

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.

Japan:

Direct Investment Compilation Practices, Data Sources and Methodology

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Direct Investment in Japan

- **Balance of Payments (“Transactions Data”)**
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Direct Investment Abroad

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

DIRECT INVESTMENT IN JAPAN

BALANCE OF PAYMENTS (“INWARD TRANSACTIONS”) DATA

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable monthly data are compiled by the Bank of Japan (BOJ) 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 6 weeks after the end of the reference period on the following BOJ website http://www.boj.or.jp/en/stat/stat_f.htm and on the following Ministry of Finance (MOF) website (<http://www.mof.go.jp/english/files.htm>), and with a timeliness of 8 weeks after the end of the reference period in the BOJ's *Balance of Payments Monthly*. The data (quarterly rather than monthly) for direct investment income and direct investment financial flows are also reported to the IMF for publication, and annual data for direct investment income and direct investment financial flows are reported to the OECD.

In addition, annual (fiscal year, April 1-March 31) direct investment transactions data are compiled by the MOF outside the balance of payments framework. These data are based on administrative notifications and cover only newly registered investment and exclude disinvestments and reinvested earnings. The data are disseminated on the following MOF website <http://www.mof.go.jp/english/files.htm>. The data for direct investment financial flows compiled by the MOF are also reported by the BOJ to the OECD for publication.

Revision Practices

The data are preliminary when first released. The monthly data for the current quarter are revised once to take account of revised source data and late reporters and are disseminated once a quarter together with the preliminary data for the latest month. At this time the data are considered to be final, that is, between 2 and 4 months after their first release.

The revised status of the data is clearly identified in the disseminated data. However, the general public are not informed of the reasons for the revisions. The historical data are revised back to January 1996, or as far back as data sources are available, in instances of major changes in methodology or data collection systems. The public are also informed of the reasons for major changes in methodology and of changes in data collection systems.

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 for publication. However, there are differences between the direct investment financial flows data disseminated in the national publications and reported to the IMF for publication, and those reported to the OECD for publication, in that the latter cover only newly registered investments and exclude disinvestments and reinvested earnings.

Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—the data for all components except reinvested earnings are collected on an individual transactions basis, while the data for reinvested earnings are collected on an aggregate basis. The reporting requirements are compulsory.

Data Sources

The data on income on equity (dividends and distributed branch profits) and income on debt (interest) are compiled primarily from monthly surveys provided by resident enterprises. An international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, cash transactions made through the foreign bank accounts of enterprises, and noncash transactions, is used to compile the data on equity capital and other capital, and as a secondary data source for the data on income on equity (dividends and distributed branch profits) and income on debt (interest). The monthly data on reinvested earnings are estimates—the reinvested earnings from Month T are estimated as being one twelfth of the total reinvested earnings for the twelve month period between T-18 months and T-6 months, which is in turn derived from annual surveys of resident enterprises.

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 used to compile the inward direct investment transactions data (reinvested earnings only). The register is maintained by the BOJ and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) the financial press, and (iii) information obtained from the MOF on administrative notifications of direct investment. The same business register is used to compile the inward direct investment transactions and position data, but a different register is used for the outward direct investment transactions (reinvested earnings only) and position data.

Geographic Classification

Bi-annual (calendar year) data showing breakdowns by country for the direct investment income data and the direct investment financial flows data are compiled by the BOJ and disseminated twice a year with a timeliness of 5.5 months after the end of the reference period on the following BOJ website http://www.boj.or.jp/en/stat/stat_f.htm and on the following MOF website <http://www.mof.go.jp/english/files.htm>, and with a timeliness of 6 months after the end of the reference period in the BOJ's *Balance of Payments Monthly*. The BOJ also plans to disseminate monthly data in its publications and on its website beginning in 2005. The data showing country breakdowns for direct investment income (but not direct investment financial flows) are also reported to the OECD. The data cover 32 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 Japan during 2002 (ranked in descending order) were: the United States, France, the Netherlands, the United Kingdom, and Sweden. The five countries with the largest amount of direct investment financial flows into Japan during 2002 (ranked in descending order) were: the United States, France, the Netherlands, Switzerland, and Canada.

In addition to the data showing country breakdowns, bi-annual (calendar year) data are compiled and disseminated by the BOJ and MOF showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU15, (ii) the OECD, and (iii) the ASEAN countries. There are plans to compile data for the EU25 beginning in the second half of 2004. These data are disseminated twice a year with a timeliness of 5.5 months after the end of the reference period on the following BOJ website http://www.boj.or.jp/en/stat/stat_f.htm and on the following MOF website <http://www.mof.go.jp/english/files.htm>, and with a timeliness of 6 months after the end of the reference period in the BOJ's *Balance of Payments Monthly*. The BOJ also plans to disseminate monthly data in its publications and on its website beginning in 2005. The data showing breakdowns by regions/economic zones for direct investment income (but not direct investment financial flows) are also reported to the OECD.

There are no differences in the data coverage, sources, etc. between the inward direct investment income data showing geographic breakdowns disseminated in the national publications and reported to the OECD, and the aggregate inward data on direct investment income reported to the IMF for publication. There are also no differences in the data coverage, sources, etc. between the inward direct investment financial flows data showing geographic breakdowns disseminated in the BOJ publications, and the aggregate inward data on direct investment financial flows reported to the IMF for publication. However, there are differences in the data coverage, and sources between the inward data on direct investment financial flows showing geographic breakdowns that are disseminated on the MOF website and reported by the BOJ to the OECD for publication, and the aggregate inward data on direct investment financial flows reported to the IMF for publication, as the

former are based on administrative notifications on newly registered investments and do not include transactions involving disinvestments or reinvested earnings.

Industrial Classification

Not applicable. Data showing breakdowns by industrial activity are not compiled. However, there are plans to begin to do so beginning in 2005.

B. Methodology

Definition of Direct Investment Enterprises in Japan

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Japan is 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 not applied. Specifically, (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 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 Japan are not required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, or (ii) identify all transactions with the parent company.

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 provisions for host-country income and corporation taxes, (ii) realized and unrealized capital gains and losses, and realized and unrealized exchange rate gains and losses are excluded, (iii) most write-offs are excluded, (iv) interest receivable/payable is included, and (v) debt repayments receivable/payable are excluded. (Prior to 2002 deductions were not made for provisions for host-country income and corporation taxes, and prior to 2003 realized capital gains and losses were not excluded.) Contrary to the COPC, (i) deductions are not made for depreciation of capital, and (ii) some write-offs are not 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 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. (Prior to 2002 dividends and distributed branch profits were recorded net, rather than gross, of withholding taxes.) 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 on the date they are declared payable.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover incorporated enterprises but not unincorporated enterprises. In accordance with the international standards, (i) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (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, 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, the reinvested earnings and undistributed branch profits are not recorded in the period in which they are earned, but between 6 and 18 months after they are earned, depending on the accounting year used by the individual reporting enterprises.

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, and (iii) bonds and money market instruments. The data do not cover (i) trade credits, and (ii) financial leases. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. Contrary to the international standards, (i) the data are compiled on a paid basis, rather than an accrual basis, and (ii) the data do not include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. In accordance with the international standards, 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 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 under equity capital rather than other capital.

Treatment of Other Capital

The other capital transactions data cover: (i) long-term loans, (ii) short-term loans, and (iii) bonds and money market instruments. The data do not include (i) trade credits, and (ii) 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. Contrary to the international standards, (i) the data do not include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries, (ii) the data do not 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) the data do not include non-participating preference shares, which instead classified under equity capital. In accordance with the international standards, 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.

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 either (i) direct investment lending and recorded under “Direct Investment in Japan, Other Capital: Increase in Liabilities to Direct Investors” at the time the periodic payments are made, or (ii) direct investment equity injections and recorded under “Direct Investment in Japan, Equity Capital: Increase in Liabilities to Direct Investors” at the time the periodic payments are made, depending on the treatment by the individual guarantors.

Treatment of Reverse Investment

Transactions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of Japan 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 Japan and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity transactions are recorded as “Direct Investment in Japan: Equity Capital: Increase in Claims on Direct Investors”, and loan transactions are recorded as “Direct Investment in Japan: Other Capital: Increase in Claims on Direct Investors”, and both are reported as such to the IMF.

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation in Japan by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs. (Prior to 2002, the data did not include the activities of quasi-corporations involving the operation in Japan of mobile equipment by nonresidents.)

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established in Japan by nonresidents are included in the direct investment data.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established in Japan by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in Japan 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. Contrary to the international standards, the data also exclude transactions with affiliated banks and affiliated financial intermediaries involving 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 Japan by nonresident enterprises and nonresident individuals, which are instead classified under other capital. Land and buildings purchased in Japan by nonresident enterprises and nonresident individuals on long-term leases are not included.

Treatment of Natural Resources Exploration

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

Exchange Rate Conversion

All transactions, with the exception of reinvested earnings, are converted to the unit of account at the exchange rate prevailing on the day of the transaction. The data on reinvested earnings are converted at the exchange rate prevailing at the end of the month in which the individual resident direct investment enterprises settle their accounts.

DIRECT INVESTMENT IN JAPAN

INTERNATIONAL INVESTMENT POSITION LIABILITIES (“INWARD POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data are compiled by the Bank of Japan (BOJ) 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 5 months after the end of the reference period on the following BOJ website http://www.boj.or.jp/en/stat/stat_f.htm and on the following Ministry of Finance (MOF) website <http://www.mof.go.jp/english/files.htm>, and with a timeliness of 6 months after the end of the reference period in the BOJ's *Balance of Payments Monthly*. The data are also reported to the IMF for publication and annual data are reported to the OECD.

Revision Practices

The data are final when first released and are not subject to revision.

The historical data are not revised in instances of major changes in methodology or data collection systems.

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 and an aggregate basis—the data are collected primarily on an aggregate basis, but data collected on an individual transactions basis are used as a secondary source for the data on equity capital and other capital. The reporting requirements are compulsory.

Data Sources

The data for all components are compiled primarily from annual surveys of resident enterprises. An international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, cash transactions made through the foreign bank accounts of enterprises, and noncash transactions, is used as a secondary source for the data on equity capital and other capital. The perpetual inventory method (a method for deriving position data from transactions data) is used for the data obtained from the ITRS. No adjustments are made for price changes, exchange rate changes, or other nontransaction changes.

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 used to compile the inward direct investment position data. The register is maintained by the BOJ and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) the financial press, and (iii) information obtained from the MOF on administrative notifications of direct investment. The same business register is used to compile the inward direct investment transactions (reinvested earnings only) and position data, but a different register is used for the outward direct investment transactions (reinvested earnings only) and position data.

Geographic Classification

Annual (calendar year) data showing breakdowns by country for the inward direct investment position data are compiled by the BOJ and disseminated once a year with a timeliness of 5.5 months after the end of the reference year on the following BOJ website http://www.boj.or.jp/en/stat/stat_f.htm and on the following MOF website <http://www.mof.go.jp/english/files.htm>, and with a timeliness of 6 months after the end of the reference period in the BOJ's *Balance of Payments Monthly*. The data showing country breakdowns for the inward direct investment position data are also reported to the OECD for publication. The data cover 32 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 Japan as at the end of 2002 (ranked in descending order) were: the United States, France, the Netherlands, Germany, and the United Kingdom.

In addition to the data showing country breakdowns, annual data are compiled by the BOJ showing breakdowns of the inward direct investment position data for the following regions/economic zones: (i) the EU15, (ii) the OECD, and (iii) the ASEAN countries. There are plans to compile data for the EU25 beginning in the second half of 2004. These data are disseminated once a year with a timeliness of 5.5 months after the end of the reference period on the following BOJ website http://www.boj.or.jp/en/stat/stat_f.htm and on the following MOF website <http://www.mof.go.jp/english/files.htm>, and with a timeliness of 6 months after the end of the reference period in the BOJ's *Balance of Payments Monthly*.

There are no differences in the data coverage, sources, etc. between the inward direct investment position data showing geographic breakdowns disseminated in the national publications and reported by the BOJ to the OECD, and the aggregate inward position data reported to the IMF for publication.

Industrial Classification

Not applicable. Data showing breakdowns by industrial activity are not compiled. However, there are plans to begin to do so beginning in 2005.

B. Methodology

Definition of Direct Investment Enterprises in Japan

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Japan is 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 not applied. Specifically, the data do not include (i) the relevant share of the reinvested earnings of all 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 Japan are not required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, or (ii) 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. Contrary to the international standards, the data include non-participating preference shares, which are classified under equity capital rather than other capital.

The reinvested earnings data cover incorporated enterprises but not unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (iii) 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, and (iv) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. (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 Japan.)

Treatment of Other Capital

The other capital position data cover: (i) long-term loans, (ii) short-term loans, and (iii) bonds and money market instruments. The data do not include (i) trade credits, and (ii) 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. Contrary to the international standards, (i) the data do not include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries, (ii) the data do not include 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) the data do not include non-participating preference shares, which are instead classified under equity capital. In accordance with the international standards, 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.

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 either (i) direct investment lending and recorded under "Liabilities: Direct Investment in Japan, Other Capital: Liabilities to Direct Investors" at the time the periodic payments are made, or (ii) direct investment equity injections and recorded under "Liabilities: Direct Investment in Japan, Equity Capital: Liabilities to Direct Investors" at the time the periodic payments are made, depending on the treatment by the individual guarantors.

Treatment of Reverse Investment

Positions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of Japan 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 Japan and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance

with the international standards, equity positions are recorded as “Liabilities: Direct Investment in Japan: Equity Capital: Claims on Direct Investors”, and loan positions are recorded as “Liabilities: Direct Investment in Japan: Other Capital: Claims on Direct Investors”, and both are reported as such to the IMF.

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation in Japan by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs. (Prior to 2002, the data did not include the activities of quasi-corporations involving the operation in Japan of mobile equipment by nonresidents.)

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established in Japan by nonresidents are included in the direct investment data.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established in Japan by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in Japan 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. Contrary to the international standards, the data also exclude positions with affiliated banks and affiliated financial intermediaries involving 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 Japan by nonresident enterprises and nonresident individuals, which is instead classified under other capital. Land and buildings owned in Japan by nonresident enterprises and nonresident individuals on long-term leases are not included.

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) expenditure related to natural resources exploration in Japan by nonresidents is included in the equity capital data, and (ii) in instances of the shutdown of a direct investment enterprise established in Japan 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. Contrary to the international standards, expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is not included in the equity capital data when there is a clear intention to establish a direct investment enterprise.

Valuation of Assets and Liabilities

The data on equity capital for listed enterprises are recorded primarily at book values, which is the “own funds” value, defined as being “the application of ownership percentages to the capital shown in the balance sheets of the individual direct investment enterprises resident in Japan.” However, some positions are valued at market values. The data on equity capital for unlisted enterprises are recorded primarily at book values, which is the “own funds” value, as defined above. However, some positions are recorded at market values, which are based on a recent transaction price.

The data on other capital are recorded at book values, which is the “own funds” value, as defined above.

The book values used are those shown in the accounting records of the resident direct investment enterprises, rather than the nonresident direct investors.

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, that is, the exchange rate at the end of the calendar year.

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 Bank of Japan (BOJ) 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 6 weeks after the end of the reference period on the following BOJ website http://www.boj.or.jp/en/stat/stat_f.htm and on the following Ministry of Finance (MOF) website <http://www.mof.go.jp/english/files.htm>, and with a timeliness of 8 weeks after the end of the reference period in the BOJ's *Balance of Payments Monthly*. The data (quarterly rather than monthly) for direct investment income and direct investment financial flows are also reported to the IMF for publication, and annual data for direct investment income and direct investment financial flows are reported to the OECD.

In addition, annual (fiscal year, April 1-March 31) direct investment transactions data are compiled by the MOF outside the balance of payments framework. These data are based on administrative notifications and cover only newly registered investment and exclude disinvestments and reinvested earnings. The data are disseminated on the following MOF website <http://www.mof.go.jp/english/files.htm>. The data for direct investment financial flows compiled by the MOF are also reported by the BOJ to the OECD for publication.

Revision Practices

The data are preliminary when first released. The monthly data for the current quarter are revised once to take account of revised source data and late reporters and are disseminated once a quarter together with the preliminary data for the latest month. At this time the data are considered to be final, that is, between 2 and 4 months after their first release.

The revised status of the data is clearly identified in the disseminated data. However, the general public are not informed of the reasons for the revisions. The historical data are revised back to January 1996, or as far back as data sources are available, in instances of major changes in methodology or data collection systems. The public are also informed of the reasons for major changes in methodology and of changes in data collection systems.

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 for publication. However, there are differences between the direct investment financial flows data disseminated in the national publications and reported to the IMF for publication, and those reported to the OECD for publication, in that the latter cover only newly registered investments and exclude disinvestments and reinvested earnings.

Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—the data for all components except reinvested earnings are collected on an individual transactions basis, while the data for reinvested earnings are collected on an aggregate basis. The reporting requirements are compulsory.

Data Sources

The data on income on equity (dividends and distributed branch profits) and income on debt (interest) are compiled primarily from monthly surveys provided by direct investors resident in Japan. An international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, cash transactions made through the foreign bank accounts of enterprises, and noncash transactions, is used to compile the data on equity capital and other capital, and as a secondary data source for the data on income on equity (dividends and distributed branch profits) and income on debt (interest). The monthly data on reinvested earnings are estimates—the reinvested earnings from Month T are estimated as being one twelfth of the total reinvested earnings for the twelve month period between T-18 months and T-6 months, which is in turn derived from annual surveys of resident direct investors.

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 used to compile the outward direct investment transactions data (reinvested earnings only). The register is maintained by the BOJ and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) the financial press, and (iii) information obtained from the MOF on administrative notifications of direct investment. The same business register is used to compile the outward direct investment transactions and position data, but a different register is used for the inward direct investment transactions (reinvested earnings only) and position data.

Geographic Classification

Bi-annual (calendar year) data showing breakdowns by country for the direct investment income data and the direct investment financial flows data are compiled by the BOJ and disseminated twice a year with a timeliness of 5.5 months after the end of the reference period on the following BOJ website http://www.boj.or.jp/en/stat/stat_f.htm and on the following MOF website <http://www.mof.go.jp/english/files.htm>, and with a timeliness of 6 months after the end of the reference period in the BOJ's *Balance of Payments Monthly*. The MOF website <http://www.mof.go.jp/english/files.htm>. The BOJ also plans to disseminate monthly data in its publications and on its website beginning in 2005. The data showing country breakdowns for direct investment income are also reported to the OECD. The data cover 32 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 Japan during 2002 (ranked in descending order) were: the United States, Hong Kong SAR, Singapore, Canada, and China. The five countries with the largest amount of direct investment financial flows from Japan during 2002 (ranked in descending order) were: the United States, France, the Cayman Islands, China, and the United Kingdom.

In addition to the data showing country breakdowns, bi-annual (calendar year) data are compiled and disseminated by the BOJ and MOF showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU15, (ii) the OECD, and (iii) the ASEAN countries. There are plans to compile data for the EU25 beginning in the second half of 2004. These data are disseminated twice a year with a timeliness of 5.5 months after the end of the reference period on the following BOJ website http://www.boj.or.jp/en/stat/stat_f.htm and on the following MOF website <http://www.mof.go.jp/english/files.htm>, and with a timeliness of 6 months after the end of the reference period in the BOJ's *Balance of Payments Monthly*. The BOJ also plans to disseminate monthly data in its publications and on its website beginning in 2005. The data showing breakdowns by regions/economic zones for direct investment income (but not direct investment financial flows) are also reported to the OECD.

There are no differences in the data coverage, sources, etc. between the outward direct investment income data showing geographic breakdowns disseminated in the national publications and reported to the OECD, and the aggregate outward data on direct investment income reported to the IMF for publication. There are also no differences in the data coverage, sources, etc. between the outward direct investment financial flows data showing geographic breakdowns disseminated in the BOJ publications, and the aggregate outward data on direct investment financial flows reported to the IMF for publication. However, there are differences in the data coverage, and sources between the outward data on direct investment financial flows showing geographic breakdowns that are disseminated on the MOF website and reported by the BOJ to the OECD for publication, and the aggregate outward data on direct investment financial flows reported to the IMF for publication, as the

former are based on administrative notifications on newly registered investments and do not include transactions involving disinvestments or reinvested earnings.

Industrial Classification

Not applicable. Data showing breakdowns by industrial activity are not compiled. However, there are plans to begin to do so beginning in 2005.

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 not applied. Specifically, (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 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 Japan are not required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, or (ii) identify all transactions with the parent company.

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 provisions for host-country income and corporation taxes, (ii) realized and unrealized capital gains and losses, and realized and unrealized exchange rate gains and losses are excluded, (iii) most write-offs are excluded, (iv) interest receivable/payable is included, and (v) debt repayments receivable/payable are excluded. (Prior to 2002 deductions were not made for provisions for host-country income and corporation taxes, and prior to 2003 realized capital gains and losses were not excluded.) Contrary to the COPC, (i) deductions are not made for depreciation of capital, and (ii) some write-offs are not 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 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. (Prior to 2003 dividends and distributed branch profits were recorded net, rather than gross, of withholding taxes.) 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 on the date they are declared payable.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover incorporated enterprises but not unincorporated enterprises. In accordance with the international standards, (i) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (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, 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, the reinvested earnings and undistributed branch profits are not recorded in the period in which they are earned, but between 6 and 18 months after they are earned, depending on the accounting year used by the individual reporting enterprises.

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, and (iii) bonds and money market instruments. The data do not cover (i) trade credits, and (ii) financial leases. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. Contrary to the international standards, (i) the data are compiled on a paid basis, rather than an accrual basis, and (ii) the data do not include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. In accordance with the international standards, 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 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 under equity capital rather than other capital.

Treatment of Other Capital

The other capital transactions data cover: (i) long-term loans, (ii) short-term loans, and (iii) bonds and money market instruments. The data do not include (i) trade credits, and (ii) 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. Contrary to the international standards, (i) the data do not include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries, (ii) the data do not 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) the data do not include non-participating preference shares, which are classified instead under equity capital. In accordance with the international standards, 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.

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 either (i) 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, or (ii) direct investment equity injections and recorded under “Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises” at the time the periodic payments are made, depending on the treatment by the individual guarantors.

Treatment of Reverse Investment

Transactions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of Japan 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 Japan and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity transactions are recorded as “Direct Investment in Japan: Equity Capital: Increase in Claims on Direct Investors”, and loan transactions are recorded as “Direct Investment in Japan: Other Capital: Increase in Claims on Direct Investors”, and both are reported as such to the IMF.

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 Japan of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs. (Prior to 2002, the data did not include the activities of quasi-corporations involving the operation abroad of mobile equipment by residents of Japan.)

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Japan 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 Japan are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of Japan 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. Contrary to the international standards, the data also exclude transactions with affiliated banks and affiliated financial intermediaries involving 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 Japan, which are instead classified under other capital. Land and buildings purchased abroad by enterprises and individuals resident in Japan on long-term leases are not included.

Treatment of Natural Resources Exploration

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

Exchange Rate Conversion

All transactions, with the exception of reinvested earnings, are converted to the unit of account at the exchange rate prevailing on the day of the transaction. The data on reinvested earnings are converted at the exchange rate prevailing at the end of the month in which the individual resident direct investors settle their accounts.

DIRECT INVESTMENT ABROAD

INTERNATIONAL INVESTMENT POSITION ASSETS (“OUTWARD POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data are compiled by the Bank of Japan (BOJ) 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 5 months after the end of the reference period on the following BOJ website http://www.boj.or.jp/en/stat/stat_f.htm and on the following Ministry of Finance (MOF) website <http://www.mof.go.jp/english/files.htm>, and with a timeliness of 6 months after the end of the reference period in the BOJ's *Balance of Payments Monthly*. The data are also reported to the IMF for publication and annual data are reported to the OECD.

Revision Practices

The data are final when first released and are not subject to revision.

The historical data are not revised in instances of major changes in methodology or data collection systems.

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 and an aggregate basis—the data are collected primarily on an aggregate basis, but data collected on an individual transactions basis are used as a secondary source for the data on equity capital and other capital. The reporting requirements are compulsory.

Data Sources

The data for all components are compiled primarily from annual surveys of direct investors resident in Japan. An international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, cash transactions made through the foreign bank accounts of enterprises, and noncash transactions, is used as a secondary source for the data on equity capital and other capital. The perpetual inventory method (a method for deriving position data from transactions data) is used for the data obtained from the ITRS. No adjustments are made for price changes, exchange rate changes, or other nontransaction changes.

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 used to compile the outward direct investment position data. The register is maintained by the BOJ and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) the financial press, and (iii) information obtained from the MOF on administrative notifications of direct investment. The same business register is used to compile the outward direct investment transactions (reinvested earnings only) and position data, but a different register is used for the inward direct investment transactions (reinvested earnings only) and position data.

Geographic Classification

Annual (calendar year) data showing breakdowns by country for the outward direct investment position data are compiled by the BOJ and disseminated once a year with a timeliness of 5.5 months after the end of the reference year on the following BOJ website http://www.boj.or.jp/en/stat/stat_f.htm and on the following MOF website <http://www.mof.go.jp/english/files.htm>, and with a timeliness of 6 months after the end of the reference period in the BOJ's *Balance of Payments Monthly*. The data showing country breakdowns for the outward position data are also reported to the OECD. The data cover 32 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 Japan as at the end of 2002 (ranked in descending order) were: the United States, the United Kingdom, the Netherlands, China, and Singapore.

In addition to the data showing country breakdowns, annual data are compiled by the BOJ showing breakdowns of the outward direct investment position data for the following regions/economic zones: (i) the EU15, (ii) the OECD, and (iii) the ASEAN countries. These data are disseminated once a year with a timeliness of 5.5 months after the end of the reference year on the following BOJ website http://www.boj.or.jp/en/stat/stat_f.htm and on the following MOF website <http://www.mof.go.jp/english/files.htm>, and with a timeliness of 6 months after the end of the reference period in the BOJ's *Balance of Payments Monthly*. The data showing breakdowns by region/economic zone for the outward position data are also reported to the OECD.

There are no differences in the data coverage, sources, etc. between the outward direct investment position data showing geographic breakdowns disseminated in the national publications and reported to the OECD, and the aggregate outward position data reported to the IMF for publication.

Industrial Classification

Not applicable. Data showing breakdowns by industrial activity are not compiled. However, there are plans to begin to do so beginning in 2005.

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 not applied. Specifically, the data do not include (i) the relevant share of the reinvested earnings of all 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 Japan are not required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, or (ii) 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. Contrary to the international standards, the data include non-participating preference shares, which are classified under equity capital rather than other capital.

The reinvested earnings data cover incorporated enterprises but not unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (iii) 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, and (iv) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. (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, and (iii) bonds and money market instruments. The data do not include (i) trade credits, and (ii) 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. Contrary to the international standards, (i) the data do not include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries, (ii) the data do not include 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) the data do not include non-participating preference shares, which are classified instead under equity capital. In accordance with the international standards, 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.

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 either (i) direct investment lending and recorded under "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises" at the time the periodic payments are made, or (ii) direct investment equity injections and recorded under "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises" at the time the periodic payments are made, depending on the treatment by the individual guarantors.

Treatment of Reverse Investment

Positions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of Japan 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 Japan and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity positions are recorded as "Liabilities: Direct Investment in Japan: Equity

Capital: Claims on Direct Investors”, and loan positions are recorded as “Liabilities: Direct Investment in Japan: Other Capital: Claims on Direct Investors”, and both are reported as such to the IMF.

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 Japan of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs. (Prior to 2002, the data did not include the activities of quasi-corporations involving the operation abroad of mobile equipment by residents of Japan.)

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Japan 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 Japan are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of Japan 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. Contrary to the international standards, the data also exclude positions with affiliated banks and affiliated financial intermediaries involving 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 Japan, which is instead classified under other capital. Land and buildings owned abroad by enterprises and individuals resident in Japan on long-term leases are not included.

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) expenditure related to natural resources exploration abroad by residents of Japan is included in the equity capital data, and (ii) in instances of the shutdown of a direct investment enterprise established abroad by residents of Japan 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. Contrary to the international standards, expenditure on bonus payments made by residents of Japan to the host country for the right to undertake exploration for natural resources is not included in the equity capital data when there is a clear intention to establish a direct investment enterprise.

Valuation of Assets and Liabilities

The data on equity capital for listed enterprises are recorded primarily at book values, which is the “own funds” value, defined as being “the application of ownership percentages to the stock of the capital injection shown on the balance sheets of the individual direct investors resident in Japan.” However, some positions are valued at market values. The data on equity capital for unlisted enterprises are recorded primarily at book values, which is the “own funds” value, as defined above. However, some positions are recorded at market values, which are based on a recent transaction price.

The data on other capital are recorded at book values, which is the “own funds” value, as defined above.

The book values used are those shown in the accounting records of the resident direct investors, rather than the nonresident direct investment enterprises.

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, that is, the exchange rate at the end of the calendar year.