

This metadata describes the compilation practices, sources and methodology in use in 2003. Please refer to the contact person below for details of any changes that may have been introduced by the country since that time.

United Kingdom:

Direct Investment Compilation Practices, Data Sources and Methodology

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Direct Investment in the United Kingdom

- **Balance of Payments (“Transactions Data”)**
- **International Investment Position (“Position Data”)**

Direct Investment Abroad

- **Balance of Payments (“Transactions Data”)**
- **International Investment Position (“Position Data”)**

DIRECT INVESTMENT IN THE UNITED KINGDOM
BALANCE OF PAYMENTS (“INWARD TRANSACTIONS”) DATA

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely data) are compiled by the Office of National Statistics (ONS) within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated with a timeliness of 12 weeks after the end of the reference period in the ONS *Balance of Payments First Release* and on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4*. The data are also reported to the IMF for publication.

More comprehensive annual (calendar year) data for all the components specified above are also compiled by the ONS within the balance of payments framework. These data are disseminated with a timeliness of approximately 51 weeks after the end of the reference period in the ONS *Foreign Direct Investment First Release* and on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4*. These data, which are known as the “MA4 data”, are reported to the OECD and Eurostat but not to the IMF for publication. (The annual data reported to the IMF for publication are those disseminated in the ONS *Balance of Payments First Release*, and the *United Kingdom Balance of Payments: The Pink Book*, which are the sum of the quarterly data for the relevant year—the so-called “annualized BOP data”. These annualized BOP data have a timeliness of 35 weeks after the end of the reference period.)

Revision Practices

The data are preliminary when first released. The quarterly data for the previous three quarters are revised quarterly, primarily to take account of late responses to the quarterly enterprise surveys, and the revised data are disseminated quarterly together with the preliminary data for the latest quarter. The quarterly data are considered to be final 36 weeks after the date of their first release.

The annual MA4 data are revised twice on an annual basis to take account of late responses to the annual enterprise surveys and the revised data are disseminated once a year, together with the preliminary data for the latest period. The annual data are considered to be final 102 weeks after the end of the reference period that is, 66 weeks after the first release of the annualized BOP data and 51 weeks after the first release of the MA4 data.

The revised status of the data is clearly identified in the disseminated data. However, because of confidentiality constraints the general public are informed only in general terms of the reasons for the revisions. The historical data are revised back 10 years in instances of major changes in methodology or data collection systems.

There are no differences in the revision practices between the direct investment data compiled within the balance of payments framework that are disseminated in the national publications and those reported to the IMF for publication. However, there can be delays in incorporating revisions into the direct investment data included in the balance of payments statistics, which can lead to differences between the revised data disseminated in the ONS’s more detailed publications on direct investment and those data reported to the IMF for publication.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the most timely quarterly and annual data. However, the more comprehensive annual data, although covering a higher proportion of the direct investment enterprises in the business register and including fewer imputations than the most timely quarterly and annual data, exclude transactions involving property.

There are no differences in the sectoral coverage between the quarterly and annual data disseminated in the ONS *Balance of Payments First Release* and those reported to the IMF for publication.

Data Collection Method

The data are collected on an aggregate basis and the reporting requirements are compulsory.

Data Sources

The quarterly data for all components are compiled from quarterly enterprise surveys of resident enterprises. The most timely annual data are compiled as the sum of the quarterly data for the relevant year. The more comprehensive annual data are compiled from annual enterprise surveys of resident enterprises.

There are no differences in the data sources between the quarterly and annual data disseminated in the ONS *Balance of Payments First Release* and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the inward direct investment transactions data. The register is maintained by the Foreign Direct Investment Branch of the ONS and is updated on an ongoing basis for merger and acquisition activities, using information from (i) the financial press, and (ii) compulsory direct investment surveys. Since 1998 the register has also been updated once a year using nonresident sources, namely, information obtained from the Dun and Bradstreet "Worldbase" database. The same business register is used to compile the inward direct investment transactions and position data, and the outward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country for both the direct investment income data and the direct investment financial flows data are compiled by the ONS. The data are disseminated annually with a timeliness of 50 weeks after the end of the reference year in the ONS *Foreign Direct Investment First Release*, and subsequently on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4* for the detailed data. The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD and Eurostat. The data cover 42 countries and bilateral data are not used in the compilation of the data.

In addition, quarterly data showing breakdowns by country for both the direct investment income data and the direct investment financial flows data are compiled by the ONS, but are not disseminated and are not available on request.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment in the United Kingdom during 2002 (ranked in descending order) were: the Netherlands, the United States, France, Japan, and Switzerland. The five countries with the largest amount of direct investment financial flows into the United Kingdom during 2002 (ranked in descending order) were: Germany, the Netherlands, Japan, France, and Canada.

In addition to the data showing country breakdowns, annual data compiled by the ONS showing breakdowns of both the direct investment income and direct investment financial flows for the following economic zones are disseminated once a year with a timeliness of 51 weeks after the end of the reference period in the ONS *Foreign Direct Investment First Release*, and subsequently on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4* for the detailed data: (i) the EU15, (ii) EFTA, and (iii) the United Kingdom Offshore Islands (Channel Islands and the Isle of Man). The *MA4* data also show breakdowns by regions. The data showing breakdowns by economic zones/regions are also reported to the OECD and Eurostat.

There are differences in the data coverage, sources etc. between the inward transactions data showing geographic breakdowns disseminated in the national publications and reported to the OECD and Eurostat and the aggregate inward data on direct investment income and direct investment financial flows reported to the IMF for publication, in that the data showing geographic breakdowns do not include the transactions of the property sector. There are no differences in the data coverage, sources, etc. between the inward transactions data showing geographic breakdowns disseminated in the *MA4* publication and those reported to the OECD and Eurostat for publication, except that the data reported to the OECD and Eurostat for the most recent year are imputed geographic allocations based on the annualized BOP data, minus the transactions of the property sector.

Industrial Classification

Annual data showing breakdowns by industrial activity are compiled by the ONS for both the direct investment income data and the direct investment financial flows data. The data are disseminated annually with a timeliness of 50 weeks after the end of the reference period in the ONS *Foreign Direct Investment First Release*, and subsequently on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4* for the detailed data. The data showing breakdowns by industrial activity for both the direct investment financial flows and direct investment income are also reported to the OECD and Eurostat. The data show a breakdown for 17 industrial activities. The classification used is the Standard Industrial Classification (SIC), which is consistent with NACE Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). The data are disseminated at the 2 or 3 digit level of the SIC.

In addition, quarterly data showing breakdowns by industrial activity for both the direct investment income data and the direct investment financial flows data are compiled by the ONS for internal use with a timeliness of 12 weeks after the end of the reference period, but are not usually disseminated and are not available on request.

Both the data on direct investment income and the data on direct investment financial flows are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment income from investment in the United Kingdom during 2002 (in descending order) were: (i) mining/quarrying, (ii) financial services, (iii) retail/wholesale, (iv) chemicals/plastics, and (v) food products. The five industrial activities with the largest amount of direct investment financial flows into the United Kingdom during 2002 (in descending order) were: (i) electricity/gas/water, (ii) financial services, (iii) transport and communications, (iv) mining/quarrying, and (v) retail/wholesale.

Data showing breakdowns by (i) industrial activity and region/economic zone, and (ii) industrial activity and partner country, are not compiled.

There are differences in the data coverage, sources etc. between the inward transactions data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD and Eurostat and the aggregate inward data on direct investment income and direct investment financial flows reported to the IMF for publication, in that the data showing industrial activity breakdowns do not include the transactions of the property sector. There are no differences in the data coverage, sources, etc. between the inward transactions data showing industrial activity breakdowns disseminated in the *MA4* publication and those reported to the OECD and Eurostat for publication, except that the data reported to the OECD and Eurostat for the most recent year are based on the annualized BOP data, minus the transactions of the property sector.

B. Methodology

Definition of Direct Investment Enterprises in the United Kingdom

In accordance with the international standards, the basic criterion for defining direct investment enterprises in the United Kingdom is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management — that is, enterprises in which the nonresident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is fully applied. Specifically, (i) the direct investment earnings data include the relevant share of all indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data include all equity and other capital transactions made directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these

enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other.

Enterprises in the United Kingdom are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic. However, only those associate companies which the reporting company owns 20 percent or more and considers to be material are covered. Enterprises in the United Kingdom are required by law to identify all transactions with the parent company.

Measurement of Direct Investment Earnings

In accordance with the international standards, the "Current Operating Performance Concept" (COPC) is used to calculate direct investment earnings. Specifically, (i) deductions are made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are excluded, (iii) interest receivable/payable is included, and (iv) debt repayments receivable/payable are excluded.

Treatment of Income on Equity (Dividends and Distributed Branch Profits)

The data on dividends and distributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) dividends and distributed branch profits of unincorporated enterprises are recorded on the date they are declared payable, (ii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) dividends and distributed branch profits for incorporated enterprises are primarily recorded on the date they are paid, rather than the date they are declared payable, and (ii) dividends and distributed branch profits are recorded net, rather than gross, of any withholding taxes.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) the data include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings.

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, (i) the data do not include interest on financial derivatives, (ii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) the data are recorded on an accrual basis. Contrary to the international standards, interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries are not excluded.

Treatment of Equity Capital

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) other non-voting stocks (shares), and (iv) noncash acquisitions of equity, such as through the provision of capital equipment. Participating preference [preferred] shares are not applicable in the United Kingdom. In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity transactions between nonfinancial direct investment

enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

Treatment of Other Capital

The other capital transactions data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include non-participating preference [preferred] shares, (ii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) the data include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as debt securities or loans provided for an indefinite period of time without a fixed repayment obligation.)

In instances when a loan/debt guarantee provided by a direct investor or related direct investment enterprise is invoked following default by a direct investment enterprise, the periodic payments of principal and interest made by the guarantor are treated as direct investment lending and recorded under "Direct Investment in the United Kingdom: Other Capital: Increase in Liabilities to Direct Investors" at the time the periodic payments are made.

Treatment of Reverse Investment

Transactions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of the United Kingdom and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity transactions are recorded as "Portfolio Investment: Increase in Assets: Equity Securities", rather than as "Direct Investment in the United Kingdom: Equity Capital: Increase in Claims on Direct Investors". In accordance with the international standards, loan transactions are recorded as "Direct Investment in the United Kingdom: Other Capital: Increase in Claims on Direct Investors" and are reported as such to the IMF.

Instances where, assuming that the direct investment enterprise is a resident of the United Kingdom and the direct investor is a nonresident, the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, are not applicable, as no such instances have occurred to date.

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation in the United Kingdom by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

Not applicable. There are no offshore enterprises established in the United Kingdom by nonresidents.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established in the United Kingdom by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in the United Kingdom by nonresidents that have the primary purpose of financial intermediation,

transactions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings in the United Kingdom by nonresident enterprises and nonresident individuals. Land and buildings purchased in the United Kingdom by nonresident enterprises and nonresident individuals on long-term leases are included. (Long-term leases are defined as leases for periods of more than one year.)

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) the equity capital data include expenditure by nonresidents related to natural resources exploration in the United Kingdom, (ii) expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established in the United Kingdom by nonresidents for natural resource exploration, no transactions are recorded in the balance of payments statistics.

Exchange Rate Conversion

Transactions are converted to the unit of account at the exchange rate used by the individual enterprises in their company accounts.

DIRECT INVESTMENT IN THE UNITED KINGDOM

INTERNATIONAL INVESTMENT POSITION LIABILITIES (“INWARD POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely data) are compiled by the Office for National Statistics (ONS) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital. These data are disseminated with a timeliness of 12 weeks after the end of the reference period in the *ONS Balance of Payments First Release* and on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4*. The data are also reported to the IMF for publication.

More comprehensive annual (calendar year) data for these components are also compiled by the ONS within the balance of payments framework. These data are disseminated with a timeliness of approximately 51 weeks after the end of the reference period in the *ONS Foreign Direct Investment First Release* and on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4*. These data, which are known as the “MA4 data”, are reported to the OECD and Eurostat but not to the IMF for publication. (The annual data reported to the IMF for publication are those disseminated in the *ONS Balance of Payments First Release*, and the *United Kingdom Balance of Payments: The Pink Book*, which are the sum of the quarterly data for the relevant year—the so-called “annualized BOP data”. These annualized BOP data have a timeliness of 35 weeks after the end of the reference period.)

Revision Practices

The data are preliminary when first released. The quarterly data for the previous three quarters are revised quarterly, primarily to take account of late responses to the quarterly enterprise surveys, and are disseminated quarterly together with the preliminary data for the latest quarter. The quarterly data are considered to be final 36 weeks after the data of their first release.

The annual MA4 data are revised twice on an annual basis to take account of late responses to the annual enterprise surveys and the revised data are disseminated once a year, together with the preliminary data for the latest period. The annual data are considered to be final 102 weeks after the end of the reference period that is, 66 weeks after the first release of the annualized BOP data and 51 weeks after the first release of the MA4 data.

The revised status of the data is clearly identified in the disseminated data. However, because of confidentiality constraints the general public are informed only in general terms of the reasons for the revisions. The revised status of the data is clearly identified in the disseminated data. The historical data are revised back 10 years in instances of major changes in methodology or data collection systems.

There are no differences in the revision practices between the direct investment data compiled within the balance of payments framework that are disseminated in the national publications and those reported to the IMF for publication. However, there can be delays in incorporating revisions into the direct investment data included in the balance of payments statistics, which can lead to differences between the revised data disseminated in the ONS’s more detailed publications on direct investment and those data reported to the IMF for publication.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the most timely quarterly and annual data. However, the more comprehensive annual data, although covering a higher proportion of the direct investment enterprises in the business register and including fewer imputations than the most timely quarterly and annual data, exclude positions involving property.

There are no differences in the sectoral coverage between the quarterly and annual data disseminated in the *ONS Balance of Payments First Release* and those reported to the IMF for publication.

Data Collection Method

The data are collected on an aggregate basis, the reporting requirements are compulsory.

Data Sources

The quarterly data for all components except equity capital are compiled from quarterly enterprise surveys of resident enterprises. The perpetual inventory method (a method for deriving position data from transactions data) is used to compile the equity capital data. Adjustments are made for exchange rate changes, but no adjustments are made for price changes, and other nontransaction changes.

The most timely annual data are compiled as the sum of the quarterly data derived using the perpetual inventory method. The more comprehensive annual data are compiled directly from annual enterprise surveys of resident enterprises.

There are no differences in the data sources between the quarterly and annual data disseminated in the ONS *Balance of Payments First Release* and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the inward direct investment position data. The register is maintained by the Foreign Direct Investment Branch of the ONS and is updated on an ongoing basis for merger and acquisition activities, using information from (i) the financial press, and (ii) compulsory direct investment surveys. Since 1998 the register has also been updated once a year using nonresident sources, namely, information obtained from the Dun and Bradstreet "Worldbase" database. The same business register is used to compile the inward direct investment transactions and position data, and the outward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country for the inward direct investment position data are compiled by the ONS. The data are disseminated annually with a timeliness of 50 weeks after the end of the reference year in the ONS *Foreign Direct Investment First Release*, and subsequently on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4* for the detailed data. The data showing country breakdowns for the inward direct investment position data are also reported to the OECD and Eurostat. The data cover 42 countries and bilateral data are not used in the compilation of the data.

In addition, quarterly data showing breakdowns by country for the inward direct investment position data are compiled by the ONS, but are not disseminated and are not available on request.

In accordance with the international standards, the data are compiled on the immediate country basis. However, a study is being conducted on the possible future compilation of data on the ultimate beneficiary basis as well. The five countries with the largest amount of direct investment in the United Kingdom as at the end of 2002 (ranked in descending order) were: the United States, the Netherlands, Germany, France, and Japan.

In addition to the data showing country breakdowns, annual data are compiled by the ONS showing breakdowns of the inward direct investment position data for the following economic zones : (i) the EU15, (ii) EFTA, and (iii) the United Kingdom Offshore Islands (Channel Islands and the Isle of Man). These data are disseminated once a year with a timeliness of 51 weeks after the end of the reference period in the ONS *Foreign Direct Investment First Release*, and subsequently on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4* for the detailed data. The *MA4* data also show breakdowns by regions. The data showing breakdowns by economic zones/regions are also reported to the OECD and Eurostat.

There are differences in the data coverage, sources etc. between the inward position data showing geographic breakdowns disseminated in the national publications and reported to the OECD and Eurostat and the aggregate inward position data reported to the IMF for publication, in that the data showing geographic breakdowns do not include the positions of the property sector. There are no differences in the data coverage, sources, etc. between the inward position data showing geographic breakdowns disseminated in the *MA4* publication and those reported to the OECD and Eurostat for publication, except that the data reported to the OECD and Eurostat for the most recent year are imputed geographic allocations based on the annualized BOP data, minus the positions of the property sector.

Industrial Classification

Annual data showing breakdowns by industrial activity are compiled by the ONS for the inward direct investment position data. The data are disseminated annually with a timeliness of 50 weeks after the end of the reference period in the ONS *Foreign Direct Investment First Release*, and subsequently on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4* for the detailed data. The data showing breakdowns by industrial activity for the inward direct investment position data are also reported to the OECD and Eurostat. The data show a breakdown for 17 industrial activities. The classification used is the Standard Industrial Classification (SIC), which is consistent with NACE Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). The data are disseminated at the 2 or 3 digit level of the SIC.

In addition, quarterly data showing breakdowns by industrial activity for the inward direct investment position data are compiled by the ONS for internal use with a timeliness of 12 weeks after the end of the reference period, but are not usually disseminated and are not available on request.

The inward position data are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment in the United Kingdom as at the end of 2002 (in descending order) were: (i) financial services, (ii) mining/quarrying, (iii) retail/wholesale, (iv) real estate and business services, and (v) transport and communications.

Data showing breakdowns by (i) both industrial activity and region/economic zone, and (ii) both industrial activity and partner country, are not compiled.

There are differences in the data coverage, sources etc. between the inward position data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD and Eurostat and the aggregate inward position data reported to the IMF for publication, in that the data showing industrial activity breakdowns do not include the positions of the property sector. There are no differences in the data coverage, sources, etc. between the inward position data showing industrial activity breakdowns disseminated in the *MA4* publication and those reported to the OECD and Eurostat for publication, except that the data reported to the OECD and Eurostat for the most recent year are based on the annualized BOP data, minus the positions of the property sector.

B. Methodology

Definition of Direct Investment Enterprises in the United Kingdom

In accordance with the international standards, the basic criterion for defining direct investment enterprises in the United Kingdom is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management — that is, enterprises in which the nonresident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is fully applied. Specifically, the data include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) all equity capital and other capital positions held directly by resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other.

Enterprises in the United Kingdom are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic. However, only those associate companies

which the reporting company owns 20 percent or more and considers to be material are covered. Enterprises in the United Kingdom are required by law to identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) other non-voting stocks (shares), and (iv) noncash acquisitions of equity, such as through the provision of capital equipment. Participating preference [preferred] shares are not applicable in the United Kingdom. In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) reinvested earnings are recorded in the period in which they are earned, (ii) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment in the United Kingdom.)

Treatment of Other Capital

The other capital position data cover: (i) long-term loans, (ii) short-term loans, (iii) non-participating preference [preferred] shares (iv) bonds and money market instruments, (v) trade credits, and (vi) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries (Permanent debt is defined as debt securities or loans provided for an indefinite period of time without a fixed repayment obligation.)

In instances when a loan/debt guarantee provided by a direct investor or related direct investment enterprise is invoked following default by a direct investment enterprise, the periodic payments of principal and interest made by the guarantor are treated as direct investment lending and recorded under "Liabilities: Direct Investment in the United Kingdom: Other Capital: Liabilities to Direct Investors" at the time the periodic payments are made.

Treatment of Reverse Investment

Positions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of the United Kingdom and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as "Assets: Portfolio Investment: Equity Securities", rather than as "Liabilities: Direct Investment in the United Kingdom: Equity Capital: Claims on Direct Investors". In accordance with the international standards, loan positions are recorded as "Liabilities: Direct Investment in the United Kingdom: Other Capital: Claims on Direct Investors" and are reported as such to the IMF.

Instances where, assuming that the direct investment enterprise is a resident of the United Kingdom and the direct investor is a nonresident, the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, are not applicable, as no such instances have occurred to date.

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation in the United Kingdom by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

Not applicable. There are no offshore enterprises established in the United Kingdom by nonresidents.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established in the United Kingdom by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in the United Kingdom by nonresidents that have the primary purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include ownership of land and buildings in the United Kingdom by nonresident enterprises and nonresident individuals. Land and buildings owned in the United Kingdom by nonresident enterprises and nonresident individuals on long-term leases are included. (Long-term leases are defined as leases for periods of more than one year.)

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) the equity capital data include expenditure by nonresidents related to natural resources exploration in the United Kingdom, (ii) expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established in the United Kingdom by nonresidents for natural resource exploration, an adjustment to reflect that shutdown is made to the liabilities data on direct investment equity capital in the international investment position statistics.

Valuation of Assets and Liabilities

The data on equity capital for both listed and unlisted enterprises, and the data on other capital, are recorded at book values, which are the values shown in the audited accounts of the individual enterprises or their management account forecasts.

The book values used are those provided by the resident direct investment enterprises, rather than the nonresident direct investors.

Exchange Rate Conversion

Positions are converted to the unit of account at the exchange rate used by the individual enterprises in their company accounts.

DIRECT INVESTMENT ABROAD

BALANCE OF PAYMENTS (“OUTWARD TRANSACTIONS”) DATA

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely data) are compiled by the Office of National Statistics (ONS) within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated with a timeliness of 12 weeks after the end of the reference period in the ONS *Balance of Payments First Release* and on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4*. The data are also reported to the IMF for publication.

More comprehensive annual (calendar year) data for all the components specified above are also compiled by the ONS within the balance of payments framework. These data are disseminated with a timeliness of approximately 51 weeks after the end of the reference period in the ONS *Foreign Direct Investment First Release* and on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4*. These data, which are known as the “annual MA4 data”, are reported to the OECD and Eurostat but not to the IMF for publication. (The annual data reported to the IMF for publication are those disseminated in the ONS *Balance of Payments First Release* and the *United Kingdom Balance of Payments: The Pink Book*, which are the sum of the quarterly data for the relevant year—the so-called “annualized BOP data”. These annualized BOP data have a timeliness of 35 weeks after the end of the reference period.)

Revision Practices

The data are preliminary when first released. The quarterly data for the previous three quarters are revised quarterly, primarily to take account of late responses to the quarterly enterprise surveys, and the revised data are disseminated quarterly together with the preliminary data for the latest quarter. The quarterly data are considered to be final 36 weeks after the date of their first release.

The annual MA4 data are revised twice on an annual basis to take account of late responses to the annual enterprise surveys and the revised data are disseminated once a year, together with the preliminary data for the latest period. The annual data are considered to be final 102 weeks after the end of the reference period that is, 66 weeks after the first release of the annualized BOP data and 51 weeks after the first release of the annual MA4 data.

The revised status of the data is clearly identified in the disseminated data. However, because of confidentiality constraints the general public are informed only in general terms of the reasons for the revisions. The historical data are revised back 10 years in instances of major changes in methodology or data collection systems.

There are no differences in the revision practices between the direct investment data compiled within the balance of payments framework that are disseminated in the national publications and those reported to the IMF for publication. However, there can be delays in incorporating revisions into the direct investment data included in the balance of payments statistics, which can lead to differences between the revised data disseminated in the ONS’s more detailed publications on direct investment and those data reported to the IMF for publication.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the most timely quarterly and annual data. However, the more comprehensive annual data, although covering a higher proportion of the direct investment enterprises in the business register and including fewer imputations than the most timely quarterly and annual data, exclude transactions involving property and public corporations.

There are no differences in the sectoral coverage between the quarterly and annual data disseminated in the ONS *Balance of Payments First Release* and those reported to the IMF for publication.

Data Collection Method

The data are collected on an aggregate basis and the reporting requirements are compulsory.

Data Sources

The quarterly data for all components are compiled from quarterly enterprise surveys of direct investors resident in the United Kingdom. The most timely annual data are compiled as the sum of the quarterly data for the relevant year. The more comprehensive annual data are compiled from annual enterprise surveys of resident direct investors.

There are no differences in the data sources between the quarterly and annual data disseminated in the ONS *Balance of Payments First Release* and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the outward direct investment transactions data. The register is maintained by the Foreign Direct Investment Branch of the ONS and is updated on an ongoing basis for merger and acquisition activities, using information from (i) the financial press, and (ii) compulsory direct investment surveys. Since 1998 the register has also been updated once a year using nonresident sources, namely, information obtained from the Dun and Bradstreet "Worldbase" database. The same business register is used to compile the outward direct investment transactions and position data and the inward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country for both the direct investment income data and the direct investment financial flows data are compiled by the ONS. The data are disseminated annually with a timeliness of 50 weeks after the end of the reference year in the ONS *Foreign Direct Investment First Release* and on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4*. The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD and Eurostat. The data cover 42 countries and bilateral data are not used in the compilation of the data.

In addition, quarterly data showing breakdowns by country for both the direct investment income data and the direct investment financial flows data are compiled by the ONS, but are not disseminated and are not available on request.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment abroad by residents of the United Kingdom during 2002 (ranked in descending order) were: the United States, the Netherlands, Germany, France, and Luxembourg. The five countries with the largest amount of direct investment financial flows from the United Kingdom during 2002 (ranked in descending order) were: the Netherlands, Germany, France, Switzerland, and the Irish Republic.

In addition to the data showing country breakdowns, annual data are compiled by the ONS showing breakdowns of both the direct investment income and direct investment financial flows for the following economic zones: (i) the EU15, (ii) EFTA, and (iii) the United Kingdom Offshore Islands (Channel Islands and the Isle of Man). The data are disseminated once a year with a timeliness of 51 weeks after the end of the reference period in the ONS *Foreign Direct Investment First Release*, and subsequently on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4* for the detailed data. The MA4 data also show breakdowns by regions. The data showing breakdowns by economic zones/regions are also reported to the OECD and Eurostat.

There are differences in the data coverage, sources etc. between the outward transactions data showing geographic breakdowns disseminated in the national publications and reported to the OECD and Eurostat and the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication, in that the data showing geographic breakdowns do not include the transactions of the property and public corporation sectors. There are no differences in the data coverage, sources, etc. between the outward transactions data showing geographic breakdowns disseminated in the MA4 publication and those reported to the OECD and Eurostat for publication, except that the data reported to the OECD and Eurostat for

the most recent year are imputed geographic allocations based on the annualized BOP data, minus the transactions of the property and public corporation sectors.

Industrial Classification

Annual data showing breakdowns by industrial activity are compiled by the ONS for both the direct investment income data and the direct investment financial flows data. The data are disseminated annually with a timeliness of 50 weeks after the end of the reference period in the ONS *Foreign Direct Investment First Release*, and subsequently on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4* for the detailed data. The data showing breakdowns by industrial activity for both the direct investment financial flows and direct investment income are also reported to the OECD and Eurostat. The data show a breakdown for 17 industrial activities. The classification used is the Standard Industrial Classification (SIC), which is consistent with NACE Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). The data are disseminated at the 2 or 3 digit level of the SIC.

In addition, quarterly data showing breakdowns by industrial activity for both the direct investment income data and the direct investment financial flows data are compiled by the ONS for internal use with a timeliness of 12 weeks after the end of the reference period, but are not usually disseminated and are not available on request.

Both the data on direct investment income and the data on direct investment financial flows are classified primarily on the basis of the industrial activity of the resident direct investor, although in some instances the industrial activity of the nonresident direct investment enterprise is used. The five industrial activities with the largest amount of direct investment income from investment abroad by residents of the United Kingdom during 2002 (in descending order) were: (i) mining/quarrying, (ii) transport and communications, (iii) financial services, (iv) chemicals/plastics/fuel products, and (v) food products. The five industrial activities with the largest amount of direct investment financial flows from the United Kingdom during 2002 (in descending order) were: (i) other manufacturing, (ii) food products, (iii) financial services, (iv) retail/wholesale, and (v) transport and communications.

Data showing breakdowns by (i) industrial activity and region/economic zone, and (ii) industrial activity and partner country, are not compiled.

There are differences in the data coverage, sources etc. between the outward transactions data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD and Eurostat and the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication, in that the data showing industrial activity breakdowns do not include the transactions of the property and public corporation sectors. There are no differences in the data coverage, sources, etc. between the outward transactions data showing industrial activity breakdowns disseminated in the *MA4* publication and those reported to the OECD and Eurostat for publication, except that the data reported to the OECD and Eurostat for the most recent year are based on the annualized BOP data, minus the transactions of the property and public corporation sectors.

B. Methodology

Definition of Direct Investors

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management — that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is fully applied. Specifically, (i) the direct investment earnings data include the relevant share of all indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data include all equity and other capital transactions made directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other.

Enterprises in the United Kingdom are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic. However, only those associate companies which the reporting company owns 20 percent or more and considers to be material are covered. Enterprises in the United Kingdom are required by law to identify all transactions with the parent company.

Measurement of Direct Investment Earnings

In accordance with the international standards, the “Current Operating Performance Concept” (COPC) is used to calculate direct investment earnings. Specifically, (i) deductions are made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are excluded, (iii) interest receivable/payable is included, and (iv) debt repayments receivable/payable are excluded.

Treatment of Income on Equity (Dividends and Distributed Branch Profits)

The data on dividends and distributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) dividends and distributed branch profits of unincorporated enterprises are recorded on the date they are declared payable, (ii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) dividends and distributed branch profits for incorporated enterprises are primarily recorded on the date they are paid, rather than the date they are declared payable, and (ii) dividends and distributed branch profits are recorded net, rather than gross, of any withholding taxes.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) the data include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings.

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, (i) the data do not include interest on financial derivatives, (ii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) the data are recorded on an accrual basis. Contrary to the international standards, interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries are not excluded.

Treatment of Equity Capital

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

Treatment of Other Capital

The other capital transactions data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include non-participating preference [preferred] shares, (ii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) the data include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as debt securities or loans provided for an indefinite period of time without a fixed repayment obligation.)

In instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise, the periodic payments of principal and interest made by the guarantor are treated as direct investment lending and recorded under "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises" at the time the periodic payments are made.

Treatment of Reverse Investment

Transactions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of the United Kingdom and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity transactions are recorded as "Portfolio Investment: Increase in Assets: Equity Securities", rather than as "Direct Investment in the United Kingdom: Equity Capital: Increase in Claims on Direct Investors". In accordance with the international standards, loan transactions are recorded as "Direct Investment in the United Kingdom: Other Capital: Increase in Claims on Direct Investors" and are reported as such to the IMF.

Instances where, assuming that the direct investment enterprise is a resident of the United Kingdom and the direct investor is a nonresident, the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, are not applicable, as no such instances have occurred to date.

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation abroad by residents of the United Kingdom of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established abroad by residents of the United Kingdom are included in the direct investment data.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established abroad by residents of the United Kingdom are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of the United Kingdom that have the primary purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings abroad by enterprises and individuals resident in the United Kingdom. Land and buildings purchased abroad by enterprises and individuals resident in the United Kingdom on long-term leases are included. (Long-term leases are defined as leases of more than one year.)

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) the equity capital data include expenditure abroad by residents of the United Kingdom related to natural resources exploration, (ii) bonus payments made by residents of the United Kingdom to the host country for the right to undertake natural resource exploration are treated as direct investment and classified under equity capital when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established abroad by residents of the United Kingdom for natural resource exploration, no transactions are recorded in the balance of payments statistics.

Exchange Rate Conversion

Transactions are converted to the unit of account at the exchange rate used by the individual enterprises in their company accounts.

DIRECT INVESTMENT ABROAD

INTERNATIONAL INVESTMENT POSITION ASSETS (“OUTWARD POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely data) are compiled by the Office for National Statistics (ONS) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital. These data are disseminated with a timeliness of 12 weeks after the end of the reference period in the *ONS Balance of Payments First Release* and on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4*. The data are also reported to the IMF for publication.

More comprehensive annual (calendar year) data for these components are also compiled by the ONS within the balance of payments framework. These data are disseminated with a timeliness of approximately 51 weeks after the end of the reference period in the *ONS Foreign Direct Investment First Release* and on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4*. These data, which are known as the “MA4 data”, are reported to the OECD and Eurostat but not to the IMF for publication. (The annual data reported to the IMF for publication are those disseminated in the *ONS Balance of Payments First Release*, and the *United Kingdom Balance of Payments: The Pink Book*, which are the sum of the quarterly data for the relevant year—the so-called “annualized BOP data”. These annualized BOP data have a timeliness of 35 weeks after the end of the reference period.)

Revision Practices

The data are preliminary when first released. The quarterly data for the previous three quarters are revised quarterly, primarily to take account of late responses to the quarterly enterprise surveys, and are disseminated quarterly together with the preliminary data for the latest quarter. The quarterly data are considered to be final 36 weeks after the data of their first release.

The annual MA4 data are revised twice on an annual basis to take account of late responses to the annual enterprise surveys and the revised data are disseminated once a year, together with the preliminary data for the latest period. The annual data are considered to be final 102 weeks after the end of the reference period that is, 66 weeks after the first release of the annualized BOP data and 51 weeks after the first release of the MA4 data.

The revised status of the data is clearly identified in the disseminated data. However, because of confidentiality constraints the general public are informed only in general terms of the reasons for the revisions. The revised status of the data is clearly identified in the disseminated data. The historical data are revised back 10 years in instances of major changes in methodology or data collection systems.

There are no differences in the revision practices between the direct investment data compiled within the balance of payments framework that are disseminated in the national publications and those reported to the IMF for publication. However, there can be delays in incorporating revisions into the direct investment data included in the balance of payments statistics, which can lead to differences between the revised data disseminated in the ONS’s more detailed publications on direct investment and those data reported to the IMF for publication.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the most timely quarterly and annual data. However, the more comprehensive annual data, although covering a higher proportion of the direct investment enterprises in the business register and including fewer imputations than the most timely quarterly and annual data, exclude positions involving property and public corporations.

There are no differences in the sectoral coverage between the quarterly and annual data disseminated in the *ONS Balance of Payments First Release* and those reported to the IMF for publication.

Data Collection Method

The data are collected on an aggregate basis, the reporting requirements are compulsory.

Data Sources

The quarterly data for all components except equity capital are compiled from quarterly enterprise surveys of resident enterprises. The perpetual inventory method (a method for deriving position data from transactions data) is used to compile the equity capital data. Adjustments are made for exchange rate changes, but no adjustments are made for price changes, and other nontransaction changes.

The most timely annual data are compiled as the sum of the quarterly data derived using the perpetual inventory method. The more comprehensive annual data are compiled directly from annual enterprise surveys of resident enterprises.

There are no differences in the data sources between the quarterly and annual data disseminated in the ONS *Balance of Payments First Release* and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the outward direct investment position data. The register is maintained by the Foreign Direct Investment Branch of the ONS and is updated on an ongoing basis for merger and acquisition activities, using information from (i) the financial press, and (ii) compulsory direct investment surveys. Since 1998 the register has also been updated once a year using nonresident sources, namely, information obtained from the Dun and Bradstreet "Worldbase" database. The same business register is used to compile the outward direct investment transactions and position data and the inward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country for the outward direct investment position data are compiled by the ONS. The data are disseminated annually with a timeliness of 50 weeks after the end of the reference year in the ONS *Foreign Direct Investment First Release*, and subsequently on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4* for the detailed data. The data showing country breakdowns for the outward direct investment position data are also reported to the OECD and Eurostat. The data cover 42 countries and bilateral data are not used in the compilation of the data.

In addition, quarterly data showing breakdowns by country for the outward direct investment position data are compiled by the ONS, but are not disseminated and are not available on request.

In accordance with the international standards, the data are compiled on the immediate country basis. The five countries with the largest amount of direct investment from the United Kingdom as at the end of 2002 (ranked in descending order) were: the Netherlands, the United States, Luxembourg, France, and the Irish Republic.

In addition to the data showing country breakdowns, annual data are compiled by the ONS showing breakdowns of the outward direct investment position data for the following economic zones : (i) the EU15, (ii) EFTA, and (iii) the United Kingdom Offshore Islands (Channel Islands and the Isle of Man). These data are disseminated once a year with a timeliness of 51 weeks after the end of the reference period in the ONS *Foreign Direct Investment First Release*, and subsequently on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4* for the detailed data. The *MA4* data also show breakdowns by regions. The data showing breakdowns by economic zones/regions are also reported to the OECD and Eurostat.

There are differences in the data coverage, sources etc. between the outward position data showing geographic breakdowns disseminated in the national publications and reported to the OECD and Eurostat and the aggregate outward position data reported to the IMF for publication, in that the data showing geographic breakdowns do not include the positions of the property and public corporation sectors. There are no differences in the data coverage, sources, etc. between the outward position data showing geographic breakdowns disseminated in the *MA4* publication and those reported to the OECD and Eurostat for publication, except that the data reported to the OECD and Eurostat for the most recent year are imputed geographic allocations based on the annualized BOP data, minus the positions of the property and public corporation sectors.

Industrial Classification

Annual data showing breakdowns by industrial activity are compiled by the ONS for the outward direct investment position data. The data are disseminated annually with a timeliness of 50 weeks after the end of the reference period in the ONS *Foreign Direct Investment First Release*, and subsequently on the ONS website <http://www.statistics.gov.uk> under the section for the *On-line Business Monitor MA4* for the detailed data. The data showing breakdowns by industrial activity for the outward direct investment position data are also reported to the OECD and Eurostat. The data show a breakdown for 17 industrial activities. The classification used is the Standard Industrial Classification (SIC), which is consistent with NACE Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). The data are disseminated at the 2 or 3 digit level of the SIC.

In addition, quarterly data showing breakdowns by industrial activity for the outward direct investment position data are compiled by the ONS for internal use with a timeliness of 12 weeks after the end of the reference period, but are not usually disseminated and are not available on request.

The data are classified primarily on the basis of the industrial activity of the resident direct investors, although in some instances the industrial activity of the nonresident direct investment enterprises is used. The four industrial activities with the largest amount of direct investment from the United Kingdom as at the end of 2002 (in descending order) were: (i) transport and communications, (ii) financial services, (iii) chemicals/plastics/fuel products, (iv) textiles and wood/printing and publishing and (v) food products.

Data showing breakdowns by (i) industrial activity and region/economic zone, and (ii) industrial activity and partner country, are not compiled.

There are differences in the data coverage, sources etc. between the outward position data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD and Eurostat and the aggregate outward position data reported to the IMF for publication, in that the data showing industrial activity breakdowns do not include the positions of the property and public corporation sectors. There are no differences in the data coverage, sources, etc. between the outward position data showing industrial activity breakdowns disseminated in the *MA4* publication and those reported to the OECD and Eurostat for publication, except that the data reported to the OECD and Eurostat for the most recent year are based on the annualized BOP data, minus the positions of the property and public corporation sectors.

B. Methodology

Definition of Direct Investors

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management — that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is fully applied. Specifically, the data include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) all equity capital and other capital positions held directly by resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other.

Enterprises in the United Kingdom are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic. However, only those associate companies which the reporting company owns 20 percent or more and considers to be material are covered. Enterprises in the United Kingdom are required by law to identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) reinvested earnings are recorded in the period in which they are earned, (ii) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment Abroad.)

Treatment of Other Capital

The other capital position data cover: (i) long-term loans, (ii) short-term loans, (iii) non-participating preference [preferred] shares (iv) bonds and money market instruments, (v) trade credits, and (vi) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries (Permanent debt is defined as debt securities or loans provided for an indefinite period of time without a fixed repayment obligation.)

In instances when a loan/debt guarantee provided by a direct investor enterprise is invoked following default by a direct investment enterprise, the periodic payments of principal and interest made by the guarantor are treated as direct investment lending and recorded under "Assets: Direct Investment in the United Kingdom: Other Capital: Claims on Affiliated Enterprises" at the time the periodic payments are made.

Treatment of Reverse Investment

Positions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of the United Kingdom and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as "Assets: Portfolio Investment: Equity Securities", rather than as "Liabilities: Direct Investment in the United Kingdom: Equity Capital: Claims on Direct Investors". In accordance with the international standards, loan positions are recorded as "Liabilities: Direct Investment in the United Kingdom: Other Capital: Claims on Direct Investors" and are reported as such to the IMF.

Instances where, assuming that the direct investment enterprise is a resident of the United Kingdom and the direct investor is a nonresident, the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, are not applicable, as no such instances have occurred to date.

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation abroad by residents of the United Kingdom of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established abroad by residents of the United Kingdom are included in the direct investment data.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established abroad by residents of the United Kingdom are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of the United Kingdom that have the primary purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include ownership of land and buildings abroad by enterprises and individuals resident in the United Kingdom. Land and buildings owned abroad by enterprises and individuals resident in the United Kingdom on long-term leases are included. (Long-term leases are defined as leases of more than one year.)

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) the equity capital data include expenditure abroad by residents of the United Kingdom related to natural resources exploration, (ii) bonus payments made by residents of the United Kingdom to the host country for the right to undertake natural resource exploration are treated as direct investment and classified under equity capital when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established abroad by residents of the United Kingdom for natural resource exploration, an adjustment to reflect that shutdown is made to the assets data on direct investment equity capital in the international investment position statistics.

Valuation of Assets and Liabilities

The data on equity capital for both listed and unlisted enterprises, and the data on other capital, are recorded at book values, which are the values shown in the audited accounts of the individual enterprises or their management account forecasts.

The book values used are those provided by the resident direct investors, rather than the nonresident direct investment enterprises.

Exchange Rate Conversion

Positions are converted to the unit of account at the exchange rate used by the individual enterprises in their company accounts.