I. DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)
II. OUTCOME PAPER (DITEG) # 1(A)

April 8, 2005

1. Topic: Valuation of direct investment equity

2. Issues: See DITEG Issue Papers # 1(A) by the US, ECB, and Australia (June 2004) and background document by the ECB (December 2004)

3. Recommendations:

(i) DITEG considered that an additional split of FDI equity stocks into quoted and unquoted shares could be a useful supplementary item for the IIP but that the split should not be part of the standard components. The group were of this view, to a large extent, because of confidential concerns in cases where listed companies do not represent a significant proportion of the population of FDI enterprises for a specific sector and/or for specific geographical counterparts.

(ii) The group was of the view that the second proposal in the paper, namely the extent to which the use of a single definition of own funds at book value (OFBV) could facilitate the exchange of information among countries, should be deferred and discussed in another forum (possibly a task force on a Coordinated Direct Investment Survey, should a decision be made to proceed with such a survey).

(iii) The group considered responses to the questionnaire, prepared by DITEG's secretariat, on the group's views on the acceptability and ranking of various approaches to valuing unquoted shares. Eleven options were considered. Without providing a ranking, as circumstances would vary from year to year and country to country, the group felt that seven should be considered generally acceptable for the IIP. These were: (i) a recent transactions (within the previous twelve months; (ii) net asset value, including intangibles and goodwill; (iii) net asset value, excluding intangibles and goodwill; (iv) apportioning global value of a group to a local operation, using an appropriate indicator; (v) own funds at book value; (vi) use of capitalization ratios (stock market indices) to own funds at book value of listed companies; and (vii) use of models that revalue non-financial assets. The group felt that three other approaches [(viii) use of stock price indices to revalue cumulated flows, (ix) historic or acquisition cost, and (x) summing transactions] are not be good approximations of market value. Even so, the group felt that a distinction should be made between the basis on which data were collected, and the basis on which they would be published. If data were obtained using one or more these latter three approaches, such an approach may be a useful basis for making adjustments to bring the published data closer to market value. The group felt that the new manuals should specify criteria for compliers to make choices among various alternatives.

(iv) Book value was also discussed by the group. The group expressed concern that this approach has no standard definition; however, it was recognized by some participants that book value might be the only basis for valuing bilateral data, in the absence of any better alternative for many countries, and did not wish to preclude this approach, as a result.

4.   Rejected Alternatives:

(i) The group rejected the proposal to introduce an additional split of FDI equity into quoted and unquoted shares within the b.o.p. / IIP standard components

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

(i) Do the Committee and the WIIS agree that an additional split of FDI equity stocks into quoted and unquoted shares could be a useful supplementary item for the IIP (taking confidentiality concerns into account) but that the split should not be part of the standard components? See 3(i) above

(ii) While reaffirming the market price principle for the valuation of direct investment equity positions, do the Committee and the WIIS agree that the following approaches to the valuation of unquoted direct investment equity should be considered appropriate proxies for market valuation:

> *(a) a recent transactions (within the previous twelve months;*
>
> *(b) net asset value, including intangibles and goodwill;*
>
> *(c) net asset value, excluding intangibles and goodwill;*
>
> *(d) apportioning global value of a group to a local operation, using an appropriate indicator;*
>
> *(e) own funds at book value;*
>
> *(f) use of capitalization ratios (stock market indices) to own funds at book value of listed companies; and*
>
> *(g) use of models that revalue nonfinancial assets? See 3(iii) above.*

(iii) Do the Committee and the WIIS agree that the following three valuation bases may serve as appropriate approaches for the collection of data on unquoted direct investment equity, while recognizing that adjustments should be made to bring the data closer to market valuation:

> *(a) use of stock price indices to revalue cumulated flows,*
>
> *(b) historic or acquisition cost, and*
>
> *(c) summing transactions? See 3(iii) above.*

(iv) Do the Committee and the WIIS agree that book values may be the only practical means to obtain bilateral data on unquoted direct investment equity? See 3(iv) above.

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