

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.

## Italy:

### Direct Investment Compilation Practices, Data Sources and Methodology

Ms Sandra Napolitano  
Head of Division  
Output Data CVS  
Statistical Department  
Ufficio Italiano dei Cambi  
Via 4 Fontane 123  
00184 Rome  
Italy

Telephone: (39-06) 4663-4617  
Fax: (39-06) 4663-4856  
E-mail: [sandra.napolitano@uic.it](mailto:sandra.napolitano@uic.it)

#### Direct Investment in Italy

- **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 ITALY**  
**BALANCE OF PAYMENTS (“INWARD TRANSACTIONS”) DATA**

**A. Compilation Practices and Data Sources**

**Data Availability**

Separately identifiable monthly data are compiled by the Ufficio Italiano dei Cambi (UIC) within the balance of payments framework on (a) two of the three components of direct investment income: (i) income on equity (dividends and distributed branch profits), and (ii) reinvested earnings, and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated with a timeliness of 6 weeks after the end of the reference period in the UIC's *Monthly Statistical Bulletin* and on the UIC's website, <http://www.uic.it>. The data are also reported to the IMF (quarterly rather than monthly) and the OECD for publication.

Data on income on debt (interest) are not compiled.

**Revision Practices**

The data are preliminary when first released. The data for the previous month are revised 12 weeks after the end of the reference period to take account of revisions in the source data and are disseminated together with the preliminary data for the latest month. The data may still be subject to exceptional revisions until 5 months after the end of the reference year, at which time they are considered to be final, that is, up to approximately 14 months after their first release. The final data are disseminated in the *Annual Report of the Bank of Italy*.

The revised status of the data is not clearly identified in the disseminated data and the general public are not informed of the reasons for the revisions, other than in exceptional cases. In instances of major changes in methodology or data collection systems the historical data are generally revised back to 1997.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

**Data Coverage**

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

**Data Collection Method**

The data are collected using a mixture of an individual transactions basis (an ITRS) and an aggregate basis (an annual enterprise survey). The reporting requirements are compulsory.

**Data Sources**

The data for all components are compiled primarily from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, and cash transactions made through the foreign bank accounts of enterprises, but not noncash transactions. Information from an annual enterprise survey of resident direct investment enterprises is used as a secondary data source for the estimates of reinvested earnings. An annual profitability rate is estimated on the basis of the survey and reinvested earnings are calculated as the difference between the total estimated direct investment income and income distributed. The annual profitability rate is divided into 12 equal amounts and the monthly estimates are calculated on the basis of the direct investment stock data at the end of the month preceding the reference month.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is not used to compile the inward direct investment transactions data.

### **Geographic Classification**

Monthly data showing breakdowns by country for the direct investment income data and direct investment financial flows data are compiled by the UIC and disseminated each month with a timeliness of 12 weeks after the end of the reference period in the UIC's *Monthly Statistical Bulletin* and on the UIC's website, <http://www.uic.it>. Annual data showing country breakdowns for both the direct investment income and direct investment financial flows are also reported to the OECD and Eurostat. The data cover all countries and bilateral data are not used in the compilation of the data.

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 Italy during 2003 (ranked in descending order) were: France, Germany, the United States, Switzerland, and Luxembourg. The five countries with the largest amount of direct investment financial flows into Italy during 2003 (ranked in descending order) were: the Netherlands, France, Luxembourg, the United States, and the United Kingdom.

In addition to the data showing country breakdowns, monthly data are compiled by the UIC with a timeliness of 12 weeks after the end of the reference period showing breakdowns of the direct investment financial flows data for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries. These data are not disseminated, but are available on request. The data (annual rather than monthly) are reported to the OECD and Eurostat. Breakdowns by regions/economic zones are not compiled for the direct investment income data.

There are no 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.

### **Industrial Classification**

Monthly data showing breakdowns by industrial activity for the direct investment income data and the direct investment financial flows data are compiled by the UIC and are disseminated each month with a timeliness of 12 weeks after the end of the reference period in the UIC's *Monthly Statistical Bulletin* and on the UIC's website, <http://www.uic.it>. In addition, annual data showing breakdowns by industrial activity for the direct investment income data and the direct investment financial flows data are compiled by the UIC. The annual data showing the breakdowns for the direct investment financial flows are disseminated once a year with a timeliness of 5 months after the end of the reference period in the *Annual Report of the Bank of Italy*. The annual data showing the breakdowns for the direct investment income are not disseminated in the national publications, but are available on request. The annual data showing breakdowns by industrial activity for the direct investment income data and the direct investment financial flows data are also reported to the OECD and Eurostat. The data show a breakdown for 24 industrial activities. The classification used is NACE, Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and 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 Italy during 2003 (in descending order) were: (i) manufacturing, (ii) financial intermediation, (iii) other services, (iv) trade and repairs, and (v) agriculture and fishing. The five industrial activities with the largest amount of direct investment financial flows into Italy during 2003 (in descending order) were: (i) manufacturing, (ii) financial intermediation, (iii) other services, (iv) trade and repairs, and (v) transport and communication.

Annual data are compiled by the UIC for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and main partner country. These data are not disseminated, but are available on request, with a timeliness of 5 months after the end of the reference period. The data are also reported to the OECD and Eurostat. For direct investment income, the five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity

are available were: France, Germany, the United States, Switzerland, and Luxembourg. For direct investment financial flows, the five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are available were: the Netherlands, France, Luxembourg, the United States, and the United Kingdom.

In addition, annual data are compiled by the UIC for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and region/economic zone. These data are not disseminated, but are available on request, with a timeliness of 5 months after the end of the reference period. The data are also reported to the OECD and Eurostat.

There are no 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.

## **B. Methodology**

### **Definition of Direct Investment Enterprises in Italy**

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Italy 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. Unincorporated enterprises are treated differently from incorporated enterprises in that unincorporated enterprises are always treated as being direct investment enterprises, regardless of the percentage ownership held by a nonresident investor.

### **Treatment of Indirectly Owned Direct Investment Enterprises**

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Contrary to the FCS, (i) the direct investment earnings data do not include the relevant share of all indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data do not include the 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 that are in a “horizontal” relationship”, that is, those affiliated enterprises that share a common direct investor but have no ownership in each other. In accordance with the FCS, the direct investment financial flows data include all equity capital 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 that are in a “vertical” relationship, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other.

Enterprises in Italy are required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, and (ii) identify all transactions with the parent company. However, these requirements are limited to subsidiaries.

### **Measurement of Direct Investment Earnings**

Contrary to the international standards, the “Current Operating Performance Concept” (COPC) is not fully used to calculate direct investment earnings. In accordance with the COPC, (i) deductions are made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) interest receivable/payable is included, and (iii) debt repayments receivable/payable are excluded. Contrary to the COPC, realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are included.

### **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 are recorded gross of any withholding taxes, (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, dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the data they are paid, rather than the date they are declared payable.

#### **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)**

Not applicable. Data on income on debt (interest) are not compiled.

#### **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. Contrary to the international standards, the data include non-participating preference shares, which are classified as equity capital rather than as other capital.

#### **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 transactions 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 transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being loan capital representing a permanent interest.) Contrary to the international standards, the data do not include non-participating preference shares, which are instead classified as equity capital.

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 in Italy: 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 Italy and the direct investor is a nonresident, when 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, in accordance with the international standards, equity transactions are recorded as "Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises" and loan transactions are recorded as "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Italy 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 "Direct Investment in Italy: Equity Capital: Decrease in Liabilities to Direct Investors", rather than as "Direct Investment in Italy: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Direct Investment in Italy: Other Capital: Decrease in Liabilities to Direct Investors, rather than as "Direct Investment in Italy: Other Capital: Increase in Claims on Direct Investors".

#### **Treatment of Quasi-corporations**

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in Italy 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 Italy by nonresidents.

#### **Treatment of Special Purpose Entities (SPEs)**

In accordance with the international standards, (i) activities of SPEs established in Italy by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in Italy 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**

Contrary to the international standards, the equity capital data do not include purchases and sales of land and buildings in Italy by nonresident enterprises and nonresident individuals, which are instead as other capital in the direct investment data. Land and buildings purchased in Italy by nonresident enterprises and nonresident individuals on long-term leases are not included.

#### **Treatment of Natural Resources Exploration**

Contrary to the international standards, (i) the equity capital data do not include expenditure related to natural resources exploration in Italy by nonresidents, and (ii) the equity capital data do not include expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources when there is a clear intention to establish a direct investment enterprise. In accordance with the international standards, in instances of the shutdown of a direct investment enterprise established in Italy by nonresidents for natural resource exploration, no transactions are shown in the balance of payments statistics.

#### **Exchange Rate Conversion**

All transactions are converted to the unit of account at the average exchange rate for the period in which the transactions are recorded.

## DIRECT INVESTMENT IN ITALY

### INTERNATIONAL INVESTMENT POSITION LIABILITIES (“INWARD POSITION DATA”)

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable semi-annual data are compiled by the Ufficio Italiano dei Cambi (UIC) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 5 months after the end of the reference period in the UIC's monthly *Statistical Bulletin* and on the UIC's website <http://www.uic.it>, as well as in the *Bank of Italy Annual Report*. The data (annual, calendar year, rather than semi-annual) are also reported to the IMF and the OECD for publication.

##### Revision Practices

The data for the first semi-annual period are preliminary when first released. The data for the first semi-annual period are revised once to take account of revisions in the source data and are disseminated together with the data for the second semi-annual period, at which time they are considered to be final, that is, 5 months after the end of the reference year, or 11 months after their first release. The data for the second semi-annual period are final when first released.

The revised status of the data is not clearly identified in the disseminated data, and the general public are not informed of the reasons for the revisions, other than in exceptional circumstances. In instances of major changes in methodology or data collection systems, the historical data are revised back to 1997.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Collection Method

The data are collected using a mixture of an individual transactions basis (an ITRS) and an aggregate basis (an annual enterprise survey). The reporting requirements are compulsory.

##### Data Sources

The data for all components are compiled primarily from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, and cash transactions made through the foreign bank accounts of enterprises, but not noncash transactions. Information from an annual enterprise survey of resident direct investment enterprises is used as a secondary data source for the estimates of reinvested earnings. An annual profitability rate is estimated on the basis of the survey and reinvested earnings are calculated as the difference between the total estimated direct investment income and income distributed. The perpetual inventory method (a method for deriving position data from transactions data) is used for the data obtained from the ITRS. Adjustments are made for the data on equity capital for price changes, exchange rate changes, and other nontransaction changes. In most instances, no adjustments are made for the data on other capital. In the future it is planned to use the results of the annual enterprise survey for the compilation of all the components of the inward position data and to abandon the use of the perpetual inventory method.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is not used to compile the inward direct investment position data.

### **Geographic Classification**

Annual data showing breakdowns by country for the inward direct investment position data are compiled by the UIC and are disseminated once a year with a timeliness of 5 months after the end of the reference year in the *Annual Report of the Bank of Italy*. The data showing country breakdowns of the inward direct investment position data are also reported to the OECD and Eurostat. The data cover all countries and bilateral data are not used in the compilation of the data.

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

In addition to the data showing country breakdowns, annual data are compiled by the UIC showing breakdowns of the inward direct investment position data for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries. These data are not disseminated, but are available on request, with a timeliness of 5 months after the end of the reference period. The data are also reported to the OECD and Eurostat.

There are no 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.

### **Industrial Classification**

Annual data showing breakdowns by industrial activity for the inward direct investment position data are compiled by the UIC and are disseminated once a year with a timeliness of 5 months after the end of the reference year in the *Annual Report of the Bank of Italy*. 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 24 industrial activities. The classification used is 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 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 Italy as at the end of 2002 (in descending order) were: (i) manufacturing, (ii) financial intermediation, (other services, (iv) trade and repairs, and (v) transport and communications.

Annual data are compiled by the UIC for the inward direct investment position data showing a breakdown by both industrial activity and main partner country. These data are disseminated once a year with a timeliness of 5 months after the end of the reference period in the *Annual Report of the Bank of Italy*. The data are also reported to the OECD and Eurostat. The five highest ranking partner countries as at the end of 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the Netherlands, France, Switzerland, the United States, and the United Kingdom.

In addition, annual data are compiled by the UIC for the inward direct investment position data showing a breakdown by both industrial activity and region/economic zone. These data are not disseminated, but are available on request. The data are also reported to the OECD and Eurostat.

There are no 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.



## **B. Methodology**

### **Definition of Direct Investment Enterprises in Italy**

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Italy 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. Unincorporated enterprises are treated differently from incorporated enterprises in that unincorporated enterprises are always treated as being direct investment enterprises, regardless of the percentage ownership held by a nonresident investor.

### **Treatment of Indirectly Owned Direct Investment Enterprises**

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Contrary to the FCS, the data do not include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) the equity and other capital positions held directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group that are in a “horizontal” relationship”, that is, those affiliated enterprises that share a common direct investor but have no ownership in each other. In accordance with the FCS, the data include all equity capital and other capital positions held directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group that are in a “vertical” relationship, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other.

Enterprises in Italy are required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, and (ii) identify all transactions with the parent company. However, these requirements are limited to subsidiaries.

### **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. Contrary to the international standards, the data include non-participating preference shares, which are classified as equity capital, rather than as other capital.

The data on reinvested earnings cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) the data include reinvested earnings 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 Italy.)

### **Treatment of Other Capital**

The other capital position 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) 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 being loan capital representing a permanent interest.) Contrary to the international standards, the data do not include non-participating preference shares, which are instead classified as equity capital.

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 "Liabilities: Direct Investment in Italy: 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 Italy and the direct investor is a nonresident, when 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, in accordance with the international standards, equity positions are recorded as "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises" and loan positions are recorded as "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Italy 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 "Liabilities: Direct Investment in Italy: Equity Capital: Liabilities to Direct Investors", rather than as "Liabilities: Direct Investment in Italy: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Liabilities: Direct Investment in Italy: Other Capital: Liabilities to Direct Investors", rather than as "Liabilities: Direct Investment in Italy: Other Capital: Claims on Direct Investors".

#### **Treatment of Quasi-corporations**

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in Italy 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 Italy by nonresidents.

#### **Treatment of Special Purpose Entities (SPEs)**

In accordance with the international standards, (i) activities of SPEs established in Italy by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in Italy 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**

Contrary to the international standards, the equity capital data do not include ownership of land and buildings in Italy by nonresident enterprises and nonresident individuals, which are instead as other capital in the direct investment data. Land and buildings owned in Italy by nonresident enterprises and nonresident individuals on long-term leases are not included.

### **Treatment of Natural Resources Exploration**

Contrary to the international standards, (i) the equity capital data do not include (i) expenditure related to natural resources exploration in Italy by nonresidents, (ii) the equity capital data do not include expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources 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 Italy by nonresidents for natural resource exploration, no 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 listed enterprises are recorded at market values. The data on equity capital for unlisted enterprises are recorded using an approximation of market values based on an index linked to the market value on the stock exchange.

The data on other capital are not revalued. (The position data are derived from the transactions data using the perpetual inventory method and no price adjustments are made for the other capital data.)

### **Exchange Rate Conversion**

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.

## DIRECT INVESTMENT ABROAD

### BALANCE OF PAYMENTS (“OUTWARD TRANSACTIONS”) DATA

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable monthly data are compiled by the Ufficio Italiano dei Cambi (UIC) within the balance of payments framework on (a) two of the three components of direct investment income: (i) income on equity (dividends and distributed branch profits), and (ii) reinvested earnings, and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated with a timeliness of 6 weeks after the end of the reference period in the UIC's *Monthly Statistical Bulletin* and on the UIC's website, <http://www.uic.it>. The data are also reported to the IMF (quarterly rather than monthly) and the OECD for publication.

Data on income on debt (interest) are not compiled.

##### Revision Practices

The data are preliminary when first released. The data for the previous month are revised 12 weeks after the end of the reference period to take account of revisions in the source data and are disseminated together with the preliminary data for the latest month. The data may still be subject to exceptional revisions until 5 months after the end of the reference year, at which time they are considered to be final, that is, up to approximately 14 months after their first release. The final data are disseminated in the *Annual Report of the Bank of Italy*.

The revised status of the data is not clearly identified in the disseminated data and the general public are not informed of the reasons for the revisions, other than in exceptional cases. In instances of major changes in methodology or data collection systems the historical data are generally revised back to 1997.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Collection Method

The data are collected using a mixture of an individual transactions basis (an ITRS) and an aggregate basis (an annual enterprise survey). The reporting requirements are compulsory.

##### Data Sources

The data for all components are compiled primarily from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, and cash transactions made through the foreign bank accounts of enterprises, but not noncash transactions. Information from an annual enterprise survey of resident direct investors is used as a secondary data source for the estimates of reinvested earnings. An annual profitability rate is estimated on the basis of the survey and reinvested earnings are calculated as the difference between the total estimated direct investment income and income distributed. The annual profitability rate is divided into 12 equal amounts and the monthly estimates are calculated on the basis of the direct investment stock data at the end of the month preceding the reference month.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is not used to compile the outward direct investment transactions data.

### **Geographic Classification**

Monthly data showing breakdowns by country for the direct investment income data and direct investment financial flows data are compiled by the UIC and disseminated each month with a timeliness of 12 weeks after the end of the reference period in the UIC's *Monthly Statistical Bulletin* and on the UIC's website, <http://www.uic.it>. Annual data showing country breakdowns for both the direct investment income and direct investment financial flows are also reported to the OECD and Eurostat. The data cover all countries and bilateral data are not used in the compilation of the data.

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 Italy during 2003 (ranked in descending order) were: the Netherlands, the United Kingdom, the United States, France, and Switzerland. The five countries with the largest amount of direct investment financial flows from Italy during 2003 (ranked in descending order) were: the Netherlands, Luxembourg, Ireland, the United Kingdom, and France.

In addition to the data showing country breakdowns, monthly data are compiled by the UIC with a timeliness of 12 weeks after the end of the reference period showing breakdowns of both the direct investment income data and direct investment financial flows data for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries. These data are not disseminated, but are available on request. The data (annual rather than monthly) are reported to the OECD and Eurostat.

There are no 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.

### **Industrial Classification**

Monthly data showing breakdowns by industrial activity for the direct investment income data and the direct investment financial flows data are compiled by the UIC and are disseminated each month with a timeliness of 12 weeks after the end of the reference period in the UIC's *Monthly Statistical Bulletin* and on the UIC's website, <http://www.uic.it>. In addition, annual data showing breakdowns by industrial activity for the direct investment income data and the direct investment financial flows data are compiled by the UIC. The annual data showing the breakdowns for the direct investment financial flows are disseminated once a year with a timeliness of 5 months after the end of the reference period in the *Annual Report of the Bank of Italy*. The annual data showing the breakdowns for the direct investment income are not disseminated in the national publications, but are available on request. The annual data showing breakdowns by industrial activity for the direct investment income data and the direct investment financial flows data are also reported to the OECD and Eurostat. The data show a breakdown for 24 industrial activities. The classification used is NACE, Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investors. In addition, data for both the direct investment income and direct investment financial flows classified on the basis of the industrial activity of the nonresident direct investment enterprises are also available. The five industrial activities with the largest amount of direct investment income from investment abroad by residents of Italy during 2003 (in descending order) were: (i) mining and quarrying, (ii) manufacturing, (iii) financial intermediation, (iv) other services, and (v) trade and repairs. The five industrial activities with the largest amount of direct investment financial flows from Italy during 2003 (in descending order) were: (i) mining and quarrying, (ii) manufacturing, (iii) financial intermediation, other services, and (v) trade and repairs.

Annual data are compiled by the UIC for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and main partner country. These data are not disseminated, but are available on request, with a timeliness of 5 months after the end of the reference period. The data are also reported to the OECD and Eurostat. For direct investment income, the five highest

ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the Netherlands, the United Kingdom, the United States, France, and Switzerland. For direct investment financial flows, the five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the Netherlands, Luxembourg, Ireland, the United Kingdom, and France.

In addition, annual data are compiled by the UIC for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and region/economic zone. These data are not disseminated, but are available on request, with a timeliness of 5 months after the end of the reference period. The data are also reported to the OECD and Eurostat.

There are no 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.

## **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. Unincorporated enterprises are treated differently from incorporated enterprises, in that unincorporated enterprises are always treated as being direct investment enterprises abroad, regardless of the percentage ownership held by the resident investor.

### **Treatment of Indirectly Owned Direct Investment Enterprises**

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Contrary to the FCS, (i) the direct investment earnings data do not include the relevant share of all indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data do not include the 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 that are in a “horizontal” relationship, that is, those affiliated enterprises that share a common direct investor but have no ownership in each other. In accordance with the FCS, the direct investment financial flows data include all equity capital 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 that are in a “vertical” relationship, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other.

Enterprises in Italy are required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, and (ii) identify all transactions with the parent company. However, these requirements are limited to subsidiaries.

### **Measurement of Direct Investment Earnings**

Contrary to the international standards, the “Current Operating Performance Concept” (COPC) is not fully used to calculate direct investment earnings. In accordance with the COPC, (i) deductions are made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) interest receivable/payable is included, and (iii) debt repayments receivable/payable are excluded. Contrary to the COPC, realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are included.

### **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 are recorded gross of any withholding taxes, (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, dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are paid, rather than the date they are declared payable.

### **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)**

Not applicable. Data on income on debt (interest) are not compiled.

### **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. Contrary to the international standards, the data include non-participating preference shares, which are classified as equity capital, rather than as other capital.

### **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 transactions 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 transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being loan capital representing a permanent interest.) Contrary to the international standards, the data do not include non-participating preference shares, which are instead classified as equity capital.

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 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 Italy and the direct investor is a nonresident, when 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, in accordance with the international standards, equity transactions are recorded as "Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises" and loan transactions are recorded as "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Italy 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 "Direct Investment in Italy: Equity Capital: Decrease in Liabilities to Direct Investors", rather than as "Direct Investment in Italy: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Direct Investment in Italy: Other Capital: Decrease in Liabilities to Direct Investors, rather than as "Direct Investment in Italy: Other Capital: Increase in Claims on Direct Investors".

### **Treatment of Quasi-corporations**

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by residents of in Italy 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 Italy 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 Italy are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of Italy 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**

Contrary to the international standards, the equity capital data do not include purchases and sales of land and buildings abroad by enterprises and individuals resident in Italy, which are instead classified as other capital in the direct investment data. Land and buildings purchased abroad by enterprises and individuals resident in Italy on long-term leases are not included.

### **Treatment of Natural Resources Exploration**

Contrary to the international standards, (i) the equity capital data do not include expenditure related to natural resources exploration abroad by residents of Italy, and (ii) the equity capital data do not include expenditure on bonus payments made by residents of Italy to the host country for the right to undertake exploration for natural resources when there is a clear intention to establish a direct investment enterprise. In accordance with the international standards, in instances of the shutdown of a direct investment enterprise established abroad by residents of Italy for natural resource exploration, no transactions are shown in the balance of payments statistics.

### **Exchange Rate Conversion**

All transactions are converted to the unit of account at the average exchange rate for the period in which the transactions are recorded.



## DIRECT INVESTMENT ABROAD

### INTERNATIONAL INVESTMENT POSITION ASSETS (“OUTWARD POSITION DATA”)

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable semi-annual data are compiled by the Ufficio Italiano dei Cambi (UIC) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 5 months after the end of the reference period in the UIC's monthly *Statistical Bulletin* and on the UIC's website <http://www.uic.it>, as well as in the *Bank of Italy Annual Report*. The data (annual, calendar year, rather than semi-annual) are also reported to the IMF and the OECD for publication.

##### Revision Practices

The data for the first semi-annual period are preliminary when first released. The data for the first semi-annual period are revised once to take account of revisions in the source data and are disseminated together with the data for the second semi-annual period, at which time they are considered to be final, that is, 5 months after the end of the reference year, or 11 months after their first release. The data for the second semi-annual period are final when first released.

The revised status of the data is not clearly identified in the disseminated data, and the general public are not informed of the reasons for the revisions, other than in exceptional circumstances. In instances of major changes in methodology or data collection systems, the historical data are revised back to 1997.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Collection Method

The data are collected using a mixture of an individual transactions basis (an ITRS) and an aggregate basis (an annual enterprise survey). The reporting requirements are compulsory.

##### Data Sources

The data for all components are compiled primarily from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, and cash transactions made through the foreign bank accounts of enterprises, but not noncash transactions. Information from an annual enterprise survey of resident direct investors is used as a secondary data source for the estimates of reinvested earnings. An annual profitability rate is estimated on the basis of the survey and reinvested earnings are calculated as the difference between the total estimated direct investment income and income distributed. The perpetual inventory method (a method for deriving position data from transactions data) is used for the data obtained from the ITRS. Adjustments are made for the data on equity capital for price changes, exchange rate changes, and other nontransaction changes. In most instances, no adjustments are made for the data on other capital. In the future it is planned to use the results of the annual enterprise survey for the compilation of all the components of the outward position data and to abandon the use of the perpetual inventory method.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is not used to compile the outward direct investment position data.

### **Geographic Classification**

Annual data showing breakdowns by country for the outward direct investment position data are compiled by the UIC and are disseminated once a year with a timeliness of 5 months after the end of the reference year in the *Annual Report of the Bank of Italy*. The data showing country breakdowns of the outward direct investment position data are also reported to the OECD and Eurostat. The data cover all countries and bilateral data are not used in the compilation of the data.

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

In addition to the data showing country breakdowns, annual data are compiled by the UIC showing breakdowns of the outward direct investment position data for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries. These data are not disseminated, but are available on request, with a timeliness of 5 months after the end of the reference period. The data are also reported to the OECD and Eurostat.

There are no 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.

### **Industrial Classification**

Annual data showing breakdowns by industrial activity for the outward direct investment position data are compiled by the UIC and are disseminated once a year with a timeliness of 5 months after the end of the reference period in the *Annual Report of the Bank of Italy*. 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 24 industrial activities. The classification used is 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 outward position data are classified on the basis of the industrial activity of the resident direct investors. In addition, data classified on the basis of the industrial activity of the nonresident direct investment enterprises are also available. The five industrial activities with the largest amount of direct investment from Italy as at the end of 2002 (in descending order) were: (i) financial intermediation, (ii) manufacturing, (iii) other services, (iv) mining and quarrying, and (v) trade and repairs.

Annual data are compiled by the UIC for the outward direct investment position data showing a breakdown by both industrial activity and main partner country. These data are disseminated once a year with a timeliness of 5 months after the end of the reference period in the *Annual Report of the Bank of Italy*. The data are also reported to the OECD and Eurostat. The five highest ranking partner countries as at the end of 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the Netherlands, the United Kingdom, the United States, France, and Switzerland.

In addition, annual data are compiled by the UIC for the outward direct investment position data showing a breakdown by both industrial activity and region/economic zone. These data are not disseminated, but are available on request, with a timeliness of 5 months after the end of the reference period. The data are also reported to the OECD and Eurostat.

There are no differences in the data coverage, sources, etc. between the outward positions 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.

## **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. Unincorporated enterprises are treated differently from incorporated enterprises, in that unincorporated enterprises are always treated as being direct investment enterprises abroad, regardless of the percentage ownership held by the resident investor.

### **Treatment of Indirectly Owned Direct Investment Enterprises**

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Contrary to the FCS, the data do not include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) the equity and other capital positions held directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group that are in a “horizontal” relationship”, that is, those affiliated enterprises that share a common direct investor but have no ownership in each other. In accordance with the FCS, the data include all equity capital and other capital positions held directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group that are in a “vertical” relationship, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other.

Enterprises in Italy are required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, and (ii) identify all transactions with the parent company. However, these requirements are limited to subsidiaries.

### **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. Contrary to the international standards, the data include non-participating preference shares, which are classified as equity capital, rather than as other capital.

The data on reinvested earnings cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) the data include reinvested earnings 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) 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) 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 transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being loan capital representing a permanent interest.) Contrary to the international standards, the data do not include non-participating preference shares, which are instead classified as equity capital.

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 "Assets: Direct Investment Abroad: 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 Italy and the direct investor is a nonresident, when 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, in accordance with the international standards, equity positions are recorded as "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises" and loan positions are recorded as "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Italy 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 "Liabilities: Direct Investment in Italy: Equity Capital: Liabilities to Direct Investors", rather than as "Liabilities: Direct Investment in Italy: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Liabilities: Direct Investment in Italy: Other Capital: Liabilities to Direct Investors", rather than as "Liabilities: Direct Investment in Italy: Other Capital: Claims on Direct Investors".

#### **Treatment of Quasi-corporations**

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by residents of in Italy 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 Italy 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 Italy are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of Italy 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**

Contrary to the international standards, the equity capital data do not include ownership of land and buildings abroad by enterprises and individuals resident in Italy, which are instead classified as other capital. Land and buildings owned abroad by enterprises and individuals resident in Italy on long-term leases are not included.

### **Treatment of Natural Resources Exploration**

Contrary to the international standards, (i) the equity capital data do not include expenditure related to natural resources exploration abroad by residents of Italy, (ii) the equity capital data do not include expenditure on bonus payments made by residents of Italy to the host country for the right to undertake exploration for natural resources 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 Italy for natural resource exploration, no 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 listed enterprises are recorded at market values. The data on equity capital for unlisted enterprises are recorded using an approximation of market values based on an index linked to the market value on the stock exchange.

The data on other capital are not revalued. (The position data are derived from the transactions data using the perpetual inventory method and no price adjustments are made for the other capital data.)

### **Exchange Rate Conversion**

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.