

**I. DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)**  
**II. OUTCOME PAPER (DITEG) # 12(i)**

**April 8, 2005**

- 1. Topic: Country Identification on the basis of Ultimate Beneficiary Owner and Ultimate Beneficiary Affiliate.**
- 2. Issues – see DITEG Issues Papers #12(i) by the United States (BEA – November 2004), Eurostat (November 2004 and February 2005) and Australia (ABS – March 2005).**
- 3. Recommendations:**
  - (i) In its December 2004 meeting, DITEG agreed that the geographic allocation on the basis of the Ultimate Beneficiary Owner (UBO) for inward FDI will provide useful supplementary information especially for FDI stocks and income, as well as for FATS.
  - (ii) A follow-up paper was deemed necessary to compare two methods of identifying UBOs based on different ownership relationships. It was also agreed that more work should be done for allocating outward FDI on the basis of the Ultimate Beneficiary Affiliate (UBA).
  - (iii) In its meeting of March 2005, DITEG readdressed the issue, especially also discussing the identification of the UBA. The meeting recognised that sets of (often complex) rules could be devised to reflect chains of ownership or significant influence or control.
  - (iv) There was a preference to base the ownership chain between the extremes of an FDI relationship on control (more than 50% ownership)<sup>1</sup>. It was felt that this ensures relative simplicity, as only one path is possible, and it will, moreover, result in consistency with FATS data. The meeting noted that many direct investment positions are greater than 50%. It was recognized that some countries limit foreign equity to, for instance, 49%, so as not to allow inward FDI to result in control. Two views were represented at the meeting:
    - (a) as the restrictions do not allow control, any UBO system based on control should not include these positions, reflecting the reality of the situation;

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<sup>1</sup> The group seemed to show some preference for the terminology of Ultimate Investing Country (UIC) and Ultimate Host Country (UHC) over UBO and UBA. But given the fact that in a second step the preference went to ownership relations of more than 50%, UBO and UIC on the one hand and UBA and UHC will always refer to the same country. This makes the choice between both terminologies less relevant.

- (b) as the restrictions artificially prevent control, a 49% holding can be deemed to represent an interest which can be considered equivalent to control, and such positions should be included.

On balance, the meeting supported (b).

- (v) There was support for the UBO allocation to align with direct investment data, such that it reflects the amount of equity owned, rather than allocating 100% of the equity to the controlling entity as in FATS.
- (vi) As far as the enterprises in the middle of the ownership chain are concerned, where FDI capital passes in transit, DITEG recommended to see if the Dutch proposal to net out FDI transactions (particularly of SPEs<sup>2</sup>, which was rejected for the *standard* b.o.p. and i.i.p. presentation), could be useful in the framework of UBO/UBA chains.
- (vii) DITEG felt the need for an additional Issue paper that will take into account the above recommendations. It should aim at finding a consistent methodology as regards where and to what extent FDI capital should be assigned up and down an ownership chain. Eurostat agreed to produce this Issue paper, which will be addressed to the Benchmark Advisory Group (BAG).

#### **4. Rejected Alternatives.**

It was recognised that using a “mirror image” of the FCS to determine the UBO is not feasible.

#### **5. Questions for the IMF Committee on Balance of Payments (the Committee) and the OECD Workshop in International Investment Statistics (WIIS)**

- (i) *Do members believe that consideration should be given to limiting the application of the UBO concept to chains of control (greater than 50 per cent ownership), or should it be extended to include chains of influence (10 to 50 per cent ownership), recognizing the extra complexity and ambiguity introduced by allowing multiple paths?*
- (ii) *Do members agree that data allocated by UBO should align with FDI data, as described in (3)(v) above?*
- (iii) *Do members agree that for those countries that do not allow inward FDI to have control, that consideration should be given to applying the UBO/UBA concept to include FDI ownership of 49% (or more)?*

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<sup>2</sup>

Background paper 11 of DNB, March 2005.