad* for transactions involving assets and as *direct investment in reporting economy* for transactions involving liabilities. These transactions are recorded on the asset-liability principle; all assets are recorded as *direct investment abroad,* and all liabilities as *direct investment in the reporting economy*.

73. Tables 18 and 19 show how countries recorded acquisitions by direct investment enterprises resident in the reporting economies of equity capital and loans from direct investors abroad. Table 18 shows how the transactions were recorded when the FDI relationship is in one direction only, and Table 19 shows how the transactions were recorded when there are two direct investment relationships.

Reverse Investment as Disinvestment by a Direct Investor

OECD Countries

74. When the acquisition of equity capital by a resident direct investment enterprise in its direct investor was not sufficient to establish a direct investment relationship in both directions, only 5 OECD countries followed the international recommendations and recorded, on the basis of the directional principle, such transactions as *direct investment in the reporting economy*. On the other hand, 3 countries recorded, according to the asset-liability principle, these transactions as *direct investment abroad*. About half of the OECD countries incorrectly classified reverse equity capital transactions as *portfolio investment*.

75. When the FDI relationship was in one direction only, the provision of a loan by the resident direct investment enterprise to its direct investor was recorded according to the international standards by 11 OECD countries. Of these 11 countries, 9 recorded such transactions as *direct investment in reporting economy, increase in claims on direct investors*, while 2 countries recorded the transactions as *direct investment in reporting economy, decrease in liabilities to direct investors*. The application of such classifications resulted in these transactions being treated, in accordance with the international recommendations, as disinvestment flows. Contrary to the international standards, 5 OECD countries applied the asset-liability principle, and 5 countries recorded these transactions as *other investment* rather than in FDI statistics.

Table 18. Recording of Reverse Investment
When the FDI Relationship is Established in One Direction Only
(by number of countries)

Region	Countries That Record the Acquisition of Equity by the Direct Investment Enterprise in its Investor According to the:				Countries That Record the Provision of a Loan by the Direct Investment Enterprise to its Investor According to the:			
	Directional principle, as:		Asset-Liability principle	As portfolio but not in FDI statistics	Directional principle, as:		Asset-liability principle	As other invest-ment but not in FDI statistics
	Increase in claims	Decrease in liabilities			Increase in claims	Decrease in liabilities		
OECD (23)	4	1	3	13	9	2	5	5
Africa (7)	3	-	2	2	2	-	2	2
Asia (9)	2	1	2	4	2	1	2	4
Europe (11)	4	0	1	4	4	1	2	3
Middle East (1)	-	-	-	1	-	-	-	1
West. Hem. (15)	2	1	3	9	1	2	1	11
Total (64)	15	3	11	33	18	6	12	26

Non-OECD Countries

76. For non-OECD countries, the response rate to the questions on reverse investment was only about 60 percent of the response rate recorded for most questions in the survey. A few respondents indicated that such transactions never occurred in their economies, or that their data collection systems would not capture such transactions. Thirteen non-OECD countries classified, in accordance with the international standards, instances of reverse equity capital investment by resident direct investment enterprises on a directional basis. Eight countries followed the asset-liability principle and recorded reverse investment transactions as *direct investment abroad* rather than as *direct investment in reporting economy*. Twenty countries reported instances of reverse equity capital transactions as *portfolio investment* and did not include these transactions in the FDI statistics. Recording treatments of reverse loan transactions were almost identical to these observed for reverse transactions in equity capital.

Table 19. Recording of Reverse Investment When Two FDI Relationships Are Established
(by number of countries)

Region	Countries That Record Equity Capital Transactions Between Enterprises for Which Two FDI Relationships Are Established According to the:			Countries That Record Other Capital (Loan) Transactions Between Enterprises for Which Two FDI Relationships Are Established According to the:		
	Asset-liability principle	Directional principle (based on the direction of the original FDI relationship) as:		Asset-Liability principle	Directional principle (based on the direction of the original FDI relationship) as:	
		Increase in claims	Decrease in liabilities		Increase in claims	Decrease in liabilities
OECD (22)	21	-	1	16	3	3
Africa (7)	3	2	2	2	1	2
Asia (10)	4	4	2	3	4	1
Europe (10)	10	-	-	7	1	-
Middle East (1)	1	-	-	1	-	-
West. Hem. (17)	6	10	1	3	7	1
Total (69)	**45**	**16**	**6**	**32**	**16**	**7**

OECD Countries

77. Among the OECD countries, 21 followed the international recommendations and recorded equity capital flows from resident direct investment enterprises to their direct investors on the basis of the asset-liability principle (that is as *direct investment abroad*), when the equity participations by the direct investment enterprises in their direct investors were sufficient to create direct investment relationships in both directions. Only 1 country departed from the international standards and recorded these flows according to the directional principle; that is, as *direct investment in the reporting economy.* The provision of loans by direct investment enterprises to their direct investors in instances when two direct investment relationships were established was recorded appropriately (that is, on the basis of the asset-liability principle) by 16 OECD countries. Six countries applied the directional principle and, contrary to the international standards, recorded the provision of loans by a resident direct investment enterprises to their direct investors as *direct investment in the reporting economy* and as offsets to capital invested by direct investors.

Non-OECD Countries

78. Twenty-four non-OECD countries followed the international standards and recorded reverse equity capital transactions on the basis of the asset-liability principle when two direct investment relationships were established. However, 21 countries recorded these transactions on a directional principle. For example, when acquisitions of equity by direct investment enterprises resident in the reporting economies from their foreign direct investors were sufficient to establish direct investment relationships, such transactions were recorded—in a departure from the international standards—as *direct investment in reporting economy.* A smaller number of non-OECD countries responded to the question on reverse loans, as fewer non-OECD countries recorded transactions in inter-company debt in the FDI statistics. Sixteen non-OECD countries classified the provision of loans by resident enterprises to non-resident enterprises having a direct investment relationships in both directions on the basis of the assets-liabilities principle. Seventeen countries recorded reverse loan transactions on the basis of the directional principle, while many non-OECD countries classified the provision of loans by resident enterprises having contra-directional direct investment relationships with their direct investors as *other investment* and did not record these transactions in FDI statistics.

VII. DIRECT INVESTMENT INCOME

A. Components of Direct Investment Income

79. The components of FDI income are dividends and distributed branch profits, reinvested earnings, and income on debt. ***Dividends*** *comprise dividends that are, in an accounting period, declared payable to a direct investor, less dividends declared payable in the same accounting period by that direct investor to that direct investment enterprise.* **Reinvested earnings and undistributed branch profits** *comprise, in proportion to equity held, the direct investors' shares of (1) earnings that foreign subsidiaries and associated enterprises do not distribute as dividends and (2) earnings that branches and other unincorporated enterprises do not remit to direct investors.* **Income on debt** *is interest accrued during an accounting period and owed by an enterprise to a direct investor, less the interest accrued during the same accounting period and owed by that direct investor to that enterprise.*

Table 20. Components of FDI Income Included in FDI Statistics
(by number of countries)

Region	Dividends		Reinvested Earnings		Income on Debt	
	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	27	26	22	20	22	21
Africa (15)	10	8	6	5	5	5
Asia (13)	10	6	9	5	7	6
Europe (16)	14	10	9	7	9	8
Middle East (2)	2	2	2	1	1	1
West. Hem. (21)	19	12	18	13	15	1
Total (96)	**82**	**64**	**66**	**51**	**59**	**42**

OECD Countries

80. Table 20 shows that the majority of the OECD countries (27) compiled data on dividends payments made by direct investment enterprises resident in reporting economies (inward) and 26 countries compiled data on dividends received by direct investors resident in reporting economies (outward). Data on distributed branch profits were also compiled by most OECD countries; only 7 countries did not include such data in FDI income statistics. At least 20 OECD countries included, in the direct investment income statistics, information on reinvested earnings for both inward and outward FDI. Belgium and Italy did not measure reinvested earnings but indicated plans to begin collecting such data soon. Other countries that did not collect data on reinvested earnings were Austria, the Czech Republic, Hungary, Korea and Spain; Mexico and Turkey collected reinvested earnings data on inward direct investment only. Just over two-thirds of the OECD countries reported interest on inter-company loans and debt as FDI income, while three countries (France, Belgium and Turkey) recorded such interest as *other investment income* instead of FDI income.

Non-OECD Countries

81. As indicated in Table 20, more than 80 percent of the non-OECD countries compiled data on dividends for inward FDI, but only about half reported dividends received by resident direct investors as FDI income. The survey showed similar results on the measurement of reinvested earnings. More than two-thirds of the non-OECD countries compiled these statistics for inward investment, while less than half did the same for outward FDI. Many countries—including China, the Philippines, Thailand, Russia, and the Bahamas—did not include reinvested earnings in their FDI statistics. Only about half of the non-OECD countries included income on inter-company debt in FDI statistics. Although more than 70 percent of the Western Hemisphere countries recorded the income payments related to inter-company debts for direct investments in the reporting economies, only 1 country (Costa Rica) compiled these income flows for outward FDI.

B. Measurement of Earnings

82. The recommendation of the *Benchmark* and the *BPM5* for measuring earnings is that compilers should use the current operating performance concept (COPC). According to this concept, the earnings of an enterprise consist of its income from normal operations before non-recurring items and capital gains and losses are accounted for. Operational earnings of a direct investment enterprise should be reported after provisions for depreciation of capital and income and corporation tax charged on these earnings are deducted. Direct investment earnings should not include any realized or unrealized capital gains or losses made by either a direct investment enterprise or a direct investor. Direct investment earnings should not include write-offs, such as inventory write-offs, write-offs of intangibles, write-offs of bad debts, or write-offs of expropriation without compensation. Many enterprises use the all-inclusive concept to measure earnings. On the basis of this concept, income is the amount remaining after all items (including capital gains and losses) that cause, during the accounting period, any increase or decrease in the shareholders' or investors' interests are allowed for. Because data for many countries are available only on an all-inclusive basis, countries that report earnings on either an operating or an all-inclusive basis should collect and publish supplementary information on holding gains and losses and other extraordinary items. This practice would enhance international comparability for both stock and flow positions.

Table 21. Components of Earnings Included in FDI Statistics
(by number of countries)

Region	Earnings Recorded with Allowance Made for		Earnings Recorded with Inclusion of		Countries That Apply the COPC*
	Depreciation of capital	Host-country corporation taxes	Capital gains or losses	write-offs	
OECD (24)	16	15	15	14	10
Africa (13)	8	9	7	7	-
Asia (8)	5	3	3	3	2
Europe (14)	2	8	6	6	-
Middle East (2)	1	1	-	-	-
West. Hem. (21)	13	18	11	6	1
Total (82)	**45**	**54**	**42**	**36**	**13**

* Current Operating Performance Concept

OECD Countries

83. Table 21 shows that, when measuring FDI enterprise earnings, more than half of the OECD countries followed the international recommendations and made allowance for depreciation of capital as well as for host-country income and corporation taxes. On the other hand, contrary to the recommendations, one half included capital gains or losses and write-offs. However, these results do not mean that, when measuring earnings, about half of OECD countries followed all of the recommendations of the COPC. In fact, survey respondents can be grouped in five categories:

Category 1 – Three OECD countries did not make allowance for provisions for depreciation of capital or corporation taxes and included capital gains and losses in earnings data.

Category 2 – Eight countries made allowance for depreciation of capital or corporation taxes but included capital gains and losses.

Category 3 – Three countries did not make allowance for depreciation of capital or corporation taxes and did not include capital gains and losses.

Category 4 – Ten countries applied the COPC.

Category 5 – Five countries did not answer the questions on the measurement of earnings.

The use by OECD countries of differing methodologies for the measurement of earnings is an important issue; the disparity will lead to various inconsistencies in the data on reinvested earnings.

Non-OECD Countries

84. As indicated in Table 21, the Survey responses for non-OECD countries were generally similar to those of the OECD countries; no common method of measuring FDI enterprise earnings was used. Although about half of the non-OECD countries made allowance for depreciation of capital, and two-thirds did so for host-country corporation taxes, only 3 countries applied the COPC. Instead, a large proportion of the non-OECD countries included realized and unrealized capital gains and losses and write-offs in measurements of enterprise earnings.

C. Time of Recording of Income

85. In principle, all investment income flows should be recorded at the time that such flows accrue. Interest income should be recorded on an accrual basis as this method of continuous recording matches the cost of capital with the provision of capital. Reinvested earnings should be recorded in the periods in which the underlying profits are earned. Dividends should be recorded as of the dates that they are declared payable. With respect to dividends, the time of accrual depend upon the date selected by enterprises for distributing income or making transfers. According to the *BPM5*, dividends are to be recorded “as of the dates they are payable.” This recommendation could be misunderstood to mean the dates on which dividends are “due for payment.” This issue was addressed in the IMF *Balance of Payments Textbook,* in which the term “declared payable” is used in accordance with the accrual principle for the

recording of dividends[5]. However, the *Benchmark* recommendation is that dividends be recorded at the time they are "due for payment".[6]

86. In the SIMSDI questionnaire, the issue of these differing recommendations was not addressed. Survey responses provide information on the number of countries that recorded dividends on a paid (cash) basis. However, as the *BPM5* recommendation to record dividends "as of the dates they are payable" might be misunderstood to mean "due for payment," the survey does not reveal which countries fully adhered to the accrual method for the recording of dividends.

Table 22. Time of Recording of FDI Income Transactions
(by number of countries)

Region	Dividends Recorded as of Date			Reinvested Earnings Recorded in Periods Earned	Income on Debt Recorded as		
	Payable	Paid	Other		Accruing	Paid	Other
OECD (29)	5	22	1	16	9	12	1
Africa (15)	3	5	-	6	2	3	-
Asia (13)	6	2	1	8	4	3	-
Europe (16)	4	10	-	7	5	4	1
Middle East (2)	-	1	-	-	-	1	-
West. Hem. (21)	9	8	1	14	3	8	1
Total (96)	**27**	**48**	**3**	**51**	**23**	**31**	**3**

OECD Countries

87. As shown in Table 22, more than 70 percent of the OECD countries recorded dividends as at the dates such dividends were paid. That departure from the international standards had an impact on the time of recording whenever dividends were not paid on the dates such dividends were declared payable. The data collection system used by a reporting country is a major factor in that country's ability to apply international standards. For instance, 7 of the 22 OECD countries that recorded dividends on a paid basis used an ITRS as their main data source, while 5 of the 6 countries that recorded dividends on a payable basis used enterprise surveys as their main data source. Australia was the only country indicating that "payable" dividends were recorded by enterprises at the end of accounting periods. That is, at the time that dividends became claims or liabilities of enterprises, such dividends were recorded in the enterprise accounting records. Whether actually paid (or not), the dividends were recorded, in accordance with the accrual principle, in those periods.

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[5] Refer to paragraphs 397 and 406 of the IMF *Balance of Payments Textbook.*

[6] See paragraph 28 of the *Benchmark*.

88. Sixteen OECD countries followed international recommendations regarding the time of recording reinvested earnings and record such earnings in the periods in which the related underlying profits were earned. Some of the 7 OECD countries that did not follow that rule explained that the reinvested earnings were recorded in the periods in which related dividends were payable or paid.

89. Half of the OECD countries recorded interest on direct investment debt on a paid (i.e., cash) basis. Table 22 excludes those countries that recorded interest on inter-company debt as *other investment income*. New Zealand recorded interest on a "due for payment" basis, a procedure recommended in the fourth edition of the *Balance of Payments Manual* (*BPM4*). That basis for the time of recording will be modified as New Zealand implements the recommendations of the *BPM5.*

Non-OECD Countries

90. Table 22 indicates that dividends were recorded on a paid basis by 26 non-OECD countries, while 22 recorded dividends on a payable basis. Chile indicated that, because of different data sources used to collect inward and outward FDI, the time of recording was different for the recording of dividend debits and credits. More than half of the non-OECD countries reported reinvested earnings in the periods they were earned. A few countries recorded reinvested earnings in the periods in which decisions to pay dividends were taken or in the periods in which dividends were calculated. While only about half (37) of the non-OECD countries included income on inter-company debt in their FDI statistics, the recommended accrual principle was used by 14 of these countries, and 19 recorded interest on the dates that such interest was paid. Two countries, Bulgaria and Argentina, still followed the *BPM4* recommendation and recorded interest on a due for payment basis.

VIII. VALUATION OF ASSETS FOR RECORDING OF FDI POSITIONS

91. In principle, all external financial assets and liabilities should be valued at market prices prevailing as at the recording dates. However, there are some recognized departures from the market price valuation principle. For direct investment, values recorded in the balance sheets of direct investment enterprises are generally used to determine the values of direct investment stocks. If these balance sheet values were recorded on the basis of market prices prevailing as at the balance sheet dates, such values are in general conformance with the market price valuation principle. If balance sheet values were based on historical cost or on interim but not current revaluations, such balance sheet values do not conform to the principle.

Table 23. Valuation of Assets
(by number of countries)

Region	FDI Equity Capital Valued and Recorded on Basis of	
	Market value	Book value
OECD (22)	3	19
Africa (3)	1	2
Asia (6)	4	2
Europe (8)	3	5
Middle East (1)	1	-
West. Hem. (5)	-	5
Total (45)	**12**	**33**

OECD Countries

92. Table 23 shows that a significant majority (that is, 19 of the 25 OECD countries that compiled FDI international investment position data) used values recorded in the balance sheets of direct investment enterprises or investors when compiling the equity position of direct investment enterprises and direct investors; 5 of these 19 countries also used market value for compiling position data of some direct investment enterprises or investors. Only 3 OECD countries primarily relied on market value as the valuation principle to determine the values of direct investment stocks.

Non-OECD Countries

93. As indicated in Table 23, 14 of the 23 non-OECD countries that compiled direct investment position data relied on enterprise balance sheets for information on the values of the equity capital of direct investment enterprises. Six of these 14 countries also use market values to compile FDI position data or to adjust balance sheet values to market values. The other 9 countries compiled FDI position data on the basis of market value.

IX. SPECIAL CASES

94. Some types of enterprises or activities warrant special mention. The Survey elicited information about the treatment in FDI statistics of some of these special cases: namely, international construction activities; the operation of mobile equipment; cross-border real estate transactions; transactions with offshore enterprises and SPEs; and the treatment of natural resource exploration activities.

A. Construction Enterprises and Mobile Equipment

95. Sometimes an enterprise produces goods and services in an economy other than its own but does not establish a separate legal corporation in the host economy. According to the *Benchmark* and the *BPM5*, if (1) production is maintained for one year or more, (2) a separate set of accounts is maintained for the local activities, and (3) income tax is paid to the host country, a quasi-corporation that has a direct investment relationship with the parent enterprise should be established, for balance of payments compilation purposes, in the host economy. This recommendation should be followed with regard to the activities of construction enterprises. A similar standard applies when an enterprise in one economy installs machinery and equipment in another economy. An enterprise that operates mobile equipment in another economy is considered to have a center of economic interest in the other economy if the operations are accounted for separately and are recognized, by the tax and licensing authorities of the other economy, as those of a separate enterprise. If these conditions are met, production should be attributed to the (host) economy in which such production occurs and should be treated as the production of an enterprise having a direct investment relationship with a parent company that has established operations in the host economy.

Table 24. Treatment of Construction Enterprises and Mobile Equipment
(by number of countries)

Region	Countries That Follow the Benchmark and BPM5 Recommendations with Regard to:			
	Construction enterprises		Mobile equipment	
	Inward	Outward	Inward	Outward
OECD (29)	7	8	6	5
Africa (15)	3	3	3	3
Asia (13)	2	1	2	2
Europe (16)	4	4	1	1
Middle East (2)	1	1	1	1
West. Hem. (21)	1	1	4	-
Total (96)	**18**	**18**	**17**	**12**

OECD Countries

96. As shown in Table 24, only 7 OECD countries adhered to the international standards for recording data on construction enterprises operating in host countries that are owned by foreign investors and treated the activities of such construction enterprises as those of resident enterprises in direct investment relationships with their parent companies. Eight OECD countries applied the recommended standards for outward FDI and recorded in FDI statistics the flows of relevant transactions associated with construction activities undertaken abroad by resident

construction enterprises and made appropriate entries to other items of the balance of payments. Only 6 OECD countries followed the recommendation for including transactions involving mobile equipment when such mobile equipment operated in their economies for one year or more; 5 did the same when the equipment was owned by resident enterprises and operated abroad. Approximately 25 percent of the OECD countries indicated that such activities, (i.e., those undertaken in one economy by an enterprise resident in another or the operation of mobile equipment in the territory of one economy by an owner resident of another) never occurred in their economies. Therefore, about two-thirds of the OECD countries did not follow the *Benchmark* and the *BPM5* recommendations regarding these activities when their economies were involved.

Non-OECD Countries

97. Table 24 shows that only 11 non-OECD countries followed the *Benchmark* and the *BPM5* recommendations for construction work undertaken in their economies and for the operation, in their territories, of mobile equipment owned by residents of another economies. However, more than 60 percent of the non-OECD respondents indicated that such types of activities did not occur in their economies.

B. Foreign Ownership of Land

98. All land and buildings (except structures owned by foreign governments) located within an economy must, by convention, be regarded as being owned by resident units. If an actual owner is a non-resident, he is treated as if he has transferred his ownership to a notional resident institutional unit that is deemed to own the land and building. The non-resident has a financial investment in this notional unit, which is therefore a direct investment enterprise.

Table 25. Recording of Foreign Ownership of Land in FDI Statistics
(by number of countries)

Region	Reporting of Cross-border Transactions in Real Estate with			
	Non-resident enterprises		Non-resident individuals	
	Inward	Outward	Inward	Outward
OECD (29)	20	19	18	17
Africa (15)	6	6	5	5
Asia (13)	4	4	4	4
Europe (16)	6	3	2	2
Middle East (2)	1	2	1	2
West. Hem. (21)	11	3	10	2
Total (96)	**48**	**37**	**40**	**32**

OECD Countries

99. As indicated in Table 25, more than 65 percent of the OECD countries recorded non-resident enterprise transactions in land and buildings in FDI statistics, and around 60 percent recorded those of non-resident individuals. Norway and the United States specified that only these investments made by individuals and conducted for commercial purposes appeared in the FDI statistics.

Non-OECD Countries

100. Table 25 shows that only about one-third of the non-OECD countries recorded data on cross-border real estate transactions conducted by enterprises in FDI statistics. This coverage dropped to about one-quarter for transactions conducted by individuals. Singapore, Thailand, and China, P.R. Hong Kong, included real estate transactions in their FDI statistics, while China, P.R.: Mainland, Indonesia, and the Philippines did not include these transactions in FDI.

C. Offshore Enterprises and Special Purpose Entities

101. According to the international standards, the residency of so-called offshore enterprises is attributed, without regard to the special treatment they may receive from local authorities, to the economies in which such offshore enterprises are located. This treatment applies to enterprises engaged in the assembly of components manufactured elsewhere, to those engaged in trade and financial operations, and to those located in special zones. Financial flows between an offshore enterprise and its direct investor should be included in FDI statistics. So-called SPEs of multinational enterprises are: (1) generally organized or established in economies other than

those in which the parent companies are resident; and (2) engaged primarily in international transactions but in few or no local transactions. SPEs are defined by either their structures (e.g., financing subsidiary, holding company, base company, regional headquarters) or their purposes (e.g., sale and regional administration, management of foreign exchange risk, facilitation of financing of investment). As these SPEs are integral parts of the organizational structures of multinational enterprises, SPE transactions that arise from direct investment relationships should be reflected in FDI statistics.

Recording the Transactions of Offshore Enterprises

Table 26. Recording of Transactions with Offshore Enterprises
(by number of countries)

Region	Transactions Between Resident Offshore Enterprises and Affiliated Non-resident Enterprises		Transactions Between Non-resident Offshore Enterprises and Affiliated Resident Enterprises	
	Included in FDI statistics	Not included in FDI statistics	Included in FDI statistics	Not included in FDI statistics
OECD (22)	11	5	15	5
Africa (8)	8	-	5	-
Asia (6)	3	3	2	1
Europe (9)	5	2	5	3
Middle East (1)	-	-	-	1
West. Hem. (17)	5	7	4	8
Total (63)	**32**	**17**	**31**	**18**

OECD Countries

102. As shown in Table 26, about 70 percent of the OECD countries that reported the establishment, in their economies, of offshore enterprises in direct investment relationships with non-resident enterprises recorded the relevant transactions in FDI statistics. Fifteen OECD countries included financial transactions between non-resident offshore enterprises and affiliated resident enterprises. These 15 countries represent three-quarters of the OECD countries that report the activities of non-resident offshore enterprises in which resident direct investors have interests.

Non-OECD Countries

103. Table 26 indicates that approximately 40 percent of the non-OECD countries did not include transactions of resident offshore enterprises with affiliated enterprises in their FDI statistics. The data excluded the activities of offshore enterprises established in places such as

Hong Kong, China, the Philippines, and member countries of the Eastern Caribbean Central Bank region (the ECCB, which compiles balance of payments data for Antigua and Barbuda, Dominica, Grenada, St. Kitts & Nevis, St. Lucia, and St. Vincent and the Grenadines).

Recording the Transactions of Special Purpose Entities

Table 27. Recording of Transactions with Special Purpose Entities
(by number of countries)

Region	Transactions Between Resident SPEs and Affiliated Non-resident Enterprises		Transactions Between Non-resident SPEs and Affiliated Resident Enterprises	
	Included in FDI statistics	Not included in FDI statistics	Included in FDI statistics	Not included in FDI statistics
OECD (20)	15	4	16	4
Africa (9)	7	2	3	-
Asia (6)	5	1	4	1
Europe (6)	5	1	5	1
Middle East (1)	-	1	-	1
West. Hem. (14)	2	12	4	8
Total (56)	**35**	**20**	**32**	**14**

OECD Countries

104. Table 27 shows that 15 OECD countries recorded in their FDI statistics the transactions between resident SPEs and their affiliated non-resident enterprises. This number represents around 80 percent of the OECD countries that indicated the establishment of SPEs in their reporting economies or the establishment, by resident enterprises, of SPEs abroad. Only Ireland, Luxembourg (inward only), the Netherlands, and Norway (outward only) indicated that although such enterprises were established in their economies or abroad, the relevant SPE activities were not recorded in their FDI statistics.

Non-OECD Countries

105. As indicated in Table 27, only 19 non-OECD countries recorded in their FDI statistics transactions between resident SPEs and their affiliated non-resident enterprises; 16 countries did the same for transactions between non-resident SPEs and their affiliated resident enterprises. These countries represent almost two-thirds of the non-OECD countries that observed the activities of SPEs located in their economies or the activities of SPEs established abroad that were involved in direct investment relationships with resident enterprises. However, statistics from the Bahamas or member countries of the ECCB did not include the activities of SPEs.

D. Natural Resource Exploration Activities Included in FDI

106. When a direct investment enterprise is set up for exploration of natural resources, related exploration expenditure is, according to the *1993 SNA*, treated as capital expenditures. Inward investment flows that are provided to a direct investment enterprise by a direct investor located abroad and used for such expenditure is recorded in the balance of payments under FDI. If an exploration proves unsuccessful and results in a shutdown of an enterprise, the *BPM5* and the *Benchmark* recommendations are that no further balance of payments entries be recorded and that negative stock adjustments be made in the international investment positions of the two economies involved. However, this second recommendation differs from the treatment propounded in the *1993 SNA*. According to the *1993 SNA,* the residual capital stock should be amortized by using average service lives that are similar to those used by mining and oil corporations for amortizing their own assets. This difference in treatments should be reviewed.

Table 28. Recording of Natural Resource Exploration Activities in FDI Statistics
(by number of countries)

Region	Recording of Natural Resource Exploration Expenditure in One Economy by an Enterprise Resident of Another in FDI Statistics	
	Inward	Outward
OECD (24)	12	12
Africa (9)	5	4
Asia (9)	4	1
Europe (7)	2	1
Middle East (1)	1	1
West. Hem. (18)	8	2
Total (68)	**32**	**21**

OECD Countries

107. As shown in Table 28, half of the OECD countries that reported data on natural resource exploration activities conducted by non-residents in their economies, or abroad by resident enterprises, did not include the expenditure related to such activities in FDI statistics.

Non-OECD Countries

108. Table 28 shows that 20 non-OECD countries included in their FDI statistics the expenditure of non-resident enterprises carrying out natural resource exploration activities in the reporting countries' economies. Only 8 non-OECD countries followed the same recording procedure for exploration activities conducted abroad by resident enterprises. These 8 countries represent only one-third of the non-OECD countries that were aware of such exploration activities being performed by resident enterprises.

Classification of Countries Sent the Survey Questionnaire and the List of Respondents

(Survey respondents are identified in boldface type)

OECD Countries	Africa	Asia	Europe	Middle East	Western Hemisphere
(29 respondents)	*(22 respondents)*	*(16 respondents)*	*(18 respondents)*	*(6 respondents)*	*(23 respondents)*
Australia	Algeria	**Bangladesh**	Albania	Bahrain	**Antigua & Barbuda**
Austria	Benin	Bhutan	**Armenia**	Egypt	**Argentina**
Belgium	**Botswana**	**Brunei Darussalam***	**Azerbaijan**	Iran, I.R. of	**Bahamas, The**
Canada	Burkina Faso	**Cambodia**	Belarus	**Israel**	Barbados
Czech Republic	**Burundi**	**China, P.R.: Mainland**	**Bulgaria**	**Jordan** *	Belize
Denmark	Cameroon	**China, Hong Kong SAR**	**Croatia**	**Kuwait**	**Bolivia**
Finland	Cape Verde	**Fiji**	**Cyprus** *	**Lebanon** *	**Brazil**
France	C. African Rep.	**India**	**Estonia**	Libya	**Chile**
Germany	Chad	**Indonesia**	Georgia	Oman	**Colombia**
Greece	Comoros	Kiribati	**Kazakhstan**	Qatar	**Costa Rica**
Hungary	**Côte d'Ivoire** *	Lao P. D. Rep.	**Kyrgyz Rep.**	**Saudi Arabia** *	**Dominica**
Iceland	Djibouti	Malaysia	**Latvia**	**Syrian Arab Rep.** *	Dominican Rep.
Ireland	Equatorial Guinea	**Maldives** *	**Lithuania**	United Arab Emirates	**Ecuador**
Italy	**Ethiopia** *	Myanmar	**Macedonia, FYR** *	Yemen, Republic of	**El Salvador**
Japan	Gabon	**Nepal** *	**Malta**		**Grenada**
Korea	**Gambia, The** *	Pakistan	**Moldova**		**Guatemala** *
Luxembourg	Ghana	**Papua New Guinea**	**Romania**		Guyana
Mexico	**Guinea** *	**Philippines**	**Russia**		**Haiti**
Netherlands	Guinea-Bissau	**Samoa**	**Slovak Rep.**		**Honduras**
New Zealand	Kenya	**Singapore**	**Slovenia**		Jamaica
Norway	**Lesotho**	Solomon Islands	Tajikistan		**Nicaragua** *
Poland	Liberia	Sri Lanka	Turkmenistan		Panama
Portugal	**Madagascar**	**Thailand**	Ukraine		**Paraguay**
Spain	**Malawi**	**Tonga**	Uzbekistan		**Peru**
Sweden	Mali	**Vanuatu**			**St. Kitts & Nevis**
Switzerland	Mauritania	Vietnam			**St. Lucia**
Turkey	**Mauritius**				**St. Vincent and The Grenadines**
United Kingdom	**Morocco** *				Suriname
United States	Mozambique				Trinidad & Tobago
	Namibia				**Uruguay**
	Niger				**Venezuela**
	Nigeria				
	Rwanda *				
	Sao Tomé & Principe				
	Senegal				
	Seychelles				
	Sierra Leone				
	Somalia				
	South Africa				
	Sudan *				
	Swaziland				
	Tanzania				
	Togo				
	Tunisia				
	Uganda				
	Zambia				
	Zimbabwe				

* The asterisks indicate: (1) countries that completed only the third part of the survey form, which provided space for descriptions of specific plans; or (2) countries that provided separate letters indicating their plans for developing FDI compilation systems but did not complete the survey. None of these countries are included in the analysis of the survey results.

Glossary of Foreign Direct Investment Terms

The purpose of this glossary is to help analysts of foreign direct investment statistics to make the best use of the metadata collected from the 1997 *Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI)*. Technical terms used throughout this report are defined and listed alphabetically.

Aggregate basis—Data collected on an aggregate basis are obtained through surveys on total transactions made by respondents during specified reporting periods.

All-inclusive concept— The application of this concept is one of the two main approaches to measuring earnings. The concept is explained in the *International Accounting Standard No.8, "Unusual and Prior Period Items and Changes in Accounting Policy*. When income is measured on the basis of this concept, income is considered to be the amount remaining after all items (including capital gains and losses and excluding dividends and any other transactions between the enterprise and its shareholders or investors) are allowed for. (See also the entry for the ***Current operating performance concept***.)

Asset/liability principle—An economy's transactions in external financial assets and liabilities are recorded in the Financial Account of the balance of payments. The transactions are classified (1) by functional type of investment (*direct investment*, *portfolio investment*, *other investment*, and *reserve assets*); (2) by asset or liability category or, in the case of direct investment, direction of investment; (3) by type of instrument; and, in some cases, (4) by domestic sector; and (5) by original contractual maturity. The distinction between external assets and liabilities is of primary importance for the functional types of investment other than *direct investment*. Transactions should be recorded on a straight asset/liability basis. Even when a net basis is used for recording transactions in Financial Account of the balance of payments, transactions in financial assets should be shown separately from transactions in financial liabilities.

Balance of payments—The balance of payments is a statistical system through which economic transactions occurring during specific time periods between an economy and the rest of the world can be summarized in an orderly fashion. The *BPM5* provides conceptual guidelines for compiling balance of payments statistics according to international standards.

Bonds and money market instruments—These include bonds, debentures, commercial paper, promissory notes, certificates of deposit, and other tradable nonequity securities (with the exception of financial derivatives).

Book value—Book value is the value at which an asset or liability is recorded in the balance sheet of an entity. Book value may reflect historical cost, some interim but not current valuation, or a regular revaluation to current market value.

Compulsory reporting—Reporting requirements are compulsory when legislation creates a legal obligation (and usually an appropriate penalty for non-compliance) for reporters to provide the information.

Current operating performance concept (COPC)—The application of this concept is one of the two main approaches to measuring earnings. The concept is explained in *International Accounting Standard No. 8, Unusual and Prior Period Items and Changes in Accounting Policy.* When earnings are measured on the basis of the COPC, such earnings are considered to consist of income from normal enterprise operations before non-recurring items and capital gains and losses are allowed for. (See also the entry on the ***All-inclusive concept***.)

Data dissemination—Data dissemination refers to all the means by which data are made available to the public.

Debtor/creditor principle—There are two principles—the debtor/creditor principle and the transactor principle—that may serve as the basis for regional allocations of financial flows. According to the debtor/creditor principle, changes in financial claims of the compiling economy are allocated to the country of residence of the non-resident debtor, and changes in liabilities are allocated to the country of residence of the non-resident creditor.

Debt securities—These cover all tradable securities except for those classified as equity securities. Debt securities include bonds, debentures, notes, etc. and money market or negotiable debt instruments.

Direct investment—*Direct investment* is a category in which an international investment made by a resident entity in one economy (direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) resident in another economy is classified. "Lasting interest" implies the existence of a long-term relationship and a significant degree of influence by the direct investor on the management of the direct investment enterprise. *Direct investment* involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated.

Direct investment enterprise—Such an enterprise is an incorporated enterprise in which a foreign investor owns 10 percent or more of the ordinary shares or voting power or an unincorporated enterprise in which a foreign investor has equivalent ownership. Ownership of 10 percent or more of the ordinary shares or voting stock is the guideline for determining the existence of a direct investment relationship. An "effective voice in the management," as evidenced by at least 10 percent ownership, implies that a direct investor is able to influence, or participate in, the management of an enterprise; absolute control by a foreign investor is not required. Direct investment enterprises may be subsidiaries (a non-resident investor owns more than 50 percent); associates (a non-resident investor owns between 10 and 50 percent); and branches (a non-resident investor wholly or jointly owns unincorporated enterprises) that are either directly or indirectly owned by the direct investor. When the 10 percent ownership requirement for establishing a direct investment link with an enterprise is met, certain other enterprises that are related to the first enterprise are also regarded as direct investment enterprises. The OECD *Benchmark Definition of Foreign Direct Investment* and the IMF *Balance of Payments Compilation Guide* describe the scope of enterprises, both directly and indirectly owned, that should be included in the definition. The OECD's specifications for this group of enterprises is referred to as the Fully Consolidated System (FCS).

Direct investment relationship—A direct investment relationship is created when an enterprise resident in one economy owns 10 percent or more of the ordinary shares or voting power for an incorporated enterprise or the equivalent for an unincorporated enterprise that is resident in another economy. Direct investment enterprises considered to be in a direct investment relationship with a direct investor are also considered to be in direct investment relationships with each other.

Direct investor—A direct investor may be an individual, an incorporated or unincorporated public or private enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises that has a direct investment enterprise—that is, a subsidiary, associate or branch—operating in a country other than the country or countries of residence of the foreign direct investor or investors.

Directional principle—Unlike other financial investments, direct investment is not recorded in the balance of payments on a strict asset/liability basis. Direct investments are recorded on a directional basis—that is, as resident direct investment abroad or as non-resident direct investment in the reporting economy. Capital invested by the direct investment enterprise in its direct investor (reverse investment) is regarded as an offset to capital invested in the direct investment enterprise by a direct investor and its related enterprises. That is, such capital is regarded as disinvestment by the direct investor rather than as an asset of the direct investment enterprise, except when the equity participations are at least 10 percent in both directions and two direct investment relationships are therefore established.

Dividends—are the distribution of earnings allocated to shares and other forms of participation in the equity of incorporated private enterprises, co-operatives, and public corporations.

Financial derivatives—A financial derivative is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks can be traded per se in financial markets. The value of a financial derivative is based on the price of an underlying item, such as an asset or index. Unlike debt instruments, financial derivatives do not require the advancement or repayment of principal amounts and do not generate investment income. Financial derivatives are used for an number of purposes, including hedging, arbitrage between markets, and speculation.

Immediate host/investing country—Analysis of a country's direct investment transactions is complicated by holding companies; that is, when the ultimate parent enterprise's investment in a foreign country is held through another subsidiary in a third country. Because the principle of classification used in balance of payments regional statistics is based on the change of ownership, direct investment flows should be compiled only for the immediate host/investing country. The same rule applies to the international investment position statement; liabilities should be classified by the country of residence of the owner of the claim, and assets should be classified by the country of the liability holder. However, it is suggested that the stock of net assets of direct investment could also be compiled for the ultimate host or controlling country as supplementary information.

Income on debt—Income on debt consists of interest payable, on intercompany debt, to/from direct investors from/to associated enterprises abroad. Income on debt covers interest on the borrowing and lending of funds (and of debt securities and suppliers' credits) by direct investment enterprises to each other.

Indirectly owned direct investment enterprises—As a matter of principle, FDI statistics cover all enterprises in which direct investors have, directly or indirectly, direct investment interest. The OECD *Benchmark* and the IMF *Balance of Payments Compilation Guide* describe the scope of enterprises, both directly and indirectly owned, that fit the definition. The OECD's specification of this group of enterprises is referred to as the Fully Consolidated System (FCS).

Individual transactions basis—Data collected on an individual transactions basis consists of information collected for each of the transactions engaged in by respondents.

International investment position—The international investment position is the balance sheet of the stock of external financial assets and liabilities of an economy. Concepts and guidelines for compiling international investment position data are contained in the *BPM5.*

International Transactions Reporting System (ITRS)—An ITRS measures individual balance of payments cash transactions passing through the domestic banks and foreign bank accounts of enterprises, and non-cash transactions and stock positions. Statistics are compiled from forms submitted by domestic banks and from forms submitted by enterprises to the compiler.

Inward—This term refers to direct investment in the reporting economy.

Market price—Market price is the amount of money that willing buyers would pay to acquire a financial asset from a willing seller. The use of market price for valuation of assets and liabilities is one of the key principles of balance of payments compilation.

Most comprehensive data—This term refers to direct investment statistics that are based on the most comprehensive, regularly available sources of data. Although disseminated, such data may be preliminary and subject to revision.

Most timely data—This term refers to the direct investment statistics disseminated at the earliest opportunity; that is with the shortest lapse of time between the end of the reference period (or reference date) and dissemination of the data. Although disseminated, such data may be preliminary and subject to revision.

Offshore enterprises—In balance of payments accounts, the residency of so-called offshore enterprises is attributed, without regard to the special treatment they may receive by local authorities, to the economies in which the enterprises are located. This treatment applies to enterprises such as those engaged in the assembly of components manufactured elsewhere, participating in trade and financial operations, or located in special zones.

Outward—This term refers to direct investments made abroad.

Periodicity—The frequency with which data are compiled is referred to as the periodicity of the data. Periodicity specifications for flow data are given in terms of the longest interval to be represented by a single data point; those for stock data are given in the form of the longest interval between compilations. For example, the specification of quarterly periodicity for balance of payments data means that one quarter is the longest interval that may be represented by a single estimate.

Perpetual inventory method—The process of deriving data on stocks from transactions data is known as the perpetual inventory method. Under this method, for which a stock estimate for some base point in time is required, the compiler can calculate the value of the stock at the end of a period as being equal to the value of the stock at the beginning of the period, plus the impact of transactions and of non-transaction changes in the value of the stock during the period.

Reinvested earnings and undistributed branch profits—These comprise direct investors' shares, in proportion to equity held, of earnings that foreign subsidiaries and associated enterprises do not distribute as dividends, and of earnings that branches and other unincorporated enterprises do not remit to direct investors.

Reverse investment—This term refers to the acquisition by a direct investment enterprise of a financial claim on its direct investor. Because direct investment is recorded on a directional basis, capital invested by a direct investment enterprise in its direct investor (reverse investment) is regarded as an offset to capital invested in a direct investment enterprise by a direct investor and its related enterprises, except in instances when the equity participations are at least 10 percent in both directions and two direct investment relationships are therefore established. Such reverse investment transactions are recorded on the basis of the direction of the direct investment relationship and, for the economy of the direct investment enterprise, should be classified as *direct investment in the reporting economy, increase in claims on direct investor*.

***Special purpose entities* (SPEs)**—These entities are (1) generally organized or established in economies other than those in which the parent companies reside and (2) engaged primarily in international transactions but in few or no local transactions. The SPEs are defined either by structure (e.g., financing subsidiary, holding company, base company, regional headquarters) or by purpose (e.g., sale and regional administration, management of foreign exchange risk, facilitation of financing of investment). SPEs should be treated as direct investment enterprises if the SPEs meet the 10 percent ownership criterion. SPEs are integral parts of the direct investment network as are, for the most part, SPE transactions with other members of the group.

Time of recording—The time of recording for transactions and, hence, for holdings is governed by the principle of accrual accounting. For financial claims and liabilities, changes of ownership are considered to have taken place at (or be proxied by) the time that the parties to the transactions record them in their books or accounts. If no precise date can be fixed, the reporter may use the date on which the creditor received payment or the date on which some other financial claim was satisfied. For direct investment income data, dividends should be recorded as they are declared payable and income on debt as it is accrued.

Timeliness—This term refers to the speed with which data are disseminated; that is the lapses of time between the end of the reference period (or reference date) and the dissemination of the data.

Transactor principle—There are two principles—the transactor principle and the debtor/creditor principle—that may serve as the basis for regional allocation of financial flows. According to the transactor principle, changes in claims and liabilities are allocated to the country of residence of the non-resident party to the transaction (the transactor).

Ultimate host/investing country—Analysis of country's direct investment transactions is complicated by holding companies; that is, when an ultimate parent enterprise's investment in a foreign country is held through another subsidiary in a third country. The compilation of FDI statistics on income and financial flows on the basis of the ultimate source of such flows would require a basis for the recording of transactions other than the change-of-ownership principle recommended in the *BPM5*. Therefore, the compilation of direct investment flows should be limited to those of the immediate host/investing country. The regional allocation of the international investment position statement should also be confined to the immediate host or investing country. However, it is suggested that the stock of direct investment net assets could also be compiled for the ultimate host or controlling country as supplementary information.

Valuation of stocks—The *BPM5* and OECD *Benchmark* recommendation is to use market price as the basis for valuation. However, it is recognized that, in practice, book values from the balance sheets of direct investment enterprises (or investors) often are used to determine the value of the stock of direct investment.