

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.

## **Philippines:**

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

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#### **Direct Investment in the Philippines**

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

#### **Direct Investment Abroad**

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

## DIRECT INVESTMENT IN THE PHILIPPINES

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

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable monthly data are compiled by the Bangko Sentral ng Pilipinas (BSP) 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 compiled with a timeliness of 3 months after the end of the reference month, and are disseminated once a quarter with a timeliness of 3 months after the end of the reference quarter in the case of all components except reinvested earnings, and up to 12 months after the end of the reference period in the case of the data for reinvested earnings in the BSP publication *Selected Philippine Economic Indicators*, which is available on the BSP website <http://www.bsp.gov.ph>. The data (quarterly rather than monthly) are also reported to the IMF for publication.

In addition, monthly data on direct investment based on the investment registration records are compiled by the BSP outside the balance of payments framework, and are also disseminated in the table “BSP-Registered Foreign Direct Investment” in the BSP publication *Selected Philippine Economic Indicators*, available on the BSP website <http://www.bsp.gov.ph>. The nature of these data are clearly identified in the publication.

##### Revision Practices

The data for all components except reinvested earnings are preliminary when first released. (The data on reinvested earnings are final when first released.) The preliminary data for all components for the current year are revised each quarter to take into account revisions arising from, among others, late reports and post-audit reports. The revised data are disseminated quarterly together with the preliminary monthly data for the latest quarter. In addition, the data for other capital for the previous year may be revised and disseminated with the preliminary data for the fourth quarter of the current year. At this time the data are considered to be final, that is, up to 12 months after their first release in the case of all components except other capital, and up to 24 months after their first release in the case of the data on other capital. The data for all components for the previous year may also be revised to take account of major changes in classification or coverage.

The revised status of the data is clearly indicated in the disseminated data. The general public are informed of the reasons for major revisions through footnotes in the publication. The historical data are revised as far back as available data permit 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 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.

##### Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—on an individual transactions basis for the data collected from the ITRS and on an aggregate basis for the data collected from the banks’ Consolidated Statements of Conditions (CSOC) and annual financial statements of enterprises. The reporting requirements are a mixture of compulsory and voluntary—while the reporting requirements for the bank reporting system on foreign exchange transactions are compulsory, disclosure by banks’ clients of the nature of funds transacted through foreign currency deposit accounts is not compulsory. In addition, registration of debt transactions through the debt register is voluntary.

## Data Sources

The data for dividends and distributed branch profits, and income on debt (interest) are compiled from (i) monthly enterprise surveys of resident direct investment enterprises, which include transactions made through the foreign bank accounts of the enterprises, but not noncash transactions and (ii) an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, but not cash transactions made through the foreign bank accounts of enterprises, or noncash transactions. The data on reinvested earnings are estimates based on the annual financial statements (company accounts) of resident direct investment enterprises. The data on equity capital are compiled primarily from (i) monthly enterprise surveys of resident direct investment enterprises, (ii) the ITRS, and (iii) the Consolidated Statements of Conditions (CSOC) of the banks, with information from the BSP investment registration records on noncash investments actually made being used as a secondary data source. The data on other capital are compiled from (i) monthly enterprise surveys of resident direct investment enterprises, (ii) the Consolidated Statements of Conditions (CSOC) of the banks, and (iii) a debt register for information on the intercompany debt of non-banks. There are plans to pilot-test an enterprise survey of resident enterprises (the Cross Border Transactions Survey [CBTS]) as a data source in 2004, and to institutionalize the survey beginning in 2005.

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. The register is maintained by the Securities Exchange Commission (SEC) and is updated on an annual basis using information from registers maintained by government licensing and regulatory authorities. The register is limited to multinational enterprises at present, but an Inter-Agency Committee on Foreign Direct Investment Statistics (IACFDIS), of which the BSP and SEC are both members, is working on a plan to expand the coverage of the business register in the future. The same register is used for the inward position data but no business register is used for the outward transactions and position data.

## Geographic Classification

Monthly data showing breakdowns by country for the direct investment financial flows data compiled within the balance of payments framework are compiled by the BSP and are available quarterly with a timeliness of 3 months after the end of the reference quarter. The data are not disseminated but are available on request. The data are also reported to the ASEAN Secretariat (quarterly) and to UNCTAD (annually). There are plans to begin to disseminate these data by December 2005. The data cover all countries and bilateral data are not used in the compilation of the data. Data showing breakdowns by country for the direct investment income data are not compiled at present.

In addition, cumulative monthly data on investment flows by country based on the BSP's investment registration records are disseminated monthly in the BSP publication *Selected Philippine Economic Indicators*, available on the BSP website <http://www.bsp.gov.ph>. However, the time of recording of those data is based on the time of registration with the BSP, which, in a number of cases, is much later than the actual flows.

The transactor principle, rather than 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 financial flows (balance of payments framework data) into the Philippines during 2003 (ranked in descending order) were: Singapore, Japan, the United States, Australia, and Malaysia.

In addition to the data showing country breakdowns, monthly data are compiled by the BSP showing breakdowns of the direct investment financial flows for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (v) the ASEAN countries, (vi) the OPEC countries, (vii) North America, (viii) Europe, (ix) Asia, (x) Asia's Newly Industrialized Economies (ANIEs), (xi) Australasia, (xii) Central and South America, and (xiii) Other. These data are available quarterly with a timeliness of 3 months after the end of the reference period. The data are not disseminated but are available on request, The data are also reported to the ASEAN Secretariat (quarterly) and to UNCTAD (annually).

There are no differences in the data coverage, sources, etc. between the inward transactions data showing geographic breakdowns disseminated in the national publications and the aggregate inward data on direct investment financial flows reported to the IMF for publication.

## **Industrial Classification**

Monthly data showing breakdowns by industrial activity for direct investment financial flows are compiled and available quarterly with a timeliness of 3 months after the end of the reference quarter. The data are not disseminated but are available on request. The data are also reported to the ASEAN Secretariat (quarterly) and to UNCTAD (annually). There are plans to begin to disseminate these data by 2005. The data show a breakdown for 9 industrial activities. The classification used is the Philippine Standard Industry Classification (PSIC), which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). Data showing breakdowns by industrial activity for the direct investment income data are not compiled.

In addition, cumulative monthly data on investment flows by industrial activity based on the BSP's investment registration records are disseminated monthly in the BSP publication *Selected Philippine Economic Indicators*, available on the BSP website <http://www.bsp.gov.ph>. However, the time of recording of those data is based on the time of registration with the BSP, which, in a number of cases, is much later than the actual flows.

The data on direct investment financial flows are primarily classified on the basis of the industrial activity of the resident direct investment enterprises. However, when the industry of the resident direct investment enterprise is unknown the classification is based on the industrial activity of the nonresident direct investor. The four industrial activities with the largest amount of direct investment financial flows into the Philippines during 2003 (in descending order) were: (i) manufacturing, (ii) construction, (iii) real estate, and (iv) trade/commerce.

Monthly data are compiled by the BSP for 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 quarterly on request, with a timeliness of 3 months after the end of the reference quarter. The data are also provided to ASEAN on an annual basis for publication. The five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: Singapore, Japan, the United States, Australia, and Malaysia.

In addition, monthly data compiled by the BSP for the direct investment financial flows data showing a breakdown by both industrial activity and region/economic zone are available quarterly on request, with a timeliness of 3 months after the end of the reference quarter.

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 the aggregate inward data on direct investment financial flows reported to the IMF for publication.

## **B. Methodology**

### **Definition of Direct Investment Enterprises in the Philippines**

In principle, the basic criterion for defining direct investment enterprises in the Philippines 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 would in principle be included, while enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management would not be included. However, in practice, all purchases of shares by nonresident investors through the domestic stock exchanges are classified as Portfolio Investment in the balance of payments statistics, on the assumptions that (a) no nonresident investors will hold more than 10 percent of the total shares of a resident enterprise, and (b) investments by nonresidents through the domestic stock exchanges are speculative in nature and therefore the investors do not have a lasting interest in the resident enterprise in which they invest. However, very large purchases through the domestic stock exchanges by a single nonresident investor or group of related investors are investigated and classified as direct investment when the purchase results in the ownership of 10 percent or more of the total shares of the resident enterprise. (There are plans to change this practice in the future, although the preliminary data will continue to be defined as described above.) 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 the Philippines 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.

### **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, deductions are made for depreciation of capital, and for provisions for host-country income and corporation taxes. Contrary to the COPC, (i) realized and unrealized capital gains and losses, realized and unrealized exchange rate gains and losses, and write-off are included, (ii) interest receivable/payable is not included, and (iii) debt repayments receivable/payable 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. Contrary to the international standards, (i) dividends and distributed branch profits are recorded net, rather than gross, of any withholding taxes, (ii) 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, and (iii) 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 other affiliated financial intermediaries and affiliated banks.

### **Treatment of Reinvested Earnings and Undistributed Branch Profits**

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and, since 2002, unincorporated branches of foreign banks. (The data do not cover the reinvested earnings and undistributed branch profits of non-bank 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) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, 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 data do not 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.

### **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, and (ii) short-term loans. The data do not include interest on (i) bonds and money market instruments, (ii) trade credits, and (iii) 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 recorded on a due for payment basis, rather than on 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) not transacted through the domestic stock exchanges, (ii) unlisted voting stocks (shares), and (iii) noncash acquisitions of equity, such as through the provision of capital equipment. The data do not cover (i) most listed voting stocks (shares) transacted through the domestic stock exchanges, (ii) participating preference [preferred] shares, and (iii) other non-voting stocks (shares). In accordance with the international standards, (i) the data include equity transactions between affiliated banks, and (ii) (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, (i) the data do not include equity transactions between affiliated financial intermediaries, and (ii) the data do not 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.

#### **Treatment of Other Capital**

The other capital transactions data cover: (i) long-term loans, and (ii) short-term loans. The data do not cover (i) bonds and money market instruments, (iii) trade credits, and (iii) financial leases. However, there are plans to include trade credits with effect from the data for 2004. 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, the data do not include (i) non-participating preference [preferred] shares, (ii) transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries, and (iii) 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.

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, cannot be identified from the present data sources.

#### **Treatment of Reverse Investment**

Transactions involving reverse investment are not treated in accordance with the international standards in all instances because of a lack of adequate data on such transactions.

Assuming that the direct investment enterprise is a resident of the Philippines 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, equity transactions are recorded in accordance with the international standards as "Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises". However, contrary to the international standards, loan transactions are recorded as "Other Investment: Increase in Assets: Loans", rather than as "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of the Philippines 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 Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises", rather than as "Direct Investment in the Philippines: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Other Investment: Increase in Assets: Loans", rather than as "Direct Investment in the Philippines: Other Capital: Increase in Claims on Direct Investors".

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

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation in the Philippines by nonresidents 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 in the Philippines by nonresidents are included in the direct investment data.

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

Not applicable. There are no SPEs established in the Philip[pines by nonresidents at present.

#### **Treatment of Land and Buildings**

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings in Philippines by nonresident enterprises and nonresident individuals. Land and buildings purchased in the Philippines by nonresident enterprises and nonresident individuals on long-term leases are not included.

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

In accordance with the international standards, expenditure related to natural resources exploration in the Philippines by nonresidents is included in the equity capital data. 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, as this information is not available from the present data sources. Instances of the shutdown of a direct investment enterprise established in the Philippines by nonresidents for natural resource exploration have not occurred to date.

#### **Exchange Rate Conversion**

Most transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction. The data on dividends are converted at the exchange rate prevailing at the time the conduit banks record payment of the remittances, and the data on reinvested earnings are converted at the average exchange rate for the period.

## DIRECT INVESTMENT IN THE PHILIPPINES

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

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable annual (calendar year) data are compiled by the Bangko Sentral ng Pilipinas (BSP) 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 9 months after the end of the reference period on the BSP website <http://www.bsp.gov.ph>. (Prior to 2002 inward position data were not compiled.) The data are also reported to the IMF for publication.

##### Revision Practices

The data are preliminary when first released. The data for all components for the previous year and the data on other capital for the previous two years are revised once a year to take account of revised source data. The revised data are disseminated once a year together with the preliminary annual data for the latest year. As the position data have only recently begun to be compiled and disseminated, the revision policy regarding the stage at which the data will become final has yet to be determined.

The revised status of the data is clearly identified in the disseminated data, and the general public are informed of the reasons for revisions. No major changes in methodology or data collection systems have occurred since the data began to be compiled, and the policy regarding revisions of historical data in instances of major changes in methodology or data collection systems has yet to be determined.

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

##### Data Collection Method

The data are collected on an aggregate basis. The reporting requirements are a mixture of compulsory and voluntary—while reporting of financial statements is required by law, and the requirements for the bank reporting system on foreign exchange transactions are compulsory, disclosure by banks' clients of the nature of funds transacted through foreign currency deposit accounts is not compulsory. In addition, registration of debt and investment transactions through the debt and investment registers is voluntary.

##### Data Sources

The data for reinvested earnings are compiled from the annual financial statements (company accounts) of resident direct investment enterprises. The primary data sources for the data on equity capital are (i) the annual financial statements (company accounts) of resident direct investment enterprises, (ii) the Consolidated Statement of Conditions (CSOC) of banks, and (iii) the Special Tables on Banks. The data on other capital are compiled from (i) the Consolidated Statement of Conditions (CSOC) of banks, and (ii) information from a debt register on intercompany debt of non-banks. The perpetual inventory method (a method for deriving position data from transactions data) is not used for the compilation of the data.

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 Securities Exchange Commission (SEC) and is updated on an annual basis using information from registers maintained by government licensing and regulatory authorities. The register is limited to multinational enterprises at present, but an Inter-Agency Committee on Foreign Direct Investment Statistics (IACFDIS), of which the BSP and SEC are both members, is working on a plan to expand the coverage of the business register in the future. The same register is used for the inward transactions data but no business register is used for the outward transactions and position data.

### **Geographic Classification**

Not applicable. Data showing geographic breakdowns are not compiled.

### **Industrial Classification**

Not applicable. Data showing industrial activity breakdowns are not compiled.

## **B. Methodology**

### **Definition of Direct Investment Enterprises in the Philippines**

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

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

The “Fully Consolidated System” (FCS) recommended in the international standards is 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) 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. However, some other capital positions held directly by resident enterprises of a related group with nonresident enterprises of the same group are included in the data.

Enterprises in the Philippines 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.

### **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 (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. Contrary to the international standards, (i) the data do not include equity positions between affiliated financial intermediaries, (ii) the data do not 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) the data include non-participating preference shares, which are classified under equity capital, rather than other capital.

The reinvested earnings data 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) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, 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 data do not 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. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment in the Philippines.)

### **Treatment of Other Capital**

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

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 cannot be identified from the present data sources.

### **Treatment of Reverse Investment**

Positions involving reverse investment are not treated in accordance with the international standards in all instances because of the lack of adequate data on such positions.

Assuming that the direct investment enterprise is a resident of the Philippines 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, equity positions are recorded in accordance with the international standards as "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises". However, contrary to the international standards, loan positions are recorded as "Assets: Other Investment: Loans", rather than as "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of the Philippines and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises", rather than as "Liabilities: Direct Investment in the Philippines: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Assets: Other Investment: Loans", rather than as "Liabilities: Direct Investment in the Philippines: Other Capital: Claims on Direct Investors".

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

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation in the Philippines by nonresidents 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 in the Philippines by nonresidents are included in the direct investment data.

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

Not applicable. There are no SPEs established in the Philip[pines by nonresidents at present.

#### **Treatment of Land and Buildings**

Contrary to the international standards, the data do not include ownership of land and buildings in the Philippines by nonresident enterprises and nonresident individuals.

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

In accordance with the international standards, expenditure related to natural resources exploration in the Philippines by nonresidents is included in the equity capital data. 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, as this information is not available from the present data sources. Instances of the shutdown of a direct investment enterprise established in the Philippines by nonresidents for natural resource exploration have not occurred to date.

#### **Valuation of Assets and Liabilities**

The data on equity capital for both listed and unlisted enterprises are recorded at book values, which are generally based on the historical cost, that in some cases may have been adjusted to reflect unrealized gains or losses.

The data on other capital are recorded at book values, which is the historical cost.

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.

**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 Bangko Sentral ng Pilipinas (BSP) within the balance of payments framework on (a) one of the three components of direct investment income, namely, income on equity (dividends and distributed branch profits), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital (banking sector only). (Prior to the data for 2002, data on other capital were not compiled.) These data are compiled with a timeliness of 3 months after the end of the months, and are disseminated quarterly with a timeliness of 3 months after the end of the reference quarter in the BSP publication *Selected Philippine Economic Indicators*, which is available on the BSP website <http://www.bsp.gov.ph>. The data (quarterly rather than monthly) are also reported to the IMF for publication.

Separately identifiable data on income on debt (interest) are not compiled, but instead are included indistinguishably under Direct Investment Income in the balance of payments statistics. Data on reinvested earnings are not compiled.

**Revision Practices**

The data are preliminary when first released. The data for the current year are revised each quarter to take into account revisions arising from, among others, late reports and post-audit reports, and are disseminated quarterly together with the preliminary monthly data for the latest quarter. At this time the data are considered to be final, that is, up to 12 months after their first release. The data for all components for the previous year may also be revised to take account of major changes in classification or coverage.

The revised status of the data is clearly identified in the disseminated data and the general public are informed of the reasons for major revisions through footnotes in the publication. The historical data are revised as far back as available data permit 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 for publication.

**Data Coverage**

No major sectors of the economy or elements within those economic sectors are excluded from the data for the data on income on equity (dividends and distributed branch profits), and equity capital. However, the data on other capital cover only the banking sector.

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

**Data Collection Method**

The data are collected using a mixture of an individual transactions basis and an aggregate basis—on an individual transactions basis for the data collected from the ITRS and on an aggregate basis for the data collected from the banks' Consolidated Statements of Conditions (CSOC). The reporting requirements are a mixture of compulsory and voluntary—while reporting requirements for the bank reporting system on foreign exchange transactions is compulsory, disclosure by banks' clients of the nature of funds transacted through foreign currency deposit accounts is not compulsory.

**Data Sources**

The data for all components are compiled from (i) an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, but not cash transactions made through the foreign bank accounts of enterprises, or noncash transactions, and (ii) monthly enterprise surveys which

cover cash transactions made through the foreign bank accounts of enterprises, but not noncash transactions. The Consolidated Statements of Conditions (CSOC) of the banks are used as an additional primary data source for the data on equity capital and other capital. There are plans to pilot-test a separate enterprise survey of resident direct investors as a supplemental data source in 2004 and to institutionalize it in 2005.

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

No business register is used to compile the outward direct investment transactions data. However, there are plans to develop one in the future.

### **Geographic Classification**

Monthly data showing breakdowns by country for the direct investment financial flows data are compiled by the BSP. These data are not disseminated, but are available quarterly on request with a timeliness of 3 months after the end of the reference quarter. The data cover all countries and bilateral data are not used in the compilation of the data. Data showing breakdowns by country for the direct investment income data are not compiled.

The transactor principle, rather than 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 financial flows from the Philippines during 2003 (ranked in descending order) were: Singapore, the United States, Hong Kong SAR, the United Kingdom, and China.

In addition to the data showing country breakdowns, monthly data are compiled by the BSP showing breakdowns of the direct investment financial flows for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (v) the ASEAN countries, (vi) the OPEC countries, (vii) North America, (viii) Europe, (ix) Asia, (x) Asia's Newly Industrialized Economies (ANIEs), (xi) Australasia, (xii) Central and South America, and (xiii) Other. These data are not disseminated, but are available quarterly on request with a timeliness of 3 months after the end of the reference quarter. There are plans to begin to disseminate these data by December 2005.

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

### **Industrial Classification**

Not applicable. Data showing industrial activity breakdowns are not compiled.

## **B. Methodology**

### **Definition of Direct Investors**

In principle, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor, 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 would in principle be included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management would not be included. However, in practice, all purchases of shares by residents through foreign stock exchanges are classified as Portfolio Investment in the balance of payments statistics, on the assumptions that (a) no resident investors on foreign stock exchanges will hold more than 10 percent of the total shares of a nonresident enterprise, and (b) investment by residents through the foreign stock exchanges are speculative in nature and therefore the investors do not have a lasting interest in the nonresident enterprise in which they invest. 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 the Philippines 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.

### **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) unrealized capital gains and losses, write-offs, and unrealized exchange rate gains and losses are excluded. Contrary to the COPC, (i) realized capital gains and losses, and realized exchange rate gains and losses are included, (ii) interest receivable/payable is not included, and (iii) debt repayments receivable/payable 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. Contrary to the international standards, (i) dividends and distributed branch profits are recorded net, rather than gross, of any withholding taxes, (ii) 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, and (iii) 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. In accordance with the international standards, there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks.

### **Treatment of Reinvested Earnings and Undistributed Branch Profits**

Not applicable. Data on reinvested earnings and undistributed branch profits are not compiled.

### **Treatment of Income on Debt (Interest)**

Separately identifiable data on income on debt (interest) are not compiled, but instead are included indistinguishably under the data on Direct Investment income. The data cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, and (ii) short-term loans. The data do not include interest on (i) bonds and money market instruments, (iii) trade credits, and (iii) financial leases. Contrary to the international standards, the data 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 recorded on a paid basis, rather than on 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 only unlisted voting stocks (shares) and those listed shares that are not transacted through the domestic stock exchanges. The data do not cover (i) listed voting stocks (shares) transacted through the domestic stock exchanges, (ii) participating preference [preferred] shares, (iii) other non-voting stocks (shares), and (iii) 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 (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. Contrary to the international standards, (i) the data do not include equity transactions between affiliated financial intermediaries, and (ii) the data do not 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.

#### **Treatment of Other Capital**

The other capital transactions data cover the banking sector only. The data cover: (i) long-term loans, and (ii) short-term loans. The data do not cover (i) bonds and money market instruments, (iii) trade credits, and (iii) 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, the data do not include (i) non-participating preference [preferred] shares, (ii) transactions associated with permanent debt between affiliated financial intermediaries, and (iii) 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, (i) 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 (ii) with effect from the data for 2002, the data include transactions associated with permanent debt between affiliated banks. (Permanent debt is defined as being a certain portion of the amount reported to the BSP by banks as being "Due for branches abroad".)

Instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise, cannot be identified from the present data sources.

#### **Treatment of Reverse Investment**

Transactions involving reverse investment are not treated in accordance with the international standards in all instances because of the lack of adequate data on such transactions.

Assuming that the direct investment enterprise is a resident of the Philippines 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, equity transactions are recorded in accordance with the international standards as "Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises". However, contrary to the international standards, loan transactions are recorded as "Other Investment: Increase in Assets: Loans", rather than as "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of the Philippines 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 Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises", rather than as "Direct Investment in the Philippines: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Other Investment: Increase in Assets: Loans", rather than as "Direct Investment in the Philippines: Other Capital: Increase in Claims on Direct Investors".

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

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

#### **Treatment of Offshore Enterprises**

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

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

Not applicable. There are no SPEs established abroad by residents of the Philippines at present.

**Treatment of Land and Buildings**

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings abroad by enterprises and individuals resident in the Philippines. Land and buildings purchased abroad by enterprises and individuals resident in the Philippines on long-term leases are not included.

**Treatment of Natural Resources Exploration**

Not applicable. Expenditure related to natural resources exploration abroad by residents of the Philippines has not occurred to date.

**Exchange Rate Conversion**

All transactions, with the exception of dividends, are converted to the unit of account at the exchange rate prevailing on the day of the transaction. The data on dividends are converted at the exchange rate prevailing at the time the conduit banks record payment of the remittances.



## DIRECT INVESTMENT ABROAD

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

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable annual (calendar year) data are compiled by the Bangko Sentral ng Pilipinas (BSP) 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 9 months after the end of the reference period on the BSP website <http://www.bsp.gov.ph>. (Prior to 2002, outward position data were not compiled.) The data are also reported to the IMF for publication.

##### Revision Practices

The data are preliminary when first released. The data are revised once a year to take account of revised source data and are disseminated once a year together with the preliminary annual data for the latest year. As the position data have only recently begun to be compiled and disseminated, the revision policy regarding the stage at which the data will become final has yet to be determined..

The revised status of the data is clearly identified in the disseminated data, and the general public are informed of the reasons for revisions. No major changes in methodology or data collection systems have occurred since the data began to be compiled, and the policy regarding revisions of historical data in instances of major changes in methodology or data collection systems has yet to be determined.

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

##### Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data on equity capital and reinvested earnings. However, the data on other capital cover only the banking sector.

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

##### Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—on an individual transactions basis for the data derived from an international transactions reporting system (ITRS) and on an aggregate basis for the data based on company accounts. The reporting requirements are a mixture of compulsory and voluntary—while reporting of financial statements is required by law, and the requirements for the bank reporting system on foreign exchange transactions are compulsory, disclosure by banks’ clients of the nature of funds transacted through foreign currency deposit accounts is not compulsory. In addition, registration of debt transactions through the debt register is voluntary.

##### Data Sources

The data on equity capital for the non-banks are compiled from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, but not cash transactions made through the foreign bank accounts of enterprises, or noncash transactions, using the perpetual inventory method (a method for deriving position data from transactions data), but with no adjustments made for price changes, exchange rate changes, and other nontransaction changes. However, the perpetual inventory method is based on a benchmark survey undertaken in 2001 that used data in the company accounts reported to the SEC. The Consolidated Statement of Conditions (CSOC) of banks is used to compile the data on equity capital for the banking sector, as well as the data on other capital.

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

No business register of enterprises is used to compile the outward direct investment position data. However, there are plans to develop one in the future.

#### **Geographic Classification**

Not applicable. Data showing geographic breakdowns are not compiled.

#### **Industrial Classification**

Not applicable. Data showing industrial activity breakdowns are not compiled.

### **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 partially applied. Contrary to the FCS, the data do not include 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. However, some other capital positions held directly by resident enterprises of a related group with nonresident enterprises of the same group are included in the data. (Data on reinvested earnings are not compiled for the outward position data.)

Enterprises in the Philippines 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.

#### **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 (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. Contrary to the international standards, (i) the data do not include equity positions between affiliated financial intermediaries, (ii) the data do not 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) the data include non-participating preference shares, which are classified under equity capital, rather than other capital.

Data on reinvested earnings are not compiled.

### **Treatment of Other Capital**

The other capital position data cover the banking sector only. The data cover: (i) long-term loans, (ii) short-term loans, and (iii) trade credits. The data do not cover (i) bonds and money market instruments, 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. In accordance with the international standards, (i) 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 (ii) the data include positions associated with permanent debt between affiliated banks. (Permanent debt is defined as being a certain portion of the amount reported to the BSP by banks as being "Due for branches abroad".) Contrary to the international standards, (i) the data do not include positions associated with permanent debt between affiliated financial intermediaries, (ii) the data do not include non-participating preference shares, which are instead classified under equity capital, and (iii) 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.

Instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise cannot be identified from the present data sources.

### **Treatment of Reverse Investment**

Positions involving reverse investment are not treated in accordance with the international standards in all instances because of the lack of adequate data on these positions.

Assuming that the direct investment enterprise is a resident of the Philippines 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, equity positions are recorded in accordance with the international standards as "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises". However, contrary to the international standards, loan positions are recorded as "Assets: Other Investment: Loans", rather than as "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of the Philippines and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises", rather than as "Liabilities: Direct Investment in the Philippines: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Assets: Other Investment: Loans", rather than as "Liabilities: Direct Investment in the Philippines: Other Capital: Claims on Direct Investors".

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

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

### **Treatment of Offshore Enterprises**

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

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

Not applicable. There are no SPEs established abroad by residents of the Philippines at present.

#### **Treatment of Land and Buildings**

In accordance with the international standards, the equity capital data include ownership of land and buildings abroad by enterprises resident in the Philippines. Contrary to the international standards, the data do not include ownership of land and buildings abroad by individuals resident in the Philippines, because such positions cannot be identified in the present data sources. Land and buildings owned abroad by enterprises and individuals resident in the Philippines on long-term leases are not included.

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

Not applicable. Expenditure related to natural resources exploration abroad by residents of the Philippines has not occurred to date.

#### **Valuation of Assets and Liabilities**

The data on equity capital for both listed and unlisted enterprises are recorded at book values, which are generally based on the historical cost, that in some cases may have been adjusted to reflect unrealized gains or losses.

The data on other capital are recorded at book values, which is the historical cost.

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.